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I | Letter to Shareholders

I. Letter to Shareholders

Dear Shareholders,

Taiwan's telecommunication industry experienced yet another year of rapid changes during 2004. Continuing mergers among telecom operators with regional/ global operators exiting the market, the three remaining GSM operators are now almost equal in size and dominate a market that continue to show healthy growth.

In order to improve network and SIM resources utilization, operators proactively cleared their systems of inactive subscribers. This action caused a slight decline in officially reported, total number of subscribers. At the same time, both MoU (Minutes of Use), ARPU (Average Revenue Per User) and total service revenue, all have gone up, showing a continued healthy growth in the industry.

Through the merger with KG Telecommunication Co., Ltd. (KGT), Far EasTone (FET) improved overall productivity and competitiveness during 2004 and continues to show strong operational performance. In 2004, consolidated total revenue and service revenue were NT\$ 65.52 billion and NT\$ 61.29 billion. Consolidated Service EBITDA Margin reached 50.8%. Net income reached NT\$ 14.04 billion and EPS was NT\$ 3.75. Also, FET continued its position as the leading multimedia service provider in Taiwan. Compared to 2003, non - voice revenue grew 30% and accounted for 6.3% of total service revenue, compared to an industry average of 4.9%.

2004 Operational Highlights and Results

- ▶ The merger between FET and KGT was successfully completed during the year. After only one year of integration, we can proudly say we are a highly efficient, unified team. In terms of operational performance, the synergy generated by the merger has helped the FET team to far surpass its value as a stand-alone company.
- ▶ Through introducing two-way roaming with soft handover between FET and KGT networks, FET has created the largest seamless network and capacity in Taiwan.
- ▶ FET completed 3G coverage roll out at major cities of Northern region and selected areas in Taichung and Kaohsiung Cities.
- ▶ As part of ongoing efforts to offer various innovative products and services, FET introduced "Cross Net Full Range Service Plans", "Smart Club Card", "Kids Pack", etc.
- ▶ FET launched a series of mobile multimedia campaigns under the simple slogan- play. "play" is a new concept under which FET aims to provide a more unique and consistent multimedia usage stimulation.
- ▶ In cooperation with several international handset producers, FET has developed a variety of FET-branded multimedia handsets.
- ▶ FET continued to strengthen and integrate direct controlled sales channels and much efforts were put into training of frontline staff for the new multimedia services. Additionally, FET opened FET Town, being the first to provide customers with a first-hand interactive experience of futuristic multimedia mobile services. Other initiatives included Mobile Promotions Vans that has allowed FET to introduce the company's rich service offerings to where consumers are, in a more direct and timely manner.

In April 2004, FETC (a 4 company consortium with FET as lead) was awarded a 20 - year concession to build and operate "Electronic Toll Collection" for Taiwan's highways. Construction work is ongoing and service will commence in January 2006.

2005 Current Status and Onward Strategic Initiatives

In 2005, a number of challenges will arise to fundamentally change the mobile communication overall business. These challenges include commercial launch of 3G technology and implementation of Mobile Number

Portability. Introduction of new technologies, such as W-LAN, Wi-Max and VoIP is ongoing in Taiwan and will enable new operators to enter the market of wireless communication.

Due to the increasing complexity in providing a rich and full portfolio of multimedia services, we believe it will be necessary for service providers in markets like Taiwan, to join with international business alliances to form larger subscriber base. Only this will ensure efficient, scalable multimedia service platforms and a sufficient variety of content and services together with critical volumes of supporting handsets and devices. FET has responded to the challenge by joining the i-mode alliance, created by NTT DoCoMo.

Major Initiatives for 2005, include;

► **Increasing Market Revenue Share**

In 2004, FET's consolidated service revenue reached NT\$ 61.29 billion, as we closed the gap to the market leader CHT and solidified our No. 2 position on the market. In 2005 our plan is to leverage our leadership in multimedia services to further close the gap to the market leader. FET will continue to build on brand image and loyalty to become the markets preferred brand for wireless communication.

► **3G Technology commercial launch**

FET continues to expand the 3G network and deploy service platforms, such as video streaming and i-mode 3G. By end of the year, FET will provide advanced multimedia service coverage for over 60% of the population in cities around Taiwan. A new, integrated charging and billing platform will be launched.

► **Enhanced Distribution Channels**

In 2005, FET will continue to focus on our leading position in telecom distribution, further strengthen sales productivity and service excellence, while winning a larger share of the overall market. In the multimedia era it is critical for service providers to become highly responsive to changing needs and that well trained staff can give consumers sufficient information and consultation. FET has been expanding its direct branded stores to around 360 and in the early days of 2005, we acquired a majority stake in Arcoa — a well - known chain of 260 branded stores. The combined total of over 620 stores will allow FET greater geographic reach into previously untapped markets. FET will also support Arcoa in establishing a MVNO (Mobile Virtual Network Operator).

► **Development of Corporate Solutions**

The launch of 3G technology and MNP, will inspire another significant wave of customer migration, particularly in the enterprise segment. FET will focus on enlarging its share of three key industry sectors: information systems; finance, security and insurance; and hi-tech manufacturing. At the same time, we will cultivate customers in Transportation, Government institutions and Taxi Fleet market sectors. FET's Enterprise Solution team will reposition itself as a Virtual System Integrator and actively participate in open market projects. FET will proactively work with NTT DoCoMo to leverage its enterprise solution development.

FET has submitted the application for listing on the Taiwan Stock Exchange (TSEC) in February this year. Listing on the TSEC main-board will greatly enhance FET's investor profile and allow the company to assure its rightful place among "blue chips stocks" on the prestigious TSEC.

FET is better positioned than ever to reach different market segments, increases its service revenue and enhances its business competitiveness in the face of convergence of technologies and services for communication, information, entertainment and transactions.



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

1. Company Profile

1-1 Date of Incorporation: Far EastOne Telecommunications Co., Ltd. (the "Company") was incorporated on April 11, 1997.

1-2 Company History

1-2-1 Milestones:

- 1997/1 Being awarded two licenses by MOTC to provide GSM1800 service islandwide and GSM900 service in the northern region of Taiwan
- 1998/1 The first cellular operator in the world to launch an integrated GSM900/1800 dual-band network
- 1998/11 Prepaid card "IF" launched, acquired 200,000 customers in the first month and became the leading brand
- 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
- 2000/2 Received "GSM in the Community Award" from GSM Association for disaster relief efforts after 921 earthquake
- 2000/5 Awarded by The Directorate of General Telecommunications (DGT) as the operator winning the best customer satisfaction for the second consecutive year
- 2000/7 Launched Mobile Virtual Private Network (MVPN) as the first operator to provide total communication solutions tailor-made for enterprise users
- 2000/11 Awarded by The Directorate of General Telecommunications (DGT) as the operator winning the best customer satisfaction three times in a row
- 2001/4 Launched innovative enterprise solution Mobile Information on Demand (MIoD) and led the trend to enterprise mobilization
- 2001/12 Listed at Taiwan's OTC Exchange Market (Ticker Number: 4904)
- 2002/2 Yuan-Ze Telecom, the Company's subsidiary, obtained a 3G License in Taiwan
Awarded the Best Corporate Wireless Service for Application by the 3GSM World Congress for its innovative solution-Fleet Management
- 2002/3 The Company and IBM successfully launched the first GSM/GPRS CSP enabling Mobile e-Business.
- 2002/6 Launched Super i-style-"Mobile Internet Service"
- 2002/8 Launched Taiwan's first GPRS Mobile Emergency Medical Treatment System with Far Eastern Memorial Hospital and Oriental Institute of Technology
- 2002/12 Launched Java TM Games, canned MMS and colorful mobile contents and Taiwan's first MMS/GPRS/Java clamp-shell handset Sharp GX-i98
- 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@vo service provides customers a comprehensive offer to enjoy mobile multimedia life.
- 2003/4 Made Taiwan's first live 3G video call on the commercial 3G network, marking significant step forward in the evolution and development of multimedia services
- 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.

- 2004/2 Launched FET Smart Club Card offering mobile services and exclusive value-added reward plan
- 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
Grand opening of FET Town and it is Taiwan's first venue that provides consumers with first-hand experience of future mobile communication services
- 2004/6 Issued GDR of 150 million common shares and became Taiwan's first telecom operator to be successfully listed on European stock market
- 2004/11 Launched Taiwan's first multimedia prepaid card tailored made for children and parents
- 2004/12 Launched NT\$165/365/765 new rate plans for FET-KGT Network customers
Taiwan Ratings Corporation, a partner of Standard & Poor's, notched up the company's long-term credit rating and unsecured corporate bond issue rating to twAA. Standard & Poor's notched the company's y's long-term credit rating to BBB+
- 2005/2 Obtain a 55.3 % stake of handset chain store Arcoa Co. Ltd.
- 2005/3 Awarded BS7799 Information Security Certification

1-2-2 Status of Acquisitions

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 board meeting on October 7, 2003, in which a two-stage merger and acquisition with KG Telecommunications Co., Ltd. ("former KGT") was approved. 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 shares exchange of the Company. The whole process of this transaction is complicated and time consuming. Therefore, a two-stage transaction is adopted to reduce the impact on former KGT customers. The first stage is to merge the former KGT with Yuan Ho, 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 40% and former KGT stockholders then hold 60% ownership of Yuan Ho. The first-stage merger was closed on January 1, 2004. On the closing day 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.

The exchange ratio of the first stage transaction between former KGT shares and new KGT shares (i.e. Yuan Ho shares) is: For one former KGT share, one will get NT\$6.72 cash and 0.46332 new KGT common share. The second stage share exchange ratio between new KGT common share and the Company's common share is 1:1. The second-stage merger was closed on April 29, 2004 as approved by the board of directors of the company and KGT. The change was approved by and registered with the Civil Services of Doc of the Ministry of Economic Affairs on May 20, 2004.

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

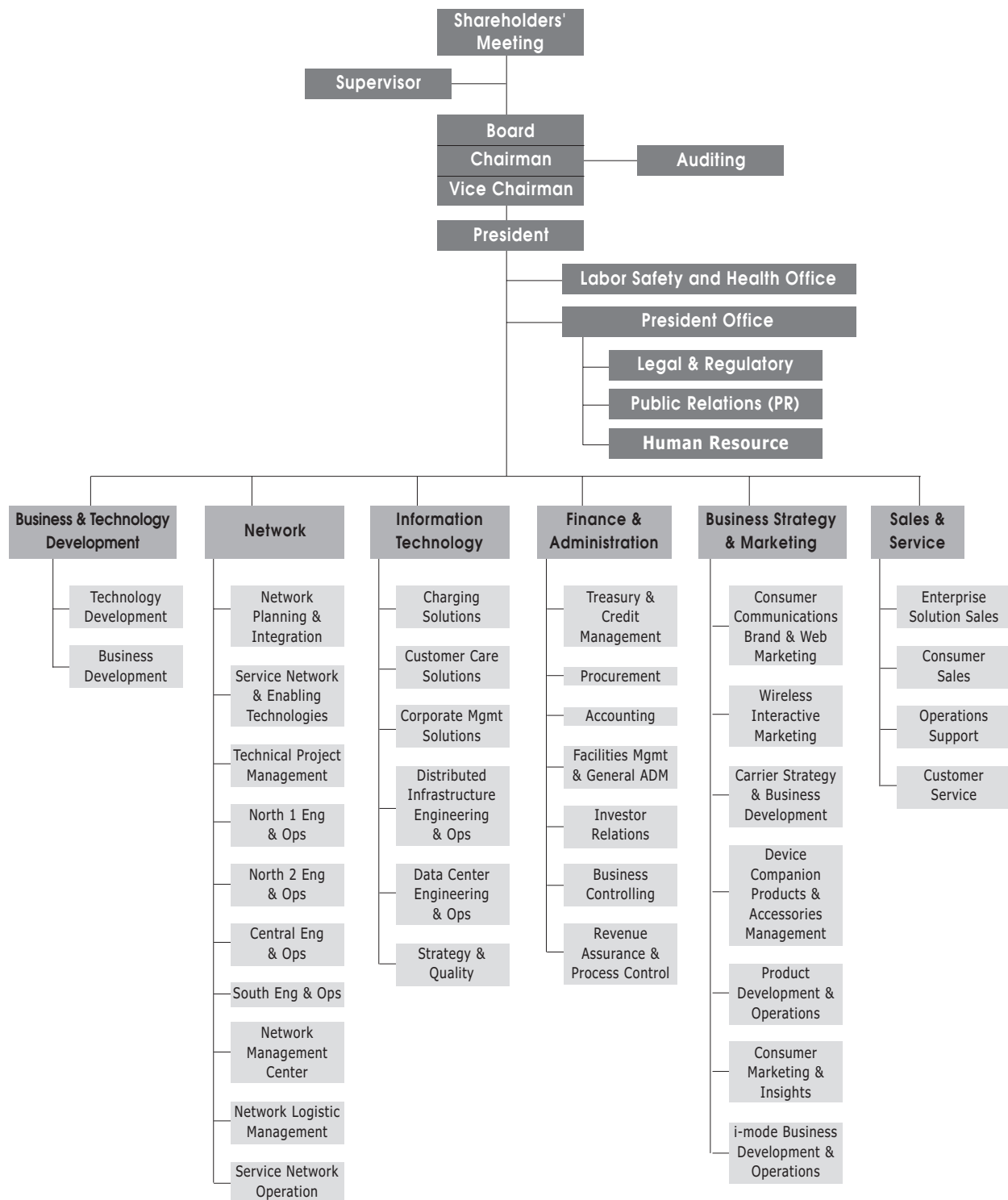
- (1) Taiwan Wireless Investments resigned 2 director positions on 2003/10/16. CHD Investments Holdings, Inc. resigned its supervisor position on 2003/10/16. Re-election of directors and supervisor was held in the Shareholders' Meeting on 2004/06/30 and two director (Leslie Koo and Nelson Chang, Representatives of TCC Investment Co.) and one supervisor (Jenniffer Wang, Representative of Ta-Ho Maritime Corp.) were elected. Two new director positions were taken by Toshinari Kunieda, Representative of NTT DoCoMo, and individual director S.T. Peng.
- (2) 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.

2. Organization

2-1 Organization Structure

2-1-1 Organization Chart



2-1-2 Roles and Responsibilities

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 resource management and development
Labor Safety and Health Office	Responsible for maintaining and ensuring a safe and healthy workplace
Auditing	Responsible for auditing internal operations
Network	Responsible for network maintenance, customer network service support, and network planning and integration
Business & Technology Development	Responsible for technology and product development
Information Technology	Responsible for operations of billing system, customer care system, and company information management system
Business Strategy & Marketing	Responsible for planning, developing and implementing marketing strategies
Sales & Service	Responsible for sales management and customer care support
Finance & Administration	Responsible for accounting, investor relations, procurement, process control, general administration and security issues

2-2 Directors, Supervisors and Executive Management

2-2-1 Directors and Supervisors

2005/03/22

Title	Name	First Election Date	Election Date	Tenure (year)	Shareholding when elected		Current Shareholding		Spouse and Minor Children Shareholding		Shareholding 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		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Chairman	Douglas Hsu, Representative of Yang Ding Investment Co. Ltd.	1997/04/11	2003/05/23	3	1,153,999,883	50.05%	1,320,197,849	34.09%	--	--	--	--	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.; Chairman of Asia Cement Co., Ltd.; Chairman of Far Eastern Department Stores Ltd.; Chairman of Oriental Union Chemical Corporation; Chairman of U-Ming Marine Transport Co.; Chairman of Far Eastern International Bank	Vice Chairman	Laurence M. Yang	brother-in-law
Vice Chairman	Laurence M. Yang, Representative of Yang Ding Investment Co. Ltd. (Note 1)	1997/04/11	2003/05/23	3	1,153,999,883	50.05%	1,320,197,849	34.09%	--	--	--	--	Vice Chairman of Far Eastern Textile Ltd.; bachelor's degree in chemistry from National Taiwan University	Vice Chairman of Far Eastern Textile Ltd.	Chairman	Douglas Hsu	brother-in-law
Director	Champion Lee, Representative of Yang Ding Investment Co. Ltd.	1997/04/11	2003/05/23	3	1,153,999,883	50.05%	1,320,197,849	34.09%	905	0.00%	--	--	Senior VP and CFO of Far Eastern Textile Ltd.; MBA, 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%	2,283	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	Douglas Hsu	Brother
Director	Hsing-Yi Chen, Representative of Far Eastern Memorial Foundation	2003/05/23	2003/05/23	3	1,631,140	0.07%	2,099,276	0.05%	--	--	--	--	Ph.D. in electrical engineering, 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%	1,037,115	0.03%	--	--	--	--	Sr. Executive VP in Satelindo Telecom Indonesia; master's degree in industrial and management engineering, Linköping University	President of Far Eastone Telecom	--	--	--
Director	Jordan M. Roderick, Representative of Yuan Ding Co., Ltd. (Note 3)	2003/05/23	2003/05/23	3	2,325,000	0.10%	5,153,148	0.13%	--	--	--	--	MBA, Dartmouth College	President, International Business, Cingular Wireless LLC	--	--	--
Director	Leslie Koo, Representative of TCC Investment Corp. (Note 2)	2004/6/30	2004/6/30	3	4,962,429	0.13%	5,458,671	0.14%	--	--	--	--	MBA, Wharton School of University of Pennsylvania; President of Taiwan Cement Corp.	Chairman of Taiwan Cement Corp.; Chairman of China Synthetic Rubber Corp	Director	Nelson Chang	brother-in-law
Director	Nelson Chang, Representative of TCC Investment Corp. (Note 2)	2004/6/30	2004/6/30	3	4,962,429	0.13%	5,458,671	0.14%	--	--	--	--	MBA, New York University VP of Giga Media	Vice-chairman of ChiaHsin Cement Corporation	Director	Leslie Koo	brother-in-law

Title	Name	First Election Date	Election Date	Tenure (year)	Shareholding when elected		Current Shareholding		Spouse and Minor Children Shareholding		Shareholding 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		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	Toshinari Kunieda, Representative of NTT DoCoMo (Note 2)	2004/6/30	2004/6/30	3	1,000	0.00	116,643,621	3.01					Bachelor, Electronics Engineering, University of Tokyo; Master, Stanford University	Senior Executive Director, Head of Technology & Service	--	--	--
Director	S. T. Peng (Note 2) (Note 3)	2004/6/30	2004/6/30	3	0	0.00	0	0.00					Ph.D., Electrophysics Institute of Brooklyn; Director, Micro-electronics and Information System; Research Center Chairman, Department of Communication Engineering	Professor of the Engineering College of Yuan-Ze University	--	--	--
Supervisor	Jennifer Wang, Representative of Ta-Ho Maritime Corp. (Note 2)	2004/6/30	2004/6/30	3	548,507	0.01	603,357 ^{*47}	0.02	--	--	--	--	Bachelor, Accounting, New Jersey State University President of Human Resource Department of Citibank	Consultant of TCC	--	--	--
Supervisor	Eli Hong, Representative of Far Eastern International Leasing Corp.	2000/12/28	2003/05/23	3	25,629,933	1.11	32,985,723	0.85	--	--	--	--	Vice President of Citibank; Bachelor's degree in economics, National Chung Hsing University	President of Far Eastern International Bank	--	--	--
Supervisor	Charles Wang, Representative of Asia Investment Corporation (Note 4)	2003/05/23	2003/05/23	3	823,500	0.04	1,059,844	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	--	--	--

Note 1: Yuang Ding Investment Co., Ltd, Director of the Company, dismissed Mr. Laurence Yang as its representative on Apr.

Note 2: Two Positions of directors were added and re-election of two directors and one supervisors was made on June 30, 2004.

Note 3: Resigned as a director with a written notice dated February 16, 2005 and the resignation was effective from May 19, 2005.

Note 4: Resigned as a supervisor with a written notice dated February 16, 2005 and the resignation was effective from May 19, 2005.

*Number of shares and percentage of shares held by the individual.

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

2005/03/22

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.	Yuang 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, Yuang 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.
TCC Investment Corp.	Taiwan Cement Corp.
Ta-Ho Maritime Corp.	Taiwan Transport & Storage Corporation, Taiwan Cement Corp.
NTT DOCOMO Inc.	Nippon Telegraph & Telephone

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

2005/03/22

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.
Taiwan Cement Corp.	Ta Chong Bank Ltd., Ta-Ho Farming Co. Ltd., Chinatrust Investment Co., China Synthetic Rubber Corp.
Taiwan Transport & Storage Corporation	Taiwan Cement Corp. Union Cement Traders, Inc.

2-2-4. Information of Directors and Supervisors

Condition	With experience for more than 5 years in business, finance, legal or areas required by the business of the Company	Conform to Independence							Remarks
		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 shareholder or representative pursuant to Article 27 of the Company Law	
Name									
Douglas Hsu	V		V				V		
Laurence M. Yang	V		V				V		
Leslie Koo	V	V	V				V		
Champion Lee	V		V	V			V		
Nelson Chang	V	V	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		
Toshinari Kunieda	V	V	V	V	V	V	V		
S. T. Peng	V		V	V	V	V	V	V	
Jordan M. Roderick	V	V	V	V	V	V	V		
Eli Hong	V		V	V	V		V		
Charles Wang	V		V	V	V		V		
Jennifer Wang	V	V	V	V		V	V		

Note: V indicates qualified Directors and Supervisors.

2-2-5 Executive Management

2005/03/22

Title	Name	Effective Date	Current Shareholding		Spouse & Minor Children's Shareholding		Shareholding in Name of Others		Major Education and Experience	Current Position with Other Company	Managers are Spouse or Consanguinity within 2nd Degree to Each Other			Stock Options Obtained by the Management
			Shares	%	Shares	%	Shares	%			Title	Name	Relation	
President & Chief Operating Officer	Jan Nilsson	2002.09.01	--	--	--	--	--	--	Sr. Executive VP in Satelindo Telecom Indonesia; MS, Industrial and Management Engineering, Linköping University	--	--	--	--	--
Executive VP, F&A & Chief Financial Officer	Yvonne Li	2001.09.01	--	--	--	--	--	--	VP in Citibank Taiwan; Master of Accounting, University of Illinois at Urbana-Champaign	Supervisor of Oriental Union Chemical Corp.	--	--	--	--
Executive VP, BTD	Jay Shy	1999.08.16	71,987	0.00	--	--	--	--	Director of DBTEL International Ltd.; Bachelor of Information Engineering and Computer Science in Feng Chia University	--	--	--	--	--
Executive VP, S&S	Philby Chen	1997.08.11	420,281	0.01	--	--	--	--	CFO in Tai Chia Technology Inc.; B.S., Accounting, Northern Arizona University	Director of Far Eastern Department Stores Ltd.	--	--	--	--
Executive VP, BSM	Benjamin Ho	2003.06.01	--	--	--	--	--	--	Chief Marketing Office at Motorola Asia Pacific Ltd., diploma in business and marketing studies from Stanford College/UK Institute of Marketing.	--	--	--	--	--
Executive VP, IT	Eton Shu	2004.01.01	--	--	--	--	--	--	VP of information technology in KG Telecom; Computer Science Master, enterprise graduate class of National Taiwan University	--	--	--	--	--
Executive VP, ND	Jeffrey Gee	2004.01.01	--	--	--	--	--	--	MS, Mathematics, Missouri State University; MS, Computer Science, New York State University; Vice President, KG Telecom	--	--	--	--	--
Chief Auditor, Auditing	Doris Wu	2004.06.01	--	--	--	--	--	--	Controller of PSINET Taiwan, BS of Accounting in California State University	--	--	--	--	--
VP, HR	Philip Hsi	2000.02.23	15,701	0.00	--	--	--	--	VP of Harvard Management Services; Master of Agriculture Engineering in National Taiwan University	--	--	--	--	--
Director, PR	Yvonne Lan	1999.03.01	148	0.00	--	--	--	--	AVP of PC Channel Inc, MA in New York Institute of Technology	--	--	--	--	--
VP, BTD	Herman Rao	2000.09.15	265,700	0.01	--	--	--	--	Director in AT&T Wireless; Ph.D. of Computer Science, University of Arizona	--	--	--	--	--
Director, ND	James Wu	1997.08.11	338,532	0.01	--	--	--	--	Director of TTN; BS in Electronic Engineering, Chung Yuan University	--	--	--	--	--
Director, ND	S. C. Lee	1997.11.03	103,525	0.00	--	--	--	--	Sr. Project Manager in SIEMENS; Mechanical & Electrical Engineering Dept in National Taipei Institute of Technology	--	--	--	--	--
Director, ND	James Lin	2000.03.13	--	0.0	--	--	--	--	Director in DBTEL; B.S. Electronic Engineering, National Taiwan University of Science and Technology	--	--	--	--	--
Director, ND	Howard Tsao	1998.10.22	71	0.00	--	--	--	--	Wireless System R&D Manager in Industrial Technology Research Institute; BSEE in Chung-Yuen University	--	--	--	--	--
Director, ND	Paul Chang	2004.01.01	137,058	0.00	--	--	--	--	MS Automatic Control Engineering, Feng Chia University; KG Telecom Director	--	--	--	--	--
Director, ND	James Lee	2004.01.01	17,837	0.00	--	--	--	--	BS Electrical Engineering, Feng Chia University; KG Telecom Director	--	--	--	--	--
Director, ND	Brian Shean	2004.01.01	338,461	0.01	--	--	--	--	KG Telecom Director; BS Electrical Engineering, Feng Chia University	--	--	--	--	--
Director, ND	Jonathan Ou	2004.01.01	99,381	0.00	176,686	0.01	--	--	Director in KG Telecom.; Master of Computer Science in New York University	--	--	--	--	--
Director, ND	Bruce Yu	1997.11.06	--	--	--	--	--	--	BS Information Engineering, National Chiao Tung University; Manager, HCL Technology	--	--	--	--	--

Title	Name	Effective Date	Current Shareholding		Spouse & Minor Children's Shareholding		Shareholding in Name of Others		Major Education and Experience	Current Position with Other Company	Managers are Spouse or Consanguinity within 2nd Degree to Each Other			Stock Options Obtained by the Management
			Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Director, NMO	Tony Wang	1999.02.01	--	--	--	--	--	--	MS Engineering, University of Texas at Austin; Manager, Yuan Ting Construction	--	--	--	--	--
Director, F&A	David Tsai	1999.09.16	15,392	0.00%	--	--	--	--	Manager in U-Ming Marine, EMBA in Yuan-Ze University	--	--	--	--	--
Director, F&A	Stephen Tung	1999.10.11	--	--	--	--	--	--	Deputy Manager of Finance Dept in Walsin Liwa Corp; MBA of Management Science in Sonoma State University	--	--	--	--	--
Director, F&A	Robert Chu	1998.03.17	217,201	0.01%	--	--	--	--	Admin Manager in Honeywell Taiwan Ltd.; BS of Finance and Taxation in Fung Chia University	--	--	--	--	--
Director, F&A	Sharon Lin	2003.12.08	33,709	0.00%	--	--	--	--	Ms in Finace, University of Wisconsin; costing Manager of Vishay General Semiconductor Taiwan Ltd.	--	--	--	--	--
Director, F&A	Sharon Fan	2000.11.27	--	--	--	--	--	--	MBA of University of Washington (Seattle), Management Controller of Credit Loynnaï Taipei	--	--	--	--	--
Director, F&A	Mandy Tsao	2004.07.15	--	--	5,000	0.00%	--	--	Master of Accounting in National Chengchi University ; Manager of Walsin Liwa Corp	--	--	--	--	--
VP, S&S	Michael Lo	2000.03.20	--	--	--	--	--	--	B.S., Business Administration, National Chung-Hsin University ; Sales Director, Hewlett Packard Taiwan Ltd.	--	--	--	--	--
VP, S&S	Guang Ruey Chiang	1997.12.01	196,384	0.01%	--	--	--	--	Director in LONG CHENG; M.S. in Marketing from University of Kansas	--	--	--	--	--
VP, S&S	Jennifer Liu	1997.07.01	11,198	0.01%	--	--	--	--	Special Assistant to Chairman, Far Eastern Textile Ltd., MBA in New York University	--	--	--	--	--
VP, Customer Service	Samuel Yuan	2001.07.23	--	--	--	--	--	--	Director in Alive Networks HK; B.S. in Financial Analysis & Management Information Systems, State University of New York	--	--	--	--	--
Director, IT	Michelle Peng	1999.01.04	738	0.00%	--	--	--	--	Software development Manager in Vondelon International Corp.; Electronic data process in Ming-Chung college	--	--	--	--	--
Director, IT	Jessica Sung	1999.10.25	--	--	--	--	--	--	EMBA of National Taiwan University; Certified Public Accountant of California, USA; MIS Manager in Janssen Cilag Taiwan, Johnson & Johnson	--	--	--	--	--
Director, IT	Iris Su	2004.01.01	59,526	0.00%	--	--	--	--	MS of Computer Information System, Arizona State University; KG Telecom Manager	--	--	--	--	--
Director, IT	Leon Li	2004.01.01	--	--	--	--	--	--	MS of Computer Science, Monmouth University; KG Telecom Manager	--	--	--	--	--
Director, IT	Ju Hae-Shung	2002.05.13	--	--	--	--	--	--	MS of Computer Science, East Texas State University; Senior consultant of NCR	--	--	--	--	--
VP, BSM	Maxwell Cheng	2004.05.01	388,881	0.01%	--	--	--	--	Brand Manager in Nestle Taiwan Group; Master of Material Science and Engineering, University of Michigan	--	--	--	--	--
Director, BSM	Sharon Chao	1997.11.03	--	0.00%	--	--	--	--	Bachelor degree in English Literature in Tamkang University; Account Director in Lintas Taiwan	--	--	--	--	--
Director, BSM	Ronald Yu	2004.01.01	--	--	--	--	--	--	KG Telecom Director; Master of Business Tam Kang University	--	--	--	--	--
Director, BSM	Roger Chen	2004.01.01	--	--	--	--	--	--	KG Telecom. Director; Master of Mechanical Engineering, National Taiwan University	--	--	--	--	--

2-2-6. Bonuses to Directors, Supervisors, President, and Vice Presidents

Bonuses to Directors and Supervisors

2004/12/31

Title	Name	Transportation Allowance (NT\$'000)	Earning distributed to directors (NT\$'000)	Earning distributed to employees				Total (NT\$'000)	Percentage of Net Income after tax (%)	Employee Stock Option (number of shares)	Others
				Cash Bonuses	Stock Bonuses		Amount				
					Number of Shares	Market Price					
Chairman	Douglas Hsu										
Vice Chairman	Laurence Yang										
Director	Leslie Koo (Note 1)										
	Champion Lee										
	Peter Hsu										
	S.T. Peng (Note 1)										
	Jan Nilsson										
	Hsing-Yi Chen	\$6,900	\$73,693	-	-	-	-	\$80,593	0.98	-	-
	Jordan Roderick (Note 3)										
	Nelson Chang (Note 1)										
	Toshinari Kunieda (Note 1)										
Supervisor	Eli Hong										
	C.H. Chiang (Note 1)										
	Charles Wang										

Bonuses to President and Vice President

Job Title	Name	Salary (NT\$'000)	Bonuses (NT\$'000)	Earning distributed to employees				Total (NT\$'000)	Percentage of Net Income after tax (%)	Employee Stock Option (number of shares)	Others (NT\$'000)
				Cash Incentive Bonuses	Stock Bonuses		Amount				
					Number of Shares	Market Price					
President	Jan Nilsson								-	-	Accommodation allowance NT\$1,520, car allowance NT\$864, others NT\$206
EVP	Philby Chen								-	-	Car allowance NT\$327
	Y.C. Chang (Note 2)								-	-	Transportation allowance NT\$120
	Jeffrey Gee	\$35,629	\$3,603	\$8,201				\$47,433	-	-	Transportation allowance NT\$360
	Eton Shu								-	-	Transportation allowance NT\$360
	Yvonne Li								-	-	Car allowance NT\$224
	Jay Shy								-	-	Transportation allowance NT\$360
	Benjamin Ho								-	-	Accommodation allowance NT\$1390, Transportation allowance NT\$360

Note 1: The Company has elected four seats of Directors and one seat of Supervisor in June 30, 2004 :

Director Leslie Koo (Representative of TCC Investment Corp.)

Director Nelson Chang (Representative of TCC Investment Corp.)

Director Toshinari Kunieda (Representative of NTT DoCoMo Inc.)

Director S.T. Peng

Supervisor C.H. Chiang (Representative of Ta-Ho Maritime Corp.)

The above four Directors and one Supervisor, on board in June 2004, did not receive director compensation of year 2003.

Note 2: Y.C.Chang is no longer on the position from May 2004

Note 3: Eugene Hsu was replaced with Jordan Roderick on June 30, 2004.

2-2-7. Shareholding Transferred or Pledged by Directors, Supervisors, and Management, or Major Shareholders

(1) Shareholding Variation

Title	Name	2004		2005/03/31		Remarks
		Shares Increased (Decreased)	Pledged Shares Increased (Decreased)	Shares Increased (Decreased)	Pledged Shares Increased (Decreased)	
Chairman	Douglas Hsu, Representative of Yuang Ding Investment Co. Ltd.	(29,982,014)	20,400,000		(41,200,000)	
Vice Chairman	Laurence M. Yang, Representative of Yuang Ding Investment Co. Ltd.	(29,982,014)	20,400,000	--	--	
Director	Champion Lee, Representative of Yuang Ding Investment Co. Ltd.	(29,982,014)	20,400,000	--	--	
Director	Peter Hsu, Representative of Yue-Li Investment Corp.	207	--	--	--	
Director	Jan Nilsson, Representative of Yue Ding Industry Co., Ltd.	1,023,283	--	--	--	
Director	Hsing-Yi Chen, Representative of Far Eastern Memorial Foundation	190,843	--	--	--	
Director	Jordan M. Roderick, Representative of Yuan Ding Co., Ltd.	468,468	--	--	--	A re-election was conducted on May 23, 2003. Eugene Hsu was replaced with Jordan Roderick on June 30, 2004.
Director	Leslie Koo, Representative of TCC Investment Corp.	5,458,671	--	--	--	
Director	Nelson Chang, Representative of TCC Investment Corp.	5,458,671	--	--	--	
Director	Toshinari Kunieda, Representative of NTT DoCoMo Inc.	116,643,621	--	73,396,644	--	
Director	S. T. Peng	--	--	--	--	
Surpervisor	Eli Hong, Representative of Far Eastern International Leasing Corp.	2,998,702	--	--	--	
Surpervisor	Charles Wang, Representative of Asia Investment Corporation	96,349	--	--	--	
Surpervisor	Jennifer Wang, Representative of Ta- Ho Maritime Crop.	603,357	--	--	--	C.H.Chiang was replaced with Jennifer Wang on Jan. 14,2005
President	Jan Nilsson	(136,000)	--	--	--	
Executive VP	Yvonne Li	--	--	--	--	
Executive VP	Jay Shy	6,544	--	--	--	
Executive VP	Philby Chen	(67,429)	--	(27,000)	--	
Executive VP	Benjamin Ho	--	--	--	--	
Executive VP	Eton Shu	--	--	--	--	
Executive VP	Jeffrey Gee	--	--	--	--	
VP	Philip Hsi	1,427	--	--	--	
				--	--	

Title	Name	2004	2005/03/31		Remarks
		Shares Increased (Decreased)	Pledged Shares Increased (Decreased)	Shares Increased (Decreased)	
VP	Herman Rao	13,837	--	(77,000)	--
VP	Michael Lo	--	--	--	--
VP	Maxwell Cheng	117,171	--	--	--
VP	Guang Ruey Chiang	(72,056)	--	(27,000)	--
VP	Jennifer Liu	1,018	--	--	--
VP	Samuel Yuan	--	--	--	--
Chief Auditor	Doris Wu	--	--	--	--
Director	Yvonne Lan	(154,987)	--	(5,148)	--
Director	James Wu	30,775	--	--	--
Director	S.C. Lee	9,411	--	--	--
Director	James Lin	(51,439)	--	(64,180)	--
Director	Howard Tsao	--	--	--	--
Director	Bruce Yu	--	--	--	--
Director	Tony Wang	--	--	--	--
Director	David Tsai	(14,147)	--	(9,000)	--
Director	Stephen Tung	(52,950)	--	--	--
Director	Robert Chu	19,745	--	--	--
Director	Sharon Chao	180	--	(180)	--
Director	Michelle Peng	738	--	--	--
Director	Jessica Sung	5,027	--	(5,027)	--
Director	Paul Chang	150,058	--	(13,000)	--
Director	James Lee	17,837	--	--	--
Director	Brian Shean	338,461	--	--	--
Director	Jonathan Ou	99,381	--	--	--
Director	Ronald Yu	--	--	--	--
Director	Roger Chen	--	--	--	--
Director	Sharon Lin	43,709	--	(10,000)	--
Director	Iris Su	59,526	--	--	--
Director	Leon Li	--	--	--	--
Director	Hae-Shung Ju	--	--	--	--
Director	Sharon Fan	--	--	--	--
Director	Mandy Tsao	--	--	--	--
Director	Paul Lee	--	--	--	--
Director	Kevin Yu	--	--	--	--

Note: (a) Managerial Officers are defined in accordance with 2003.3.27 Taiwan Finance Securities (III) Ruling Ref. 0920001301 issued by Securities and Futures Bureau.

(b) Yang Ding Investment Co., Ltd, Director of the Company, dismissed Mr. Laurence Yang as its representative on Apr. 20, 2005. The Company will follow its notice of new representative re-appointment in the future.

(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 (USD)
Yuang Ding Investment Co. Ltd.	GDR Issurance	June 17, 2004	Non-specified Overseas Investors	None	150,000,000	\$13.219

(3) Shareholding Pledged: None.

2-2-8 Shareholdings of Directors, Supervisors, Management, or Major Shareholders and Direct and Indirect Investments of the Company in Affiliated Companies

2004/12/31

Affiliated Company	Investment of Far EasTone		Direct and Indirect Investment of Far EasTone's Directors, Supervisors and Management		Total Investment	
	Shares	%	Shares	%	Shares	%
KG Telecommunications	1,332,997,916	100.00%			1,332,997,916	100.00%
Yuan-Ze Telecom Co., Ltd.	1,037,000,000	100.00%	--	--	1,037,000,000	100.00%
Far Eastern Service (Holding) Ltd.	1,200	100.00%	--	--	1,200	100.00%
E. World (Holding) Ltd.	6,014,622	85.92%	--	--	6,014,622	85.92%
Fareastern Electronic Toll Collection Company	54,000,000	45.00%	--	--	54,000,000	45.00%
Ding Ding Integrated Marketing Service Co., Ltd.	4,500,000	15.00%	18,000,000	60%	22,500,000	75.00%

3. Capital and Shares

3-1 History of Capitalization

2005/03/22

Year. Month	Par Value (NT\$)	Authorized Capital		Shares Outstanding		Remarks		
		Shares (‘000)	Amount (NT\$‘000)	Shares (‘000)	Amount (NT\$‘000)	Source of Capital	Non-Monetary Capital Expansion	Effective Date & Cert. No.
86.04	10	900,000	9,000,000	900,000	9,000,000	Cash Founding NT\$9,000,000,000	N/A	--
87.12	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)
88.09	10	1,400,000	14,000,000	1,137,000	11,370,000	Cash capital call NT\$670,000	N/A	(Note 2)
89.07	10	1,400,000	14,000,000	1,225,743	12,257,430	Capitalization of capital surplus	N/A	(Note 3)
89.10	10	1,400,000	14,000,000	1,400,000	14,000,000	NT\$887,430,000		
90.07	10	3,360,000	33,600,000	1,890,000	18,900,000	Cash capital call NT\$1,742,570,000	N/A	(Note 4)
						Capitalization of retained earning and capital surplus NT\$4,900,000,000	N/A	(Note 5)
91.08	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)
92.07	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)
93.05	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)
93.05	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)
93.09	10	4,200,000	42,000,000	3,731,058	37,310,585	Capitalization of retained earning and capital surplus NT\$3,391,871,000	N/A	(Note 10)
93.11	10	4,200,000	42,000,000	3,763,151	37,631,514	Increasing from ECB conversion of NT\$320,929,000	N/A	(Note 11)
94.2	10	4,200,000	42,000,000	3,842,311	38,423,114	Increasing from ECB conversion of NT\$791,600,000	N/A	(Note 12)
94.4	10	4,200,000	42,000,000	3,872,663	38,726,630	Increasing from ECB conversion of NT\$303,516,000	N/A	(Note 13)

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: 2004.05.08 (93) OTC Ruling Ref. No.09301085420

Note 9: 2004.04.08 (93) Taiwan Finance Securities (I)Ruling Ref. No.0930112339

Note 10: 2004.07.14 (93) Financial Supervisory Commission (I) Ruling Ref.No. 0930130872

Note 11: 2004.11.17 (93) OTC Ruling Ref. No. 09301207180

Note 12: 2005.03.04 (93) OTC Ruling Ref. No.09401035600

Note 13: Registration to the concerned authority in process

2005/03/22

Unit: '000 Shares

Type of Stock	Authorized Capital			Note
	Shares Outstanding (Note)	Un-issued	Total	
Common Shares	3,872,663	327,337	4,200,000	The shares have been listed on the ROC Over-the-Counter Securities Exchange

Note: Already listed on OTC.

3-2 Shareholding Structure

2005/03/22

Shareholder Structure	Government Institutions	Financial Institutions	Other Institutional Shareholders	Individual Shareholders	Foreign Institutions and Individual Shareholders	Total
Shares						
Numbers	5	48	125	12,934	279	13,391
Shares	5,371,137	266,707,678	2,418,312,483	128,319,766	1,053,951,985	3,872,663,049
%	0.14	6.89	62.45	3.30	27.22	100.00

3-3 Share Distribution

2005/03/22

Level	Number of shareholders	Shares	%
1 - 999	5,238	1,458,389	0.04
1,000 - 5,000	4,392	9,757,301	0.24
5,001 - 10,000	1,394	9,683,520	0.25
10,001 - 15,000	598	7,061,029	0.18
15,001 - 20,000	304	5,262,251	0.14
20,001 - 30,000	368	8,930,246	0.23
30,001 - 40,000	178	6,171,186	0.16
40,001 - 50,000	127	5,720,237	0.15
50,001 - 100,000	256	18,230,591	0.47
100,001 - 200,000	136	18,009,026	0.47
200,001 - 400,000	99	28,697,644	0.74
400,001 - 600,000	60	29,298,712	0.76
600,001 - 800,000	26	18,019,385	0.47
800,001 - 1,000,000	23	20,965,314	0.54
1,000,001 and above	192	3,685,398,218	95.16
Total	13,391	3,872,663,049	100.00

3-4 Top 10 Major Shareholders

2005/03/22

Major Shareholders	Shares	%
Yuang Ding Investment Co., Ltd.	1,320,197,849	34.09
Yuan Tong Investment Co., Ltd.	164,634,940	4.25
Kai Yuan International Investment Co., Ltd.	160,194,103	4.14
China Development Industrial Bank	158,677,274	4.10
Taiwan Cement Corp.	146,355,181	3.78
Far EastOne ADR Account, Bank of New York	120,813,846	3.12
An Ho Garment Co., Ltd.	116,652,700	3.01
NTT DOCOMO Inc.	116,643,621	3.01
Taiwan DoCoMo Ltd.	73,396,644	1.90
GIC Account, Citibank	71,168,445	1.84

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

Unit: NT\$; shares

Item		Year	2003	2004	2005 (as of March 31)
Share price (Note 1)	High		30.90	38.70	40.55
	Low		21.90	25.80	35.00
	Average		25.30	32.43	37.87
Net Value per share	Before distribution		15.95	18.14	19.18
	After distribution (Note 2)		14.11	--	--
Earnings per share	Weighted-average outstanding shares		2,697,786,000	3,748,089,157	3,866,273,322
	Earnings per share	Before adjustment	3.04	3.75	0.98
		After adjustment (Note 7)	2.76	--	--
Dividend per share (Note 3)	Cash dividend		1.30	1.40	--
	Stock dividend	Retained earnings	1.69	0.46	--
		Capital surplus	0.01	0.54	--
	Accumulated un-distributed dividend		--	--	--
Return on Investment	Price/Earning Ratio (Note 4)		8.32	8.65	--
	Price/Dividend Ratio (Note 5)		19.46	23.16	--
	Cash dividend yield rate (Note 6)		5.14%	4.32%	--

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' Meeting resolutions in the subsequent year.

Note 3: Dividend per share of the prior year

Note 4: Price/Earning Ratio = Average closing share price of the period / Earnings 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 share price of that year

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

3-6 Dividend Policy**3-6-1 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.

The amendment was approved at the 8th Meeting of the 13th Term of Board of Directors of the Company (February 24, 2005): The dividend policy of the Company accrued shall not be less than 50% of net income deducted by deficits, surplus reserves and special reserve. The cash dividend shall not be less than 50% of the dividend of the year. However, depending on whether the Company has any financial structure improvement or major capital expenditure plans in the year, the percentage of cash dividend and payout ratio may be raised or lowered by a resolution approved at the Annual Shareholders' Meeting. The above-mentioned amendment is subject to the resolution at the Shareholders' Meeting on May 20, 2005.

3-6-2 Proposed Dividend Allocation to be Approved at the Annual Shareholders' Meeting

The proposed 2004 dividend allocation to be approved at 2005 Annual Shareholders' Meeting is as follows: undistributed earnings of NT\$11,617,989,147 will be distributed as cash dividends of NT\$3 per share.

3-7 Impact of Stock Dividend Distribution on Business Performance, EPS and Return on Investment: None

3-8 Bonuses for Employees, Directors and Supervisors

3-8-1 Description regarding employee bonuses in the Articles of Incorporation:

From the profit earned by the Company as shown through the annual account closing, the sum to pay all taxes and to make good previous loss, if any, shall be first withheld, then 10% for legal reserve and then for special reserve as required by law. The final surplus, if any, shall have 2% taken for bonus to employees, and 1% taken as remuneration to the directors and supervisors.

Unit: NT\$'000

Item	Bonuses for Employees	Bonuses for directors and Supervisors
Amount		
Proposed Distribution	252,775	126,388
Actual Distribution	-	-
Variance	-	-

3-8-2 Proposed bonuses for employees, directors and supervisors:

- (1) Proposed bonuses for employees, directors and supervisors to be approved at the Board Meeting on April 7, 2005 is as follows:
- (2) The formula for employee bonuses calculation is as shown in the following table:

Unit: NT\$'000

Employee Cash Bonuses (A)	Employee Stock Bonuses (B)	Average Market Price of the last month during the fiscal period (C)	The Value of Employee Stock Bonuses in Market Price (D=B*C)	Employee Cash Bonuses and the Value of Employee Stock Bonuses in Market Price (E=A+D)
252,775				252,775

Unit: NT\$'000

Net Income after Tax (F)	Earnings to be distributed (accumulated earnings beginning of the year + 2004 net income after tax) (G)	Total amount of the distributed Legal surplus, Special Surplus and deficit (H)	50% of Net Income after Tax (I=50%*F)	50% of Earnings to be distributed (deducted Legal surplus, Special Surplus and deficit) (J=50%*(G-H))
14,043,076	14,069,797	1,404,308	7,021,538	6,332,745

- (3) Proposed percentage of employee stock bonuses over retained earnings transferred to common stock: Not Applicable
- (4) Forecast EPS after distribution of the proposed bonuses to employees, directors and supervisors: If the proposed bonuses to employees, directors and supervisors are booked as expenses, 2004 EPS after tax will reduced from NT\$ 3.75 to NT\$ 3.65.

3-8-3 Bonuses to employees, directors and supervisors for 2003 as approved at the Board Meeting on April 12, 2004 and Shareholders' Meeting on June 30, 2004 are as follows:

Unit: NT\$'000

Item	Bonuses for Employees	Bonuses for directors and Supervisors
Proposed Distribution	147,387	73,693
Actual Distribution	147,387	73,693
Variance	0	0

3-8-4 Bonuses to Managerial Officers

Unit: NT\$'000

			Stock Bonuses			Cash dividend	Total (NT\$'000)	Percentage of Net income after tax (%)
			Number of Share	Market Value	Amount	Amount (NT\$'000)		
Managerial Officer	President	Jan Nilsson						
	Executive VP	Yvonne Li						
	Executive VP	Jay Shy						
	Executive VP	Philby Chen						
	Executive VP	Jeffrey Gee						
	Executive VP	Benjamin Ho						
	Executive VP	Eton Shu						
	VP	Herman Rao						
	VP	Philip Hsi						
	VP	Y.C. Chang						
	VP	Michael Lo						
	VP	Maxwell Cheng						
	VP	Guang Ruey Chiang						
	VP	Jennifer Liu						
	VP	Samuel Yuan						
	Director	Yvonne Lan						
	Director	James Wu						
	Director	S.C. Lee						
	Director	James Lin	-	-	-	\$54,562	\$54,562	0.67
	Director	Howard Tsao						
	Director	Bruce Yu						
	Director	Tony Wang						
	Director	David Tsai						
	Director	Stephen Tung						
	Director	Robert Chu						
	Director	Doris Wu						
	Director	Sharon Chao						
	Director	Michelle Peng						
	Director	Jessica Sung						
	Director	Paul Chang						
	Director	James Lee						
	Director	Brian Shean						
	Director	Jonathan Ou						
	Director	Ronald Yu						
	Director	Roger Chen						
	Director	Sharon Lin						
	Director	Iris Su						
	Director	Leon Li						
	Director	Hae-Shung Chu						
	Director	Sharon Fan						
	Director	Mandy Tsao						

Note: Managerial Officers are defined in accordance with 2003.3.27 Taiwan Finance Securities (III) Ruling Ref. 0920001301 issued by Securities and Futures Bureau.

3-9 Share buyback by the Company: None

4. Issuance of Corporate Bonds

4-1 Corporate Bonds

2005/03/31

Corporate Bond Type	Domestic Secured Bond (I)	Domestic Unsecured Bond (I)	Domestic Unsecured Bond (II)	Domestic Unsecured Bond (III)
Issue Date	2000.11.30	2002.02.19~2002.02.22	2003.03.28~2003.04.03	2003.12.12~2003.12.19
Denomination	NT\$ 1,000,000	NT\$ 1,000,000	NT\$ 1,000,000	NT\$ 5,000,000
Issuance and Listing	N/A	OTC Securities Exchange (ROC)	OTC Securities Exchange (ROC)	OTC Securities Exchange (ROC)
Offering Rate	Par	Par	Par	Par
Total Amount	NT\$ 2,200,000,000	NT\$ 4,200,000,000	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.	* 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)
Duration	5 year Maturity: 2005.11.30	5 year Maturity: 2007.02.19~2007.02.22	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
Trustee	Central Trust of China	Taipei Bank	Trust Department of Chiao Tung Bank	Chinatrust Commercial Bank
Underwriter	None	None	None	None
Legal Counsel	Mr. Morton Maote Huang	Mr. Morton Maote Huang	Mr. Morton Maote Huang	Mr. Morton Maote Huang
Certified Public Accountant	T N Soong & Co.	T N Soong & Co.	T N Soong & Co.	Deloitte & Touche
Auditor Repayment	From 24th month, repay 14%, 14%, 14%, 14%, 15%, 15% semiannually	* Tranche A: repay 40%, 60% at 4th and 5th year * Tranche B: repay 60%, 40% at 4th and 5th year	Paid at maturity	* Tranche A: paid at maturity * Tranche B: paid at maturity * Tranche C: paid at maturity
Outstanding Amount	NT\$ 660,000,000	NT\$ 4,200,000,000	NT\$ 1,470,000,000	NT\$ 3,000,000,000
Redemption or Early Repayment Clause	None	None	None	None
Covenant applicable	1. Liability ratio < 125% 2. Tangible net worth > NT\$9 billion	Not applicable	Not applicable	Not applicable
Crediting Rating	None	Received a rating of "twAA" from Taiwan Ratings Corp. on 2004.12.22	Received a rating of "twAA" from Taiwan Ratings Corp. on 2004.12.22	Received a rating of "twAA" from Taiwan Ratings Corp. on 2004.12.22
Other Rights of Bond Holders	Amount Converted into, exchanged or subscribed to Common Shares, ADRs or other securities	Not applicable	Not applicable	Not applicable
Conversion Rights	Not applicable	Not applicable	Not applicable	Not applicable
Dilution Effect and Other Adverse	Not applicable	Not applicable	Not applicable	Not applicable
Custodian	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 Corporate Bonds to due within one year

According to the covenants of the Company's first issuance of domestic secured corporate bonds, the Company shall payback NT\$330 million on May 31, 2005 and November 30, 2005 respectively. Therefore, the total amount of corporate bonds to due within one year is NT\$660 million. In addition, all overseas unsecured convertible bonds have been converted by March 2, 2005.

4-3 Exchangeable Bond: None**4-4 Shelf Registration for Issuing Corporate Bonds: None.****4-5 Bond with Warrants: None.****4-6 Issuance of Corporate Bonds Through Private Placement: None.****5. Preferred Shares: None.****6. Issuance of Depository Receipt**

2005/03/31

Date of Issuance		June 11, 2004	
Item			
Date of Issuance			June 11, 2004
Place of issuance			Luxembourg Stock Exchange
Total Price of Issuance			US\$132,190,000
Total number of units issued			10,000,000
Type of underlying securities			Far EasTone Common Stock
Amount of underlying securities			15 shares
Rights and obligations of subscribers			Same as common stock shareholders
Trustee			Not applicable
Depository Bank			The Bank of New York (Luxembourg) S.A.
Custodian Bank			Far Eastern International Bank
Number of outstanding shares			121,908,846
Bearers of Related charges incurred during issuance and holding period			Charges of GDR issuance shall be born by sellers; Charges incurred during holding period shall be born by the Company.
Major terms of Depository Agreement and Custodian Agreement			none
Market Price per unit	2004	High	US\$18.00
		Low	US\$12.3727
		Average	US\$14.845
	2005 (as of March 31, 2005)	High	US\$19.40
		Low	US\$16.50
		Average	US\$17.98

7. Employee Stock Options: None.

8. Merge and Acquisition

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) G902011 Type II Telecommunication Business (25) Beside permit businesses, the Company allows to operate businesses without legal restrictions.
Main Service		Wireless communications services
2004 Financials	Total Assets	NT\$ 48,356,932 thousand
	Total Liabilities	NT\$ 14,570,366 thousand
	Total Shareholders' Equity	NT\$ 33,786,566 thousand
	Operating Revenue	NT\$ 27,068,199 thousand
	Gross Profit	NT\$ 13,830,070 thousand
	Operating Income	NT\$ 7,373,559 thousand
	Net Income	NT\$4,161,551 thousand
EPS		NT\$ 3.12

8-1-1. Evaluation of Underwriter:

The issuance of new shares for capital increase relating to the merger with KGT was approved by SFC with certification of "Taiwan Finance Securities (I)Ruling Re .No.0930112339" on April 8, 2004. As of the publishing date of the Annual Report, the underwriter has acknowledged its evaluation for 1Q 2005 as follows:

Far EasTone Telecommunications Co., Ltd. (hereinafter referred to as 'the Company') and its wholly-owned subsidiary Yuan-ho Telecommunications Co., Ltd. (which has been renamed as KG Telecommunications Co., Ltd., hereinafter referred to as "New KGT", as approved by the Ministry of Economic Affairs on January 19, 2004) and KGT (hereinafter referred to as 'old KGT') entered into an agreement of merger, which has been approved at the Shareholders' Meeting on November 25, 2003. Based on Article 9, Section 1, Clause 8 of the Criteria Governing the Offering and Issuance of Securities by Securities Issuers, the Underwriters hereby acknowledges its evaluation regarding the impacts of the merger on the Company's 2004 finance, operations, shareholders equity as well as the expected benefits of the share swap as follows:

- A. The closing date of the share swap between the Company and New KGT was April 29, 2004. The change has been registered with the concerned authority on May 20, 2004. After the share swap the New KGT became a wholly-owned subsidiary of the Company.
- B. The scope of business of the two companies remained to be mobile service and mobile phone and accessory sales. As the two companies are both engaged in telecommunication business, through integration and cooperation they are expected to achieve economic scale as well as reduce redundant investment and waste of resource. Therefore, after the share swap the two companies have been dedicated to resource integration and a wider variety of service offering, which not only reduces operation costs but also increases service efficiency and customer satisfaction. Currently both companies are trying to expand their customer bases by targeting different segments, which not only helps to increase the total competitiveness but also enlarge the space for further business development.

The Company's service revenue of 1Q 2005 was NT\$10,322,937,000, a 5.22 % growth over 1Q 2004 (NT\$9,811,267,000). The unaudited EBITDA margin for 1Q 2005 was 43.8 %, also higher than that of 42.3% for 1Q 2004. It indicates that the share swap has had a positive impact on the Company's operation and cost savings. With regard to New KGT, its unaudited EBITDA margin for 1Q 2005 was 47.5 %, higher than that of 44.2 % for 1Q 2004. It also shows that the share swap has had a positive impact on New KGT's operation.

- C. After the acquisition of New KGT, the Company's revenue of 1Q 2005 is higher than that of 1Q 2004. It shows that the integration of the two companies' business and customers has helped the continued growth of the Company's operational scale and competitiveness. The expected positive impact on the Company's finance, business and shareholders benefits have gradually surfaced.

8-1-2 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: Proposed closing date is May 2, 2005.
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 undertake 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
2004 Financials	Total Assets	NT\$ 15,888,640 thousand
	Total Liabilities	NT\$ 6,298,500 thousand
	Total Shareholders' Equity	NT\$ 9,590,140 thousand
	Operating Revenue	NT\$ 0 (note)
	Gross Profit (loss)	NT\$ (104,370) (note)
	Operating Income (loss)	NT\$ (277,214) (note)
	Net Income (loss)	NT\$ (278,123) thousand
EPS		NT\$ (0.27)

Note: YZT has not started to operate in 2004.

8. The merge of the Company with YZT has been approved by DGT and OTC. Board of Directors of the Company and YZT approved the merge closing date on May 2, 2005.



III | **Operational Highlights**

1. Business Activities
2. Market and Sales Overview
3. Employee Information
4. Environmental Protection Expenditure
5. Employee Relations
6. Major Contracts

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 and payment collection 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).
- F401021 Imports of controlled radio frequency-devices

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		2003	
		Amount	%	Amount	%
Mobile Service Revenue		34,515,474	93.12%	37,061,787	92.13%
Sales of Cellular Phones and Accessories		2,545,751	6.87%	3,146,300	7.82%
Others		5,938	0.01%	21,394	0.05%
Total		37,067,163	100.00%	40,229,481	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: Integrated Internet services, mobile positioning service, Internet access service (IAS), simple voice resale (ISR), e-mail; e-commerce, and mobile communication services.

B: Sales of Handsets and Accessories:

Handsets and accessories sales alone or bundled with SIM card sales.

1-1-4 New Products and Services Under Development

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 (MMS, Multimedia Messaging Service);
- 3G multimedia contents and applications;
- WAP2.0 Gateway to support TCP/IP standards;
- Migration of existing GSM/GPRS services to 3G services platform;
- Enhanced JAVA content platform (i.e. On-line Java gaming, Java community platform, etc.)
- Intelligent voice dialing service

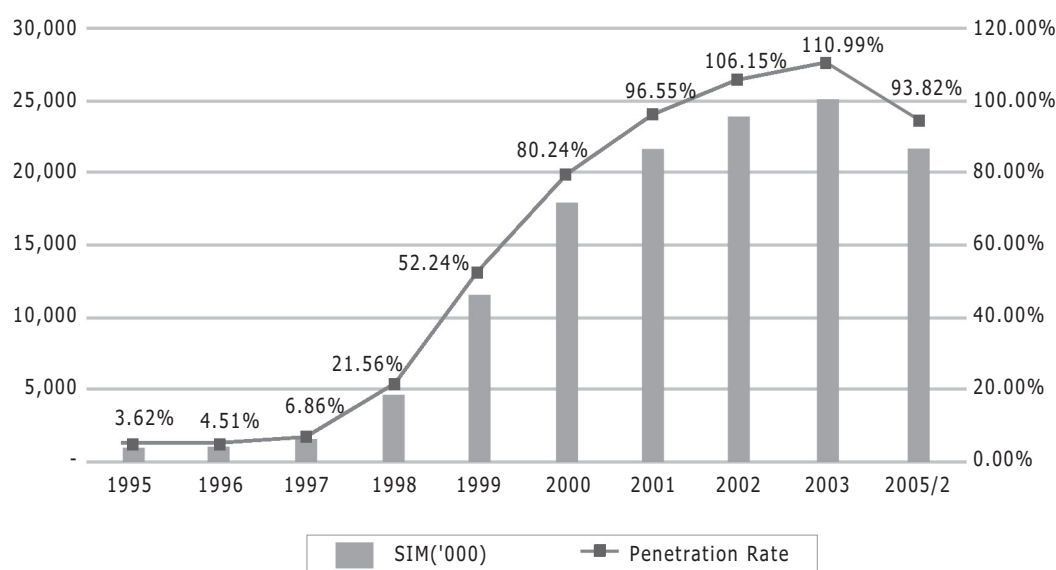
1-2 Industry Overviews

1-2-1 Industry status and development

After the three major laws of telecommunications (the Telecommunication Act, the DGT Organizational Statutes, the Chunghwa Telecom Co., Ltd. Statutes) were passed, in recently years the speed of telecommunication service deregulation and market competition have been growing rapidly. Take the second generation GSM mobile service for example, totally six licenses were issued, including four national licenses to Far EasTone Telecommunications (FET), Chunghwa Telecommunications (CHT), Taiwan Cellular Corporation (TCC), KG Telecommunications (acquired by FET as a wholly-owned subsidiary on January 1, 2004) and two regional licenses to TransAsia Telecommunications (TAT) and Mobitai Telecommunications (both have been acquired by TCC). The total number of mobile phone users was 1.49 million in 1997. By February 2005 it dramatically increased to 21.29 million with the world's highest penetration rate of 93.82%. On an average almost everyone of the country has at least one mobile number. According to an analysis, many users possess a second mobile number and

their second number are mostly purchased for services provided by different operators, or with a promotional bundled package with a new model mobile phone that they had intended to get. They purchased the second SIM for different calling purposes or the cheaper, newer handsets. In the future if operators can not offer differentiating services, the penetration rate might not be able to further increase. In other words, the mobile service market has been saturated.

Mobile SIM Card Growth in Taiwan



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

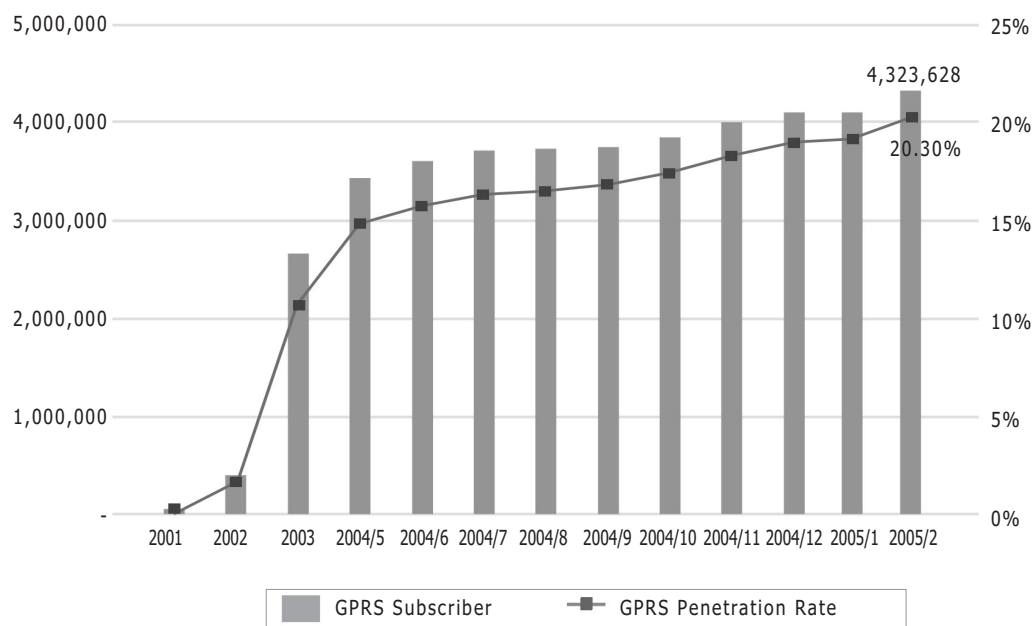
Taiwan's telecommunications market is characterized by the following factors, among others:

A. Value-added services — source of revenue growth

Currently the voice services provided by all operators are the second generation mobile services. The average revenue per user (ARPU) and penetration rate have a close impact on each other. As operators launched various value-added services on GPRS, ARPU also increased. Since 2000 the average mobile phone talk time remained flat or slight growth, while ARPU continued to drop. The main reason is the continuously lowered tariff as a result of market competition. Under such circumstances, bringing new value-added services is becoming the key strategy for operators to increase revenue.

From the end of 2001 to mid-2002 operators launched GPRS one after one. As of February 2005 the number of GPRS customers was 4.32 million. The penetration rate also grew from 1.59% in December 2002 to current 20.30%. The speed of GPRS penetration growth is far behind that of GSM in the last few years. As 3G/GPRS and GSM/Wireless LAN integrated network services joined the market, since 2004 GPRS value-added service market has also been getting saturated. The key issue is that the highest transmission speed of GPRS is only 115Kbps, making it difficult to compete with the 2Mbps of ADSL and the 11Mbps of Wireless Local Area Network (WLAN) 802.11b.

GPRS Subscriber Growth in Taiwan



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

B. 3G — the next market focus

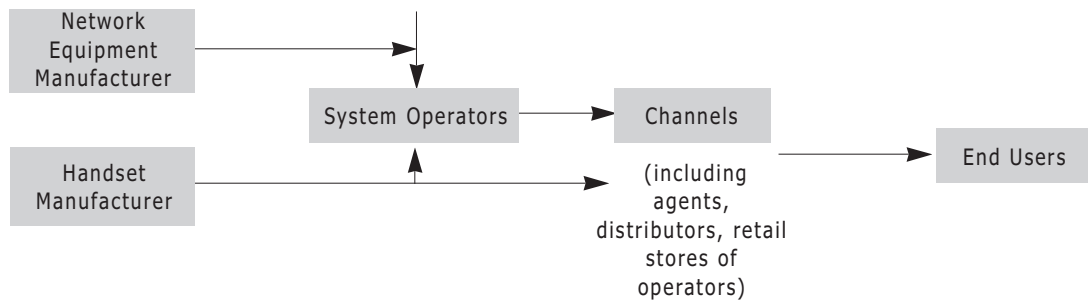
As GPRS value-added service market is getting saturated, expanding customer base is no longer the center of operators' concern. Instead, offering various data services to increase revenue became the generally adopted key strategy. That is why 3G is expected to bring more growth to global telecommunications market. The rapid growth of WLAN will help to change consumers' behavior, and its broad bandwidth will stimulate the needs for high-speed data access at anywhere and 3G mobile phones, helping services such as video phone, MMS, mobile multimedia streaming service and mobile office to take off. It is believed that 3G will change people's life style and enable a better combination of technology and our everyday lives. NTT DoCoMo, the world's first 3G service provider, launched its 3G service in October 2001. However, up until now its 3G business has never been able to achieve obvious growth. There are two reasons: The first is the technology problem of 3G mobile phones. Existing 3G mobile phones are generally bigger than those of 2G; higher electricity consumption of its batteries is another issue; Also, line drop during hand-over between 2G and 3G networks is to be fixed. Secondly, five 3G licenses were issued in Taiwan and the cost for simply getting one license is about NT\$10 billion. It also takes tremendous cost to construct the network. The key factor of consumers take-up of 3G service lies in whether it has price advantage over 2G. Currently all operators tend to be conservative about 3G development. Commercial service launch is mostly scheduled in 2005.

In addition to 3G, among all technologies that bring breakthrough in mobile services, WLAN is also growing fast. As the technologies of 3G and WLAN can be complimentary to each other, mobile operators have started to integrate 3G and WLAN network. A 3G/WLAN integrated network provide users with the option to access the Internet through WLAN, offering high-speed transmission and relatively lower rate, when WLAN service is available. The Executive Yuan has been promoting 3G/WLAN mobile phones which are believed having the potential to

replace indoor extension telephone sets. Therefore, consumers will no longer need more than one telephone number. This application is making the future of 3G look bright.

1-2-2 Industry Value Chain

Telecommunications Industry Value Chain



1-2-3 Development Trend of Products and Services

A. 3G

As we are moving into 3G era, the focus will be the increase of transmission speed increase. WCDMA will be the dominant technology platform.

Comparison of the First, Second, and Third Generation Mobile Phone Service

Item	1G-Analog	2G-GSM	3G-WCDMA
Privacy and Security	Poor	Good	Better
Enhanced Function	No	Many	Many
Power Requirement	General	General	Minimum
Quality of Signal	Better	Good	Best
Reliability of Communication	Poor	Good	Better
Number of Base Station	General	Fewest	Most
Construction Cost	Low	General	High

From the above table it is clear that WCDMA is going to be the dominant standard for the third generation wireless telecommunication service. The 3G system IMT-2000, led by International Telecommunication Union (ITU) and the 3G intelligent mobile devices are expected to take the transmission speed and varieties of functions another step further. The convenience, service prevalence and functions of 3G service will be able to exceed all existing personal digital communications tools. The only Taiwan operator that adopts CDMA2000 technology Asia Pacific Broadband Wireless Communication Inc (APBW) has launched the service in July 2003.

B. Service Personalization

As mobile communication technology has been developed rapidly, the concept of "mobile network" is being shaped. Integrating the Internet and mobile phone services, the 'mobile network' is going to offer more personalized services that can provide personal settings based on customers' individual needs and preferences. It will also be able to offer video calls and always-on connection.

C. Convergence of broadband media, telecommunications and technology platform

The functions and technology advance of 3G mobile phones are playing a key role in 3G market development. Therefore, based on the network and systems owned by the operators

mobile phone manufacturers are being urged to speed up the development of 3G mobile phones with the capability of wireless communication and broadband media. Currently technology development is basically headed for broadband, wireless and mobilizing services. Intel Corporation even announced that it is not going to develop higher speed CPU, and instead, it is going to focus on convergent product development.

1-2-4 Product Competition

As operators' investment in network construction and hardware is usually enormous, all operators try to expand customer base to reach economic scale. The market is basically shared by three national operators, FET, CHT and TCC. The similarity of the services provided by the operators is high. Various rate plans, mostly charged by second, were designed to attract different user groups. Two payment methods, prepaid and postpaid, are offered for customers' choice. Currently tariff competition has stabilized. Value-added services are mostly MMS applications, including entertainment services such as pictures, music, ringtone, e-card download. There are transaction and information services such as e-books download, mobile banking, mobile positioning, satellites positioning, payment collection, and other convergent services. As the service contents provided by different operators are very similar, in order to increase ARPU, advertisements and promotions are mostly designed to enhance customer loyalty and establish clear market position.

1-3 Technology Development Overviews

1-3-1 Technology adopted for existing businesses

Far EasTone's core business is offering customers convergent telecommunication services. The Company's three main technology sources are as follows. In response to the market needs for various application services and higher service quality, the Company has been devoted to technology development including software and hardware for GSM system and multimedia application technology. The company also sponsors external research institutes for related technology research and development. Currently the research focus are 3G mobile phones, 3G network optimization, 2G/3G migration, etc.

1-3-2 Research and Development

The Company adopts a focused R&D strategy and combines the resources of the Far Eastern Group. The strategy is to obtain the best R&D achievements by utilizing the resources and research strengths of all the R&D units within Far Eastern Group. And the company will make the most of research achievements to support its operations and create business value.

A. Development of Advanced Technologies

The purpose of the company's advanced technology development is to fulfill the Company's future operation needs. It is hoped that by leveraging the R&D resource of the industry, government, academic and private research institutes, the Company will be able to enhance its system reliability and communication quality as well as speed up its technology and application service development. The three major areas of the Company's future R&D are as follows: (1) R&D on how mobile information platform can support various frontend equipments, allowing customers to connect to the Company's network anywhere anytime to enjoy a wide range of application services. (2) R&D on Electronic Toll Collection System (ETCS) and its supporting systems, including traffic and communication system applications. (3) R&D on broadband system and application services including the integration of Far EasTone network and wireless broadband network, voice and data systems and platform development.

As global 3G network construction and data service are rapidly developed, the Company is striving to position itself in the market as a mobile multimedia and wireless Internet service provider. In order to maintain its position as a mobile data service market leader, the Company has scheduled to launch a series of 3G multimedia services including video phone, mobile video streaming service, video on demand, etc. To keep pace with the development of international wireless telecommunication standard, the Company decided to adopt HSDPA technology, an upgrade to WCDMA system, to construct a faster broadband data transmission service. Based on the IMS (IP Multimedia Subsystem) infrastructure, the Company is going to develop various services such as Mobile Presence Service, Push to Talk, etc.

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) Wireless 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 FarEastTone 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 41 R&D staff, among which one possesses a doctor's degree, 16 possess master's degree, and 21 possess bachelor's degree. The majority of them have extensive R&D experience in telecommunication industry.

Major R&D Expense in Recent Years

Unit: NT\$'000

Item	Year	
	2004	2005 Q1
R&D Expense	301,902	72,058
Total Operating Revenue	40,229,481	10,329,063
R&D Expense as percentage of Total Operating Revenue	0.75%	0.69%

Product and Services Developed in Recent Years

Striving to provide customers with leading value-added communication services, the Company has developed the following services and product in 2004 and 2005:

Year	Name of the Service	Description
2004	Mobile Messenger	Mobile messenger services based on Java and SMS, jointly offered with major international messenger service providers, ex. Yahoo messenger, MSN, and YamQQ.
	i-mode Service	Exclusively offers i-mode service by NTT DoCoMo, With i-mode mobile phones, customers can browse and download the latest contents offered by the service.
	FET Mobile Network	Wireless internet access service over GPRS network, offering free browsing service and new MMS and Java games.
2005	Love Match Test	A game that utilizes voice analysis technology to come up with a love-match score for the two parties on the phone
	3G Multimedia Video Service	3G mobile data service offered with WCDMA technology including video phone, vidio streaming and faster mobile internet connections (project under development)

1-4 Long-term & Short-term Sales Development Plan

1-4-1 Short-term plan

A. Marketing Stragety

- Conduct an analysis on FET's and KGT's products, segregating their target customers and establish different marketing strategies for the two brands. By doing so, the Company expects to lead the market in new-adds and expand its market share.
- Launch new product and services ahead of competitors and continuously develop new sales channels, points of sales, and distribution methods.
- Insist on reasonable pricing strategy to secure high-value loyal customer groups.
- Improve brand awareness and image with advertisement. For good customer relation management, regularly design activities for specific customer groups to enhance loyalty and reduce churn.

B. Direction for Product Development

- Continously improve network quality to reduce congestion and dropped -call rate and offer world class sound quality.
- Continue to promote i-mode service and speed up in launching new value-added services such as 3G multimedia service, mobile video service, mobile search engine, etc. By doing so, the Company is trying to offer customers a wider range of service choices and make mobile phone become a more personalized communication tool.

C. Operational Scale

- In response to the needs of a growing customer base the Company will continue to improve its network quality by adding base stations and enhance indoor coverage within existing service areas.
- The Company's subsidiary Yuan-Ze Telecom has obtained a 3G service license and will offer a wider range of services based on the Company's existing customer scale and services.
- To futher improve employee loyalty and production the Company is dedicated to providing various employee education and trainings.
- To provide convergent services to enterprise customers the Company is placing a focused effort in the development of enterprise customers and mobile advertisement business.

1-4-2 Long-term plan

A. Marketing Strategy

Under the guidance of the Company's shared values of being innovative, responsive and trustworthy, the Company aims to enhance the image as a leading brand as well as its business image. With various loyalty programs and activities targeting different market segments, the Company expects to reduce customer churn. Meanwhile, the Company continuously launch new product and educate customers on new technology development to increase the economic value of its product. In order to further meet customer needs, the Company regularly evaluates its existing sales channels and develops new sales channels.

B. Direction for Product Development

Simontaneously with the trend of world's 3G technology and product development, the Company is dedicated to network quality improvement and developing innovative services and products based on local customer needs.

C. Operational Scale

Through strategic partnership and combining internal resource, the Company aims to integrate its fixed-line, wireless telecommunications, and Internet business, and has been developing telecommunication professionals to meet its operational needs.

2. Market and Sales Overview

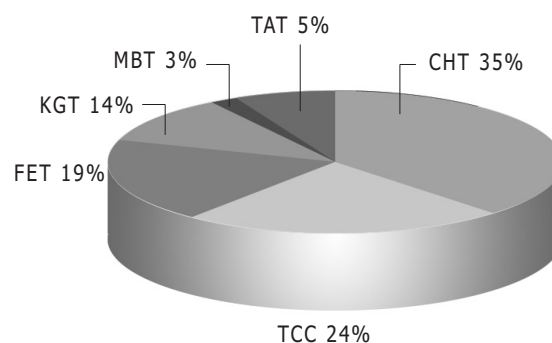
2-1 Market Analysis

2-1-1 Main Products and Service Areas

The Company acquired KGT in January 2004 and since then KGT has become a wholly-owned subsidiary of the Company. As of February 2005, the Company has 6.41 million customers. Guided by the Company's vision of "Anywhere, anytime, communication enriching the lives of people", the Company aims to provide total communication services including mobile service, voice related services, multimedia service, convergent business solutions, etc. After acquiring KGT, the Company's sales channels cover the whole island. The total number of the company-owned and V@SS franchise stores increased from 265 before acquiring KGT to 363 by the end of October 2004. As the time for the Company's 3G service launching approaches, its 3G network construction has come to the final stage and is ready to offer more service choices and higher value to customers.

2-1-2 Market Share

After the fierced competition of large amount of advertisement, handset subsidies, rate plans, and channel establishment, the mobile service market share has generally stabilized. The key factor to decide future market share will lie in the completeness of operator's value-added services. Currently CHT's market shares for customer number and operating revenue are 39% and 35%; followed by TCC's 22% and 24%, FET's 19% and 19%, KGT's 11% and 14%, TAT's 7% and 5%, MBT's 2% and 3%. The following pie chart shows the market share of the operators.



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

2-1-3 Future Market Demands and Potential

Taiwan's mobile service market has been growing rapidly. By the end of February 2005, the penetration rate has reached 93.82%, the highest in the world. As the market is coming to a mature stage, operators usually place the focus on value-added services and heavy users. Take leading international mobile operator Vodafone for example, while the market growth is slowing down, it decided to shift its focus from general consumers to enterprise customers. Far EasTone is also striving to develop convergent enterprise communication solutions with other companies. As wireless telecommunication service is developed from pure voice service toward wireless data and 3G, constructing a 3G/WLAN integrated network is another feasible direction.

2-1-4 Competitive Advantages

Telecommunication business is categorized as a service business, and service quality is the key to success. Therefore, customer satisfaction, brand image, communication quality, marketing channels, and seizing the trend are the five niches for operators to succeed in the market competition.

A. Customer Satisfaction

According to inspection results conducted by the Directorate General of Telecommunications (DGT), Ministry of Transport and Communications (MOTC), Far EasTone won an A in Total Customer Satisfaction (including sound quality and connection rate of the calls made to customer service center, service attitude and service efficiency of the representatives, overall image of customer service, etc) for two consecutive times within one year. It is a recognition to the Company's continuous efforts in customer service improvement. KGT has been known for its outstanding performance in keeping high-value customers in the last few years. KGT's i-mode service is highly recognized by consumers. In the future Far EasTone will continue to offer superior customer service to enhance customer recognition and loyalty.

B. Brand Image

Thanks to the Company's successful marketing strategy, the brand names of its postpaid service, prepaid service "IF" card, value-added services "i-Style", and innovative rate plans "Bravo" have created superior brand images. KGT's Hala series is also recognized by customers of all ages. Guided by its shared values of being "innovative, responsive, and trustworthy", Far EasTone will continue to offer superior service to the customers.

C. Communication Quality

The Company not only constructed the world's first GSM900/180 dualband network, it also pioneered in offering Enhanced Full Rate (EFR) Hi-Fi stereo sound quality in Taiwan. To ensure the highest service quality the Company adopts world's class standards in network planning, system coverage, congestion rate and dropped-call rate. KGT is known for its satellite mobile base stations which can increase the original call capacity by 50 to 100% and are very helpful in reducing congestion and blind spots. In additions, KGT network has very good coverage in central and southern Taiwan, which is expected to further improve the communication quality and service reliability in these areas.

D. Marketing Channels

The Company has established a complete sales network which includes the company-owned stores, franchise service stores and other sales channels. The Company is also seeking cross-industry partnership (for instance, the investment in Arcoa Corporation) to maintain its leading position in revenue and service.

E. Seizing the Trend

Telecommunication service is developed toward 'convergence'. Early in 1999 the Company has launched a convergent service of mobile service and Internet access service. In 2002 the Company continue to offer wireless Internet service over GPRS network and MMS. In the future 3G is going to provide high-speed transmission data service. After acquiring KGT, the Company partnered with NTT DoCoMo to promote Japan's most popular i-mode service, making the Company's total service package more complete and attractive.

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, that own both GSM900 and GSM1800 licenses. As the two frequencies complement each other in penetration capability and transmission reach, automatic frequency switch during a call not only help customers obtain the best communication quality, it can also maximize the capacity in the limited bandwidth of the two frequencies to reduce congestion.

(2) Professional Management Team and Outstanding Corporate Image

The Company's management team has extensive professional experiences and backgrounds. Therefore, with the combination of superior technology and professionalism the Company has been able to maintain outstanding corporate image and leading position in the market.

(3) Mobile phone price reduction

As local wireless device manufacturers started to engage in mobile phone R&D and production, in order to get market share many local manufacturers adopted low-price strategy. Therefore, mobile phone prices are lowered year by year, which resulted in consumer demand increase. The average age of users is getting lower. As using mobile phone became a part of consumer pattern, it also signifies tremendous business potential for mobile operators.

(4) Increased Added Value Due to Technology Advancement

The maturing new generation high-speed data transmission system and wireless communication technology (ex. Bluetooth), combined with Internet related services, will benefit operators in providing wireless broadband network and other value added services. Mobile phones will not only be devices or voice communication tools, they can also be the integrated media for information transmissions.

B. Disadvantages

(1) Vicious competition on SIM card sales

Local consumers' needs for mobile numbers have reached its peak in the last two years. Mobile number growth is expected to slow down. However, in order to increase number sales operators compete with each other by raising commission and handset subsidies. Such vicious competition not only squeezes the space for profitability, it also results in more number switch and higher churn.

(2) Unfair competition between CHT and private operators

In order to increase market share former monopoly operator CHT continuously lowers its tariff. In additions, CHT has been enjoying the advantages of being the only licensed business provider in many communication businesses, resulting in a certain level of unfairness in mobile service market competition.

D. 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.

2-3 Supply of Raw Material

The Company is a mobile operator, not a manufacturer. Thus there is no raw material.

2-4 Major Customers and Suppliers in the Recent 2 Years

2-4-1 Major Suppliers

Unit: NT\$'000, %

Year Item	2003				2004			
	Company	Amount	% of Total Operating Cost	Relations with the Company	Company	Amount	% of Total Operating Cost	Relations with the Company
1	Chunghwa Telecom	2,760,692	14.83	--	Chunghwa Telecom	2,881,336	14.63	--

2-4-2 Major Customers

Unit: NT\$'000, %

Year Item	2003				2004			
	Company	Amount	% of Total Operating Revenue	Relations with the Company	Company	Amount	% of Total Operating Revenue	Relations with the Company
1	Chunghwa Telecom	7,139,284	19.26	--	Chunghwa Telecom	7,327,691	18.21	--

2-4-3 Reasons for Variation of Major Suppliers and Customers

From the above tables it is clear that there is no variation of the Company's major suppliers and customers in 2003 and 2004.

2-5 Production Volume for the Recent 2 Years: Not applicable.

2-6 Sales Volumes for the Recent 2 Years

Unit: SIM card; piece; NT\$'000

	2003				2004			
	Imports		Exports		Imports		Exports	
	Quantity	Amounts	Quantity	Amounts	Quantity	Amounts	Quantity	Amounts
Service revenue	4,431,217*	34,521,412	--	--	4,148,600*	37,083,181	--	--
Handset and Accessory Sales	522,515	2,545,751	--	--	682,361	3,146,300	--	--
Total	--	37,067,163	--	--	--	40,229,481	--	--

*total number of SIM card sales by the end of the year

The 2004 service revenue growth is mainly due to the customer growth of high rate plan users; 2004 handset and accessory sales growth is mainly due to the successful bundled package of color display handsets.

3. Employee Information in the Recent 2 Years

Year		2003	2004	3/31/2005
Number of Employees	Manager and above	272	309	309
	Technical staff	521	876	848
	Customer care staff	855	1,024	1,014
	General staff	718	1,256	1,287
	Total	2,366	3,465	3,458
Average Age		31.02	31.32	31.48
Average Years of Service		3.54	3.06	3.21
Breakdown of Educational Level (%)	Ph. D	0.30	0.08	0.12
	Master	12.00	8.49	8.79
	College	79.40	82.09	81.75
	High School	8.30	9.34	9.34
	Below High School	-	-	-

4. Environmental Protection Expenditure

- 4-1** 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** Principal equipments for controlling environmental pollution and potential benefits: None.
- 4-3** In the recent two years until the publishing date of the Company's Annual Report, any consequence of improving environmental pollution or handling dispute: None.
- 4-4** In the 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: According to the letter from the Sanitation Inspection Division of the Department of Environmental Protection of Taipei City Government dated January 12, 2005, from January 1, 2003 until the publishing date of the Company's Annual Report, three cases were reported regarding violation of

environmental protection regulations. All three cases have been closed and the total amount of fine was only NT\$8,400. It is believed not to have any serious impact on the Company's image, operation and profitability.

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. 331 training courses were conducted for 29,178 employees in 2004.

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 whenever needed.
- 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 monthly 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.

About twenty employees from the Company's Taichung office reported to the Council of Labor Affairs and claimed that the Company illegally outsourced its collection business and laid off employees. In fact the Company had planned to transfer the credit management business and integrate it with that of Taipei office by the second quarter of 2005. The office facilities, network infrastructure, training resource and service system that have been utilized for the credit management business of Taichung office will be used for a new backup customer service center. The Company had communicated with the employees of Taichung credit management team and offered three solutions. Firstly, they can continue to work in the credit management team at Taipei office, and the Company will offer them housing allowance, travel allowance, moving allowance, etc. Secondly, they can apply to fill the other vacancies at Taichung office and the Company will provide related training and match their salaries. If they found neither of the above solutions acceptable, they can opt for the layoff program. Therefore, it was not the Company's purpose to layoff the employees' but for the need of business integration. The Company had received requests from some employees asking for group layoff and severance pay of unreasonable amounts. The integration plan was later called off in order to maintain the Company's regular business operation and consistency of human resource policy. The issue has been closed.

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
Procurement	Sharp Corporation	Oct. 09, 2002 ~ present	Mobile phones	--
	Ericsson Taiwan	Dec. 05, 1996~ present	BTS facilities, software and installation	
	Triumph Technology	Jan. 8, 2004	Billing System	--
	AMDOC Development Ltd.	Jul. 09, 2003	Billing System	--
	MITSUBISHI ElectricTaiwan	Dec. 16, 2004 ~ Dec.15, 2006	Mobile phones	
Sales and Distribution	Arcoa 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	--
	President Chain Store Corp.	Jan. 01, 2005 ~ Dec. 31, 2005	Promotion and sales for prepaid product	--
	Circle K Convenience Store (Taiwan) Ltd.	Jan. 01, 2004 ~ Dec. 31, 2004 (Note 1)	Promotion and sales for prepaid product	--
	Hi-Life International Co. Ltd.	Jan. 01, 2004 ~ Dec. 31, 2004 (Note 1)	Promotion and sales for prepaid product	--
	Taiwan Familymart Corporation Ltd.	Jan. 01, 2004 ~ Dec. 31, 2004 (Note 1)	Promotion and sales for prepaid product	--
	Synnex Corporation Ltd.	May 16, 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	--
Network Inter-connection	Chung Hwa Telecommunications	Dec. 01, 2004 ~ Dec. 01, 2005	Network Interconnection	--
	Taiwan Fixed-Line	Jun. 15, 2001 ~ Jun. 14, 2002 negotiating for extension (Note 2)	Network Interconnection	--
	New Century InfoComm	Jun. 15, 2001 ~ Jun. 14, 2002 negotiating for extension (Note 2)	Network Interconnection	--
	Eastern Broadband	Aug. 1, 2001 ~ Jul. 31, 2002 negotiating for extension (Note 2)	Network Interconnection	--
	Taiwan Cellular Corporation	Feb. 10, 2004 ~ Feb. 10, 2005	Network Interconnection	--
	Koo's Group Telecommunications	Feb. 5, 2004 ~ Feb. 5, 2005	Network Interconnection	--
	MOBITAI Telecommunications	Jan. 10, 2004 ~ Jan. 10, 2005 negotiating for extension (Note 2)	Voice Services Interconnection	--
	TransAsia Telecommunications	Apr. 29, 2004 ~ Apr. 29, 2005	Voice Services Interconnection	--
	Asia Pacific Broadband Wireless	July 17, 2003 ~ July 16, 2004 negotiating for extension (Note 3)	Network Interconnection	--
	First International Telecom Corporation	Feb. 01, 2002 ~ Jan. 31, 2003 negotiating for extension (Note 3)	Voice Services Interconnection	--
		Oct. 17, 2002 ~ Oct. 16, 2003 negotiating for extension (Note 3)	Short Message Services Interconnection	--

Contract Type	Counter Party	Terms of the Contract	Description	Restriction Clauses
Acquisition	KG Telecommunications	Oct. 07, 2003	1. The subsidiary of the Company merged old KGT on Jan. 1, 2004, with new KGT as the surviving company. 2. The Company and new KGT swapped shares to allow the new KGT to become a wholly owned subsidiary of the Company	--
	Yuan-Ze Telecom Co., Ltd	Feb.19, 2004	The Company acquired its wholly-owned subsidiary Yuan-Ze Telecom Co., Ltd and the acquisition is scheduled to be completed in the first half of 2005.	
	The New KGT	Feb.18, 2004	The Company and new KGT swapped shares to allow the new KGT to become a wholly owned subsidiary of the Company	
Share Purchase	Chun-tien Lin	Jan. 04, 2005	The Company purchased common shares of Arcoa Corporation from Chun-tien Lin and Wan-Shih-Shin Co., Ltd. on Feb.04, 2005.	
Syndicated Loan	Led by Citibank	Aug. 30, 2000 ~ Aug. 30, 2005	NT\$2.3B; 5 year term revolving note issuance facility	1. There are restrictions on the percentage of major shareholders' shareholding. 2. There are restrictions on financial ratios of the Company.
		Nov. 30, 2000 ~ Nov. 30, 2005	NT\$2.2B; 5 year term bank guarantee secured corporate bond and one year term interest rate	
		Feb. 24, 2002 ~ Feb. 24, 2007	guarantee NT\$4.3B; 5 years term revolving credit line	
Warehousing and transportation services	Qiou-Yue Logistics Services	May 5, 2004~May 5, 2006	Warehousing and transportation services	
	Hsin Chu Transportation	Jun.01, 2003~May 31, 2005	Warehousing and transportation services	

Contract Type	Counter Party	Terms of the Contract	Description	Restriction Clauses
Euro Trustee: Convertible Zero Coupon Bonds	Trustee Bank of New York	Feb. 19, 2003 ~ Feb. 18, 2008 (Note 4)	1. Issuance of non-collateral overseas convertible bond of US\$115,000,000 at 0% contract interest rate. 2. After two years from the issuance date bondholders has the right for early redemption on face value plus 1% of face value as the compensation yield rate, and the early redemption price is 102.015% of the face value. 3. Upon maturity of the bond the Company will redeem the bond at 105.114% of the face value. 4. It is still subject to the terms of the agreement.	1. Bond holders has the right to convert the ECB to the Company's common stock or GDR during the period from 30 days after issuance to 30 days before maturity. 2. The Company has the right to redeem all or a part of the bonds at a specific price after three years from issuance or when the outstanding bond amount is less than 10%.
Technology service and licensing	NTT DoCoMo	Mar. 12, 2004~Sept.22, 2004	To provide technological consultation to help FET develop the 3G mobile service, which is based on the WCDMA technology	
	NTT DoCoMo	Oct. 26, 2004 until the contract is due		
Joint venture:	Far EasTone	Nov. 13, 2004		
	Telecommunications TECO Electric & Machinery, Systex Corp. Yuan Tong Investment Co., Ltd. MiTAC Inc.		MOTC's BOT project of Construction and Operation of Electronic Toll Collection (ETC) System	

Note 1: The term of the agreement is one year. Shall the parties fail to reach a new agreement before the agreement expires, the agreement shall remain effective until a new agreement is signed.

Note 2: When an interconnection agreement is due and the two parties fail to reach an agreement for extension within three months, the solutions are as below:

- a. If both parties are willing to negotiate, during the negotiation period, terms and conditions of the interconnection agreement shall remain effective.
- b. If one party seeks DGT' s arbitration, the interconnection agreement shall remain effective until the arbitration is announced.

Note 3: The term of the agreement is one year. The parties shall start to negotiate the new agreement two month prior to the contract due date. Shall the parties fail to reach a new agreement before the agreement expires, the agreement shall remain effective until a new agreement is signed.

Note 4: All ECB has been converted to ordinary shares on March 2, 2005 and current outstanding ECB is US\$0.

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1. Plan and 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

1-1 Plan

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

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

1-1-3 Source of Capital and Purpose: Issuing NT\$4,015,800,000 European Convertible Bond for network expansion

1-1-4 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

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

1-2 Implementation Status

Unit: NT\$' 000

Plan	Implementation Status (Up to 2005 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	3,089,417	
	Progress (%)	Forecast	100.00%	
		Actual	77.00%	



V | Financial Information

1. Condensed Financial Statement for the Past 5 Years
2. Financial Analysis for the Recent Years
3. 2004 Supervisors' Report
4. 2004 Independent Auditors' Report, Financial Statements and Notes
5. 2004 Independent Auditors' Report, Consolidated Financial
Statements and Notes
6. Financial condition and Impact of the Company and Affiliates

1. Condensed Financial Statement for the Past 5 Years

1-1 Condensed Balance Sheet

Unit: NT\$' 000

Item		Financial Information In Recent Years (Note 1)					
		2000	2001	2002	2003	2004	2005 Q1
Current Assets		11,110,863	9,253,268	8,537,035	10,767,793	10,829,712	13,426,721
Investments in Shares of Stock		82,191	1,078,952	8,223,198	21,641,987	44,030,365	46,418,855
Properties		33,934,139	40,695,530	40,120,073	37,796,898	32,616,540	31,085,150
Other Assets		1,146,872	1,782,827	1,912,536	1,225,601	1,391,283	1,047,513
Total Assets		46,274,065	52,810,577	58,792,842	71,432,279	88,867,900	91,978,239
Current	Before Distribution	9,210,154	8,975,301	9,273,638	10,624,554	10,173,647	10,826,548
Liabilities	After Distribution	9,213,790	11,045,102	12,482,005	15,594,254	(note 2)	--
Long-term Liabilities		7,207,678	8,473,620	9,345,839	17,557,378	8,714,250	6,574,250
Other Liabilities		4,232,173	3,078,044	2,122,857	220,119	267,937	294,531
Total	Before Distribution	20,650,005	20,526,965	20,742,334	28,402,051	19,155,834	17,695,329
Liabilities	After Distribution	20,653,641	22,596,766	23,950,701	33,371,751	(note 2)	--
Capital Stocks		14,000,000	18,900,000	23,058,000	26,977,860	38,423,115	38,726,630
Capital Surplus		7,556,572	6,156,572	5,996,658	5,973,600	14,506,182	14,993,345
Retained	Before Distribution	4,067,488	7,223,136	8,992,752	10,075,716	16,767,098	20,562,130
Earnings	After Distribution	563,852	1,184,335	1,887,583	3,545,755	(note 2)	--
Unrealized loss on long term investment		--	--	--	--	--	--
Cumulative Translation Adjustment		--	3,904	3,098	3,052	15,671	805
Unrecognized Net Loss on Pension		--	--	--	--	--	--
Total Share-	Before Distribution	25,624,060	32,283,612	38,050,508	43,030,228	69,712,066	74,282,910
holders' Equity	After Distribution	25,620,424	30,213,811	34,842,141	38,060,528	(note 2)	--

Note 1: The financial Statements for 2000-2004 have been audited. The one for the first quarter of 2005 have been reviewed.

Note 2: The appropriation of 2004 earning has not been approved by the shareholders.

1-2 Condensed Income Statement

Unit: NT\$'000

Item	Year	Financial Information In Recent Years (Note 1)					
		2000	2001	2002	2003	2004	2005Q1
Operating Revenues		32,180,516	34,544,355	34,478,035	37,067,163	40,229,481	10,329,063
Gross Profit		18,315,893	18,821,226	17,296,689	18,456,708	20,534,347	5,117,634
Operating Income		3,939,095	6,586,242	7,916,320	8,450,666	11,046,594	2,887,513
Non-operating Income and Gains		215,023	287,153	174,313	303,918	4,228,055	1,299,806
Non-operating Expenses and Losses		231,532	483,665	416,751	665,481	722,020	60,680
Income before Income Tax from Operating Business		3,922,586	6,389,730	7,673,882	8,089,103	14,552,629	4,126,639
Net Income from Operating Business		4,039,668	6,659,284	7,808,417	8,188,133	14,043,076	3,795,032
Net Income from Discontinued Business		--	--	--	--	--	--
Abnormal Net Income		--	--	--	--	--	--
Accumulated number from accounting policy changes		--	--	--	--	--	--
Net Income		4,039,668	6,659,284	7,808,417	8,188,133	14,043,076	3,795,032
Earning per Share in NT\$ (Note2)		1.54	2.25	2.63	2.76	3.75	0.98

Note 1: The financial Statements for 2000-2004 have been audited. The one for the first quarter of 2005 have been reviewed.

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

1-3 Impacts on the consistency of financial statements including changes of accounting principles, merger and acquisition, discontinued operations and others: none.

1-4 Independent Auditor's Name and Auditor's Opinions for the Past 5 Years

Year	Audit Firm	Auditors' Name	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	TN Soong & Co.	Clark C. Chen, Edward Y. Way	Unqualified opinion
2004	Deloitte and Touche Co.	Annie Lin, 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, and auditor Clark C. Chen was replaced with Annie Lin in 2004.

2. Financial Analysis for the Recent Years

Item (Note 3)		Year	Financial Information In Recent Years (Note 1)					
		2000	2001	2002	2003	2004	2005Q1	
Financial	Debt to Asset Ratio		44.63	38.87	35.28	39.76	21.56	19.24
Structure	Long-term Funds to Fixed Assets Ratio (%)		96.75	100.15	118.14	160.30	240.45	260.12
Liquidity	Current Ratio (%)		120.64	103.10	92.06	101.35	106.45	124.02
Analysis	Quick Ratio (%)		106.09	87.12	66.04	78.10	87.97	105.16
	Times Interest Earned (times)		31.15	27.69	26.23	26.59	44.17	79.92
Operating	Accounts Receivable Turnover (times)		6.53	5.68	8.34	9.42	9.10	9.31
Performance	Average Collection Days (days)		55.93	64.23	43.79	38.74	40.13	39.21
	Inventory Turnover (times)		14.80	4.72	2.23	3.82	4.96	8.37
	Accounts Payable Turnover (times)		5.36	3.88	2.61	3.19	4.64	8.23
	Inventory Turnover Days		24.67	77.26	163.68	95.64	73.63	43.60
	Fixed Assets Turnover (times)		0.95	0.85	0.86	0.98	1.23	1.33
	Total Assets Turnover (times)		0.70	0.65	0.59	0.52	0.45	0.45
Profitability	Return on Assets (%)		11.44	13.80	14.40	12.94	17.84	4.24
	Return on Equity (%)		20.39	23.00	22.20	20.20	24.91	5.27
Analysis	Net Income Ratio (%)		12.55	19.28	22.65	22.09	34.91	36.74
	EPS in NT\$ (Note 2)		1.54	2.25	2.63	2.76	3.75	0.98
Cash	Cash Flow Ratio (%)		45.99	146.01	165.27	134.26	179.94	190.67
Flow	Cash Flow Equivalent Ratio (%)		33.62	55.38	69.20	67.88	92.40	106.35
	Cash Reinvestment Ratio (%)		9.25	23.87	20.08	13.23	15.20	7.91
Leverage	Operating Leverage (times)		2.29	2.00	1.99	3.08	1.89	1.82
Ratio	Financial Leverage (times)		1.03	1.04	1.04	1.04	1.03	1.02

Note 1: The financial Statements for 2000-2004 have been audited. Those for the first quarter of 2005 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 Inventory

(4) Inventory Turnover Days = 365 / Inventory Turnover

(5) Accounts Payable Turnover = Costs of Good Sold / Average Accounts 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) Earnings 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 = (Net 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. 2004 Supervisors' Report

April 8, 2005

The Board of Director have prepared and submitted to us the Company's 2004 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



Charles Wang



Jennifer Wang



4. 2004 Independent Auditors' Report, Financial Statements and Notes

Independent Auditors' Report

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

We have audited the accompanying balance sheets of Far EastOne Telecommunications Co., Ltd. ("the Company") as of December 31, 2004 and 2003 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 the Company as of December 31, 2004 and 2003 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 the Company and subsidiaries as of December 31, 2004 and 2003 and have issued an unqualified opinion.

February 4, 2005

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.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

FAR EASTONE TELECOMMUNICATIONS CO., LTD.**BALANCE SHEETS****DECEMBER 31, 2004 AND 2003**

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

ASSETS	2004		2003	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	\$ 3,265,431	4	\$ 2,868,156	4
Accounts and notes receivable, net of allowance for doubtful accounts of \$1,031,681 in 2004 and \$586,957 in 2003 (Notes 2)	3,492,574	4	3,735,277	5
Receivables from related parties (Notes 2 and 15)	1,018,656	1	258,144	1
Inventories, net (Notes 2 and 4)	565,436	1	801,100	1
Prepaid expenses (Notes 2 and 15)	1,314,443	2	1,668,992	2
Deferred income tax assets - current (Notes 2 and 14)	1,144,315	1	1,392,724	2
Other current assets	28,857	-	43,400	-
Total current assets	10,829,712	13	10,767,793	15
INVESTMENTS IN SHARES OF STOCK (Notes 2, 5, 14 and 17)				
Equity method	44,030,365	49	21,576,987	30
Prepayment for investments	-	-	65,000	-
Total investments in shares of stock	44,030,365	49	21,641,987	30
PROPERTIES (Notes 2, 6 and 15)				
Cost				
Land	852,980	1	952,504	1
Buildings and equipment	1,610,106	2	1,698,803	3
Operating equipment	49,829,862	56	48,644,499	68
Computer equipment	6,798,060	8	6,284,316	9
Office equipment	777,069	1	772,482	1
Leasehold improvements	1,412,350	1	1,331,900	2
Miscellaneous equipment	49,405	-	54,834	-
Total cost	61,329,832	69	59,739,338	84
Less - accumulated depreciation	31,475,181	35	24,388,503	34
	29,854,651	34	35,350,835	50
Construction in progress and advances related to acquisition of equipment	2,761,889	3	2,446,063	3
Net properties	32,616,540	37	37,796,898	53
OTHER ASSETS				
Rental assets, net (Notes 2, 6 and 7)	190,976	-	-	-
Refundable deposits (Note 15)	251,960	-	241,718	1
Deferred income tax assets - noncurrent (Notes 2 and 14)	580,443	1	813,904	1
Restricted assets (Note 17)	350,000	-	-	-
Other (Note 2)	17,904	-	169,979	-
Total other assets	1,391,283	1	1,225,601	2
TOTAL	\$ 88,867,900	100	\$ 71,432,279	100

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

LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans (Note 8)	\$ -	-	\$ 100,000	-
Notes payable	41,332	-	30,670	-
Accounts payable	381,145	1	1,043,206	1
Payables to related parties (Note 15)	298,452	-	224,639	-
Income tax payable (Notes 2 and 14)	1,456	-	24,083	-
Accrued expenses	3,323,567	4	2,635,127	4
Payables related to acquisition of properties	1,551,016	2	1,808,776	3
Guarantee deposits received - current	1,178,692	1	1,502,750	2
Unearned revenues (Note 2)	1,657,949	2	1,859,688	3
Current portion of long-term liabilities (Notes 2, 6, 9 and 15)	1,467,618	2	1,226,000	2
Other current liabilities	272,420	-	169,615	-
Total current liabilities	10,173,647	12	10,624,554	15
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (Notes 2, 9, 15 and 18)				
Long-term bonds payable	8,670,000	10	13,270,436	19
Long-term debt payable	-	-	4,286,942	6
Long-term lease payable	44,250	-	-	-
Total long-term liabilities	8,714,250	10	17,557,378	25
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 12)	226,308	-	169,278	-
Guarantee deposits received - noncurrent	41,629	-	50,841	-
Total other liabilities	267,937	-	220,119	-
Total liabilities	19,155,834	22	28,402,051	40
STOCKHOLDERS' EQUITY				
Common stock - \$10 par value				
Authorized - 4,200,000 thousand shares in 2004 and 3,360,000 thousand shares in 2003 Issued - 3,842,311 thousand shares in 2004 and 2,697,786 thousand shares in 2003	38,423,115	43	26,977,860	38
Capital surplus				
Paid-in capital in excess of par value	6,023,801	7	5,944,514	8
From business combination	8,482,381	9	-	-
From investments in shares of stock	-	-	29,086	-
Total capital surplus	14,506,182	16	5,973,600	8
Retained earnings				
Legal reserve	2,697,301	3	1,878,488	3
Unappropriated earnings	14,069,797	16	8,197,228	11
Total retained earnings	16,767,098	19	10,075,716	14
Cumulative translation adjustments	15,671	-	3,052	-
Total stockholders' equity	69,712,066	78	43,030,228	60
TOTAL	\$ 88,867,900	100	\$ 71,432,279	100

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	2004		2003	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 15)				
Service revenues	\$ 37,061,787	92	34,515,474	93
Sales of cellular phone equipment and accessories, net	3,146,300	8	2,545,751	7
Other	21,394	-	5,938	-
Total operating revenues	40,229,481	100	37,067,163	100
OPERATING COSTS (Notes 2, 12, 13 and 15)				
Cost of services	16,225,352	40	15,787,793	42
Cost of sales	3,469,782	9	2,822,662	8
Total operating costs	19,695,134	49	18,610,455	50
GROSS PROFIT	20,534,347	51	18,456,708	50
OPERATING EXPENSES (Notes 2, 12, 13 and 15)				
Marketing	5,358,327	13	6,106,191	16
General and administrative	3,827,524	10	3,582,399	10
Research and development	301,902	1	317,452	1
Total operating expenses	9,487,753	24	10,006,042	27
OPERATING INCOME	11,046,594	27	8,450,666	23
NONOPERATING INCOME AND GAINS				
Equity in investees' net gains (Notes 2 and 5)	3,796,571	10	-	-
Commission revenue (Note 15)	126,408	1	-	-
Management service revenue (Note 14)	79,187	-	181,996	1
Foreign exchange gains, net	78,059	-	38,469	-
Gain from sales of non-performing accounts receivable	77,646	-	-	-
Interest income	15,913	-	42,920	-
Other (Note 15)	54,271	-	40,533	-
Total nonoperating income and gains	4,228,055	11	303,918	1
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 2, 6 and 18)	337,070	1	316,164	1
Loss on disposal of properties, net (Notes 2 and 15)	189,214	1	-	-
Provision for losses on properties not currently used in operations (Note 2)	130,000	-	-	-
Equity in investees' net losses (Notes 2 and 5)	-	-	344,626	1
Other (Notes 7 and 13)	65,736	-	4,691	-
Total nonoperating expenses and losses	722,020	2	665,481	2
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	14,552,629	36	8,089,103	22
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 14)	509,553	1	(99,030)	-
NET INCOME	\$ 14,043,076	35	\$ 8,188,133	22
	Income Before	Net	Income Before	Net
	Income Tax	Income	Income Tax	Income
EARNINGS PER SHARE (Note 10)				
Basic	\$ 3.88	\$ 3.75	\$ 2.73	\$ 2.76
Diluted	\$ 3.74	\$ 3.61	\$ 2.62	\$ 2.65

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, 2004 AND 2003

(In Thousands of New Taiwan Dollars)

	Capital Surplus (Notes 2 and 10)										
	Capital Stock Issued (Notes 2 and 10)		Paid-in Capital in Excess of Par Value	From			Retained Earnings (Note 2 and 10)			Cumulative Translation Adjustments (Note 2)	Total Stock- holders' Equity
	Shares	Amount		From Business Combination	investments in Shares of Stock	Total	Legal Reserve	Unappro- priated Earnings	Total		
BALANCE, JANUARY 1, 2003	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 supervisor	-	-	-	-	-	-	-	(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)	-	-	-	-	-
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
Issuance of new stock and reissuance of treasury stock in exchange of investments in shares of stock	693,523	6,935,232	-	8,482,381	-	8,482,381	-	(821,733)	(821,733)	-	14,595,880
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	(29,086)	(29,086)	-	-	-	-	(29,086)
Appropriation of 2003 earnings	-	-	-	-	-	-	818,813	(818,813)	-	-	-
Legal reserve	-	-	-	-	-	-	-	(147,387)	(147,387)	-	(147,387)
Bonus to employees	-	-	-	-	-	-	-	(73,693)	(73,693)	-	(73,693)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	(4,748,620)	(4,748,620)	-	(4,748,620)
Cash dividend - 14%	156,026	1,560,261	-	-	-	-	-	(1,560,261)	(1,560,261)	-	-
Stock dividend - 4.6%	-	-	-	-	-	-	-	-	-	-	-
Capitalization of capital surplus - 5.4%	183,161	1,831,611	(1,831,611)	-	-	(1,831,611)	-	-	-	-	-
Net income in 2004	-	-	-	-	-	-	-	14,043,076	14,043,076	-	14,043,076
Conversion of overseas convertible bonds into common stock	111,815	1,118,151	1,910,898	-	-	1,910,898	-	-	-	-	3,029,049
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	12,619	12,619
	3,842,311	\$ 38,423,115	\$ 6,023,801	\$ 8,482,381	\$ -	\$ 14,506,182	\$ 2,697,301	\$ 14,069,797	\$ 16,767,098	\$ 15,671	\$ 69,712,066
BALANCE, DECEMBER 31, 2004 e an integral part of the financial statements.											

ECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars)

	2004	2003
營業活動之現金流量		
CASH FLOWS FROM OPERATING ACTIVITIES	\$ 14,043,076	\$ 8,188,133
Net income		
Adjustments to reconcile net income to net cash		
provided by operating activities:	7,281,538	7,070,353
Depreciation and amortization	771,479	416,689
Provision for doubtful accounts	2,458	-
Losses on disposal of obsolete inventory	6,546	4,691
Provision for losses on inventories	(3,796,571)	344,626
Equity in investees' net losses (gains)		
Losses (gains) on disposal of properties and	189,214	(8,379)
properties not currently used in operations, net		
Provision for losses on properties not currently used	130,000	-
in operations	79,994	38,148
Accrued pension cost	481,870	(182,361)
Deferred income taxes	34,297	33,886
Interest premium on convertible bonds		
Unrealized exchange gains on overseas convertible	(56,508)	(95,910)
bonds	(63,757)	43,329
Other		
Changes in operating assets and liabilities		
Decrease (increase) in	(528,776)	(935,389)
Accounts and notes receivable	(852,480)	(157,066)
Receivables from related parties	226,660	(149,777)
Inventories	354,549	87,636
Prepaid expenses	13,440	(2,791)
Other current assets		
Increase (decrease) in	10,662	1,726
Notes payable	(662,061)	378,138
Accounts payable	73,813	(435,590)
Payables to related parties	(22,627)	(113,012)
Income tax payable	688,440	(217,698)
Accrued expenses	(201,739)	(190,622)
Unearned revenues	102,805	41,280
Other current liabilities	18,306,322	14,160,040
Net cash provided by operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES	(654,404)	(13,698,461)
Acquisition of investments in shares of stock	-	(65,000)
Prepayment for investments	(2,747,231)	(5,222,208)
Acquisition of properties	94,774	96,570
Proceeds from sales of properties and properties not	(10,242)	131,561
currently used in operations	(350,000)	-
Decrease (increase) in refundable deposits	8,766	(95,634)
Increase in restricted assets	(3,658,337)	(18,853,172)
Decrease (increase) in other assets	2004	2003
Net cash used in investing activities		

	(100,000)	100,000
CASH FLOWS FROM FINANCING ACTIVITIES	-	8,472,460
Increase (decrease) in short-term loans	3,420,000	4,896,942
Issuance of long-term bonds payable	(8,932,942)	(4,485,839)
Proceed from long-term debts	(221,080)	(224,941)
Repayment of long-term liabilities	(4,748,620)	(2,997,540)
Bonus paid to employees and directors	(333,270)	(438,136)
Cash dividends paid	(3,334,798)	-
Decrease in guarantee deposits received	(14,250,710)	5,322,946
Repurchase of treasury stock		
Net cash provided by (used in) financing activities	397,275	629,814
	2,868,156	2,238,342
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 3,265,431	\$ 2,868,156
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR		
CASH AND CASH EQUIVALENTS, END OF YEAR		
	\$ 323,273	\$ 219,524
SUPPLEMENTARY INFORMATION	\$ 51,622	\$ 196,343
Interest paid (excluding capitalized interest)		
Income tax paid		
	\$ 1,467,618	\$ 1,226,000
NONCASH INVESTING AND FINANCING ACTIVITIES	\$ 192,908	\$ -
Current portion of long-term liabilities	\$ 3,029,049	\$ -
Reclassification of properties into rental assets		
Conversion of overseas convertible bonds into common stock and capital surplus		
ISSUANCE OF NEW STOCK AND REISSUANCE OF TREASURY STOCK IN EXCHANGE OF INVESTMENTS IN SHARES OF STOCK	\$ 6,935,232	\$ -
Common stock	8,482,381	-
Capital surplus - paid-in capital in excess of par value	3,334,798	-
Issuance of treasury stock	(821,733)	-
Decrease in unappropriated earnings	\$ 17,930,678	\$ -
	\$ 2,548,471	\$ 4,910,266
CASH PAID FOR ACQUISITION OF PROPERTIES	257,760	311,402
Increase in properties	(59,000)	540
Decrease in payables related to acquisition of properties	\$ 2,747,231	\$ 5,222,208
Decrease (increase) in obligations under lease payable		
Actual cash paid for acquisition of properties		
PROCEEDS FROM DISPOSAL OF PROPERTIES AND PROPERTIES NOT CURRENTLY USED IN OPERATIONS	\$ 24,667	\$ 173,978
Total amount of properties sold	1,103	8
Decrease in receivables from properties sold	69,004	(77,416)
Decrease (increase) in receivables from related parties	\$ 94,774	\$ 96,570
Actual cash received from disposal of properties and properties not currently used in operations		

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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

1. GENERAL

Far EastOne Telecommunications Co., Ltd. (the "Company") was incorporated in the Republic of China on April 11, 1997 and began commercial operations on January 20, 1998. The Company's shares have been traded and listed on the ROC Over-the-Counter Securities Exchange (known as GreTai Securities Market) since December 10, 2001. The Company provides wireless communications, leased circuit, Internet and international simple resale (ISR) services and also sells cellular phone equipment and accessories.

Far Eastern Textile Co., Ltd. is the ultimate parent company of the Company. In October 2003, the other principal stockholder, AT&T Wireless Group and its affiliates, transferred to Far Eastern Textile Co., Ltd. and its affiliate ("Far Eastern Group") all of its stock held in the Company. As of December 31, 2004, Far Eastern Group directly or indirectly owns 51.43% of the Company's shares.

On January 13, 2005, An Ho Garment Co., Ltd. and Yuan Tong Investment Co., Ltd., affiliates of Far Eastern Textile Ltd., sold to foreign investors 64,995 thousand and 45,000 thousand shares, respectively, by issuing Global Depositary Receipts. As a result, the equity of the Company owned by Far Eastern Group directly and indirectly decreased to 48.37%.

The Company provides wireless communications services by geographical sector under two type I licenses - GSM900 for the northern region of Taiwan and GSM1800 for all island-wide ("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 beginning in 1997, with an annual license fee of 2% of total wireless communications service revenues.

The DGT also issued to the Company a type II license, allowing it to provide Internet services for 10 years beginning in 1999 for a fixed annual license fee based on the amount of the Company's capital stock. In addition, the Company provides services under a type II-ISR license for 10 years beginning in December 2001 and pays an annual license fee of 0.5% of ISR service revenues and is licensed to provide local/domestic long distance land cable leased-circuit services for 15 years beginning in January 2003, with an annual license fee of 1% of leased circuit service revenues.

The Company had 3,465 and 2,366 employees as of December 31, 2004 and 2003, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements conform to the Guidelines Governing the Preparation of Financial Reports for 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, allowances for losses on properties not currently used in operations, depreciation and amortization, 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 equivalents 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 Receivable

An allowance for doubtful accounts receivable is provided on the basis of the aging status and 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 based on the weighted-average method.

Investments in Shares of Stock

Investments in shares of stock in companies in which the Company owns at least 20% of investees' common stock or exercises significant influence over their operating and financial policy decisions are accounted for by the equity method. Under this method, the investment is initially carried at cost on the acquisition date. The investment carrying values are then adjusted proportionately to the Company's share in the investees' net income or net loss. The difference between the cost of the investment and the Company's equity in the investees' net assets is amortized over three years. Any cash dividends received are recognized as a reduction in the carrying value of the investments. 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. 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 investees' net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

Costs of investments sold are determined based on the weight-average method.

Properties and Rental Properties

Properties and rental properties are stated at cost. Depreciation expense is computed using 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 of (1) the fair value of the equipment at the beginning of the lease or (2) the total present value of future lease payments and the bargain purchase option.

Useful lives are estimated as follows:

	Useful Life Years
Buildings	48
Building equipment	5-8
Operating equipment	5-8
Computer equipment	3-5
Office equipment	5
Leasehold improvements	5-10
Miscellaneous equipment	5-8

Upon retirement or other disposal (e.g., sale) of properties and rental 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 expenses.

Properties not Currently Used in Operations

Properties not currently used in operations (included in other assets - miscellaneous), such as telecommunications equipment expected to be retired or disposed, 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) fixed monthly service fees and leased-circuit service revenues are accrued each month; and (b) 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 equipments and accessories are recognized when the products are delivered to and accepted by the customers as the related transaction is considered a separate earnings process from the sale of wireless services.

The amount received at the start of a bundled 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 beginning of the contract, the excess is charged to marketing expense. The portion of the customer acquisition cost equivalent to the amount received at the beginning 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 values of these receivables, the fair values are not recalculated based on the pro forma interest rate method.

Promotion Expenses

Commissions and cellular phone equipments 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 service years and basic pay on the final month before retirement.

Pension costs are recognized on the basis of actuarial calculations. 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, is amortized using the interest method and is 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 is amortized using the straight-line method over the same period as the interest-premium.

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

Income Tax

Deferred income tax assets are recognized for the tax effects of deductible temporary differences 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.

Tax credits earned for certain purchases of telecommunications and other equipment, research and development expenses and personnel training expenses are accounted for as a reduction in the current period income tax expense.

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

Income taxes (10%) on undistributed earnings 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 period 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 prevailing exchange rates on 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 prevailing exchange rates on the starting dates, is deferred and then recognized as an adjustment to the commitment when the hedged transactions occur. However, 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 date, the gains or losses on the contracts, computed by multiplying the contract amount 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, 2003 have been reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2004.

3. CASH AND CASH EQUIVALENTS

	December 31	
	2004	2003
Cash		
Cash on hand	\$ 8,445	\$ 7,334
Checking and demand deposits	1,174,649	1,312,659
Time deposits - interest of 2.35% to 2.53% in 2004 and 0.65% to 1.12% in 2003	554,407	1,548,163
	<u>1,737,501</u>	<u>2,868,156</u>
Cash equivalents		
Commercial paper purchased under agreements to resell - interest of 1.085% to 1.100% in 2004	1,527,930	-
	<u>\$ 3,265,431</u>	<u>\$ 2,868,156</u>

4. INVENTORIES

	December 31	
	2004	2003
Cellular phone equipment	\$ 523,060	\$ 754,715
SIM cards	31,246	47,827
Cellular phone accessories	31,068	11,950
	<u>585,374</u>	<u>814,492</u>
Less - allowance for losses	19,938	13,392
	<u>\$ 565,436</u>	<u>\$ 801,100</u>

Inventory insurance as of December 31, 2004 amounted to approximately \$672,324.

5. INVESTMENTS IN SHARES OF STOCK

	December 31			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Equity method				
KG Telecommunications Co., Ltd. (former Yuan Ho Telecommunication Co., Ltd.)	\$ 33,786,566	100.00	\$ 11,698,382	100.00
Yuan-Ze Telecommunications Co., Ltd.	9,590,140	100.00	9,870,087	100.00
Far Eastern Electronic Toll Collection Co., Ltd.	433,544	45.00	-	-
Far Eastern Info Service (Holding) Ltd.	109,846	100.00	-	-
E. World (Holdings) Ltd.	65,433	85.92	8,518	19.00
Ding Ding Integrated Marketing Services Co., Ltd.	44,836	15.00	-	-
Prepayment for investments	44,030,365		21,576,987	
Far Eastern Electronic Toll Collection Co., Ltd.				
Preparatory Office	-		65,000	
	<u>\$ 44,030,365</u>		<u>\$ 21,641,987</u>	

On October 7, 2003, the Company signed a definitive merger agreement with KG Telecommunication Co., Ltd. (the "former KGT"). The merger agreement was submitted to the special stockholders' meetings of the Company, Yuan-Ho Telecommunications Co., Ltd. and the former KGT on November 25, 2003. The merger agreement with the former KGT provided for the transaction to occur in two steps (the "Combination"). To facilitate the combination with the former KGT, the Company formed a new wholly owned subsidiary in September 2003 called Yuan Ho Telecommunications Co., Ltd. ("Yuan-Ho"), which also was a party to the merger agreement. In connection with the first step of the Combination, Yuan-Ho issued 526,431 thousand shares for total proceeds of \$11,698,461. In the first step of the transaction, the former KGT merged with and into Yuan-Ho with Yuan-Ho as the surviving company. The first step was completed and effective on January 1, 2004.

As consideration for this step of the transaction, the former KGT shareholders became entitled to receive cash of \$6.72, together with 0.46332 of one share of common stock of Yuan-Ho, for each the former KGT share that they owned, representing aggregate consideration to all the former KGT shareholders of \$11,698,461 in cash and 806,567 thousand shares of common stock of Yuan-Ho. Subsequent to completion of the first step of the transaction, Yuan-Ho obtained approval from the Department of Commerce, Ministry of Economic Affairs (MOEA) to change its name to KG Telecommunications Co., Ltd. ("KG Telecom") and the former KGT no longer existed as a corporate entity. In addition, the capital of KG Telecom increased to \$13,329,979 and the equity of KG Telecom owned by the Company was temporarily diluted to 39.49%. The other principal shareholders of KG Telecom are the original shareholders of the former KGT and held 60.51% ownership as of January 1, 2004.

In the second step, the Company swapped shares with KG Telecom. The stockholders of KG Telecom received one share of the Company stock in exchange for each KG Telecom share owned. The share swap agreement was submitted to the special stockholders' meetings of the Company and KG Telecom on February 18, 2004. On April 29, 2004, stockholders of KG Telecom received an aggregate of 806,567 thousand shares in the amounts of \$17,930,678 (Note 10). KG Telecom became a wholly owned subsidiary of the Company.

Upon completion of the second step of the transaction, the Company accounted for the merger with KG Telecom as a wholly-owned subsidiary. The Company established control of KG Telecom as of January 1, 2004 as the Company held the majority of the board seats of KG Telecom, significant consideration had been paid and other elements of control had been established. As such, the Company recognized 100% of its investment income beginning January 1, 2004.

In March 2002, a subsidiary, Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze), obtained a 3G (third-generation wireless communications system) concession on March 15, 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 purpose of integration of the telecommunications business and operational efficiency, the Company bought all the remaining shares of Yuan-Ze 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 merger is expected to be completed in 2005.

The Taiwan Area National Freeway Bureau of the Ministry of Transportation and Communications (MOTC) 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 incorporated Far Eastern Electronic Toll Collection Co., Ltd. ("FETETC"). MOTC selected FETETC through public appraisal and signed the contract on April 27, 2004.

Originally, the investment in E. World (Holdings) was accounted for by the equity method as the combined equity interests of the Far Eastern Group in E. World (Holdings) allowed the Company to exercise significant influence on its operating and financial policy decisions. The Company purchased shares from related parties amounting to \$41,788 in June 2004 (Note 15). As a result, the Company's ownership increased from 19.00% to 85.92%. Since the ownership of E. World (Holdings) exceeds 50%, the Company consolidates this entity and the amounts recognized as equity in the net income or net loss of E. World (Holdings) were subsequently based on net income or net loss in the current year.

Since the combined equity interests of the Far Eastern Group in Ding Ding Integrated Marketing Service Co., Ltd. ("DDIM") allows the Company to exercise significant influence on its operating and financial policy decisions, the investment in DDIM is accounted for by the equity method even though the equity of DDIM owned by the Company is 15%.

The carrying values of the foregoing investments accounted for by the equity method are based on audited financial statements as of December 31, 2004 and 2003. For the years ended December 31, 2004 and 2003, the equity in investees' net gains (losses) were \$3,796,571 and \$(344,626), respectively.

The consolidated financial statements include the accounts of the Company 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 the Company. Other subsidiaries are also consolidated if their combined total assets or operating revenues exceeds 30% of the unconsolidated total assets or operating revenues of the Company. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements as of and for the year ended December 31, 2004 and 2003 include the accounts of the Company, KG Telecom (former Yuan Ho in 2003) and Yuan-Ze.

6. PROPERTIES

a. Accumulated depreciation consisted of:

	December 31	
	2004	2003
Buildings and equipment	\$ 321,109	\$ 237,761
Operating equipment	25,606,547	20,015,576
Computer equipment	4,228,465	3,063,835
Office equipment	552,836	449,549
Leasehold improvements	726,318	578,898
Miscellaneous equipment	39,906	42,884
	<u>\$ 31,475,181</u>	<u>\$ 24,388,503</u>

Depreciation expense for the years ended December 31, 2004 and 2003 was \$7,279,540 and \$7,070,142, respectively.

Insurance coverage on property and rental assets amounted to \$33,459,694 as of December 31, 2004.

b. The Company leases internet equipment with software (included in operating equipment) under a three year lease, with total lease payments amounting to \$35,686. The lease agreements qualify as capital leases since (a) the present value of the future lease payments under the agreement is more than 90% of the fair value of the leased assets, and (b) the Company had a bargain-purchase option to purchase all the leased equipment at a \$1.00. The Company purchased the internet equipment with software when the agreement expired in 2003.

The Company leases computer equipment from Far Eastern International Leasing Corporation under a five year lease with annual lease payments of \$15,414. The amount paid for the leased properties at the inception of the lease was \$73,750 (net of the market price of new equipment \$138,716 less equipment exchanged valued at \$64,996). The total lease payments amount to \$77,068. The lease agreements qualify as capital lease since (a) the present value of the future lease payments under the agreement exceeds 90% of the fair value of the leased assets, and (b) the lease term is equal to 75% or more of the estimated economic life of the leased assets. The details of the lease as of December 31, 2004 are as follows:

	December 31, 2004
Total future lease payments	\$ 61,654
Less - imputed interest expense	<u>2,654</u>
	59,000
Less - current portion of lease payable (included in current portion of long-term liabilities)	<u>14,750</u>
Long-term lease payable	<u>\$ 44,250</u>

c. Capitalized interest on properties was as follows:

	For the Years Ended December 31	
	2004	2003
Total interest expense	\$ 394,152	\$ 409,856
Less - interest capitalized - interest at 2.16% to 2.73% in 2004 and 2.48% to 3.91% in 2003	<u>57,082</u>	<u>93,692</u>
Interest expense, net of amounts capitalized	<u>\$ 337,070</u>	<u>\$ 316,164</u>

- d. Properties amounting to \$3,888,928 and \$4,669,921 had been pledged or mortgaged as collateral as of December 31, 2004 and 2003, respectively.

7. RENTAL ASSETS, NET

	December 31, 2004
Cost	
Land	\$ 99,524
Buildings	94,672
	<u>194,196</u>
Less - accumulated depreciation	
Buildings	3,220
	<u>\$ 190,976</u>

Depreciation expense for the year ended December 31, 2004 was \$1,932 (included in non-operating expenses and losses - other).

Rental properties are offices which are intended to be used as operating premises for future business expansion. The rental agreements will expire at various dates through February 2013. Future rental income is summarized as follows:

Year	Amount
2005	\$ 9,833
2006	9,913
2007	9,994
2008	4,111
after 2009	15,971

8. SHORT-TERM LOANS

The Company obtained unsecured bank loans at interest of 1.4%. Outstanding unsecured bank loans were due and fully repaid in July 2004.

9. LONG-TERM LIABILITIES

	December 31, 2004		
	Due Within One Year	Due after One Year	Total
Bonds			
Overseas unsecured convertible bonds	\$ 778,227	\$ -	\$ 778,227
Interest premium - overseas unsecured convertible bonds	14,641	-	14,641
Domestic secured bonds	660,000	-	660,000
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
	<u>1,452,868</u>	<u>8,670,000</u>	<u>10,122,868</u>
Long-term lease payable	14,750	44,250	59,000
	<u>\$ 1,467,618</u>	<u>\$ 8,714,250</u>	<u>\$ 10,181,868</u>

	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-term debt			
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

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) The 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, 2004 was NT\$27.94, subject to adjustment for shares change.
As of December 31, 2004, convertible bonds amounting to US\$90,458 thousand had been converted into 111,815 thousand shares of common stock (including 165 thousand units of Global Depositary Receipts representing 2,473 thousand shares of common stock).
- (4) At any time on or after February 19, 2006 and prior to February 19, 2008, the Company may redeem the Bonds in whole, or from time to time in part at a specific price under certain conditions. In addition, the Company may redeem the Bonds in whole, but not in part, if at least 90% in principal amount of the Bonds has already been redeemed, repurchased and cancelled or converted.

As of January 31, 2005, amounting to US\$104,500 has been converted, which represents more than 90% of the original principal amount of the Bonds. As a result, the Company has decided to redeem the Bonds in whole and has given the notice to the holders of the Bonds on January 31, 2005. Bondholders who wants to exercise conversion right shall deposit the Bond with the trustee or any paying agent before March 2, 2005 or the Company will redeem the Bonds in whole at 102.08% of the principal amount on March 14, 2005.

b. Domestic secured bonds

Five-year domestic secured bonds were issued at par value on November 30, 2000 by the Company. 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 November 30, 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 by the Company. 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 by the Company. 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 by the Company 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 semi-annually. The Company should redeem the full amount when the bonds become due in 2006, 2007 and 2008.

f. Long-term lease payable

The Company entered into capital lease agreements for computer equipment with Far Eastern International Leasing Corp. in July 2004. The annual lease payments amount to \$15,414 (Note 6).

g. Commercial paper

Under a revolving credit agreement, a consortium of banks has guaranteed the commercial paper of \$1,296,942 to be reissued until August 30, 2005. The commercial paper bears variable interest rates of 0.90% to 0.95% as of December 31, 2004. Starting in 2001, the maximum amount of commercial paper that can be reissued under the agreement will be decreased by 14-15% every six months.

h. Unsecured bank loans

As of December 31, 2004, the Company had a \$300,000 bank loan at an annual interest rate of 1.85%, due in July 2006.

i. Secured bank loans

The Company had a loan from a consortium of banks with interest rate of 1.982% as of December 31, 2004. 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 year.

Under the terms of the long-term loan contracts, the Company must meet certain financial conditions such that total liabilities must be less than 125% of the Company's net assets and tangible assets should not be less than \$18,900,000. No other restrictions exist under the Company's long-term and short-term credit facilities.

As of December 31, 2004, the Company had unused long-term and short-term credit lines of approximately \$4,800,000 and \$7,200,000, respectively.

10. STOCKHOLDERS' EQUITY

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, capital surplus (includes both paid-in capital in excess of par value and arising from business combination) may be used to offset a deficit or transferred to capital as a 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 balance should be appropriated as bonuses to employees, and 1% of the final 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 and distribution of the 2003 and 2002 earnings were approved by the stockholders on June 30, 2004 and May 23, 2003, respectively.

	Appropriation and Distribution		Dividend Per Share (Dollars)	
	2003	2002	2003	2002
Legal reserve	\$ 818,813	\$ 780,842		
Bonus to employees - cash	147,387	140,551		
Remuneration to directors and supervisors - cash	73,693	70,276		
Cash dividend	4,748,620	2,997,540	\$ 1.40	\$ 1.30
Stock dividend	1,560,261	3,896,802	0.46	1.69

Had the above bonus to employees and directors been charged to net income in 2003 and 2002, the primary earnings per share for 2003 and 2002 (after tax), based on the weighted-average number of outstanding shares of 2,697,786 and 2,305,800 thousand, respectively, would have decreased from NT\$3.04 to NT\$2.95 and from NT\$3.39 to NT\$3.29, respectively.

The appropriation of the 2004 earnings of the Company had not been approved by the board of directors and stockholders as of February 4, 2005. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

Under the Enterprise Mergers and Acquisitions Law No. 12, the Company entered into an agreement with a dissenting stockholder (Bai Yang Investment Co., Ltd.) on April 16, 2004 to repurchase 113,044 thousand shares for \$3,334,798 which was paid on April 26, 2004. The difference between the fair value and the repurchase price of the treasury stock of \$821,733 was recorded as a reduction to unappropriated earnings.

The Company issued 693,523 thousand new shares (included in capital stock and capital surplus - from business combination in the amount of \$6,935,232 and \$8,482,381, respectively, amounting to NT\$15,417,613) and reissued the 113,044 thousand shares held as treasury stock in order to satisfy the consideration to the stockholders of KG Telecom for the remaining ownership and completed the share swap for 806,567 thousand shares in the amount of \$17,930,678 (Note 5).

Information related to the Company's Global Depositary Receipts (GDRs) as of December 31, 2004 is as follows:

		GDRs (in Thousand Units Units)	Representing Common Stock (in Thousand Shares)
Initial offering	a	\$ 10,000	\$ 150,000
Converted from overseas unsecured convertible bonds	b	165	2,473
Issued for capital increase	c	296	4,448
Reissued within authorized units	d	349	5,233
GDR's transferred to common stock		(8,282)	(124,238)
Outstanding issued		<u>\$ 2,528</u>	<u>\$ 37,916</u>

- On June 1, 2004, the Securities and Futures Bureau (SFB) approved the Company's request to sell 150,000 thousand shares of the Company's common stock in the form of GDRs to foreign investors representing 10,000 thousand units of GDRs. One GDR unit represents 15 shares of the Company's common stock. The issuance of the GDRs was completed on June 17, 2004 and the GDRs were traded and listed on the Luxembourg Stock Exchange with a price of US\$13.219.
- On July 20, 2004, the SFB approved the Company's request to issue new common stock in the form of GDRs of US\$114,500 thousand to be used for the conversion of overseas convertible bonds. As of December 31, 2004, 165 thousand units of GDRs have been issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand shares of common stock.
- The Company issued 296 thousand units of GDRs as a result of a capital increase from capital surplus and retained earnings. The GDRs represent 4,448 thousand shares of common stock.
- Under the terms of the GDR offering, following the completion of an offering is allowed to the extent that previously issued GDRs have been withdrawn, reissuance of GDRs is allowed up to the aggregate amount previously approved by the SFB. Accordingly, the Company has reissued 349 thousand units of GDRs representing 5,233 thousand shares of common stock.

The owners of GDRs have the same rights as holders of common stock except that the GDR owners should exercise the following beneficial interests subject to the terms of the Deposit Agreements and the relevant ROC laws and regulations through the Depositary Trust Company:

- Exercise voting rights;
- Transfer the GDRs; and
- Receive dividends and exercise preemptive rights or other rights and interests.

11. EARNINGS PER SHARE

The information on earnings per share (EPS) calculation is as follows:

			Earnings Per Share (Dollars)		
Amount (Numerator)			Common Stock (Denominator) (in Thousand Shares)	Income Before	
Income Before Income Tax	Net Income	Income Tax		Net Income	
For the year ended December 31, 2004					
Basic EPS					
Net income	\$ 14,552,629	\$14,043,076	3,748,089	\$ 3.88	\$ 3.75
Effect of potential dilutive common stock					
Convertible bonds	(62,776)	(60,578)	124,574		
Diluted EPS					
Net income including the effect of potential dilutive common stock	\$ 14,489,853	\$13,982,498	3,872,663	\$ 3.74	\$ 3.61

For the year ended December 31, 2003

Basic EPS					
Net income	\$ 8,089,103	\$ 8,188,133	2,967,565	\$ 2.73	\$ 2.76
Effect of potential dilutive common stock	(18,695)	(18,924)	111,455		
Convertible bonds))			
Diluted EPS					
Net income including the effect of potential dilutive common stock	\$ 8,070,408	\$ 8,169,209	3,079,020	\$ 2.62	\$ 2.65

For the year ended December 31, 2003, EPS was retroactively adjusted for the 2003 stock dividend declared in 2004. Basic EPS decreased from \$3.00 to \$2.73 and diluted EPS from \$3.04 to \$2.76.

12. PENSION PLAN

The Company and KG Telecom (with 3 employees) accrue pension cost, separately, on the basis of actuarial calculations, and make monthly contributions, at 2% of salaries and wages, to each pension fund, which is administered by each pension plan committee and deposited in each company's Committee's name in the Central Trust of China.

Combined information on the pension plans is as follows:

a. Net pension cost consisted of:

	2004	2003
服務成本	\$ 109,133	\$ 63,200
利息成本	18,498	8,880
Service cost	(6,348)	(4,752)
Interest cost	1,213	1,213
Expected return on pension assets	\$ 122,496)	\$ 68,541)
Amortization		
Net pension cost		
follows:		
	2004	2003
精算之淨退休金成本	\$ 122,496	\$ 68,541
減：帳列固定資產項下	4,538	2,501
Actuarial net pension cost	867	346
Less: Included in properties	52,842	-
Included in other receivables - related parties	\$ 64,249	\$ 65,694
Included in reduction of operating costs and expenses (Note 13)		
Net pension cost (included in operating costs and expenses)		

and pension cost is as follows:

d. Vested benefit amounts is as follows:

f. Fund changes are as follows:

	\$	152,469	\$	120,163
Beginning balance		42,502		30,393
Contributions		3,119		1,913
Earnings		198,090		152,469
Ending balance		93,880		-
Add: Fund of KG Telecom	\$	291,970	\$	152,469

	For the Year Ended December 31, 2004				
			Included in		
	Operating Costs	Operating Expenses	Non Operating Expenses And Losses	Reduction of Operating Costs and Expenses	Total
用人費用					
Employee expenses	\$ 262,445	\$ 1,184,483	\$ -	\$ 1,086,993	\$ 2,533,921
Salaries	17,596	80,931	-	74,764	173,291
Insurance	12,589	51,660	-	52,842	117,091
Pension	9,893	98,703	-	67,051	175,647
Miscellaneous	5,998,075	1,281,465	1,932	-	7,281,472
Depreciation	-	66	-	-	66
Amortization	\$ 6,300,598	\$ 2,697,308	\$ 1,932	\$ 1,281,650	\$ 10,281,488
		For the Year Ended December 31, 2003			

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

Since 2004, the Company provides management services to equity-accounted investees (Note 15). The employee expenses were charged based on agreed-upon terms and recorded as a reduction of operating costs and expenses.

14. INCOME TAX

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

	December 31	
	2004	2003
按法定稅率（25%）計算之稅額	\$ 3,638,157	\$ 2,022,276
Income tax expense computed at statutory tax rate (25%)		
Add (deduct) tax effects of:		
Permanent differences	(935,142	87,356
Temporary differences	147,036)	119,342
Tax-exempt income	(2,458,203	(2,060,530
Unappropriated earnings tax (10%)	123,949)	17,460)
Investment tax credits	(515,797	(159,264
Income tax expense - current	\$ -)	\$ 26,640)

The balance of income tax payable as of December 31, 2004 was net of the accrual of income tax payable of \$1,456 for the year not yet examined and cleared by tax authorities.

The balance of income tax payable as of December 31, 2003 was net of the creditable income taxes of \$2,557.

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

Net operating income generated from the use of switches and cell sites acquired during the period January 1, 2000 to June 26, 2002 are exempt from income tax for the period June 26, 2002 to June 25, 2007.

- b. Income tax expense (benefit) consisted of:

	December 31	
	2004	2003
應納所得稅	\$ -	\$ 26,640
Income tax expense - current	481,870	(133,954
Income tax expense (benefit) - deferred	27,028	5,214)
Prior year's adjustment	655	3,070
Income tax expense on income subjected to a separate rate of 20%	\$ 509,553	(\$ 99,030
Income tax expense (benefit))

- c. Deferred income taxes assets (liabilities) as of December 31, 2004 and 2003 consisted of:

	December 31	
	2004	2003
流動		
Current	\$ 878,994	\$ 937,424
Investment tax credits	679,959	718,225
Provision for doubtful accounts	6,224	(22,802
Unrealized foreign exchange loss (gain), net	4,984	3,348)
Provision for losses on inventories	1,570,161	1,636,195
	425,846	243,471
Less: Valuation allowance	\$ 1,144,315	\$ 1,392,724
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	\$ 435,946	\$ 432,008
	40,152	-
Unrealized loss from disposal of properties	32,500	-
Provision for losses on properties not currently used in operations	63,017	42,986
Accrued pension cost	5,168	8,927
Cumulative equity in the net loss of investees	3,660	8,562
Accrued interest premium	-	321,421
Investment tax credits	\$ 580,443	\$ 813,904

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

- d. Integrated income tax information:

	December 31	
	2004	2003
可扣抵稅額帳戶餘額	\$ 57,916	\$ 3,534
Balance of imputation credit account (ICA)		

The estimated ratio of the ICA balance as of December 31, 2004 to undistributed earnings as of such date was 0.41%. When the dividends from the unappropriated earnings as of December 31, 2003 were distributed in 2004, the actual ratio used was 0.68%.

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

- e. Investment tax credits and loss carryforwards information:

The unused investment tax credits and loss carryforwards as of December 31, 2004 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	\$ 267,445	\$ 149,060	2005
		141,604	30,031	2006
		54,946	54,946	2007
		99,344	99,344	2008
Statute for Upgrading Industries	Research and development expenditures	699,533	395,921	2004
		587,938	43,592	2005
		302,096	37,294	2006
		28,866	28,866	2007
		5,000	5,000	2008
Statute for Upgrading Industries	Personnel training expenditures	19,629	19,629	2005
		12,038	12,038	2006
		3,273	3,273	2007
		\$ 2,221,712	\$ 878,994	

f. Status of income tax returns:

Income tax returns through 1999 and 2002 had been examined and cleared by the tax authorities.

15. SIGNIFICANT 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 Textile Ltd. (FETL)	Ultimate parent company
AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder and a related party until October 2003
Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
KG Telecommunications Co., Ltd. (former Yuan Ho Telecommunications Co., Ltd.) (KG Telecom)	Subsidiary
Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze)	Subsidiary
Far Eastern Info Service (Holding) Ltd. (Bermuda)	Subsidiary since September 2004
Far Eastern Technology Developmental Foundation (FETTDF)	The Company's donation to the foundation's capital over one third
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern Department Stores Co., Ltd. (FEDS)	Same chairman
Asia Cement Co., Ltd. (ACC)	Same chairman
Far Eastern Polychem Industries Ltd. (FETPI)	Same chairman
Far Eastern Technology Network Information Limited Company (Shanghai) (FETI)	Same ultimate parent company and a subsidiary of the Company since September 2004

(Continued)

Related Party

Nature of Relationship

E. World (Holdings) Ltd. (E. World)	Subsidiary
Yuan Ding Investment Co., Ltd.	Same chairman
Far Eastern Memorial Hospital	Same chairman
Oriental Securities Co., Ltd.	Same ultimate parent company
Yuan-Ze University	Same chairman
Ya Tung Department Store Co., Ltd.	Same chairman
Far Eastern Investment Holding Ltd. (Bermuda) (FETIH)	Same ultimate parent company
Oriental Industrial Holding Pte. Ltd. (Singapore) (OIHP)	Subsidiary of ACC
FEDS Development Ltd. (BVI) (FEDSD)	Subsidiary of FETDS
Yue-Tung Investment Corp. (YTI)	Subsidiary of UMMT
Far Eastern International Bank	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
E. World Ltd. (Taiwan)	Same chairman
Oriental Institute of Technology	Same chairman
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 ultimate parent company
Yuan Ding Leasing Corp.	Same ultimate parent company
Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee
KGEx.com (KGEx)	Subsidiary of KG Telecom and a related party since January 2004
KGT International Holding	Subsidiary of KG Telecom and a related party since January 2004
KG Satellite	Subsidiary of KG Telecom and a related party since January 2004
Taipei Metro Properties Management	Same ultimate parent company
NTT DoCoMo Inc.	Director of the Company
Bai Yang Investment Co., Ltd.	Its chairman is the relative of the Company's chairman
Kai Yuan International Investment Co., Ltd.	Same ultimate parent company
An Ho Garment Co., Ltd.	Same ultimate parent company
Yuan Tong Investment Co., Ltd.	Same ultimate parent company
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company

In addition to Notes 5, 6 and 10, the significant transactions with the above parties are

summarized as follows:

		2004		2003	
		Amount	%	Amount	%
營業收入					
During the year period		\$ 949,203	3	\$ -	-
Operating revenue	a.	634,227	2	695,687	2
KG Telecom	b.	95,274	-	-	-
NCIC	c.	9,161	-	8,845	-
KGEx	d.	\$ 1,687,865	5	\$ 704,532	2
Other	aa.				
Operating costs and expenses					
Service cost		\$ 825,143	5	\$ -	-
KG Telecom	b.	20,995	-	30,941	-
FETEC	e.	5,732	-	53,824	-
Other	aa.	\$ 851,870	5	\$ 84,765	-
Rental		\$ 54,451	3	\$ 91,305	7
FEILC	f.	50,301	3	-	-
FETRD	g.	24,761	2	-	-
NCIC	h.	4,706	-	54,895	4
FETL	i.	7,199	-	7,648	-
Other	aa.	\$ 141,418	8	\$ 153,848	11
Management service fee		\$ -	-	\$ 59,215	100
AWS	j.				
Research and development expenses		\$ 20,232	78	\$ 22,971	66
FETTDF	k.				
Service fee		\$ 138,216	59	\$ 66,418	24
FETI	l.	43,653	18	162,770	60
FCHRC	m.	\$ 181,869	77	\$ 229,188	84
Handset subsidies		\$ 27,426	1	\$ -	-
KG Telecom	n.				
Nonoperating income and gains					
Management service revenue		\$ 62,844	79	\$ -	-
KG Telecom	o.	8,843	11	181,996	100
Yuan-Ze	p.	7,500	10	-	-
KGEx	q.	\$ 79,187	100	\$ 181,996	100
Commissions		\$ 126,408	100	\$ -	-
KG Telecom	n.				
Rental and maintenance income (including other operation income and gains)		\$ 4,616	9	\$ 3,663	9
NCIC	r.				
Gain on disposal of properties		\$ 811	-	\$ 64,646	772
NCIC	s.				
Other		\$ -	-	\$ 7,400	18
NCIC	s.				
				(Continued)	
		2004		2003	
		Amount	%	Amount	%

取得長期股權投資					
遠東化聚工業公司					
Acquisition of investments in shares of stock		\$ 92,616	14	\$ -	-
FETPI	t.	12,531	2	-	-
FETIH	u.	12,531	2	-	-
OIHP	u.	4,195	1	-	-
YTI	u.	\$ 134,404	21	\$ -	-
FEDSD	u.				
		\$ 158,398	6	\$ -	-
Acquisition of properties		82,435	3	73,576	1
NCIC	v.	73,750	3	1,532,506	31
FETEC	w.	43,068	2	-	-
FEILC	f.	627	-	-	-
KG Telecom	z.	\$ 358,278	14	\$ 1,606,082	32
Other	aa.				
At end of year					
Receivables from related parties		\$ 845,798	83	\$ 70,777	28
KG Telecom	b. and o.	118,927	12	70,838	27
Yuan-Ze	p.	21,815	2	87,768	34
NCIC	c. and s.	-	-	17,410	7
FETI	l.	32,116	3	11,351	4
Other	aa.	\$ 1,018,656	100	\$ 258,144	100
		\$ 1,133	-	\$ 1,159	-
Prepaid expenses		790	-	1,030	-
FEDS	x.	604	-	753	-
YDC	y.	590	-	-	-
FETL	i.	1,930	-	1,339	-
NCIC	h.	\$ 5,047	-	\$ 4,281	-
Other	aa.				
		\$ 4,590	2	\$ 6,390	3
Refundable deposits		1,769	1	-	-
FEILC	f.	564	-	908	-
NCIC	h.	255	-	219	-
YDC	y.	\$ 7,178	3	\$ 7,517	3
Other	aa.				
		\$ 144,032	48	\$ 24,864	11
Payables to related parties		54,198	18	-	-
NCIC	c. and v.	40,259	14	169,986	76
KG Telecom	n. and z.	30,049	10	265	-
FETEC	e. and w	2,485	1	14,508	6
FEILC	f.	27,429	9	15,016	7
FETL	i.	\$ 298,452	100	\$ 224,639	100
Other	aa.				
Long-term lease payable		\$ 59,000	100	\$ -	-
(includes current portion)					
FEILC	f.				

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

- a. Operating revenues (such as service revenues, revenues from sales of cellular phone

equipment and accessories and lease - circuit revenue) from related parties are based on normal service rates, selling prices and collection terms.

- b. The transactions between the Company and KG Telecom consisted of the interconnection activities for KG Telecom's use of the Company's network and vice versa. The interconnection fee received from KG Telecom for its use of the Company's network are included in service revenue. The interconnection fee paid by the Company on its use of KG Telecom's network and billing processing costs pertaining to the interconnection service are included in service cost.
- c. 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 services provided by NCIC to the Company are included in service cost. The international direct dialing revenue collected by the Company for NCIC was treated as a reduction of service revenue and was included in payables to related parties.
- d. The international direct dialing revenue collected by the Company for KGEx through call-by-call selection service was treated as a reduction of service revenue and was included in payables to related parties. The interconnection fees paid by the Company on its use of KGEx's fixed-line network and billing processing costs pertaining to the interconnection services provided by KGEx to the company are included in service cost. The transactions are comparable with third parties.
- e. The Company signed a network maintenance contract with FETEC for maintaining the Company's telecommunications network and backbone network facilities.
- f. Under operating lease agreements, the Company leased 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 Hsinchu from November 1999 to June 2004; and (c) vehicles. The contracts will remain valid unless either the Company or FEILC inform each other to cancel the contracts.

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
Hsinchu land for switch center	120,000

The lease contract on the 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 on February 26, 2003. The purchase price of \$1,532,382 (without sales tax) was determined based on the appraisal report obtained from real estate professionals. The title to the land and buildings was transferred to the Company by the end of April 2003.

The Company leases from FEILC computer equipment, under a five year lease from July 2004 to June 2009, with annual lease payments of \$15,414 (Note 6).

- g. The Company leases from FETRD several buildings and parcels of land under contracts

with terms ranging from June 2003 to November 2013. The properties are located in Yatung Street and Renai Street in Panchao City; Wuku in Taipei County; and other locations in Taiwan.

- h. The Company leases from NCIC the telecommunications network and office space in Neihsu under contracts with terms ranging from September 2003 to September 2008.
- i. The company leases from FETL several buildings and parcels of land under contracts with terms ranging from July 1997 to November 2014. The properties are located in Yuntung Street in Chungli and other locations in Taiwan.
- j. 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.
- k. FETTD researches telecommunication technology and provides training programs for the Company.
- l. The Company signed a service agreement with FETI in 2003. The service charges were based on the services provided by FETI as agreed upon with the Company. The advances to FETI were treated as receivables from related parties, and were collected at various times based on the cash balances of FETI.
- m. The Company has contracts with FCHRC for manpower dispatching service. The service charges were based upon the services provided by FCHRC for temporary or specific personnel supplies.
- n. The Company and KG Telecom have agreed to receive or pay handset subsidies and commissions due to the promotion of opposite SIM card numbers and advances for the costs of handsets purchased for each other in the net amount.
- o. The Company provides management services and advances KG Telecom for its daily operating expenditures. The service revenue and advances are collected monthly.
- p. The Company provides management services and advances Yuan-Ze for its daily operating expenditures. The service revenue and advances are collected monthly.
- q. The Company provides management services to KGEx and the service revenues are collected annually.
- r. The Company leases its HUB spaces to NCIC and provides related maintenance service. The lease agreement will expire in March 2005.
- s. The advances for the construction and joint use of telecommunications network and backbone network facilities between the Company and NCIC and receivables from sales of properties to NCIC were included in receivables from related parties. The proceeds and the gains on disposal of properties for the year ended December 31, 2004 are \$8,011 and \$811, respectively.

The Company sold HUB and related operating equipment located in Tai-Ping, Taichung County to NCIC in 2003. The selling price of the HUB and related operating equipment, which is comparable to market prices, was \$154,805 with a related service charge of \$7,770, including sales tax. For the year ended December 31, 2003, the gain on disposal of properties and service charge for the management of the building was \$64,646 and \$7,400, respectively, which was recorded as nonoperating income as net gains from disposal of properties.
- t. The Company purchased 100% ownership of Far Eastern Info Service (Holding) Ltd. in the amount of \$92,616 on August 30, 2004. As a result, the Company acquired 100% ownership of FETI indirectly.

- u. The Company purchased 4,685 thousand shares in the amount of \$41,788 thousand in June, 2004 representing ownership of 66.92% of E. World from FETIH, OIHP, FEDSD and YTI (Note 5).
- v. The Company purchased NCIC's telecommunications network and backbone network facilities.
- w. The Company maintains contracts with FETEC for the construction of telecommunications network and backbone network facilities.
- x. The Company leases from FEDS several buildings and parcels of land located in several places in Taiwan under contracts with terms ranging from December 1997 to October 2016.
- y. The Company leases certain floors at Taipei Metro The Mall for the period September 1999 to December 2005 from YDC.
- z. The Company purchased operating and computer equipment from KGT.
- aa. The accounts of other related parties were less than 5% of the total of respective accounts.

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

16. COMMITMENTS AS OF DECEMBER 31, 2004

- a. The Company has outstanding contracts to acquire properties for \$397,228.
- b. The Company's outstanding letters of credit amounted to ¥526,784 thousand (equivalent to \$162,934) and US\$606 thousand (equivalent to \$19,216).
- c. Payments for the rental of land, buildings and cell sites for the next five years are summarized as follows:

Period	Amount
2005	\$ 1,390,284
2006	1,443,658
2007	1,499,100
2008	1,556,690
2009	1,616,512

17. SUBSEQUENT EVENTS

In addition to Notes 1 and 9, the Company has the following subsequent events:

On January 4, 2005, the Company signed an agreement to purchase 74,348 thousand shares (approximately 55.3% ownership) of Arcoa Communication Co. (ARCOA) from stockholders of ARCOA for an average price of \$16.26 per share; totalling \$1,208,866.

The merger was approved by the Fair Trade Commission (FTC) on February 4, 2005. The Company deposited \$350,000 in escrow with Citibank (included in restricted assets) on December 24, 2004. The deposit was restricted and was transferred as part of the purchase price upon signed agreement.

18. 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 NT\$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: None
- 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 NT\$100 million or 20% of the paid-in capital: Schedule C
- h. Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Schedule D
- i. Names, locations, and related information of investees on which the Company exercises significant influence: Schedule E
- j. Derivative financial instruments

The Company used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rates for the years ended December 31, 2004 and 2003. All these transactions are for nontrading purposes.

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

(1) Open contracts and credit risk

Type of Transaction	Notional Amount	Fixed Rate	December 31, 2004		Maturity Date	Fair Value	Credit Risk
			Market Rate	Settlement Date			
Interest rate swap	\$ 2,670,000	1.25%-	1.004%-	Every 6 months	March 28, 2008-	(\$ 62,401)	\$ -
		1.95%	2.540%		December 19, 2008		

Type of Transaction	Notional Amount	Fixed Rate	December 31, 2003		Maturity Date	Fair Value	Credit Risk
			Market Rate	Settlement Date			
Interest rate swap	\$ 2,670,000	1.25%-	2.60%-	Every 6 months	March 28, 2008-	\$ 19,723	\$ 19,723
		1.95%	3.98%		December 19, 2008		

The related gains of the Company on these swap contracts for the years ended December 31, 2004 and 2003 were \$29,680 and \$9,420, respectively, and were recorded as a reduction of interest expense.

There were no outstanding forward contracts as of December 31, 2004 and 2003, respectively.

The related gains of the Company on forward contracts for the years ended December 31, 2004 and 2003 were \$770 and \$4,103, respectively, and were recorded as a 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 and cross currency swap contracts to hedge the effect of foreign currency 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. Due to the simultaneous cash inflow and outflow generated from cross currency swap contracts, the aggregated outcome of net cash flow is expected to be insignificant. Management believes that the Company have sufficient operating capital to meet cash demand.

(4) The purpose of derivative financial instruments held or issued

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 interest at a fixed rate and receiving interest based on market rates. The Company entered into forward exchange contracts to hedge the effects of exchange rate fluctuations on firm commitments. The cross currency swap contracts are for hedging overall fluctuations on interest rates and exchange rates from foreign currency obligations with floating rates. The overall purpose of these contracts is to hedge the Company's exposure to cash flow risk. The Company periodically evaluates the effectiveness of the instruments.

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

	December 31			
	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
現金及約當現金	\$ 3,265,431	\$ 3,265,431	\$ 2,868,156	\$ 2,868,156
Financial assets	3,492,574	3,492,574	3,735,277	3,735,277
Cash and cash equivalents	1,018,656	1,018,656	258,144	258,144
Accounts and notes receivable, net	44,030,365	44,030,365	21,641,987	21,641,987
Receivables from related parties	350,000	350,000	-	-
Investments in shares of stock	251,960	251,104	241,718	240,218
Restricted assets				
Refundable deposits	-	-	100,000	100,000
Financial liabilities	41,332	41,332	30,670	30,670
Short-term loans	381,145	381,145	1,043,206	1,043,206
Notes payable	298,452	298,452	224,639	224,639
Accounts payable	1,551,016	1,551,016	1,808,776	1,808,776
Payables to related parties				
Payables related to acquisition of properties	10,181,868	10,334,628	18,783,378	19,013,516
Long-term liabilities (including current portion)	1,220,321	1,220,321	1,553,591	1,553,591
Guarantee deposits received (including current portion)				
	-	(62,401	-	19,723
Derivative financial instruments				
Interest rate swap				

) cash equivalents, accounts and notes receivable, receivables from related parties, restricted assets, short-term loans, notes payable,

accounts payable, payables to related parties and payables related to acquisition of properties are recorded at their carrying values due to the short maturity of these instruments.

- b) The fair values of investments in shares of stock are recorded at the equity in the investees' net assets.
- c) Long-term liabilities are recorded at 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 are recorded at the present values of future payments or receipts.
- e) Fair values of derivative financial instruments are recorded at the quoted market prices obtained from banks.

KG Telecom used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rates for the year ended December 31, 2004. All of these transactions are for nontrading purposes.

The information on interest rate swap contracts and cross currency swap contracts entered into by KG Telecom is as follows:

- (1) Open contracts and credit risk

December 31, 2004							
Type of Transaction	Notional Amount	Fixed Rate	Market Rate	Settlement Date	Maturity Date	Fair Value	Credit Risk
Interest rate swap	\$ 1,000,000	3.38%-4.50%	1.193%	Every 3 months	May 20, 2005	(\$13,192)	\$ -

December 31, 2003				
Type of Transaction	Notional Amount	Carrying Value	Fair Value	Credit Risk
Cross currency swap	US\$ 40,238 thousand	\$ -	(\$108,370)	\$ -

The related losses of KG Telecom on the swap contracts for the year ended December 31, 2004 were \$143,452 including interest expense of \$51,033 and foreign exchange loss of \$92,419.

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

- (2) Market risk

KG Telecom entered into interest rate swap contracts 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.

KG Telecom entered into cross currency swap contracts to hedge its exposure to exchange rate and interest rate fluctuations on bank loans dominated in foreign currency. 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. Due to the simultaneous cash inflow and outflow generated from cross currency swap contracts, the aggregated outcome of net cash flow is not expected to be significant. Thus, no additional material cash is required.

(4) The purpose of derivative financial instruments held or issued

KG Telecom uses certain derivative financial instruments for nontrading purposes. The interest rate swap contracts are for hedging overall fluctuations on interest rates. The swap involves KG Telecom's paying interests at a fixed rate and receiving interests based on market rates. KG Telecom entered into interest rate swap and cross currency swap contracts to hedge the effects of exchange rate and interest rate fluctuations on bank loans denominated in foreign currency, particularly for KG Telecom's exposure to cash flow risk. KG Telecom periodically evaluates the effectiveness of the instruments.

C. Investment in Mainland China:

- a. Investee company name, the description of the primary business activity and products, issued capital, nature of the relationship, capital inflow or outflow, ownership interest, gain or loss on investment, amounts received on investment, and the limitation on investment: Schedule F;
- b. Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 15.

19. 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:

	2004		2003	
	Amount	Percentage of Operating Revenue (%)	Amount	Percentage of Operating Revenue (%)
Company A	\$ 7,327,691	18	\$ 7,139,284	19

SCHEDULE A

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEEES
MARKETABLE SECURITIES HELD
DECEMBER 31, 2004

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

SCHEDULE B

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	December 31, 2004				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks							
	KG Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,332,997,916.00	\$ 33,786,566	100.00	\$ 33,786,566	Note A
	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,037,000,000.00	9,590,140	100.00	9,590,140	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Investments in shares of stock	54,000,000.00	433,544	45.00	433,544	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Investments in shares of stock	1,200.00	109,846	100.00	109,846	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	6,014,622.00	65,433	85.92	65,433	Note A
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Investments in shares of stock	4,500,000.00	44,836	15.00	44,836	Note A
E. World (Holdings) Ltd.	Stocks							
	E. World Ltd.	Equity-method investee	Investments in shares of stock	19,349,994.00	US\$ 593,000	99.99	US\$ 593,000	Note A
	Ideaculture Limited (Cayman)	-	Investments in shares of stock	1,195,141.00	US\$ 431,000	17.96	US\$ 143,000	Note C
Far Eastern Info Service (Holding) Ltd.	Stocks							
	Far Eastern Technology Network Information Limited Company (Shanghai)	Equity-method investee	Investments in shares of stock	-	US\$ 2,484,000	100.00	US\$ 2,484,000	Note A
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com	Equity-method investee	Investments in shares of stock	175,931,000.00	898,944	50.27	898,944	Note A
	KGT International Holding	Equity-method investee	Investments in shares of stock	50,000.00	97,725	100.00	97,725	Note A
	KG Satellite	Equity-method investee	Investments in shares of stock	9,950,000.00	83,256	66.33	83,256	Note A
	iScreen	Equity-method investee	Investments in shares of stock	4,000,000.00	66,098	40.00	66,098	Note A
	YesMobile	-	Investments in shares of stock	100,000.00	-	0.50	-	
	Mutual funds							
	Far Eastern Alliance Taiwan Bond Fund	-	Short-term investments	27,573,879.00	290,000	-	290,800	Note B
KGT International Holding	Stocks							
	KGEx.com	Equity-method investee	Investments in shares of stock	16,051,000.00	US\$ 2,586,000	4.59	US\$ 2,586,000	Note A
KGEx.com	Mutual funds							
	Invesco Bond Fund	-	Short-term investments	2,414,425.85	35,000	-	35,000	Note B
	Sheng Hua 1699 Bond Fund	-	Short-term investments	720,290.45	8,565	-	8,708	Note B
KG Satellite	Mutual funds							
	Phoenix Fund	-	Short-term investments	1,377,042.20	20,225	-	20,225	Note B
	PCA Bond Fund	-	Short-term investments	213,823.80	3,241	-	3,241	Note B
	Central Diamond Bond Fund	-	Short-term investments	7,873,280.97	88,061	-	88,061	Note B

Note A: Calculation was based on audited financial statements as of December 31, 2004.

Note B: Open-ended mutual funds were calculated by net asset value of mutual funds as of December 31, 2004.

Note C: Calculation was based on the most current financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEEES

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, 2004

(Amounts in Thousands of New Taiwan Dollars)

SCHEDULE C

Company Name	Marketable Securities	Account	Related party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				The Change Due to Equity Method	Ending Balance	
					Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Price	Costs	Gain or Loss		Share/Units	Amount
Far EasTone Telecom municati ons Co., Ltd.	KG Telecom-munications Co., Ltd.	Equity-method investee	Original stock-holders of KG Telecom	-	526,430,771.00	\$ 11,698,382	806,567,145 (Note D)	\$ 17,930,678 (Note D)	-	\$ -	\$ -	\$ -	\$ 4,157,506 (Note B)	1,332,997,916.00	\$ 33,786,566
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Issu-ance of stock by cash	-	6,500,000.00	65,000	47,500,000	475,000	-	-	-	-	(106,456) (Note C)	54,000,000.00	433,544
KG Telecom municati ons Co., Ltd. (Note A)	Fuhwa Bond Fund	Short-term investments	-	-	8,276,487.41	101,313	-	-	8,276,487.41	101,752	101,313	439	-	-	-
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	28,193,838.32	335,263	-	-	28,193,838.32	336,616	335,263	1,353	-	-	-
	Sheng Hua 5599 Bond Fund	Short-term investments	-	-	27,259,695.01	292,862	-	-	27,259,695.01	293,494	292,862	632	-	-	-
	Entrust Kirin Bond Fund	Short-term investments	-	-	24,112,994.10	255,463	-	-	24,112,994.10	256,642	255,463	1,179	-	-	-
	Phoenix Fund	Short-term investments	-	-	52,414,671.20	756,895	-	-	52,414,671.20	759,803	756,895	2,908	-	-	-
	PCA Bond Fund	Short-term investments	-	-	17,673,057.10	263,885	-	-	17,673,057.10	264,260	263,885	375	-	-	-
	President Home Run Bond Fund	Short-term investments	-	-	9,818,196.30	132,159	-	-	9,818,196.30	132,351	132,159	192	-	-	-
	United Bond Fund	Short-term investments	-	-	11,773,049.24	147,593	-	-	11,773,049.24	147,687	147,593	94	-	-	-
	Truswell Bond Fund	Short-term investments	-	-	16,337,600.20	200,000	-	-	16,337,600.20	200,714	200,000	714	-	-	-
	Invesco GP Aggressive Income Fund	Short-term investments	-	-	10,510,341.13	115,223	-	-	10,510,341.13	115,490	115,223	267	-	-	-
	Grand Cathay Bond Fund	Short-term investments	-	-	13,666,157.20	170,000	-	-	13,666,157.20	170,069	170,000	69	-	-	-
	TA Chong Bond Fund	Short-term investments	-	-	12,012,974.00	150,000	-	-	12,012,974.00	150,067	150,000	67	-	-	-
	TA Chong Gallop Bond Fund	Short-term investments	-	-	19,154,886.40	200,000	-	-	19,154,886.40	200,090	200,000	90	-	-	-
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	421,785.10	6,740	6,255,473.50	100,000	6,677,258.60	106,865	106,740	125	-	-	-
	Fuh-Hwa Bond Fund	Short-term investments	-	-	12,150,254.50	154,518	-	-	12,150,254.50	155,336	154,518	818	-	-	-
	Far Eastern Alliance Taiwan Bond Fund	Short-term investments	-	-	-	-	27,573,879.00	290,000	-	-	-	-	-	27,573,879.00	290,000
KGEx. Com (Note A)	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	10,178,000.94	121,022	-	-	9,457,710.49	113,000	112,457	543	-	720,290.45	8,565
	Invesco Bond Fund	Short-term investments	-	-	-	-	9,688,918.37	140,000	7,274,492.52	105,216	105,000	216	-	2,414,425.85	35,000

Note A: The beginning balance was carried forward from KG Telecom's account balances due to the Combination with KG Telecom.

Note B: Including investment gain of \$4,168,180 and cumulative translation adjustments of (\$4,780) under the equity method and cash dividends of (\$5,894)

Note C: Investment loss under equity method.

Note D: Acquisition from the Combination with KG Telecom (Note 5).

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEEES**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, 2004**

(Amounts in Thousands of New Taiwan Dollars)

Purchase (Sale) of Goods	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Receivable or (Payable)		
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance		% to Total
Far Eastone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary of the Company	Service revenue	(\$949,203)	(3%)	30 days	-	-	Accounts receivable (Note A)	\$ 38,724	4%
			Cost of services	825,143	5%	30 days	-	-	Accounts payable (Note A)	-	-
	New Century InfoComm Tech Co., Ltd.	Same chairman	Service revenue	(634,227)	(2%)	30 days	-	-	Accounts receivable (Note B)	12,190	1%
									Accounts payable (Note B)	(36,248)	(12%)
KG Telecommunications Co., Ltd.	KGEx.com	Subsidiary of KG Telecom	Service revenue	(217,626)	(1%)	30 days	-	-	Accounts receivable	24,938	27%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Service revenue	(433,733)	(3%)	30 days	-	-	Accounts receivable (Note B)	-	-
									Accounts payable (Note B)	(25,473)	(3%)
	Far Eastone Telecommunications Co., Ltd.	Parent company	Service revenue	(825,143)	(3%)	30 days	-	-	Accounts receivable (Note A)	-	-
			Cost of services	949,203	8%	30 days	-	-	Accounts payable (Note A)	(38,724)	(4%)

Note A: Service revenue and cost of services between the Company and KG Telecom were settled at net amounts and was included in the Company's receivables from related parties and KG Telecom's payable to related parties.

Note B: All revenues and costs were settled at the full amount except interconnection revenues and costs and were included in receivables from related parties and payables to related parties, respectively.

SCHEDULE D**FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEEES****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL DECEMBER 31, 2004**

(Amounts in Thousands of New Taiwan Dollars)

SCHEDULE E

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Far Eastone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary	\$ 845,798	(Note)	\$ -	-	\$ 361,353	\$ -
	Yuan-Ze Telecommunications Co., Ltd.	Subsidiary	118,927	(Note)	-	-	-	-

Note: The turnover rate is unavailable as the receivables from related parties were mainly due to the advances in operating expenditures to related parties.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEEES

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

FOR THE YEAR ENDED DECEMBER 31, 2004

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

5. 2004 Independent Auditors' Report, Consolidated

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2004			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				December 31, 2004	December 31, 2003	Shares	Percentage of Ownership (%)	Carrying Value			
Far Eastone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	\$29,629,139	\$11,698,461	1,332,997,916	100.00	\$33,786,566	\$4,161,551	\$4,168,180	Notes A and B
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	10,370,000	10,370,000	1,037,000,000	100.00	9,590,140	(278,123)	(279,947)	Notes A and B
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	540,000	65,000	54,000,000	45.00	433,544	(177,472)	(106,456)	Notes B and C
	Far Eastern Info Service (Holding) Ltd.	British Bermuda Islands	Investment	92,616	-	1,200	100.00	109,846	34,811	17,230	Notes A and B
	E. World (Holdings) Ltd.	British Cayman Islands	Investment	82,883	41,095	6,014,622	85.92	65,433	(308)	(2,272)	Notes A and D
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	-	4,500,000	15.00	44,836	(26,294)	(164)	Notes B and C
KG Telecommunications Co., Ltd. (Note G)	KGEx.com	Taiwan	Type II telecommunications service	1,759,310	1,759,310	175,931,000	50.27	898,944	(1,152,123)		Notes B and E
	KGT International Holding	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	97,725	(395,377)		Notes B and E
	KG Satellite	Taiwan	Type I telecommunications service	99,500	99,500	9,950,000	66.33	83,256	(6,232)		Notes B and E
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	66,098	(20,509)		Notes B and F
KGT International Holding (Note G)	KGEx.com	Taiwan	Type II telecommunications service	US\$ 4,822,000	US\$ 4,687,000	16,051,000	4.59	US\$ 2,586,000	(1,152,123)		Notes B and E
E. World (Holding) Ltd.	E. World Ltd.	Taiwan	Sale of cellular phone equipments and accessories	193,500	193,500	19,349,994	99.99	US\$ 593,000	22		Notes B and E
Far Eastern Info Service (Holding) Ltd.	Far Eastern Technology Network Information Limited Company (Shanghai)	Shanghai	Computer software, data processing and network information providing services	US\$ 2,500,000	-	-	100.00	US\$ 2,484,000	34,000		Notes B and E

- Notes: A. Subsidiary.
B. Calculation was based on audited financial statements as of December 31, 2004.
C. Equity-method was investee of the Company.
D. The equity in net gain (loss) was used to be recognized in the succeeding year because the audited financial statements of the investee were not timely available. However, the equity in net gain (loss) has been recognized at the same period since the percentage of ownership exceeded 50%. Calculations was based on audited financial statements in 2003 and 2004.
E. Subsidiary of KG Telecom.
F. Equity-method investee of KG Telecom.
G. The original investment amounts were equal to those of KG Telecom's account balances as of December 31, 2003 due to the Combination with KG Telecom in 2004.

SCHEDULE F

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEEES
INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2004	Investment Flows		Accumulated Outflow of Investment from Taiwan as of Dec. 31, 2004	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of Dec. 31, 2004	Accumulated Inward Remittance of Earnings as of Dec. 31, 2004	Accumulated Investment in Mainland China as of Dec. 31, 2004	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Far Eastern Technology Network Information Limited Company (Shanghai)	Computer software, data processing, and network information providing services	\$79,275 (USD2,500,000)	Note B	\$ -	\$92,616	\$ -	\$92,616	100%	\$34,000	\$78,757 (USD 2,484,000)	\$ -	\$92,616	\$92,616	\$27,884,826 (Note C)

Note A: Calculation of investment gain (loss) was based on audited financial statement as of December 31, 2004 by Deloitte Touche Tohmatsu CPA Ltd., Shanghai office

Note B: The Company made the investment through existing company registered in 3rd region.

Note C: Equal to 40% of Far EasTone's net asset value.

Financial Statements and Notes

English Translation of a Report Originally Issued in Chinese

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Far EasTone Telecommunications Co., Ltd. ("the Company") and subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with 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, 2004 and 2003 and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

February 4, 2005

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.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2004 AND 2003

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

	2004		2003	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 5)	\$ 8,502,692	8	\$ 14,568,654	20
Short-term Investments (Note 2)	290,000	-	-	-
Accounts and notes receivable, net of allowance for doubtful accounts of \$1,605,066 in 2004 and \$586,957 in 2003 (Notes 2)	6,134,846	6	3,735,277	5
Receivables from related parties (Notes 2 and 19)	84,923	-	116,529	-
Inventories, net (Notes 2 and 6)	729,338	1	801,100	1
Prepaid expenses (Notes 2 and 19)	1,612,308	1	1,754,644	3
Deferred income tax assets - current (Notes 2 and 18)	1,910,414	2	1,392,724	2
Other current assets	167,361	-	68,554	-
Total current assets	19,431,882	18	22,437,482	31
INVESTMENTS IN SHARES OF STOCK (Notes 2, 7, 19 and 22)				
Equity method	1,799,682	2	8,518	-
Prepayment for investments	-	-	65,000	-
Total investments in shares of stock	1,799,682	2	73,518	-
PROPERTIES (Notes 2, 8, 19 and 21)				
Cost				
Land	1,050,281	1	952,504	1
Buildings and equipment	2,077,561	2	1,698,803	2
Operating equipment	85,522,467	79	48,644,499	66
Computer equipment	11,042,160	10	6,284,316	9
Office equipment	798,485	1	772,482	1
Leasehold improvements	1,456,932	1	1,331,900	2
Miscellaneous equipment	295,652	-	54,834	-
Total cost	102,243,538	94	59,739,338	81
Less - accumulated depreciation	46,506,010	43	24,388,503	33
	55,737,528	51	35,350,835	48
Construction in progress and advances related to acquisition of equipment	8,773,622	8	4,221,737	6
Net properties	64,511,150	59	39,572,572	54
INTANGIBLE ASSETS				
Goodwill, net (Notes 1 and 2)	11,074,034	10	-	-
3G concession (Notes 2 and 9)	10,169,000	9	10,169,000	14
Total intangible assets	21,243,034	19	10,169,000	14
OTHER ASSETS				
	190,976	-	-	-
Rental assets, net (Notes 2, 8 and 10)	373,088	1	241,736	-
Refundable deposits (Note 19)				
Deferred income tax assets - noncurrent (Notes 2 and 18)	712,622	1	813,904	1
Restricted assets (Note 22)	350,000	-	-	-
Other (Note 2 and 21)	96,706	-	176,413	-
Total other assets	1,723,392	2	1,232,053	1
TOTAL	\$ 108,709,140	100	\$ 73,484,625	100

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

LIABILITIES AND STOCKHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term loans (Note 11)	\$ 2,250,000	2	\$ 100,000	-
Commercial paper payable (Note 12)	896,648	1	489,587	1
Notes payable	41,834	-	30,670	-
Accounts payable	538,371	1	1,043,206	1
Payables to related parties (Note 19)	321,770	-	226,534	-
Income tax payable (Notes 2 and 18)	2,325,564	2	24,083	-
Accrued expenses	5,189,310	5	2,637,837	4
Payables related to acquisition of properties	3,088,119	3	2,716,930	4
Guarantee deposits received - current	1,521,194	1	1,502,750	2
Unearned revenues (Note 2)	2,325,388	2	1,859,688	2
Current portion of long-term liabilities (Notes 2, 8, 13, 19 and 21)	4,803,577	4	1,226,000	2
Other current liabilities	538,948	1	169,615	-
Total current liabilities	23,840,723	22	12,026,900	16
LONG-TERM LIABILITIES, NET OF CURRENT PORTION (Notes 2, 8, 13 and 19)				
Long-term bonds payable	8,670,000	8	13,270,436	18
Long-term debt payable	6,074,330	6	4,936,942	7
Long-term lease payable	88,500	-	-	-
Total long-term liabilities	14,832,830	14	18,207,378	25
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 16)	226,308	-	169,278	-
Guarantee deposits received - noncurrent	83,587	-	50,841	-
Other	13,626	-	-	-
Total other liabilities	323,521	-	220,119	-
Total liabilities	38,997,074	36	30,454,397	41
STOCKHOLDERS' EQUITY				
Common stock - \$10 par value				
Authorized - 4,200,000 thousand shares in 2004 and 3,360,000 thousand shares in 2003				
Issued - 3,842,311 thousand shares in 2004 and 2,697,786 thousand shares in 2003	38,423,115	35	26,977,860	37
Capital surplus				
Paid-in capital in excess of par value	6,023,801	5	5,944,514	8
From business combination	8,482,381	8	-	-
From investments in shares of stock	-	-	29,086	-
Total capital surplus	14,506,182	13	5,973,600	8
Retained earnings				
Legal reserve	2,697,301	3	1,878,488	3
Unappropriated earnings	14,069,797	13	8,197,228	11
Total retained earnings	16,767,098	16	10,075,716	14
Cumulative translation adjustments	15,671	-	3,052	-
Total stockholders' equity	69,712,066	64	43,030,228	59
TOTAL	\$ 108,709,140	100	\$ 73,484,625	100

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	2004		2003	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 19)				
Service revenues	\$ 61,270,948	94	\$ 34,515,474	93
Sales of cellular phone equipment and accessories, net	4,224,124	6	2,545,751	7
Other	21,394	-	5,938	-
Total operating revenues	65,516,466	100	37,067,163	100
OPERATING COSTS (Notes 2, 16, 17 and 19)				
Cost of services	26,603,683	41	15,892,163	43
Cost of sales	4,642,528	7	2,822,662	7
Total operating costs	31,246,211	48	18,714,825	50
GROSS PROFIT	34,270,255	52	18,352,338	50
OPERATING EXPENSES (Notes 2, 16, 17 and 19)				
Marketing	8,446,006	13	6,106,191	16
General and administrative	7,080,907	11	3,601,813	10
Research and development	374,882	-	317,452	1
Total operating expenses	15,901,795	24	10,025,456	27
OPERATING INCOME	18,368,460	28	8,326,882	23
NONOPERATING INCOME AND GAINS				
Gain from sales of non-performing accounts receivable	77,646	-	-	-
Foreign exchange gains, net (Notes 2 and 23)	45,542	-	38,469	-
Interest income	27,918	-	43,006	-
Other (Note 19)	111,496	1	40,533	-
Total nonoperating income and gains	262,602	1	122,008	-
NONOPERATING EXPENSES AND LOSSES				
Interest expense (Notes 2, 8, 19 and 23)	685,961	1	316,344	1
Provision for losses on properties not currently used in operations (Note 2)	489,086	1	-	-
Loss on disposal of properties, net (Notes 2 and 19)	455,087	1	-	-
Equity in investees' net losses (Notes 2 and 7)	210,888	-	1,778	-
Other (Notes 10, 17 and 19)	586,865	-	4,691	-
Total nonoperating expenses and losses	2,427,887	4	322,813	1
CONSOLIDATED INCOME BEFORE INCOME TAX				
EXPENSE (BENEFIT)	16,203,175	25	8,126,077	22
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 18)	2,160,099	4	(99,028)	-
CONSOLIDATED INCOME BEFORE MINORITY INTEREST	14,043,076	21	8,225,105	22
MINORITY INTEREST	-	-	(36,972)	-
CONSOLIDATED NET INCOME	\$ 14,043,076	21	\$ 8,188,133	22
	2004		2003	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
CONSOLIDATED EARNINGS PER SHARE (Note 15)				
Basic	\$ 4.32	\$ 3.75	\$ 2.74	\$ 2.76
Diluted	\$ 4.17	\$ 3.61	\$ 2.62	\$ 2.65

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, 2004 AND 2003

(In Thousands of New Taiwan Dollars)

	Capital Surplus (Notes 2 and 14)											Total Stock- holders' Equity
	Capital Stock Issued (Notes 2 and 14)		Paid-in Capital in Excess of Par Value	From investments		Retained Earnings (Note 14)			Cumulative Translation Adjustments (Note 2)			
	Shares (Thousands)	Amount		From Business Combination	in Shares of Stock	Total	Legal Reserve	Unappro- priated Earnings		Total		
BALANCE, JANUARY 1, 2003	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 supervisor	-	-	-	-	-	-	-	-	(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)
	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	
BALANCE, DECEMBER 31, 2003												
Issuance of new stock and reissuance of treasury stock in exchange of investments in shares of stock	693,523	6,935,232	-	8,482,381	-	8,482,381	-	(821,733)	(821,733)	-	-	14,595,880
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	(29,086)	(29,086)	-	-	-	-	-	(29,086)
Appropriation of 2003 earnings	-	-	-	-	-	-	-	818,813	(818,813)	-	-	-
Legal reserve	-	-	-	-	-	-	-	-	(147,387)	(147,387)	-	(147,387)
Bonus to employees	-	-	-	-	-	-	-	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(73,693)	(73,693)	-	(73,693)
Cash dividend - 14%	-	-	-	-	-	-	-	-	(4,748,620)	(4,748,620)	-	(4,748,620)
Stock dividend - 4.6%	156,026	1,560,261	-	-	-	-	-	-	(1,560,261)	(1,560,261)	-	-
Capitalization of capital surplus - 5.4%	183,161	1,831,611	(1,831,611)	-	-	(1,831,611)	-	-	-	-	-	-
Consolidated net income in 2004	-	-	-	-	-	-	-	-	14,043,076	14,043,076	-	14,043,076
Conversion of overseas convertible bonds into common stock	111,815	1,118,151	1,910,898	-	-	1,910,898	-	-	-	-	-	3,029,049
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	12,619	12,619
	3,842,311	\$38,423,115	\$6,023,801	\$8,482,381	\$	-	\$14,506,182	\$2,697,301	\$14,069,797	\$16,767,098	\$15,671	\$69,712,066
BALANCE, DECEMBER 31, 2004												

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, 2004 AND 2003

(In Thousands of New Taiwan Dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$ 14,043,076	\$ 8,188,133
Adjustments to reconcile net income to net cash provided by operating activities:		
Minority interest	-	36,972
Depreciation and amortization	12,385,066	7,071,949
Provision for doubtful accounts	1,535,989	416,689
Losses on disposal of obsolete inventory	5,852	-
Provision for losses on inventories	4,759	4,691
Unrealized losses on investments in shares of stock	3,000	-
Equity in investees' net losses	210,888	1,778
Losses (gains) on disposal of properties and properties not currently used in operations, net	455,087	(8,379)
Provision for losses on properties not currently used in operations	489,086	-
Accrued pension cost	79,994	38,148
Deferred income taxes	507,828	(182,361)
Interest premium on convertible bonds	34,297	33,886
Unrealized exchange gains on overseas convertible bonds	(56,508)	(95,910)
Other	(69,659)	43,329
Changes in operating assets and liabilities		
Decrease (increase) in		
Accounts and notes receivable	(334,550)	(935,389)
Receivables from related parties	8,920	(30,975)
Inventories	281,845	(149,777)
Prepaid expenses	551,655	(1,984)
Other current assets	19,548	(20,115)
Increase (decrease) in		
Notes payable	(412,129)	1,726
Accounts payable	(735,906)	378,138
Payables to related parties	95,236	(433,695)
Income tax payable	1,597,860	(113,012)
Accrued expenses	(487,287)	(215,138)
Unearned revenues	(312,834)	(190,622)
Other current liabilities	217,610	41,280
Net cash provided by operating activities	30,118,723	13,879,362
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in short-term investments		
Acquisition of investments in shares of stock	3,103,647	-
Prepayment for investments	(654,404)	-
Return of the capital from the dissolved investee	-	(65,000)
Acquisition of properties	488	-
Proceeds from sale of properties and properties not currently used in operations	(7,681,332)	(6,089,578)
Decrease in refundable deposits	101,621	96,570
Restricted assets	43,443	131,627
Increase in other assets	(350,000)	-
	(19,919)	(100,033)
Net cash used in investing activities	(5,456,456)	(6,026,414)

	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term loans	-	100,000
Increase (decrease) in commercial paper payable	(2,046,783)	489,587
Issuance of long-term bonds payable	-	8,472,460
Proceed from long-term debts	7,909,752	5,546,942
Repayment of long-term liabilities	(18,969,800)	(4,485,839)
Bonus paid to employees and directors	(221,080)	(224,941)
Cash dividends paid	(4,748,620)	(2,997,540)
Decrease in guarantee deposits received	(652,731)	(438,136)
Decrease in other liabilities	(23,198)	-
Decrease in minority interest	-	(2,000,000)
Issuance of treasury stock	(3,334,798)	-
Cash consideration of the merger	(11,698,461)	-
Net cash provided by (used in) financing activities	(33,785,719)	4,462,533
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,123,452)	12,315,481
CASH AND CASH EQUIVALENTS DUE TO MERGER WITH KG TELECOMMUNICATIONS CO., LTD.	3,057,490	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	14,568,654	2,253,173
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 8,502,692</u>	<u>\$ 14,568,654</u>
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	<u>\$ 692,907</u>	<u>\$ 219,704</u>
Income tax paid	<u>\$ 53,669</u>	<u>\$ 196,347</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 4,803,577</u>	<u>\$ 1,226,000</u>
Reclassification of properties into rental assets	<u>\$ 192,908</u>	<u>\$ -</u>
Conversion of overseas convertible bonds into common stock and capital surplus	<u>\$ 3,029,049</u>	<u>\$ -</u>
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	\$ 7,494,251	\$ 6,685,790
Increase in payables related to acquisition of properties	(94,919)	(596,752)
Decrease in lease payables	282,000	540
Actual cash paid for acquisition of properties	<u>\$ 7,681,332</u>	<u>\$ 6,089,578</u>
PROCEEDS FROM DISPOSAL OF PROPERTIES AND PROPERTIES NOT CURRENTLY USED IN OPERATIONS		
Total amount of properties and properties not currently used in operations sold	\$ 79,159	\$ 173,978
Decrease (increase) in receivables from properties sold	(224)	8
Decrease (increase) in receivables from related parties	22,686	(77,416)
Actual cash received from disposal of properties	<u>\$ 101,621</u>	<u>\$ 96,570</u>

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, 2004 AND 2003

(Amounts 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 (known as GreTai Securities Market) since December 10, 2001. Far EasTone provides wireless communications, leased circuit, Internet and international simple resale (ISR) services and also sells cellular phone equipments and accessories.

Far Eastern Textile Co., Ltd. is the ultimate parent company of Far EasTone. In October 2003, the other principal stockholder, AT&T Wireless Group and its affiliates, transferred to Far Eastern Textile Co., Ltd. and its affiliate ("Far Eastern Group") all of its stock held in Far EasTone. As of December 31, 2004, Far Eastern Group directly or indirectly owns 51.43 % of Far EasTone's shares. On January 13, 2005, affiliates of Far Eastern Textile Co., Ltd., Yuan Tong Investment Co., Ltd. and An Ho Garment Co., Ltd., sold to foreign investors 64,995 thousand and 45,000 thousand shares, respectively, of Far EasTone's stock owned in the form of Global Depository Receipts. As a result, the equity of Far EasTone owned by Far Eastern Group directly or indirectly is then decreased to 48.37%.

Far EasTone provides wireless communications services by geographical sector under two type I licenses - GSM900 for the northern region of Taiwan and GSM1800 for island-wide ("GSM" means global system for mobile communications) issued by the Directorate General of Telecommunications ("DGT") of the Republic of China ("ROC"). These licenses allow Far EasTone to provide services for 15 years beginning in 1997, with an annual license fee of 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 beginning in 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 beginning in December 2001 and pays an annual license fee of 0.5% of ISR service revenues and is licensed to provide local/domestic long-distance land cable leased circuit services for 15 years beginning in 2003 with an annual license fee of 1% of leased circuit service revenues.

On October 7, 2003, Far EasTone signed a definitive merger agreement with KG Telecommunication Co., Ltd. (the "former KGT"). The former KGT was incorporated in the Republic of China on June 27, 1997 and began commercial operations in January 1998. It provides wireless communications, leased-circuit services and also sells cellular phone units and accessories.

The former KGT provides wireless communications services under a type I license - GSM1800 for the northern region of Taiwan issued by the DGT. The license allows the former KGT to provide services for 15 years from 1997, with an annual license fee at 2% of total wireless communications service revenues. Moreover, the merger of former KGT with TUNTEX (with a license to provide mobile communications service under a type I license - GSM1800 for the central and southern region of Taiwan issued by the DGT) is effective January 1, 2000. Thus, the former KGT provided wireless communications services under a type I license - GSM1800 for island-wide. The DGT also issued the former KGT a type I license, allowing it to provide local/domestic long distance land cable leased-circuit services for 15 years from September 2000, with an annual license fee of

leased-circuit service revenues.

The merger agreement was submitted to the special stockholders' meetings of the Company, Yuan-Ho Telecommunications Co., Ltd. and the former KGT on November 25, 2003. The merger agreement with the former KGT provided for the transaction to occur in two steps (the "Combination"). To facilitate the combination with the former KGT, Far EasTone formed a new wholly owned subsidiary on September 25, 2003 called Yuan Ho Telecommunications Co., Ltd. ("Yuan-Ho"), which also was a party to the merger agreement. Yuan-Ho engages in providing wireless communications and sale of telecommunications equipment. In connection with the first step of the Combination, Yuan-Ho issued 526,431 thousand shares for total proceeds of \$11,698,461.

In the first step of the transaction, the former KGT merged with and into Yuan-Ho with Yuan-Ho as the surviving company. The first step was completed and effective on January 1, 2004.

As consideration for this step of the transaction, the former KGT shareholders became entitled to receive cash of \$6.72, together with 0.46332 of one share of common stock of Yuan-Ho, for each former KGT share that they owned, representing aggregate consideration to all the former KGT shareholders of \$11,698,461 in cash and 806,567 thousand shares of common stock of Yuan-Ho. This merger consideration was held in escrow for the former KGT shareholders pending completion of the second step of the transaction. Subsequent to completion of the first step of the transaction, Yuan-Ho obtained approval from the Department of Commerce, Ministry of Economic Affairs (MOEA) to change its name to KG Telecommunications Co., Ltd. ("KG Telecom") and the former KGT no longer existed as a corporate entity. In addition, the capital of KG Telecom increased to \$13,329,979 and the equity of KG Telecom owned by Far EasTone was temporarily diluted to 39.49%. The other principal shareholders of KG Telecom are the original shareholders of the former KGT and held 60.51% ownership as of January 1, 2004.

In the second step of the transaction, former KGT shareholders became entitled to receive one share of Far EasTone stock in exchange for each KG Telecom share owned, representing an aggregate of 806,567 thousand of Far EasTone shares in the amount of \$17,930,678. In order to satisfy this consideration to shareholders of KG Telecom for the remaining ownership, Far EasTone issued 693,523 thousand new shares and reissued the 113,044 thousand shares held as treasury stock. (Note 14) The share swap agreement was approved by the shareholders of the two companies on February 18, 2004 and by the OTC and SFC on March 29, 2004 and April 8, 2004, respectively. The second step of the transaction was completed on April 29, 2004.

Upon completion of the second step of the transaction, Far EasTone accounted for the merger with KG Telecom as a wholly-owned subsidiary. Far EasTone established control of KG Telecom as of January 1, 2004 as Far EasTone held the majority of the board seats of KG Telecom, significant consideration had been paid and other elements of control had been established. As such, Far EasTone recognized 100% of its investment income beginning January 1, 2004.

The transaction was accounted for as a purchase with a total purchase price of NT\$29,832,639 which includes Far EasTone common stock valued at NT\$17,930,678 based on the average closing prices for the trading day (September 29, 2003 to October 3, 2003) around the announcement date (October 7, 2003) of the Combination, a cash payment of \$11,698,461 and direct transaction costs \$203,500. The difference between the total purchase price and the fair value of net assets assumed from the former KGT is \$11,865,037 (included in goodwill) and is amortized using the straight-line method over 15 years.

	Fair Value of Net Assets
Cash and cash equivalents	\$ 3,057,490
Short-term investments, net	3,393,647
Accounts and notes receivables, net	3,601,008
Inventories, net	220,694
Prepaid expenses	409,319
Deferred income tax assets - current	806,277
Other current assets	111,668
Investments in shares of stock	1,273,517
Properties, net	30,061,042
Refundable deposits	174,795
Deferred expenses, net	112,693
Deferred income tax assets - noncurrent	119,616
Other assets	58,037
Short-term bank loan	(2,150,000)
Commercial paper payable	(2,453,844)
Notes payable	(423,293)
Accounts payable	(231,071)
Income tax payable	(703,621)
Accrued expenses	(2,835,260)
Payables related to acquisition of properties	(276,270)
Guarantee deposits - current	(532,669)
Unearned revenues	(778,534)
Current portion of long-term liabilities	(3,822,170)
Other current liabilities	(146,918)
Long-term liabilities	(10,870,475)
Guarantee deposits - noncurrent	(171,252)
Other liabilities	(36,824)
Total fair value of net assets	\$ 17,967,602

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 received permission from the DGT to start its preparatory activities for the construction of 3G (third - generation wireless communications system) network on March 15, 2002. The permit is valid through December 31, 2004. Yuan-Ze has obtained a one-year extension from DGT before the deadline.

In March 2002, Yuan-Ze issued additional shares of stock of NT\$9,170,000 for cash and Far EasTone subscribed for a portion of these shares (aggregate par value of NT\$7,170,000), thus diluting its equity to 80.71%. For the purpose of integration of the telecommunications business and operational efficiency, Far EasTone bought all the remaining shares of Yuan-Ze for NT\$2,000,000 on December 16, 2003. Thus, Yuan-Ze became a wholly owned subsidiary of Far EasTone.

On December 22, 2003, the Board 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 completion of the merger will be in 2005. Yuan-Ze engages in providing 3G wireless communications and sale of telecommunications equipment. As of December 31, 2004, Yuan-Ze was still in its development stage. Far EasTone, Yuan-Ze and KG Telecom (the "Group") had 3,468 and 2,366 employees as of December 31, 2004 and 2003, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

These financial statements conform to the Guidelines Governing the Preparation of Financial Reports for 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, allowance for losses on properties not currently used in operations, depreciation and amortization, income taxes and pension cost. Because of the uncertainty of circumstances, however, estimates may differ from the actual outcome.

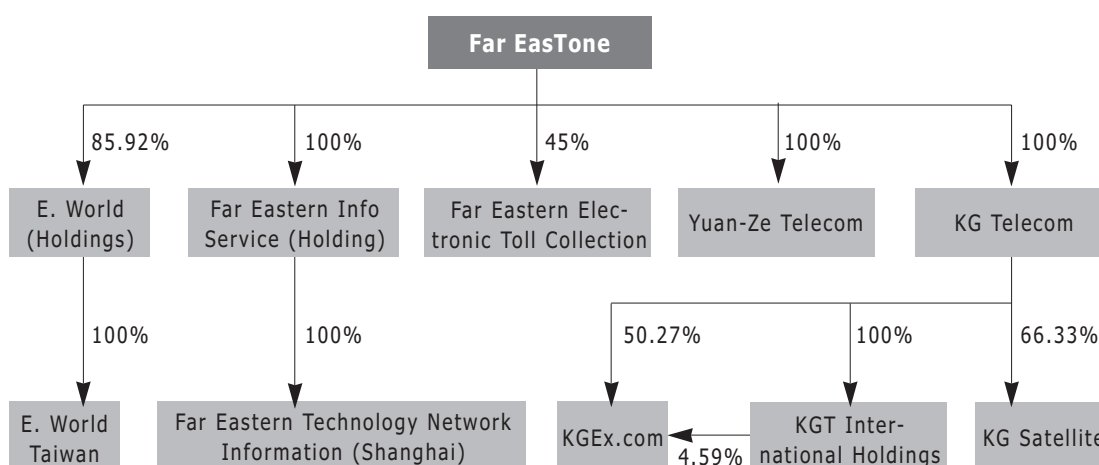
The significant accounting policies of the Group are summarized as follows:

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 exceed 30% of the unconsolidated total assets or operating revenues of Far EasTone. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements as of and for the years ended December 31, 2004 and 2003 include the accounts of Far EasTone, KG Telecom (the former Yuan Ho in 2003) and Yuan-Ze.

The intercompany relationships and percentages of ownership as of December 31, 2004 are shown below:



The entities in the "Consolidated Financial Statements of Far EasTone and Affiliates" are the same as those in consolidated financial statements as required under ROC GAAP SFAS No. 7 "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 equivalents 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

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

Short-term Investments

Short-term investments in mutual funds are carried at the lower of aggregate cost or market value. An allowance for loss is provided and charged to income for the current year when the aggregate carrying value of the investments exceeds the total market value. Any subsequent recovery of the market value to the extent of the original carrying value is recognized as income. The market values of the mutual funds are based on the net asset values as of the balance sheet date.

The costs of short-term investments sold are determined based on the weight-average method.

Allowance for Doubtful Accounts Receivable

An allowance for doubtful accounts receivable is provided on the basis of the aging status and 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 based on the weighted-average method.

Investments in Shares of Stock

Investments in shares of stock in companies in which the Group owns at least 20% of investees' common stock or exercises significant influence over their operating and financial policy decisions are accounted for by the equity method. Under this method, the investment is initially carried at cost on the acquisition date.

Any cash dividends received are recognized as a reduction in the carrying value of the investments. The investment carrying values are then adjusted proportionately to the Group's share in the investees' net income or net loss. The difference between the cost of the investment and the Group's equity in the investees' net assets is amortized over three to twenty years. 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. 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 investees' net assets is debited to capital surplus. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

Other investments are accounted for by the cost method. Such investments are carried at cost less an allowance for an other than temporary decline in the value of unlisted stock. These allowances are charged to current income. Cash dividends received are accounted for as dividend income.

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. Costs of investments sold are determined based on the weighted-average method.

Properties and Rental Properties

Properties and rental properties are stated at cost. Depreciation expense is computed using 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 services life years 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 beginning 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	48-55
Building equipment	5-10
Operating equipment	5-15
Computer equipment	3-7
Office equipment	5-10
Leasehold improvements	3-10
Miscellaneous equipment	3-8

Upon retirement or other disposal (e.g., sale) of properties and rental 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.

Goodwill

Goodwill derived from the merger with the former KGT (Note 1) is amortized by the straight-line method over 15 years.

3G Concession

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

Deferred Charges

Deferred charges (included in other assets - miscellaneous), which consists mainly of base station wiring, are amortized using the straight-line method over three to five years.

Properties not Currently Used in Operations

Properties not currently used in operations (included in other assets - miscellaneous), such as telecommunications equipment expected to be retired or disposed, 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) fixed monthly service fees and leased-circuit service revenues are accrued each month; and (b) 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 equipment and accessories are recognized when the products are delivered to and accepted by the customers as the related

transaction is considered a separate earnings process from the sale of wireless services.

The amount received at the start of a bundled contract (which covers both the purchase price of a cellular phone unit and service fees for an equivalent number of minutes of traffic each month throughout the validity period of the contract) is deferred and recognized as revenue over the validity period of the contract using the straight-line method. 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 beginning of the contract, the excess is charged to marketing expense. The portion of the customer acquisition cost equivalent to the amount received at the beginning 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 equipment 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 and KG Telecom have 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 does not have a pension plan.

Pension costs are recognized on the basis of actuarial calculations. 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

Far EasTone issued overseas convertible bonds at par value and without any discount or premium. Far EasTone 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, is amortized using the interest method and is 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 is amortized using the straight-line method over the same period as interest-premium.

When the bondholder exercises the conversion option, Far EasTone uses the book-value approach. Far EasTone will write off the unamortized issuance costs, recognized interest-premium and par value of the convertible bonds. The amount of capital stock is valued as the net amount that is written-off, and the amount in excess of the par value of capital stock is 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.

Deferred income tax liabilities derived from the temporary differences of carrying amounts and the tax base of long-term investments are not recognized if it is expected that the foreign subsidiary will not distribute its earnings in the future and the difference will be permanent.

Tax credits earned for certain purchase of telecommunications and other equipment, research and development expenses and personnel training expenses are accounted for as a reduction in 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 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-accounted investments - as cumulative translation adjustments under stockholders' equity; and
- b. Other assets and liabilities - as credits or charges to income.

Financial Derivatives

The notional amounts of interest rate swap agreements are not recognized in the financial statements because these agreements do not require the settlement of such notional amounts. 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.

Cross currency swap contracts, which are intended for hedging purposes, are recorded at the contract exchange rates on the starting dates of the contracts (the "starting dates"). The exchanged interest during the contract period, on an accrual basis, is recorded as an adjustment to the revenue or expense associated with the items being hedged.

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 prevailing exchange rates on 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 prevailing exchange rates on the starting dates, is deferred and then recognized as an adjustment to the commitment when the hedged transactions occur. However, 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 date, the gains or losses on the contracts, computed by multiplying the

contract amount 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 consolidated financial statements as of and for the year ended December 31, 2003 have been reclassified to conform to the presentation of consolidated financial statements as of and for the year ended December 31, 2004.

3. ELIMINATED MATERIAL INTERCOMPANY TRANSACTIONS

For the year ended December 31, 2004

Company	Eliminated Account	Amount	Parties
Far EasTone	Receivables from related parties	\$ 845,798	KG Telecom
	Receivables from related parties	118,927	Yuan-Ze
	Payables to related parties	54,198	KG Telecom
	Service revenue	949,203	KG Telecom
	Cost of services	825,143	KG Telecom
	Marketing expenses	27,426	KG Telecom
	Management service revenue	62,844	KG Telecom
	Management service revenue	8,843	Yuan-Ze
	Nonoperating income - other	126,408	KG Telecom
KG Telecom	Receivables from related parties	54,198	Far EasTone
	Receivables from related parties	8,703	Yuan-Ze
	Payables to related parties	845,798	Far EasTone
	Service revenue	825,143	Far EasTone
	Cost of services	966,279	Far EasTone
	Marketing expenses	143,596	Far EasTone
	Nonoperating income - other	27,426	Far EasTone
	General and administrative expenses	26,878	Far EasTone
	Research and development expenses	1,702	Far EasTone
Yuan-Ze	Payables to related parties	118,927	Far EasTone
	Payables to related parties	8,703	KG Telecom
	General and administrative expenses	8,843	Far EasTone

4. PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information presents the combined balance sheet and statement of income of Far EasTone, Yuan-Ze, and KG Telecom as of and for the year ended December 31, 2003. The pro forma financial information is presented to give effect to the Combination as if it had occurred on January 1, 2003.

(In Thousands, Except Per Share Data)

	Amount
Current assets	\$ 22,320,872
Properties-net	69,633,612
Current liabilities	26,694,998
Operating revenue	60,139,599
Depreciation	11,364,176
Amortization	927,308
Interest expense	959,683
EBITDA (operating income plus depreciation and amortization)	24,259,213
Income before income tax	10,372,335
Net income	9,875,472
EPS (based on weighted-average number of shares outstanding for 3,391,309 thousands)	2.91

The pro forma combined balance sheet and statement of income are presented for illustrative purposes only. This information is not necessarily indicative of the financial position and results of operations that might have occurred had the formation of KG Telecom and the above mentioned Combination occurred on January 1, 2003, nor is it necessarily indicative of future financial position or results of operations of Far EastOne and subsidiaries.

5. CASH AND CASH EQUIVALENTS

	December 31	
	2004	2003
Cash		
Cash on hand	\$ 8,515	\$ 7,334
Checking and demand deposits	2,356,554	1,315,157
Time deposit - interest of 1.92% to 2.53% in 2004 and 0.65% to 1.12% in 2003	557,805	1,548,163
Negotiable certificate of deposits - interest of 0.85%	-	11,698,000
	<u>2,922,874</u>	<u>14,568,654</u>
Cash equivalents		
Bonds purchased under agreements to resell - interest of 1.0%	1,200,000	-
Commercial paper purchased under agreements to resell - interest of 1.085% to 1.100%	4,379,818	-
	<u>5,579,818</u>	<u>-</u>
	<u>\$ 8,502,692</u>	<u>\$ 14,568,654</u>

6. INVENTORIES

	December 31	
	2004	2003
Cellular phone equipment	\$ 663,654	\$ 754,715
SIM cards	51,143	47,827
Cellular phone accessories	37,542	11,950
	<u>752,339</u>	<u>814,492</u>
Less - allowance for losses	23,001	13,392
	<u>\$ 729,338</u>	<u>\$ 801,100</u>

Inventory insurance as of December 31, 2004 amounted to approximately \$1,048,488.

7. INVESTMENTS IN SHARES OF STOCK

	December 31			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Equity method				
KGEx.com	\$ 898,944	50.27	\$ -	-
Far Eastern Electronic Toll Collection Co., Ltd.	433,544	45.00	-	-
Far Eastern Info Service (Holding) Ltd.	109,846	100.00	-	-
KGT International Holding	97,725	100.00	-	-
KG Satellite	83,256	66.33	-	-
iScreen	66,098	40.00	-	-
E. World (Holdings) Ltd.	65,433	85.92	8,518	19.00
Ding Ding Integrated Marketing Service Co., Ltd.	44,836	15.00	-	-
	<u>1,799,682</u>		<u>8,518</u>	
Cost method				
YesMobile Taiwan	-	0.50	-	-
Prepayment for investments				
	-		65,000	
Far Eastern Electronic Toll Collection Co., Ltd.	<u>\$ 1,799,682</u>		<u>\$ 73,518</u>	

The Taiwan Area National Freeway Bureau of the Ministry of Transportation and Communications ("MOTC") has launched a project called "Privatized Establishment and Implementation of the Freeway Electronic Toll Collection Program". To participate in this project, Far EastTone and third parties incorporated Far Eastern Electronic Toll Collection Co., Ltd. ("FETETC"). MOTC selected FETETC through public appraisal and signed the contract on April 27, 2004.

Originally, the investment in E. World (Holdings) was accounted for by the equity method as the combined equity interests of the Far Eastern Group in E. World (Holdings) allowed Far EastTone to exercise significant influence on its operating and financial policy decisions. Far EastTone purchased shares from related parties amounting to \$41,788 in June 2004. As a result, Far EastTone's ownership increased from 19.00% to 85.92%. Since the ownership of E. World (Holdings) exceeds 50%, Far EastTone consolidates this entity and the amounts recognized as equity in the net income or net loss of E. World (Holdings) were subsequently based on net income or net loss in the current year.

Since the combined equity interests of the Far Eastern Group in Ding Ding Integrated Marketing Service Co., Ltd. ("DDIM") allows Far EastTone to exercise significant influence on its operating and financial policy decisions, the investment in DDIM is accounted for by the equity method even though the equity of DDIM owned by Far EastTone is 15%.

The carrying value of the foregoing investments accounted for by the equity method are based on audited financial statements as of December 31, 2004 and 2003. For the years ended December 31, 2004 and 2003, the equity in investees' net losses were \$210,888 and \$1,778, respectively.

The individual or aggregate total assets and sales of the majority owned subsidiaries are less than 10% or 30%, respectively, of Far EastTone's total assets and sales and are not consolidated in these financial statements.

8. PROPERTIES

a. Accumulated depreciation consisted of:

	December 31	
	2004	2003
Buildings and equipment	\$ 357,584	\$ 237,761
Operating equipment	37,380,120	20,015,576
Computer equipment	7,230,303	3,063,835
Office equipment	561,840	449,549
Leasehold improvements	752,989	578,898
Miscellaneous equipment	223,174	42,884
	<u>\$ 46,506,010</u>	<u>\$ 24,388,503</u>

Depreciation expense for the years ended December 31, 2004 and 2003 was \$11,487,975 in 2004 and \$7,070,142 in 2003, respectively.

Insurance coverage on properties and rental assets amounted to about \$58,647,472 as of December 31, 2004.

- b. Far EasTone leases internet equipment with software (included in operating equipment) under three year leases, with total lease payments of \$35,686. The lease agreements qualify as capital leases since (a) the present 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 a bargain-purchase option to purchase the leased equipment at of NT\$1.00. Far EasTone purchased the above internet equipment with software when the agreement expired in 2003.

Far EasTone and KG Telecom lease computer equipment from Far Eastern International Leasing Corporation under a five year lease with annual lease payments of \$30,828. The amount paid for the leased properties at the inception of the lease was \$147,500 net of the market price of new equipment \$277,470 less equipment exchanged valued at \$129,970. The total lease payments amount to \$154,136. The lease agreements qualify as capital lease since (a) the present value of the future lease payments under the agreement exceeds 90% of the fair value of the leased assets, and (b) the lease term is equal to 75% or more of the estimated economic life of the leased assets. The details of the lease as of December 31, 2004 are as follows:

	December 31, 2004
Total future lease payments	\$ 123,308
Less - imputed interest expense	5,308
	<u>118,000</u>
Less - current portion of lease payable (included in current portion of long-term liabilities)	29,500
Long-term lease payable	<u>\$ 88,500</u>

c. Capitalized interest on properties was as follows:

	Years Ended December 31	
	2004	2003
Total interest expense	\$ 793,876	\$ 416,893
Less - interest capitalized 1.33% to 4.24% in 2004 and 1.35% to 6.10% in 2003	107,915	100,549
Interest expense, net of amounts capitalized	<u>\$ 685,961</u>	<u>\$ 316,344</u>

9. 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. On March 15, 2002, Yuan-Ze received the 3G concession from the DGT. Yuan-Ze was then required to obtain a network construction permit from the DGT. The permit is valid through December 31, 2004. Yuan-Ze has obtained a one-year extension from DGT before the deadline. Once the network construction is complete, it may apply for a 3G license from the MOTC. The 3G license will expire on December 31, 2018. Yuan-Ze will amortize the 3G concession on a straight-line basis for the period of the license.

10. RENTAL ASSETS, NET

	December 31, 2004
Cost	
Land	\$ 99,524
Buildings	94,672
	194,196
Less - accumulated depreciation	
Buildings	3,220
	<u>\$ 190,976</u>

Depreciation expense for the year ended December 31, 2004 was \$1,932, included in nonoperating expenses and losses.

Rental properties are offices which are intended to be used as operating premises for future business expansion. The rental agreements will expire at various dates through February 2013. Future rental income is summarized as follows:

Year	Amount
2005	\$ 9,833
2006	9,913
2007	9,994
2008	4,111
2009 and thereafter	15,971

11. SHORT-TERM LOANS

Yuan-Ze obtained unsecured bank loans at interest of 1.35% to 1.71% as of December 31, 2004. Outstanding unsecured bank loans amounting to \$380,000 were due and were repaid at various dates from January 7, 2005 through January 31, 2005.

Far Eastone obtained unsecured bank loans at interest of 1.4% as of December 31, 2003. Outstanding unsecured bank loans were due and were fully repaid in July 2004.

12. COMMERCIAL PAPER PAYABLE

KG Telecom and Yuan-Ze issued commercial paper that was guaranteed by financial institutions. The obligations as of December 31, 2004 were discounted at the rate of 1.43% to 2.02%, and are due at various dates from March 22, 2005 through April 22, 2005. The obligations as of December 31, 2003 were discounted at the rate of 1.1% to 1.3%, which was fully repaid on January 30, 2004.

13. LONG-TERM LIABILITIES

	December 31, 2004		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds - Far EasTone	\$ 778,227	\$ -	\$ 778,227
Interest premium - overseas unsecured convertible bonds - Far EasTone	14,641	-	14,641
Domestic secured bonds - Far EasTone	660,000	-	660,000
Domestic secured bonds - KG Telecom	1,020,000	-	1,020,000
Domestic unsecured bonds - 1st - Far EasTone	-	4,200,000	4,200,000
Domestic unsecured bonds - 2nd - Far EasTone	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd - Far EasTone	-	3,000,000	3,000,000
	<u>2,472,868</u>	<u>8,670,000</u>	<u>11,142,868</u>
Long-term debt			
Commercial paper - KG Telecom	217,834	325,752	543,586
Unsecured bank loans - KG Telecom	-	3,000,000	3,000,000
Secured bank loans - KG Telecom	2,083,375	608,578	2,691,953
Secured bank loans - Yuan-Ze	-	2,140,000	2,140,000
	<u>2,301,209</u>	<u>6,074,330</u>	<u>8,375,539</u>
Long-term lease payable			
Far EasTone	14,750	44,250	59,000
KG Telecom	14,750	44,250	59,000
	<u>29,500</u>	<u>88,500</u>	<u>118,000</u>
	<u>\$ 4,803,577</u>	<u>\$ 14,832,830</u>	<u>\$ 19,636,407</u>
	December 31, 2003		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds - Far EasTone	\$ -	\$ 3,906,550	\$ 3,906,550
Interest premium - overseas unsecured convertible bonds - Far EasTone	-	33,886	33,886
Domestic secured bonds - Far EasTone	616,000	660,000	1,276,000
Domestic unsecured bonds - 1st - Far EasTone	-	4,200,000	4,200,000
Domestic unsecured bonds - 2nd - Far EasTone	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd - Far EasTone	-	3,000,000	3,000,000
	<u>616,000</u>	<u>13,270,436</u>	<u>13,886,436</u>
Long-term debt			
Commercial paper - Far EasTone	610,000	686,942	1,296,942
Unsecured bank loans - Far EasTone	-	300,000	300,000
Secured bank loans - Far EasTone	-	3,300,000	3,300,000
Secured bank loans - Yuan-Ze	-	650,000	650,000
	<u>610,000</u>	<u>4,936,942</u>	<u>5,546,942</u>
	<u>\$ 1,226,000</u>	<u>\$ 18,207,378</u>	<u>\$ 19,433,378</u>

a. Overseas unsecured convertible bonds - Far EasTone

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 on February 19, 2008;
- (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\$27.94, subject to adjustment for shares change.

As of December 31, 2004, convertible bonds amounting US\$90,458 thousand had been converted into 111,815 thousand shares of common stock (including 165 thousand units of Global Depositary Receipts representing 2,473 thousand shares of common stock).

- (4) At any time on or after February 19, 2006 and prior to February 19, 2008, Far EasTone may redeem the Bonds in whole, or from time to time in part at a specific price under certain conditions. In addition, Far EasTone may redeem the Bonds in whole, but not in part, if at least 90% in principal amount of the Bonds has already been redeemed, repurchased and cancelled or converted.

As of January 31, 2005, amounting to US\$104,500 has been converted, which represents more than 90% of the original principal amount of the Bonds. As a result, Far EasTone has decided to redeem the Bonds in whole and has given the notice to the holders of the Bonds on January 31, 2005. Bondholders who wants to exercise conversion right shall deposit the Bond with the trustee or any paying agent before March 2, 2005 or Far EasTone will redeem the Bonds in whole at 102.08% of the principal amount on March 14, 2005.

b. Domestic secured bonds - Far EasTone

These are five-year secured domestic bonds 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 November 30, 2002 and every six months thereafter, Far EasTone should redeem the bonds for up to 14% to 15% of their face value.

c. Domestic secured bonds - KG Telecom

Five-year domestic secured bonds were issued at par value on August 4, 2000. The total face value of the bonds is \$3,000,000, with face value of \$1,000 and 5.37% interest. Starting on August 4, 2003 and every year thereafter, KG Telecom should redeem the bonds for up to 33% to 34% of their face value.

d. Domestic unsecured bonds - 1st - Far EasTone

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.

e. Domestic unsecured bonds - 2nd - Far EasTone

These are five-year unsecured domestic bonds issued at par value on March 28, 2003. The total face value of the bonds is \$1,470,000, with a 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.

f. Domestic unsecured bonds - 3rd - Far EasTone

Three-year, four-year and five-year domestic unsecured bonds were issued at par value on December 12, 2003. The total face value of the bonds is \$3,000,000, with a 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.

g. Commercial paper - KG Telecom

Under a revolving credit agreement, a consortium of banks has guaranteed the commercial paper of \$543,586 to be reissued until June 2007. The commercial paper bears variable interest rates of 2.178% as of December 31, 2004. Starting on June 21, 2003, the maximum amount of commercial paper that can be reissued under the agreement will be decreased by \$109,000 every six months.

h. Unsecured bank loans - KG Telecom

KG Telecom had unsecured bank loans at an annual interest rate of 1.03% to 1.85%. These unsecured banking facilities as agreed by the banks will be made available for utilization until August 2006.

i. Secured bank loans - KG Telecom

- (1) KG Telecom obtained a loan, amounting to \$1,428,500, from a consortium of banks at 2.5389% interest rate, payable monthly. The loan is secured and payable, starting in August 2002 and every six months thereafter, at equal installments of the principal with the final payment due in August 2005.
- (2) KG Telecom obtained a loan, amounting to US\$7,816 (equivalent to \$247,845), from a consortium of banks at 3.044% interest rate, payable quarterly. The loan is secured and payable, starting in August 2002 and every six months thereafter, at equal installments of the principal with the final payment due in August 2005.
- (3) KG Telecom obtained a loan, amounting to US\$32,028 (equivalent to \$1,015,608), from a consortium of banks at 3.615% interest rate, payable every three or six months upon KG Telecom's option. The loan is secured and payable, starting in June 2003 and every six months thereafter, at equal installments of the principal with the final payment due in June 2007.

j. Secured bank loans - Yuan-Ze

Yuan-Ze obtained a loan from a consortium of banks. Interest rates are ranging from 2.102% to 2.125% and 1.960% to 2.000%, payable monthly for the years ended December 31, 2004 and 2003, respectively. The loan was due on various dates from January 3, 2005 to February 21, 2005. The loan is guaranteed by a consortium of banks and the guarantee is effective until April 7, 2006.

k. Long-term lease payable

Far EastOne and KG Telecom entered into capital lease agreements for computer equipment with Far Eastern International Leasing Corp. in July 2004. The annual lease payments amount to \$30,828 (Note 8).

l. Commercial paper - Far EastOne

Under a revolving credit agreement, a consortium of banks has guaranteed the commercial paper of \$1,296,942 to be reissued until August 30, 2005. The commercial paper bears variable interest rates of 0.90% to 0.95% as of December 31, 2004. Starting in 2001, the maximum amount of commercial paper that can be reissued under the agreement will be decreased by 14-15% every six months.

m. Unsecured bank loans- Far EastOne

As of December 31, 2004, Far EastOne had a \$300,000 bank loan at an annual interest rate of 1.85%, due in July 2006.

n. Secured bank loans - Far EastOne

Far EastOne had a loan from a consortium of banks with interest rate of 1.982% as of December 31, 2004. 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 Far EastOne can borrow will be decreased by 16% to 17% of the principal every year.

Under the terms of restriction of long-term loan contracts, Far EasTone must meet certain financial conditions such that total liabilities must less than 125% of Far EasTone's net assets and tangible assets should not be less than \$18,900,000.

The syndicated loans, includes the ability to loan or to re-issue the commercial paper under sound operating condition which requires KG Telecom to maintain its current ratio not lower than 80% in 2003, 90% in 2004 and 100% in 2005 and thereafter.

Secured bank loans for Yuan-Ze are from a consortium of banks and require Yuan-Ze to maintain (a) its net assets greater than its total liabilities and (b) its net assets to be no lower than \$7,000,000.

Besides the financial conditions precedent, no other restricted terms prevail for the Group's long-term and short-term credit facilities.

As of December 31, 2004, the Group had unused long-term and short-term credit lines of approximately \$6,160,000 and \$11,461,000, respectively, which are available for long-term and short-term credit facilities.

14. STOCKHOLDERS' EQUITY

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, capital surplus (includes both paid-in capital in excess of par value and arising from business combination) may be used to offset a deficit or transferred to capital as a 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 balance should be appropriated as bonuses to employees, and 1% of the final 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 Far EasTone's paid-in capital. The 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 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 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 and distribution of the 2003 and 2002 earnings were approved by the stockholders on June 30, 2004 and May 23, 2003, respectively.

	Appropriation and Distribution		Dividend Per Share (NT Dollars)	
	2003	2002	2003	2002
Legal reserve	\$ 818,813	\$ 780,842		
Bonus to employees - cash	147,387	140,551		
Remuneration to directors and supervisors - cash	73,693	70,276		
Cash dividend	4,748,620	2,997,540	\$ 1.40	\$ 1.30
Stock dividend	1,560,261	3,896,802	0.46	1.69

Had the above bonus to employees and directors been charged to net income in 2003 and 2002, the primary earnings per share for 2003 and 2002 (after tax), based on the weighted-average number of outstanding shares of 2,697,786 and 2,305,800 thousand, respectively, would have decreased from NT\$3.04 to NT\$2.95 and from NT\$3.39 to NT\$3.29, respectively.

The appropriation of the 2004 earnings of Far EastOne had not been approved by the board of directors and stockholders as of February 4, 2005. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation.

Under the Enterprise Mergers and Acquisitions Law No. 12, Far EastOne entered into an agreement with a dissenting stockholder (Bai Yang Investment Co., Ltd) on April 16, 2004 to repurchase 113,044 thousand shares for \$3,334,798. The difference between the fair value and the repurchase price of the treasury stock of \$821,733 was recorded as a reduction to unappropriated earnings.

In order to satisfy the consideration to the stockholders of KG Telecom except the shares Far EastOne owned, Far EastOne issued 693,523 thousand new shares (included in capital stock and capital surplus - from business combination in the amount of \$6,935,232 and \$8,482,381, respectively, amounting to \$15,417,613) and reissued the 113,044 thousand shares held as treasury stock (Note 1).

Information related to the Far EastOne's Global Depositary Receipts (GDRs) as of December 31, 2004 is as follows:

		GDRs (in Thousand Units)	Representing Common Stock (in Thousand Shares)
Initial offering	a	10,000	150,000
Converted from overseas unsecured convertible bonds	b	165	2,473
Issued for capital increase	c	296	4,448
Reissued within authorized units	d	349	5,233
GDR's transferred to common stock		(8,282)	(124,238)
Outstanding issued		2,528	37,916

- a. On June 1, 2004, the Securities and Futures Bureau (SFB) approved Far EastOne's request to sell 150,000 thousand shares of Far EastOne's common stock in the form of GDRs to foreign investors representing 10,000 thousand units of GDRs. One GDR unit represents 15 shares of Far EastOne's common stock. The issuance of the GDRs was completed on June 17, 2004 and the GDRs were traded and listed on the Luxembourg Stock Exchange with a price of US\$13.219.
- b. On July 20, 2004, the SFB approved Far EastOne's request to issue new common stock in the form of GDRs of US\$114,500 thousand to be used for the conversion of overseas convertible bonds. As of December 31, 2004, 165 thousand units of GDRs have been issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand shares of common stock.

- c. Far EastOne issued 296 thousand units of GDRs as a result of a capital increase from capital surplus and retained earnings. The GDRs represent 4,448 thousand shares of common stock.
- d. Under the terms of the GDR offering, following the completion of an offering to the extent that previously issued GDRs have been withdrawn, reissuance of GDRs is allowed up to the aggregate amount previously approved by the SFB. Accordingly, Far EastOne has reissued 349 thousand units of GDRs representing 5,233 thousand shares of common stock.

The owners of GDRs have the same rights as holders of common stock except that the GDR owners should exercise the following beneficial interests subject to the terms of the Deposit Agreements and the relevant ROC laws and regulations through the Depositary Trust Company:

- a. Exercise voting rights;
- b. Transfer the GDRs; and
- c. Receive dividends and exercise preemptive rights or other rights and interests.

15. CONSOLIDATED EARNINGS PER SHARE

The information on consolidated earnings per share (EPS) calculation is as follows:

Information on consolidated earnings per share (EPS) calculation is as follows:

	Amount (Numerator)		Common Stock (Denominator) (in Thousand Shares)	Consolidated Earnings Per Share (NT\$)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
For the year ended December 31, 2004					
Consolidated basic EPS					
Consolidated net income	\$ 16,203,175	\$ 14,043,076	3,748,089	\$ 4.32	\$ 3.75
Effect of potential dilutive common stocks					
Convertible bonds	(62,776)	(60,578)	124,574		
Consolidated diluted EPS					
Consolidated net income including the effect of potential dilutive common stocks	\$ 16,140,399	\$ 13,982,498	3,872,663	\$ 4.17	\$ 3.61
For the year ended December 31, 2003					
Consolidated basic EPS					
Consolidated net income	\$ 8,089,105	\$ 8,188,133	2,967,565	\$ 2.73	\$ 2.76
Effect of potential dilutive common stocks					
Convertible bonds	(18,695)	(18,924)	111,455		
Consolidated diluted EPS					
Consolidated net income including the effect of potential dilutive common stocks	\$ 8,070,410	\$ 8,169,209	3,079,020	\$ 2.62	\$ 2.65

For the year ended December 31, 2003, the consolidated primary EPS was retroactively adjusted for the 2003 stock dividend declared in 2004 decreased from \$3.00 (before tax) to \$2.73 and from \$3.04 (after tax) to \$2.76.

16. PENSION PLAN

Both Far EasTone and KG Telecom make monthly contributions, at 2% of salaries and wages, to a pension fund ("the fund") that is administered by a pension plan committee and deposited in the Committee's name in the Central Trust of China. As of December 31, 2004, Yuan-Ze has no regular employees and pension plan.

Combined information on the pension plans of Far EasTone and KG Telecom is as follows:

a. Net pension cost consisted of:

	2004	2003
Service cost	\$ 109,133	\$ 63,200
Interest cost	18,498	8,880
Expected return on pension assets	(6,348)	(4,752)
Amortization	1,213	1,213
Net pension cost	<u>\$ 122,496</u>	<u>\$ 68,541</u>

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

	2004	2003
Actuarial net pension cost	\$ 122,496	\$ 68,541
Less: Included in properties	8,544	2,501
Included in other receivables - related parties	867	346
Net pension cost (included in operating costs and expenses)	<u>\$ 113,085</u>	<u>\$ 65,694</u>

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

	December 31	
	2004	2003
Benefit obligation		
Vested benefit obligation	\$ 3,080	\$ 2,915
Non-vested benefit obligation	326,676	172,459
Accumulated benefit obligation	329,756	175,374
Additional benefits based on projected and future salaries	326,406	153,442
Projected benefit obligation	656,162	328,816
Fair value of plan assets	(291,970)	(152,469)
Unfunded projected benefit obligation	364,192	176,347
Unrecognized net transition obligation	(9,699)	(10,912)
Unrecognized pension gain (loss)	(128,185)	3,843
Accrued pension cost	<u>\$ 226,308</u>	<u>\$ 169,278</u>

d. Vested benefit amounts is as follows:

	<u>\$ 3,591</u>	<u>\$ 3,507</u>
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e. Actuarial assumptions are as follows:

	2004	2003
Discount rate used in determining present value	3.25%	3.25%
Future salary increase rate	3.50%	3.25%
Expected rate of return on plan asset	3.25%	3.25%

f. Fund changes are as follows:

	2004	2003
Beginning balance	\$ 152,469	\$ 120,163
Contributions	42,502	30,393
Earnings	3,119	1,913
Ending balance	198,090	152,469
Add: Fund of KG Telecom	93,880	-
	<u>\$ 291,970</u>	<u>\$ 152,469</u>

17. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Year Ended December 31, 2004			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	\$ 502,402	\$ 2,003,793	\$ -	\$ 2,506,195
Insurance	33,686	132,213	-	165,899
Pension	24,248	88,837	-	113,085
Miscellaneous	19,389	168,920	-	188,309
Depreciation	9,937,388	1,550,587	1,932	11,489,907
Amortization	100,039	795,120	-	895,159
	<u>\$10,617,152</u>	<u>\$ 4,739,470</u>	<u>\$ 1,932</u>	<u>\$15,358,554</u>

	For the Year Ended December 31, 2003			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	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
	<u>\$ 6,197,080</u>	<u>\$ 2,704,841</u>	<u>\$ -</u>	<u>\$ 8,901,921</u>

18. INCOME TAX

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

	December 31	
	2004	2003
Income tax expense computed at statutory tax rate (25%)	\$ 5,091,180	\$ 2,022,276
Add (deduct) tax effects of		
Permanent differences	(594,346)	87,356
Temporary differences	398,093	119,342
Tax-exempt income	(2,458,203)	(2,060,530)
Unappropriated earnings tax (10%)	279,862	17,460
Investment tax credits	(788,490)	(159,264)
Income tax expense - current	<u>\$ 1,928,096</u>	<u>\$ 26,640</u>

As of December 31, 2004 and 2003, Yuan-Ze generated a net loss and had no taxable income.

The balance of income tax payable as of December 31, 2004 was net of the creditable income taxes of \$291 plus Far EastOne and KG Telecom accrual of income tax payable of \$1,456 and \$396,303 (refer to f.), respectively, for the years not yet examined and cleared by the tax authorities. The balance of income tax payable as of December 31, 2003 was net of the creditable income taxes of \$2,557.

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

Net operating income generated from the use of switches and cell sites acquired during the period January 1, 2000 to June 26, 2002 are exempt from income tax for the period June 26, 2002 to June 25, 2007.

b. Income tax expense (benefit) consisted of:

	Years Ended December 31	
	2004	2003
Income tax expense - current	\$ 1,928,096	\$ 26,640
Income tax expense (benefit) - deferred	189,485	(133,954)
Prior year's adjustment	40,109	5,214
Income tax expense on income subjected to a separate rate of 20%	2,409	3,072
Income tax expense (benefit)	<u>\$ 2,160,099</u>	<u>(\$ 99,028)</u>

c. Deferred income taxes assets (liabilities) as of December 31, 2004 and 2003 consisted of:

	December 31	
	2004	2003
Current		
Provision for doubtful accounts	\$ 1,420,725	\$ 718,225
Investment tax credits	1,202,868	937,424
Unrealized foreign exchange loss (gain), net	28,923	(22,802)
Other	7,618	3,348
	<u>2,660,134</u>	<u>1,636,195</u>
Less - valuation allowance	<u>749,720</u>	<u>243,471</u>
	<u>\$ 1,910,414</u>	<u>\$ 1,392,724</u>
Noncurrent		
Investment tax credits	\$ 7,419	\$ 321,817
Unrealized losses for disposal of properties	40,152	-
Depreciation resulting from the differences in estimated service lives of properties	458,671	432,008
Loss carryforwards	192,135	122,678
Provision for losses on properties not currently used in operations	141,958	-
Accrued pension cost	63,017	42,986
Accrued interest premium	3,660	8,562
Cumulative equity in the net loss of investee	5,168	8,927
Other	42	69
	<u>912,222</u>	<u>937,047</u>
Less - valuation allowance	<u>199,600</u>	<u>123,143</u>
	<u>\$ 712,622</u>	<u>\$ 813,904</u>

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

d. Integrated income tax information:

	December 31	
	2004	2003
Far EasTone	\$ 57,916	\$ 3,534
KG Telecom	\$ 546	\$ -
Yuan-Ze	\$ 137	\$ 132

Estimated ratio of the ICA balance for Far EasTone as of December 31, 2004 to unappropriated earnings as of such date was 0.41%. When the dividends from the unappropriated earnings as of December 31, 2003 were distributed by Far EasTone in 2004, the actual ratio used was 0.68%.

Estimated ratio of the ICA balance for KG Telecom as of December 31, 2004 to unappropriated earnings as of such date was 0.01%. When the dividends from the unappropriated earnings as of December 31, 2003 were distributed by KG Telecom in 2004, the actual ratio used was 22.29%.

Yuan-Ze has no appropriated earnings as of December 31, 2004. Therefore, the ICA balance of Yuan-Ze will be accumulated upon a future date of dividend distribution.

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 and KG Telecom for allocating tax credits to each Far EasTone's and KG Telecom's stockholder.

e. Investment tax credits and loss carryforwards information:

The unused investment tax credits and loss carryforwards of the Group as of December 31, 2004 are summarized as follows:

Far EasTone

Statutes	Items	Total Investment Tax Credits	Unused Invest- ment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	\$ 267,445	\$ 149,060	2005
		141,604	30,031	2006
		54,946	54,946	2007
		99,344	99,344	2008
Statute for Upgrading Industries	Research and development expenditures	699,533	395,921	2004
		587,938	43,592	2005
		302,096	37,294	2006
		28,866	28,866	2007
Statute for Upgrading Industries	Personnel training expenditures	5,000	5,000	2008
		19,629	19,629	2005
		12,038	12,038	2006
		3,273	3,273	2007
		<u>\$ 2,221,712</u>	<u>\$ 878,994</u>	

KG Telecom

Statutes	Items	Total Investment Tax Credits	Unused Invest- ment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	\$ 564,651	\$ 173,435	2006
		151,916	150,439	2007
		<u>\$ 716,567</u>	<u>\$ 323,874</u>	

Yuan-Ze

Statutes	Items	Total Investment Tax Credits	Unused Invest- ment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	<u>\$ 7,419</u>	<u>\$ 7,419</u>	2007

Year of Expiry	Loss Carryforwards
2006	\$ 36,132
2007	10,118
2008	76,396
2009	69,489
	<u>\$ 192,135</u>

f. Status of Income tax returns:

Income tax returns through 1999 and for 2002 of Far EasTone had been examined and cleared by the tax authorities.

Income tax returns through 2002 of Yuan-Ze had been examined and cleared by the tax authorities.

Income tax returns through 1997 of KG Telecom (includes former KGT) had been examined and cleared by the tax authorities. In addition, tax authorities had examined and cleared KG Telecom's income tax returns for 1998 and 2001, however KG Telecom had appealed for re-examination of filing related to the amortization of goodwill resulting from merger with Tuntex and the dispute in the amount of investment tax credits. The outcome of this appeal is not yet finalized. KG Telecom had accrued income tax payable of \$396,303 for years not yet examined and cleared by tax authorities based on the foregoing examined results.

19. RELATED-PARTY TRANSACTIONS

The Group's related parties and relationship 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 Textile Ltd. (FETL)	Ultimate parent company
AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder and a related party until October 2003
Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
Far Eastern Info Service (Holding) Ltd. (Bermuda)	Subsidiary of Far EasTone and a related party since September 2004
Far Eastern Technology Developmental Foundation (FETTDF)	Far EasTone's donation to the foundation's capital over one third
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern Department Stores Co., Ltd. (FEDS)	Same chairman
Asia Cement Co., Ltd. (ACC)	Same chairman
U-Ming Marine Transport Corp. (UMMT)	Same chairman
Far Eastern Polychem Industries Ltd. (FETPI)	Same chairman
Far Eastern Investment Holding Ltd. (Bermuda) (FETIH)	Same ultimate parent company
Oriental Industrial Holding Pte. Ltd. (Singapore) (OIHP)	Subsidiary of ACC
FEDS Development Ltd. (BVI) (FEDSD)	Subsidiary of FEDS
Yue-Tung Investment Corp. (YTI)	Subsidiary of UMMT
Far Eastern Technology Network Information Ltd. (Shanghai) (FETI)	Same ultimate parent company and a subsidiary of Far EasTone since September 2004
E. World (Holdings) Ltd. (E. World)	Subsidiary
Yuan Ding Investment Co., Ltd.	Same chairman

(Continued)

Related Party	Nature of Relationship
Far Eastern Memorial Hospital	Same chairman
Oriental Securities Co., Ltd.	Same ultimate parent company
Ya Tung Department Store Co., Ltd.	Same chairman
Far Eastern International Bank (FETIB)	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
E. World Ltd. (Taiwan)	Same chairman
Oriental Institute of Technology	Same chairman
Yuan-Ze University (YZU)	Same chairman
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 ultimate parent company
Yuan Ding Leasing Corp.	Same ultimate parent company
Far Eastern Electronic Toll Collection Co., Ltd. (FETETC)	Equity-method investee of Far EasTone
KGEx.com (KGEx)	Subsidiary of KG Telecom and a related party of Far EasTone since January 2004
KGT International Holding	Subsidiary of KG Telecom and a related party of Far EasTone since January 2004
KG Satellite	Subsidiary of KG Telecom and a related party of Far EasTone since January 2004
Far Eastern Alliance Asset Management Co., Ltd. (FEA)	Its chairman is the relative of Far EasTone's Chairman
Taipei Metro Properties Management	Same ultimate parent company
NTT DoCoMo Inc.	Director of Far EasTone
Bai Yang Investment Co., Ltd.	Its chairman is the relative of Far EasTone's chairman
Kai Yuan International Investment Co., Ltd.	Same ultimate parent company
An Ho Garment Co., Ltd.	Same ultimate parent company
Yuan Tong Investment Co., Ltd.	Same ultimate parent company
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company

In addition to Notes 7, 8 and 14, the Group's significant transactions with the above parties are summarized as follows:

		2004		2003	
		Amount	%	Amount	%
During the year					
Operating revenue	a.				
NCIC	b.	\$ 1,067,960	2	\$ 695,687	2
KGEx	c.	312,900	1	-	-
Other	bb.	10,929	-	8,845	-
		<u>\$ 1,391,789</u>	<u>3</u>	<u>\$ 704,532</u>	<u>2</u>
Operating costs and expenses					
Service cost					
FETEC	d.	\$ 38,881	-	\$ 30,941	-
KGEx	c. and e.	30,373	-	-	-
NCIC	b.	3,014	-	53,824	-
Other	bb.	4,319	-	-	-
		<u>\$ 76,587</u>	<u>-</u>	<u>\$ 84,765</u>	<u>-</u>

(Continued)

		2004		2003	
		Amount	%	Amount	%
Rental					
FEILC	f.	\$ 54,451	2	\$ 91,305	7
FETRD	g.	50,301	2	-	-
NCIC	h.	24,761	1	-	-
FETL	i.	4,706	-	54,895	4
Other	bb.	7,418	-	7,696	-
		<u>\$ 141,637</u>	<u>5</u>	<u>\$ 153,896</u>	<u>11</u>
Management service fee					
AWS	j.	\$ -	-	\$ 59,215	100
Research and development expense					
FETTFD	k.	\$ 20,232	78	\$ 22,971	66
Service fee					
FETI	l.	\$ 138,216	47	\$ 66,418	23
FCHRC	m.	77,311	26	175,801	62
		<u>\$ 215,527</u>	<u>73</u>	<u>\$ 242,219</u>	<u>85</u>
Nonoperating income and gains					
Management service revenue (included in other nonoperating income and gains)					
KGEEx	n.	\$ 7,500	100	\$ -	-
Rental and maintenance revenue (include in other nonoperating income and gains)					
NCIC	o.	\$ 4,616	4	\$ 3,663	9
Gain on disposal of properties					
NCIC	p.	\$ 811	-	\$ 64,646	772
Other					
NCIC	p.	\$ -	-	\$ 7,400	18
Nonoperating expenses and losses					
Interest expense					
FETIB	q.	\$ 1,465	-	\$ -	-
Donation expense					
YZU	r.	\$ 500,000	100	\$ -	-
Acquisition of short-term investments					
FEA	s.	\$ 290,000	-	\$ -	-
Acquisition of investments in shares of stock					
FETPI	t.	\$ 92,616	14	\$ -	-
FETIH	u.	12,531	2	-	-
OIHP	u.	12,531	2	-	-
YTI	u.	12,531	2	-	-
FEDSD	u.	4,195	1	-	-
		<u>\$ 134,404</u>	<u>21</u>	<u>\$ -</u>	<u>-</u>
Acquisition of properties					
NCIC	v.	\$ 158,398	2	\$ -	-
FEILC	f.	147,500	2	1,532,506	23
FETEC	w.	128,880	2	77,682	1
Other	bb.	11,176	-	-	-
		<u>\$ 445,954</u>	<u>6</u>	<u>\$ 1,610,188</u>	<u>24</u>

(Continued)

		2004		2003	
		Amount	%	Amount	%
At end of year					
Receivables from related parties					
KGEx	x.	\$ 45,343	53	\$ -	-
NCIC	b. and p.	23,815	28	87,768	75
FETETC	y.	7,616	9	11,189	10
FETI	l.	-	-	17,410	15
Other	bb.	8,149	10	162	-
		<u>\$ 84,923</u>	<u>100</u>	<u>\$ 116,529</u>	<u>100</u>
Prepaid expenses					
FEDS	z.	\$ 1,133	-	\$ 1,159	-
YDC	aa.	790	-	1,030	-
FETL	i.	604	-	753	-
NCIC	h.	590	-	-	-
Other	bb.	1,930	-	1,339	-
		<u>\$ 5,047</u>	<u>-</u>	<u>\$ 4,281</u>	<u>-</u>
Refundable deposits					
FEILC	f.	\$ 4,590	1	\$ 6,390	3
NCIC	h.	1,769	1	-	-
YDC	aa.	582	-	926	-
Other	bb.	255	-	219	-
		<u>\$ 7,196</u>	<u>2</u>	<u>\$ 7,535</u>	<u>3</u>
Payables to related parties					
NCIC	b. and u.	\$ 169,505	53	\$ 24,864	11
FETEC	d. and v.	66,796	21	171,881	76
FEILC	f.	34,025	10	265	-
KGEx	c. and e.	14,807	5	-	-
FETL	i.	2,485	-	14,508	6
Other	bb.	34,152	11	15,016	7
		<u>\$ 321,770</u>	<u>100</u>	<u>\$ 226,534</u>	<u>100</u>
Long-term debt payable - current portion					
FETIB	q.	\$ 34,000	1	\$ -	-
Long-term lease payable (includes current portion)					
FEILC	f.	\$ 118,000	100	\$ -	-

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

- Operating revenues (such as service revenue and revenues from sales of cellular phone equipment and accessories and lease-circuit revenue) from related parties are based on normal service rates, selling prices and collection terms.
- The transactions between Far EasTone, KG Telecom and NCIC consisted of sales to NCIC of cellular phone equipments and accessories and interconnection activities for NCIC's use of Far EasTone's and KG Telecom's network. The interconnection fees paid by Far EasTone and KG Telecom on its use of NCIC's fixed-line network and billing processing costs pertaining to the interconnection services provided by NCIC to Far EasTone and KG Telecom are included in service cost. The international direct dialing revenue collected by Far EasTone and KG Telecom for NCIC was treated as a reduction of service revenue and was included in payables to related parties.

- c. The international direct dialing revenue collected by Far EasTone and KG Telecom for KGEx through call-by-call selection service was treated as a reduction of service revenue and was included in payables to related parties. The interconnection fees paid by Far EasTone and KG Telecom on their use of KGEx fixed-line network and billing processing costs pertaining to the interconnection service provided by KGEx to Far EasTone and KG Telecom are included in service cost. The transactions are comparable with third parties.
- d. Far EasTone and KG Telecom signed network maintenance contracts with FETEC for maintaining their telecommunications network and backbone network facilities.
- e. KG Telecom signed a network maintenance contract with KGEx for maintaining KG Telecom's telecommunications network and backbone network facilities.
- f. Under operating lease agreements, Far EasTone rented from FEILC the following: (a) its office spaces in Neihu, Tainan and Kaohsiung from February 2000 to April 2003; (b) the land and mobile switch centers located in Neihu, Taichung and Hsinchu, from November 1999 to June 2004; and (c) vehicles. The contracts will remain valid unless either Far EasTone or FEILC inform each other to cancel the contracts. When the 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
Hsinchu land for switch center	120,000

The lease contract on the 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 on February 26, 2003. The purchase price of \$1,532,382 (without sales tax) was determined based on the appraisal report obtained from real estate professionals. The title to the land and buildings was transferred to Far EasTone by the end of April 2003.

Far EasTone and KG Telecom lease from FEILC computer equipment, under a five years lease from July 2004 to June 2009, with annual lease payment of \$30,828 (Note 8).

- g. Far EasTone leases from FETRD several buildings and parcels of land under contracts with terms ranking from June 1997 to November 2013. The properties are located in Yatung street and Renai Street in Panchao City; Wuku in Taipei County and other locations in Taiwan.
- h. Far EasTone leases from NCIC telecommunications network and office space in Neihu under contracts with term from September 2003 to September 2008.
- i. Far EasTone leases from FETL several buildings and parcels of land under contracts with term from July 1997 to November 2014. The properties are located in Yuantung Street in Chungli and other locations in Taiwan.
- j. 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.
- k. FETTDF researches telecommunication technology and provides training programs for Far EasTone.
- l. Far EasTone signed a service agreement with FETI in 2003. The service charges were based on the services provided by FETI as agreed upon with Far EasTone. The advances to FETI were treated as receivables from related parties and were collected at various times based on the cash balances of FETI.
- m. The Group has contracts with FCHRC for manpower dispatching service. The service charges were based

- upon the services provided by FCHRC for temporary or specific personnel supplies.
- n. Far EastTone provides management services to KGEx and the service revenues are collected annually.
 - o. Far EastTone leases its HUB spaces to NCIC and provides related maintenance service, the lease agreement will expire in March 2005.
 - p. The advances for the construction and joint use of telecommunications network and backbone network facilities between Far EastTone and NCIC and receivables from sales of properties to NCIC were included in receivables from related parties. The proceeds and gains on disposal of properties for the year ended December 31, 2004 are \$8,011 and \$811, respectively.
Far EastTone sold HUB and related operating equipment located in Tai-Ping, Taichung County to NCIC in 2003. The selling price of the HUB and related operating equipment, which is comparable to market prices, was \$154,805 with a related service charge of \$7,770, including sales tax. For the year ended December 31, 2003, the gain on disposal of properties and service charge for the management of the building was \$64,646 and \$7,400, respectively, which was recorded as nonoperating income as net gains from disposal of properties.
 - q. KG Telecom obtained a syndicated loan from a consortium of banks with interest payable monthly. A portion of the outstanding loans is drawn from FETIB and amounts \$34,000. The loan is secured and payable every six months at equal installments of the principal with the final payment due in August 2005.
In addition, FETIB provides a guarantee for payment of KG Telecom's long-term bonds amounting to \$30,600.
 - r. KG Telecom made a donation to Yuan-Ze University for its construction of school buildings.
 - s. KG Telecom purchased from FEAAM 27,574 thousand units of Taiwan Bond Fund which is recorded as short-term investments.
 - t. Far EastTone purchased 100% ownership of Far Eastern Info Service (Holding) Ltd. in the amount of \$92,616 on August 30, 2004. As a result, Far EastTone acquired 100% ownership of FETI indirectly.
 - u. Far EastTone purchased 4,685 thousand shares in the amount of \$41,788 thousand in June, 2004 representing ownership of 66.92% of E. World Holdings from FEITH, OIHP, FEDSD and YTI (Note 7).
 - v. Far EastTone purchased NCIC's telecommunications network and backbone network facilities.
 - w. The Group maintains contracts with FETEC for the construction of telecommunications network and backbone network facilities.
 - x. Far EastTone and KG Telecom advanced KGEx for its daily operating expenditures and will be collected at various times based on the cash balances of KGEx.
 - y. Far EastTone advances FETETC for its daily operating expenditures during its development stage. The advances will be collected at various times based on the cash balances of FETETC.
 - z. Far EastTone leases from FEDS several buildings and parcels of land located in several places in Taiwan under contracts with terms ranking from December 1997 to October 2016.
 - aa. The Group leases from YDC certain floors at Taipei Metro The Mall as well as building spaces located several places, the lease contracts will be expired on various dates from December 2005 to May 2017.
 - bb. Accounts of other related parties that are less than 5% of the respective accounts.
- All of the above rental rates and terms are comparable to leases with third parties.

20. COMMITMENTS AS OF DECEMBER 31, 2004

The Group has the following significant commitments:

- a. The Group has outstanding contracts to acquire properties for \$459,444.
- b. Far EastTone's outstanding letters of credit amounted to ¥526,784 thousand (equivalent to \$162,934) and US\$606 thousand (equivalent to \$19,216).

- c. Payments for the rentals of land, buildings and cell sites of the Group for the next five years are summarized as follows:

Year	Amount
2005	\$ 2,559,792
2006	2,658,948
2007	2,761,974
2008	2,870,021
2009	2,980,246

21. ASSETS PLEDGED OR MORTGAGED

The assets pledged or mortgaged are used as collateral for customs duties, long-term and short-term debts and bonds as follows:

	December 31	
	2004	2003
Time deposits (included in other assets - miscellaneous)	\$ 1,163	\$ -
Properties, net	25,969,935	5,629,157
	<u>\$ 25,971,098</u>	<u>\$ 5,629,157</u>

22. SUBSEQUENT EVENTS

In addition to Notes 1, 9, and 13, the Group has the following subsequent events:

- On January 4, 2005, Far EasTone signed an agreement to purchase 74,348 thousand shares (approximately 55.3% ownership) of Arcoa Communication Co. (ARCOA) from stockholders of ARCOA for an average price of \$16.26 per share; totalling \$1,208,866. The merger was approved by the Fair Trade Commission (FTC) on February 4, 2005.
Far EasTone deposited \$350,000 in escrow with Citibank (included in restricted assets) on December 24, 2004. The deposit was restricted and was transferred as part of the purchase price upon signed agreement.
- For the purpose of integration of the telecommunications business and operational efficiency, Far EasTone purchased 84,630 thousand shares of KGEx from its stockholders, Taiwan Cement Corporation and others, for \$436,268 at \$5.155 per share. Thus, the equity ownership of KGEx by KG Telecom increased to 74.45% upon completion of the acquisition.

23. ADDITIONAL DISCLOSURES

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

- Financing provided: None
- Endorsement/guarantee provided: None
- Marketable securities and investments in shares of stock held: Schedule A
- Marketable securities acquired and disposed of at costs or prices of at least NT\$100 million or 20% of the paid-in capital: Schedule B
- Acquisition of individual real estate at costs of at least NT\$100 million or 20% of the paid-in capital: None
- Disposal of individual real estate at prices of at least NT\$100 million or 20% of the paid-in capital: None
- Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Schedule C
- Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Schedule D
- Names, locations, and related information of investees on which Far EasTone exercises significant influence: Schedule E

j. Derivative financial instruments

Far EasTone and KG Telecom used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rates for the years ended December 31, 2004 and 2003.

All these transactions are for nontrading purposes. Yuan-Ze did not enter into any derivative financial instrument contracts for the years ended December 31, 2004 and 2003.

The information on derivative financial instrument contracts entered into by the Group are as follows:

(1) Open contracts and credit risk

Type of Transaction	December 31, 2004						
	Notional Amount	Fixed Rate	Market Rate	Settlement Date	Maturity Date	Fair Value	Credit Risk
Interest rate swap - Far EasTone	\$2,670,000	1.25-1.95%	1.004-2.540%	Every 6 months	March 28, 2008 - December 19, 2008	(\$62,401)	\$ -
Interest rate swap - KG Telecom	1,000,000	3.38-4.50%	1.193%	Every 3 months	May 20, 2005	(13,192)	-

Type of Transaction	December 31, 2003						
	Notional Amount	Fixed Rate	Market Rate	Settlement Date	Maturity Date	Fair Value	Credit Risk
Interest rate swap - Far EasTone	\$2,670,000	1.25-1.95%	2.60-3.98%	Every 6 months	March 28, 2008 - December 19, 2008	\$19,723	\$19,723

Type of Transaction	December 31, 2004			
	Notional Amount	Carrying Value	Fair Value	Credit Risk
Cross currency swap - KG Telecom	US\$40,238 thousand	\$ -	(\$108,370)	\$ -

The related gains of Far EasTone on these swap contracts for the years ended December 31, 2004 and 2003 were \$29,680 and \$9,420, respectively, and were recorded as a reduction of interest expense.

The related losses of KG Telecom on these interest rate swap and cross currency swap contracts for the year ended December 31, 2004 was NT\$143,452 which were recorded separately as interest expense of \$51,033 and unrealized foreign exchange net loss of \$92,419.

There were no outstanding forward contracts as of December 31, 2004 and 2003, respectively.

The related gains of Far EasTone on forward contracts for the years ended December 31, 2004 and 2003 were \$770 and \$4,103, respectively, and were recorded as a reduction of inventory.

Far EasTone and KG Telecom are exposed to credit risk if counter-parties default on their contractual obligations. To manage this risk, Far EasTone and KG Telecom conduct transactions 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 and KG Telecom entered into interest rate swap and cross currency swap contracts to hedge the effect of foreign currency 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. Due to the simultaneous cash inflow and outflow generated from cross currency swap contracts, the aggregated outcome of net cash flow is expected to be insignificant. Management believes that Far EasTone and KG Telecom have sufficient operating capital to meet cash demand.

(4) The purpose of derivative financial instruments held or issued

Far EasTone and KG Telecom use 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 and KG Telecom's paying interest at a fixed rate and receiving interest based on market rates. Far EasTone entered into forward exchange contracts to hedge the effects of exchange rate fluctuations on firm commitments. The cross currency swap contracts are for hedging overall fluctuations on interest rates and exchange rates from foreign currency obligations with floating rates. The overall purpose of these contracts is to hedge Far EasTone's and KG Telecom's exposure to cash flow risk. Far EasTone and KG Telecom periodically evaluates the effectiveness of the instruments.

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

	December 31			
	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Nonderivative financial instruments				
Financial assets				
Cash and cash equivalents	\$ 8,502,692	\$ 8,502,692	\$ 14,568,654	\$14,568,654
Short-term investments	290,000	290,800	-	-
Notes and accounts receivable, net	6,134,846	6,134,846	3,735,277	3,735,277
Receivables from related parties	84,923	84,923	116,529	116,529
Investments in shares of stock	1,799,682	1,799,682	73,518	73,518
Refundable deposits	373,088	372,232	241,736	240,236
Restricted assets	350,000	350,000	-	-
Pledged time deposits (included in other assets - miscellaneous)	1,163	1,163	-	-
Financial liabilities				
Short-term loans	2,250,000	2,250,000	100,000	100,000
Commercial paper payable	896,648	896,648	489,587	489,587
Notes payable	41,834	41,834	30,670	30,670
Accounts payable	538,371	538,371	1,043,206	1,043,206
Payables to related parties	321,770	321,770	226,534	226,534
Payables related to acquisition of properties	3,088,119	3,088,119	2,716,930	2,716,930
Long-term liabilities (including current portion)	19,636,407	19,789,167	19,433,378	19,663,516
Guarantee deposits received (including current portion)	1,604,781	1,604,781	1,553,591	1,553,591
Derivative financial instruments				
Interest rate swap - Far EasTone	-	(62,401)	-	19,723
Interest rate swap - KG Telecom	-	(13,192)	-	-
Cross currency swap - KG Telecom	-	(108,370)	-	-

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

- (a) The carrying values of cash and cash equivalents, notes and accounts receivable, receivables from related parties, restricted assets, pledged time deposits, short-term loans, commercial paper payable, notes payable, accounts payable, payables to related parties and payables related to acquisition of properties are recorded at their carrying values due to the short maturity of these instruments.
- (b) The fair values of investments in shares of stock and short-term investments are recorded at market prices or, if market prices are unavailable, on the equity in the investee's net assets.
- (c) Long-term liabilities are recorded at 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 with similar maturity date.
- (d) Refundable deposits and guarantee deposits received are recorded at the present values of future payments or receipts.
- (e) Fair values of derivative financial instruments are recorded at the quoted market prices obtained from banks.

C. Investment in Mainland China:

- a. Investee company name, the description of the primary business activity and products, issued capital, nature of the relationship, capital inflow or outflow, ownership interest, gain or loss on investment, amounts received on investment, and the limitation on investment: Schedule F;
- b. Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 19.

24. 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:

	2004		2003	
	Amount	Percentage of Operating Revenue (%)	Amount	Percentage of Operating Revenue (%)
Company A	\$ 12,153,099	19	\$ 7,139,284	19

SCHEDULE A

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2004

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

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	December 31, 2004				Highest Shares/Units Held During the Year	Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value		
Far Eastone Telecommunications Co., Ltd.	Stocks								
	KG Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,332,997,916.00	\$ 33,786,566	100.00	\$ 33,786,566	1,332,997,916.00	Note A and D
	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,037,000,000.00	9,590,140	100.00	9,590,140	1,037,000,000.00	Note A and D
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Investments in shares of stock	54,000,000.00	433,544	45.00	433,544	54,000,000.00	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Investments in shares of stock	1,200.00	109,846	100.00	109,846	1,200.00	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Investments in shares of stock	6,014,622.00	65,433	85.92	65,433	6,014,622.00	Note A
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Investments in shares of stock	4,500,000.00	44,836	15.00	44,836	4,500,000.00	Note A
E. World (Holdings) Ltd.	Stocks								
	E. World Ltd.	Equity-method investee	Investments in shares of stock	19,349,994.00	US\$ 593,000	99.99	US\$ 593,000	19,349,994.00	Note A
	Ideaculture Limited (Cayman)	-	Investments in shares of stock	1,195,141.00	US\$ 431,000	17.96	US\$ 143,000	1,195,141.00	Note C
Far Eastern Info Service (Holding) Ltd.	Stocks								
	Far Eastern Technology Network Information Limited Company (Shanghai)	Equity-method investee	Investments in shares of stock	-	US\$ 2,484,000	100.00	US\$2,484,000	-	Note A
KG Telecommunications Co., Ltd.	Stocks								
	KGEx.com	Equity-method investee	Investments in shares of stock	175,931,000.00	898,944	50.27	898,944	175,931,000.00	Note A
	KGT International Holding	Equity-method investee	Investments in shares of stock	50,000.00	97,725	100.00	97,725	50,000.00	Note A
	KG Satellite	Equity-method investee	Investments in shares of stock	9,950,000.00	83,256	66.33	83,256	9,950,000.00	Note A
	iScreen	Equity-method investee	Investments in shares of stock	4,000,000.00	66,098	40.00	66,098	4,000,000.00	Note A
	YesMobile	-	Investments in shares of stock	100,000.00	-	0.50	-	100,000.00	
	Mutual funds								
	Far Eastern Alliance Taiwan Bond Fund	-	Short-term investments	27,573,879.00	290,000	-	290,800	27,573,879.00	Note B
KGT International Holding	Stocks								
	KGEx.com	Equity-method investee	Investments in shares of stock	16,051,000.00	US\$ 2,586,000	4.59	US\$2,586,000	16,051,000.00	Note A
KGEx.com	Mutual funds								
	Invesco Bond Fund	-	Short-term investments	2,414,425.85	35,000	-	35,000	9,688,918.37	Note B
	Sheng Hua 1699 Bond Fund	-	Short-term investments	720,290.45	8,565	-	8,708	10,178,000.94	Note B
KG Satellite	Mutual funds								
	Phoenix Fund	-	Short-term investments	1,377,042.20	20,225	-	20,225	1,399,492.00	Note B
	PCA Bond Fund	-	Short-term investments	213,823.80	3,241	-	3,241	217,068.70	Note B
	Central Diamond Bond Fund	-	Short-term investments	7,873,280.97	88,061	-	88,061	7,995,521.37	Note B

Note A: Calculation was based on audited financial statements as of December 31, 2004.

Note B: Open-ended mutual funds were calculated by net asset value of mutual funds as of December 31, 2004.

Note C: Calculation was based on the most current financial statements.

Note D: All the carrying value of investment in shares of stock and the investees' net assets have been eliminated in consolidation.

SCHEDULE B

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, 2004

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Related party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				The Change Due to Equity Method	Ending Balance	
					Shares/Units	Amount	Shares/Units	Amount	Shares/Units	Price	Costs	Gain or Loss		Share/Units	Amount
Far Eastone Telecom Communications Co., Ltd.	KG Telecommunications Co., Ltd. (Note E)	Equity-method investee	Original stockholders of KG Telecom	-	526,430,771.00	\$ 11,698,382	806,567,145 (Note D)	\$ 17,930,678 (Note D)	-	\$ -	\$ -	\$ -	\$ 4,157,506 (Note B)	1,332,997,916.00	\$ 33,786,566
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Issuance of stock by cash	-	6,500,000.00	65,000	47,500,000	475,000	-	-	-	-	(106,456) (Note C)	54,000,000.00	433,544
KG Telecom Communications Co., Ltd. (Note A)	Fuhwa Bond Fund	Short-term investments	-	-	8,276,487.41	101,313	-	-	8,276,487.41	101,752	101,313	439	-	-	-
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	28,193,838.32	335,263	-	-	28,193,838.32	336,616	335,263	1,353	-	-	-
	Sheng Hua 5599 Bond Fund	Short-term investments	-	-	27,259,695.01	292,862	-	-	27,259,695.01	293,494	292,862	632	-	-	-
	Entrust Kirin Bond Fund	Short-term investments	-	-	24,112,994.10	255,463	-	-	24,112,994.10	256,642	255,463	1,179	-	-	-
	Phoenix Fund	Short-term investments	-	-	52,414,671.20	756,895	-	-	52,414,671.20	759,803	756,895	2,908	-	-	-
	PCA Bond Fund	Short-term investments	-	-	17,673,057.10	263,885	-	-	17,673,057.10	264,260	263,885	375	-	-	-
	President Home Run Bond Fund	Short-term investments	-	-	9,818,196.30	132,159	-	-	9,818,196.30	132,351	132,159	192	-	-	-
	United Bond Fund	Short-term investments	-	-	11,773,049.24	147,593	-	-	11,773,049.24	147,687	147,593	94	-	-	-
	Truswell Bond Fund	Short-term investments	-	-	16,337,600.20	200,000	-	-	16,337,600.20	200,714	200,000	714	-	-	-
	Invesco GP Aggressive Income Fund	Short-term investments	-	-	10,510,341.13	115,223	-	-	10,510,341.13	115,490	115,223	267	-	-	-
	Grand Cathay Bond Fund	Short-term investments	-	-	13,666,157.20	170,000	-	-	13,666,157.20	170,069	170,000	69	-	-	-
	TA Chong Bond Fund	Short-term investments	-	-	12,012,974.00	150,000	-	-	12,012,974.00	150,067	150,000	67	-	-	-
	TA Chong Gallop Bond Fund	Short-term investments	-	-	19,154,886.40	200,000	-	-	19,154,886.40	200,090	200,000	90	-	-	-
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	421,785.10	6,740	6,255,473.50	100,000	6,677,258.60	106,865	106,740	125	-	-	-
	Fuh-Hwa Bond Fund	Short-term investments	-	-	12,150,254.50	154,518	-	-	12,150,254.50	155,336	154,518	818	-	-	-
	Far Eastern Alliance Taiwan Bond Fund	Short-term investments	-	-	-	-	27,573,879.00	290,000	-	-	-	-	-	27,573,879.00	290,000
KGEX. Com (Note A)	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	10,178,000.94	121,022	-	-	9,457,710.49	113,000	112,457	543	-	720,290.45	8,565
	Invesco Bond Fund	Short-term investments	-	-	-	-	9,688,918.37	140,000	7,274,492.52	105,216	105,000	216	-	2,414,425.85	35,000

Note A: The beginning balance was carried forward from KG Telecom's account balances due to the Combination with KG Telecom.

Note B: Including investment gain of \$4,168,180 and cumulative translation adjustments of (\$4,780) under the equity method and cash dividends of (\$5,894)

Note C: Investment loss under equity method.

Note D: Acquisition from the Combination with KG Telecom (Note 7).

Note E: All the carrying value of investment in shares of stock, investment income (loss) and the investees' net assets have been eliminated in consolidation.

SCHEDULE C

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, 2004

(Amounts in Thousands of New Taiwan Dollars)

Purchase (Sale) of Goods	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Receivable or (Payable)	
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
Far EastOne Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary of Far Eastone	Service revenue	(\$949,203)	(3%)	30 days	-	-	Accounts receivable (Note A)	\$ 38,724 4%
			Cost of services	825,143	5%	30 days	-	-	Accounts payable (Note A)	- -
	New Century InfoComm Tech Co., Ltd.	Same chairman	Service revenue	(634,227)	(2%)	30 days	-	-	Accounts receivable (Note B)	12,190 1%
									Accounts payable (Note B)	(36,248) (12%)
KG Telecommunications Co., Ltd.	KGEx.com	Subsidiary of KG Telecom	Service revenue	(217,626)	(1%)	30 days	-	-	Accounts receivable	24,938 27%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Service revenue	(433,733)	(3%)	30 days	-	-	Accounts receivable (Note B)	- -
									Accounts payable (Note B)	(25,473) (3%)
	Far EastOne Telecommunications Co., Ltd.	Parent company	Service revenue	(825,143)	(3%)	30 days	-	-	Accounts receivable (Note A)	- -
			Cost of services	949,203	8%	30 days	-	-	Accounts payable (Note A)	(38,724) (4%)

Note A: Service revenue and cost of services between Far EastOne and KG Telecom were settled at net amounts and was included in Far EastOne's receivables from related parties and KG Telecom's payable to related parties.

Note B: All revenues and costs were settled at full amount except interconnection revenues and costs and were included in receivables from related parties and payables to related parties, respectively.

Note C: All the service revenue, cost of services and receivables from related parties have been eliminated in consolidation.

SCHEDULE D

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2004

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Far EastOne Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Subsidiary	\$ 845,798	(Note A)	\$ -	-	\$ 361,353	\$ -
	Yuan-Ze Telecommunications Co., Ltd.	Subsidiary	118,927	(Note A)	-	-	-	-

Note A: The turnover rate is unavailable as the receivables from related parties were mainly due to the advances in operation expenditures to related parties.

Note B: All receivables from related parties have been eliminated in consolidation.

SCHEDULE E

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES

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

FOR THE YEAR ENDED DECEMBER 31, 2004

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

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2004			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				December 31, 2004	December 31, 2003	Shares	Percentage of Ownership (%)	Carrying Value			
Far Eastone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	\$29,629,139	\$11,698,461	1,332,997,916	100.00	\$33,786,566	\$4,161,551	\$4,168,180	Notes A, B and H
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	TYPE I telecommunications services	10,370,000	10,370,000	1,037,000,000	100.00	9,590,140	(278,123)	(279,947)	Notes A, B and H
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	540,000	65,000	54,000,000	45.00	433,544	(177,472)	(106,456)	Notes B and C
	Far Eastern Info Service (Holding) Ltd.	British Bermuda Islands	Investment	92,616	-	1,200	100.00	109,846	34,811	17,230	Notes A and B
	E. World (Holdings) Ltd.	British Cayman Islands	Investment	82,883	41,095	6,014,622	85.92	65,433	(308)	(2,272)	Notes A and D
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	-	4,500,000	15.00	44,836	(26,294)	(164)	Notes B and C
KG Telecommunications Co., Ltd. (Note G)	KGEx.com	Taiwan	Type II telecommunications service	1,759,310	1,759,310	175,931,000	50.27	898,944	(1,152,123)		Notes B and E
	KGT International Holding	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	97,725	(395,377)		Notes B and E
	KG Satellite	Taiwan	Type I telecommunications service	99,500	99,500	9,950,000	66.33	83,256	(6,232)		Notes B and E
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	66,098	(20,509)		Notes B and F
KGT International Holding (Note G)	KGEx.com	Taiwan	Type II telecommunications service	US\$ 4,822,000	US\$ 4,687,000	16,051,000	4.59	US\$ 2,586,000	(1,152,123)		Notes B and E
E. World (Holdings) Ltd.	E. World Ltd.	Taiwan	Sale of cellular phone equipments and accessories	193,500	193,500	19,349,994	99.99	US\$ 593,000	22		Notes B and E
Far Eastern Info Service (Holding) Ltd.	Far Eastern Technology Network Information Limited Company (Shanghai)	Shanghai	Computer software, data processing and network information providing services	US\$ 2,500,000	-	-	100.00	US\$ 2,484,000	34,000		Notes B and E

Notes: A. Subsidiary.

B. Calculation was based on audited financial statements as of December 31, 2004.

C. Equity-method was investee of the Company.

D. The equity in net gain (loss) was used to be recognized in the succeeding year because the audited financial statements of the investee were not timely available. However, the equity in net gain (loss) has been recognized at the same period since the percentage of ownership exceeded 50%. Calculations was based on audited financial statements in 2003 and 2004.

E. Subsidiary of KG Telecom.

F. Equity-method investee of KG Telecom.

G. The original investment amounts were equal to those of KG Telecom's account balances as of December 31, 2003 due to the Combination with KG Telecom in 2004.

H: All the carrying value of investment in shares of stock, investment income (loss) and the investees' net assets have been eliminated in consolidation.

SCHEDULE F

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2004
(Amounts in Thousand New Taiwan Dollars, Unless Otherwise Specified)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2004	Investment Flows		Accumulated Outflow of Investment from Taiwan as of Dec. 31, 2004	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of Dec. 31, 2004	Accumulated Inward Remittance of Earnings as of Dec. 31, 2004	Accumulated Investment in Mainland China as of Dec. 31, 2004	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Far Eastern Technology Network Information Limited Company (Shanghai)	Computer software, data processing and network information providing services	\$79,275 (USD2,500,000)	Note B	\$ -	\$92,616	\$ -	\$92,616	100%	\$34,000 (USD 2,484,000)	\$78,757 (USD 2,484,000)	\$ -	\$92,616	\$92,616	\$27,884,826 (Note C)

Note A: Calculation of investment gain (loss) was based on audited financial statement as of December 31, 2004 by Deloitte Touche Tohmatsu CPA Ltd., Shanghai office

Note B: Far EasTone made the investment through existing company registered in 3rd region.

Note C: Equal to 40% of Far EasTone's net asset value.

6. Financial Condition and Impact of the Company and Affiliates

6-1 In 2004 and 2005 as of the publication date of the Annual Report, any financial distress occurred to the Company and affiliates: None

6-2 In 2003, 2004 and 2005 as of the publication date of the Annual Report, any situation occurred as stated in Article 185 of the Company Law: None

6-3 Subsequent events: None

6-4 Others: None



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

1. Financial Condition
2. Operating Performance
3. Cash Flow
4. Major Capital Expenditure and Source of Capital
5. Investment Policies, Reasons for Profit/loss, Plans
for Improvement, and 2005 Investment Plan
6. Risk Management

1. Financial Condition

Financial Condition Review and Analysis

Unit: NTD'000

Item	Year	2004	2003	Variance	
				Amount	%
Current Assets		10,829,712	10,767,793	61,919	1
Investments in Shares of Stock		44,030,365	21,641,987	22,388,378	103
Fixed Assets		32,616,540	37,796,898	(5,180,358)	(14)
Other Assets		1,391,283	1,225,601	165,682	14
Total Assets		88,867,900	71,432,279	17,435,621	24
Current Liabilities		10,173,647	10,624,554	(450,907)	(4)
Long -term Liabilities		8,714,250	17,557,378	(8,843,128)	(50)
Other Liabilities		267,937	220,119	47,818	22
Total Liabilities		19,155,834	28,402,051	(9,246,217)	(33)
Capital Stocks		38,423,115	26,977,860	11,445,255	42
Capital Surplus		14,506,182	5,973,600	8,532,582	143
Retained Earnings		16,767,098	10,075,716	6,691,382	66
Other Shareholders' Equity		15,671	3,052	12,619	413
Item		69,712,066	43,030,228	26,681,838	62
Total Shareholders' Equity					

Reasons for variation, impact, and future action plans:

1. The increase in investments in shares of stock was due to the integration of the telecommunication business, operation efficiency and market share expansion. To meet future operating needs, the long-term investments made were KG Telecommunications and Fareastern Electronic Toll Collection Company., etc. in 2004.
2. The decrease in long-term liabilities was due to regular payback and early repayment of the loan resulted from sufficient cash flow from operation in 2004 and massive conversion of convertible corporate bonds.
3. The increase in other liabilities was mainly due to the increase of accrued pension cost resulting from a salary increase higher than originally expected.
4. The increase in capital and capital surplus was mainly due to the issuance of new shares in exchange of KGT's common stocks, stock dividends from retained earnings, and the conversion of overseas convertible bond.

2. Operating Performance

2-1 Operating Performance Analysis

Unit: NTD '000; %

Year	2004		2003		Variance	(%)
Item	Subtotal	Total	Subtotal	Total		
營業收入		40,229,481		37,067,163	3,162,318	9
Operating Revenue		29,182,887		28,616,497	566,390	2
Operating Costs and Expenses		11,046,594		8,450,666	2,595,928	31
Operating Income						
Non-Operating Income and Gains	3,796,571		-		3,796,571	100
Equity in investee's net gains	126,408		-		126,408	100
Commission revenue	79,187		181,996		(102,809)	(56)
Management service revenue	78,059		38,469		39,590	103
Foreign exchange gains, net						
Gain from sales of non-performing accounts receivable	77,646		-		77,646	100
	15,913		42,920		(27,007)	(63)
Interest income	54,271		40,533		13,738	34
Other						
Total non-Operating income and gains		4,228,055		303,918	3,924,137	
Non-Operating Expenses and Losses	337,070		316,164		20,906	7
Interest expense	189,214		-		189,214	100
Loss on disposal of properties, net						
Provision for losses on properties not currently used in operations	130,000		-		130,000	100
	-		344,626		(344,626)	(100)
Equity in investee's net losses	65,736		4,691		61,045	1,301
Other						
Total non-operating expenses and losses		722,020		665,481	56,539	8
		14,552,629		8,089,103	6,463,526	80
Income Before Income Tax Expense		509,553		(99,030)	608,583	615
Income tax expense (benefit)		14,043,076		8,188,133	5,854,943	72
Net Income						

Analysis of Variation

- (1) The increase in operating income in 2004 was due to the increase of service revenue, effective expense control and aggressive collection policy.
- (2) The increase in equity in investee's net gains in 2004 was mainly due to recognition of KG Telecommunications' net income.
- (3) The increase in commission revenue was mainly due to the increase of commission from sale of KGT SIM cards in 2004.
- (4) The decrease in management service revenue was mainly due to the decrease of management service revenue charged from subsidiaries.
- (5) The increase in foreign exchange gains was mainly due to the appreciation of New Taiwan Dollars in 2004.
- (6) The increase in gain from sales of non-performing accounts receivable was mainly due to the increase of sales of overdue account receivables to third parties in 2004.
- (7) The decrease in interest income was mainly due to the decrease of cash deposit in 2004.
- (8) The increase in other non-operating income and gains was mainly due to the increase in office rental in 2004.

- (9) The increase in loss on disposal of properties was mainly due to disposal of some idle towers, BTS and telecommunication equipment.
- (10) The increase in provision for losses on properties not currently used in operations was mainly due to provision of potential loss from the disposal of idle BTS and telecommunication equipment.
- (11) The increase in other loss was mainly due to the increase of overdue refundable deposits.
- (12) The increase in income tax was mainly due to the decrease of investment tax credit from equipment procurement, R&D expenses and personnel training expenses in 2004.

3. Cash Flow

3-1 2004 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	Financing Plan
2,868,156	18,306,322	21,432,587	(258,109)	--	3,420,000

- Cash flows from operating activities: The increase in operating income in 2004 was due to the increase of service revenue, effective expense control and aggressive collection policy, resulting in the increase in cash flows from operating activities.
- Cash flows from investing activities: The decrease in cash flows from investing activities was mainly due to less capital expenditure in BTS and telecommunication equipment.
- Cash flows from financing activities: The increase in cash flows from financing activities was mainly due to repayment of long-term liabilities and repurchase of the stocks owned by dissenting shareholders because of the merger with KGT.

3-2 Liquidity Analysis

Item	Year		
	2003	2004	Variance (%)
現金流量比率 (%)	134.26	179.94	34
Cash Flow Ratio (%)	67.88	92.40	36
Cash Flow Adequacy Ratio (%)	13.23	15.20	15
Cash Flow Back Ratio (%)			

REASONS FOR VARIATION

- The increase in cash flow ratio was mainly due to the increase of net cash provided by operating activities in 2004.
- The increase in cash flow adequacy ratio was mainly due to the increase of net cash provided by operating activities and the decrease of cash used in investing activities resulting from less capital expenditure in 2004.
- The increase in cash flow back ratio was mainly due to the increase of net cash provided by operating activities in 2004, and higher net cash used in investing activities in 2003 because of the investment in Yuan-ho Telecommunications and Yuan-Ze Telecommunications.

3-3 2005 Estimated Cash Flow Analysis

Unit: NT\$'000

Cash and cash equivalents in the beginning of 2004	Total cash flows from operating activities	Total cash outflows	Balance of cash and cash equivalents	Remedies for negative balance of cash and cash equivalents	
				Investment Plan	Financial Plan
3,265,431	18,534,408	19,496,785	2,303,054	--	--

Cash Flow Analysis

1. Cash flows from operating activities: Due to market stability, no significant changes are expected in net cash provided by operating activities in 2005.
2. Cash flows from investing activities: The net cash used in investing activities in 2005 is expected to increase due to capital expenditure on network expansion, integration of subsidiaries, and 3G network construction.
3. Cash flows from financing activities: No cash flow from financing activities is expected due to sufficient working capital.

4. Major Capital Expenditure and Sources of Capital

4-1 Major Capital Expenditure and Sources 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						
				2003	2004	2005	2006	2007	2008	2009
		2009	41,552,599	5,222,208	2,747,231	12,399,160	6,424,000	5,240,000	4,880,000	4,640,000
Net-work Expansion	Capital stocks and Bank Loans									

4-2 Expected Benefit

Projected Sales and Gross Profit

Unit: NT\$'000

Year	Item	Sales		Gross Profit	
94年度	擴充營運設備	Production Volum	Sales Volume	42,019,541	18,942,505
2005	Network Expansion	(Note)	(Note)	44,644,992	22,322,496
2006	Network Expansion			47,021,459	23,510,730
2007	Network Expansion			50,837,773	25,418,887
2008	Network Expansion			56,677,577	28,338,788
2009	Network Expansion				

Note: The core businesses of the Company are mobile service and value-added services, thus, production or sales volume is not applicable.

5. Investment Policies, Reasons for Profit/Loss, Plans

for Improvement, and 2005 Investment Plan

Unit: NT\$'000

Explanation Item	Amount*	Policies	Reasons for Profit/Loss	Plans for Improvement	2005 Investment Plans
Yuan-Ze Telecommunications Co., Ltd.	9,590,140	Investment in 3G telecommunication service	The investee has not officially launched.	The investee is scheduled to officially launched in 2005.	--
KG Telecommunications Co., Ltd. (the "new KGT")	33,786,566	Acquisition of KGT for the purpose of market share increase	Because of the unique advantages in multimedia services, network capacity, service coverage and multi-location customer service centers as well as the synergy from the merge, KGT achieved significant growth of profitability in 2004.	--	--
Far Eastern Electronic Toll Collection Co, Ltd.	433,544	For future business development	The investee company has not officially launched.	The investee is scheduled to officially launched service on January 1, 2006.	--
Far Eastern Info Service (Holding) Ltd.	109,846	Resource integration and efficiency improvement for the purposes of offering competitive data processing service to reduce operating is profitable cost of the Far Eastern Group.	Investment on Far Eastern Tech-info (Shanghai)	--	--
E. World (Holdings) Ltd.	65,433	Diversified investment strategy	Unsatisfying operating results	The investee, E. World Taiwan, has turned profitable from Q4 2004	--
Ding Ding Integrated Marketing Service Co., Ltd.	44,836	For future business development	The company is at the initial stage and the operating revenue is not enough to cover operating expenses.	--	--

*Note: Carrying value as of December 31, 2004.

6. Risk Management

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

6-1-1 Interest Rate Analysis

Interest rate fluctuation is closely linked with liabilities on floating interest rate. According to the Company's 2004 financial structure, all liabilities were long-term interest bearing debts (including those to due within one year), among which over 70% were debts on fixed interest rate and the others were corporate bonds on floating interest rate. The company adopted interest rate swap to hedge interest rate risk. Gains on the swap contracts in 2004 and Q1 2005 was NT\$29,680 thousand and 770 thousand, respectively. The gains were booked as deduction items on interest expense.

6-1-2 Exchange Rate Analysis

A. Sources of Exchange gains/Loss

The Company's foreign currency positions are to pay off debts in foreign currencies, especially roaming service charges, and purchase of equipment and handset from foreign suppliers. The percentage of foreign exchange gains/losses over operating revenue and operating income in 2004 and Q1 2005 are as follows:

Unit: NT\$'000

Item	Year	2005
	2004	(as of march 31, 2005)
	78,059	4,274
Foreign Exchange Gains (Losses) (A)	40,229,481	10,329,063
Operating Revenue (B)	0.19%	0.04%
% of operating revenue (A)/(B)	11,046,594	2,887,513
Operating Income (C)	0.71%	0.15%
% of Operating Income (A)/(C)		

As shown in the above table the foreign exchange gains/losses account for a small percentage of operating revenue (0.19% in 2004 and 0.04% in Q1 2005) and operating income (0.71% in 2004 and 0.15% in Q1 2005).

B. Countermeasures for exchange rate fluctuation

(A) The amount in foreign currencies raised from the ECB issuance was paid off through dedicated foreign currency accounts to equipment suppliers. All ECB have been converted as of March 2, 2005.

(B) The Company used derivative financial instruments to hedge foreign exchange rate risks according to foreign currency position and exchange rate movement.

6-1-3 Inflation Analysis

Impact of inflation to the Company and countermeasures: No major impact of inflation on the Company

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

6-2-1 Policy for high risk or high leveraged investment and derivatives is guided by the Company's "Assets Acquisition or Disposition Procedures". Policy for making loans to others is guided by the Company's "Procedure for Making Loans to Others". Policy for making endorsements and guarantees is guided by the Company's "Procedure for

Making Endorsements and Guarantees".

6-2-2 High risk or high leveraged investment: None.

6-2-3 Financing provided: None.

6-2-4 Endorsements and guarantees provided: None.

6-2-5 Derivative financial instruments

The Company uses financial derivative instruments to hedge overall fluctuations on interest rates and exchange rates. In additions, the Company placed a purchase order for mobile handsets in the amount of ¥1,250,566 thousand in 2004. To hedge the effect of exchange rate fluctuations on this commitment, the Company entered into a Japanese yen forward contract. The contract was due on December 8, 2004 and realized gain of NT\$770 thousand was booked. The Company entered into interest rate swap contracts to hedge against fluctuation on interest rates. Gains on these swap contracts for 2004 was NT\$29,680 thousand.

6-3 R&D Plans and Estimated Expenses

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

1. After Taiwan's telecommunication service was deregulated, universal service was delivered for the first time in 2002. The total universal service cost proposed by CHT was NT\$4.94 billion. After being reviewed by DGT, the total amount approved was reduced to NT\$1.96 billion, which effectively eased the pressure on operators from sharing the cost.
2. In September 2003, DGT announced the deregulation of the second and third generation of Mobile Virtual Network Operator (MVNO) business. The new innovative business model is expected to further increase the operating flexibility of the Company and other operators.
3. DGT approved Regulations Governing Number Portability on November 24, 2003 and the service is scheduled to be available based on a central database from October 15, 2005. In the future while transferring to another service provider, mobile users will be allowed to keep their mobile numbers with a low MNP service charge. It is stated in the Regulations Governing The Third Generation (3G) Mobile Telecommunications that "operators shall provide number portability service." To enhance customer loyalty, the Company will continue to provide customers with superior network quality and customer service as well as complete service offering and differentiate product.
4. To reduce the potential for prepaid mobile service product being used to commit crimes, DGT limits the number of prepaid mobile service number owned by foreigner to 5 numbers per person from October 2004 and R.O.C citizen to 10 numbers per person from December 10, 2004. The ceiling may be further lowered in the future.

6-5 Technology Development and Impact on the Company

The development of WLAN and 3G technology in recent years has made wireless broadband network and broadband multimedia services become a part of our lives. Based on the trend of service change and market needs, the Company made an enormous investment to assist its subsidiary Yuan-Ze Telecommunications to obtain a 3G service license. With diversified development, the Company is expected to increase its revenue and market share.

Currently WLAN has been adopted for data service applications. The Company considers which as an complimentary technology with 3G as 3G offers outstanding mobilization and coverage while WLAN offers static high speed transmission. These two services target different market segments while can also be complimentary to each other. The Company will utilize its advantage gained from the operation of GSM, 3G and Internet services and will integrate WLAN with its service network. By doing so, the Company will be able to satisfy the needs of customers for convergent services.

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

6-7 Expected Benefits and Risks from Mergers:

In order to further integrate telecommunications businesses and pursue higher operating efficiency, the Company will merge its subsidiary Yuan-Ze Telecommunications. The potential risk from merger includes negative impact on profitability due to amortization of 3G license fee. After merged with Yuan-Ze Telecom, through effective resource integration and management improvement, operating costs are expected to be lowered. In sum, the major synergies are operating benefit from lowered operating expenses and financial benefit from effective financial resource utilization.

6-8 Expected Benefits and Risks from Plant Expansion: Not applicable

6-9 Risks from Concentration in Supply and Sales:

The Company's major supplier and customer in 2004 was Chunghwa Telecommunications, which accounts for 14.63% of the total amount of supply and 18.21% of the total amount of sales. Therefore there are no situations of concentration in supply and sales.

6-10 Impact and Risks from Changes in Directors, Supervisors, Shareholders with Greater than 10% Shareholding or Their Selling of a Large Number of Shares

There is no situation of sales of large number of the Company's shares in 2004 and 2005 as of the publication date of the Annual Report. As required by related regulations and corporate governance, two independent directors and one independent supervisor will be elected at the 2005 Shareholders' Meeting.

6-11 Impact and Risks from Change of Owership: None.

6-12 Lawsuits and Disputes

A. Litigations, non-litigations or administrative actions in 2004 and 2005 as of the publication date of the Annual Report which may result in major impacts on shareholders' equity or stock price of the Company are disclosed as follows:

- (1) 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 Chunghsiao E. Road, the Company was imposed a fine of NT\$10,000 on January 6, 2003

by the Bureau of Sanitation of the Taipei City Government for violation of the subparagraph 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. The related litigation expense shall be paid by the Bureau of Sanitation of the Taipei city Government.

- (2) Claim by Kae Yueh InfoComm Tech Co., Ltd. for Payment from Far EasTone Telecommunications

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 recharge, 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. The two parties have reached conciliation on a settlement of NT\$3.8 million and the case has been withdrawn.

- (3) Claim by Far EasTone Telecommunications for Debt Discharge by Mobitai Communications

During the period from December 2001 to October 2003, Mobitai Communications (the "Mobitai") was required to provide the Company with the information regarding actual minutes of use (MOU) terminating to the company through the back-up routers of Chunghwa Telecommunications. However, Mobitai had been providing false information which resulted in shortage of airtime charge due to be paid to the Company. The Company claimed for debt discharge by Mobitai in the amount of NT\$59,664,140 and file an application to the DGT for arbitration. According to the arbitration result announced on April 9, 2004, the traffic in dispute was generated by Mobitai Telecommunications and Mobitai shall pay airtime charge to Far EasTone based on the tariffs as stated in the interconnection agreement. The Company filed a civil case for compensation in Taipei District Court and the Company won the first trial on July 12, 2004. On March 18, 2005 the two parties reached a conciliation agreement by the court during the appeal that Mobitai shall pay the Company.

- (4) Claim by Far EasTone Telecommunications for Damage Compensation from Chunghwa Telecommunications

From December 2001 to March 2004, when Chunghwa Telecommunications (the "CHT") and the Company were in an interconnection agreement, without permission of the Company, CHT transferred the traffic of low-tier wireless service (CT2) from SoonCom Telecom and Hsin-Guo Telecom to the network of the Company and the Company could not collect airtime charge for the traffic. Therefore the Company claims a NT\$139,674,013 payment plus interest from CHT.

(5) Breach of Trust by Employees

During the 2004 year-end examination of program entries, the Company discovered an abnormal record that a subsidized mobile phone for a loyalty program was picked up by a customer that did not participate in the program. After investigation, an employee is under suspicion of picking up the mobile phone under the name of the customer and selling it at a low price. The Company has requested investigation from Taipei District Prosecutors Office at the end of November 2004. Five suspects are being investigated by Taipei District Prosecutors Office.

(6) Real estate dispute of Miao-li Hub

The Company purchased a real estate in Miao-li City from Ya-hui Hsu to be used as a HUB in 2000. Related service regarding ownership transfer was provided by escrow Mao-teh Peng. In May 2004, the Company received a notification from Taiwan Cooperative Bank that the real estate had been used as a collateral by Ya-hui Hsu, and Ya-hui Hsu and her guarantor Zhao-hong Hsu failed to pay the interest as required. The overdue interest payment has accumulated to NT\$2,606,936. In order to maintain the operation of the HUB, the Company had to discharge the debt.

With regard to escrow Mao-teh Peng, the Company filed a claim for damage compensation as well as applied with the court for provisional seizure of his properties in the total value of NT\$2,606,936, including three pieces of lands, one piece of construction, and savings in an account of Miao-li branch, Bank of Taiwan. According to the verdict announced on February 2, 2005, the Company lost the case.

With regard to Ya-hui Hsu and Zhao-hong Hsu, the Company has obtained a certificate of warrant and the matter shall be handed over to the courts for compulsory execution.

B. Directors, Supervisors, shareholders with greater than 10% shareholding engaged in litigations, non-litigations or administrative actions in 2004 and 2005 as of the publication date of the Annual Report which may result in major impacts on shareholders' equity or stock price of the Company: Litigations, non-litigations or administrative actions that the Company and its subsidiary KGT were engaged in 2004 and 2005 as of the publication date of the Annual Report were as follows:

(1) Claim for damage compensation from former KGT employee Yue-pei Wen

Former KGT employee Yue-pei Wen was responsible for employee income declaration while working for KGT. With regard to the situation of un-declaration or mis-declaration, KGT has filed a civil case for damage compensation. The defendant's attorney argued on the ground of inadequate evidence. After careful evaluation both parties reached a reconciliation at the court on May 24, 2004.

(2) Claim for severance fee and salary payment by former employees of KGT and KGEEx. com

Seven former KGT employee including Hsiao-mi Lee and former KGEEx employee Gang-hong Lin had signed non-disclosure agreements during their service with the companies, while they still forwarded the email which contains information regarding salary adjustment to the third party. Such conduct has constituted a breach of the non-disclosure agreements and violation of the company's regulations and email policy. Therefore, KGT and KGEEx discharged the employees according to the company's regulation without prior notice. For which the discharged employees filed a case requesting severance fee and salary payment from the companies.

According to the verdict of the first trial, KGT and KGEEx lost the case and KGT shall pay

a total amount of NT1,212,410 to the seven employees including Hsiao-mi Lee and KGEx shall pay NT\$118,575 to Gang-hong Lin. KGT filed an appeal, which was later withdrawn. A reconciliation was reached on May 31, 2004 with the settlement in the amount of NT\$1,430,985.

(3) Claim for damage compensation by Tong-han Ku

Tong-han Ku, the successor of Chia-fong Ku, claimed that the poor maintenance of the asphalt road surface by Directorate General of Highway Maintenance Office of Ministry of Transportation and Communications and the cap of sewer outlet installed by KGT were liable for the death of Chia-fong Ku in a scooter accident. Tong-han Ku filed a civil case against the Directorate General of Highway Maintenance Office and KGT for damage compensation of NT\$3,585,764. KGT later reached a reconciliation with the plaintiff with NT\$1,200,000 and the case was withdrawn.

(4) Overdue account of ShiningVision Company

According to the information provided by KGT, ShiningVision Company (the "ShiningVision") had entered into a partnership agreement with KGT on September 20, 1999. Based on the agreement, the SIM card shall be purchased by ShiningVision with the unit price stated on the invoice of the SIM card supplier, and KGT shall issue invoice to ShiningVision. KGT therefore purchased 10,000 pieces of SIM cards and the total cost was NT\$21.8 million, which ShiningVision was supposed to pay to KGT in April 2000. The payment was long-overdue thus KGT has provisioned NT\$21.8 million bad debt for the overdue accounts receivable. If the case is brought into legal process in the future, it should not result in major financial impact on KGT.

C. Situations as stated in Article 157 of the Securities Exchange Law by the Company's Directors, Supervisors, managerial officers, and shareholders with greater than 10% shareholding: none

6-13 Other Major Risks: None.



VII | Corporate Governance

1. Corporate Governance Execution Status

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.	The Company will re-elect two independent directors in 2005 shareholders' meeting.
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.	The Company will re-elect one independent supervisor in 2005 shareholders' meeting.
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.

Title	Name	Study Date		Sponsoring Organization	Course Name	Study Hours
		From	To			
Chairman	Douglas Hsu	94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Vice Chairman	Laurence Yang	94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Director	Champion Lee	93/8/6	93/8/6	Securities & Futures Institute	Board Operations	3
		94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3

Title	Name	Study Date		Sponsoring Organization	Course Name	Study Hours
		From	To			
Director	Peter Hsu	93/11/1	93/11/1	Taiwan Academy of Banking and Finance	Board Operating Practices and Corporate Governance	3
		94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
Director	Hsing-Yi Chen	94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Director	Jan Nilsson	94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Director	Leslie Koo	94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Director	Nelson Chang	94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Director	Toshinari Kunieda	94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Director	S. T. Peng	94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Supervisor	Jenniffer Wang	94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Supervisor	Eli Hong	94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Supervisor	Charles Wang	94/2/24	94/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for Listing (OTC) Company	3
		94/2/24	94/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3

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 directors and supervisors value trustworthiness and social responsibility and shall always abide by the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies.



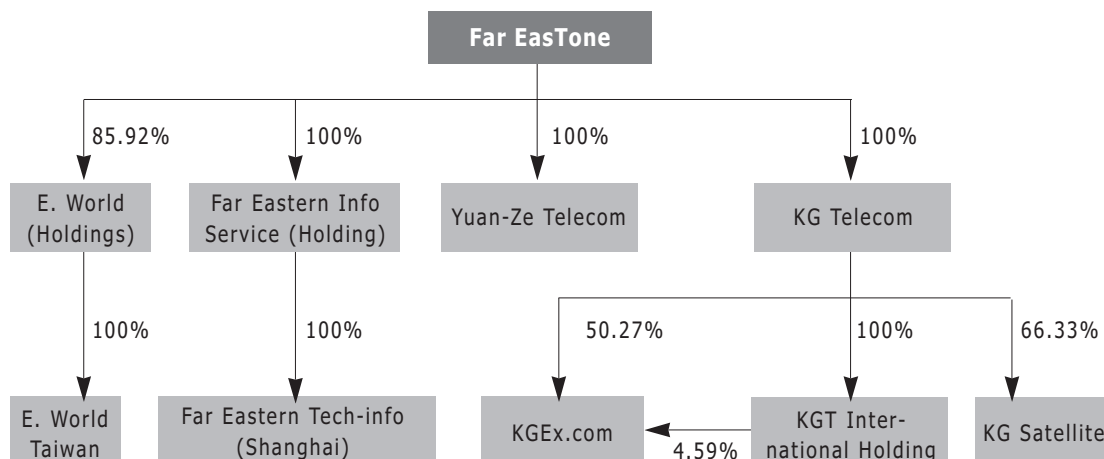
VIII | **Special Notes**

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. Material Event Impact 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 Far EasTone Telecommunications Co., Ltd. and affiliates:

In Thousand of New Taiwan Dollars, Except Stated Otherwise.

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 City, Taiwan, R.O.C.	\$ 38,423,115	Wireless telecommunications service, leased-circuit service, ISR and internet services and sale of cellular phone equipments and accessories.
KG Telecommunications Co., Ltd. (former Yuan-ho Telecommunications Co., Ltd.)	September 25, 2003	28th Floor, 207 Tun-Hwa S. Rd., Sec. 2, Taipei City, Taiwan, R.O.C.	13,329,979 10,370,000	Wireless telecommunications services and sale of cellular phone equipments and accessories.
Yuan-Ze Telecommunications Co., Ltd.	December 5, 2001	28th Floor, 207 Tun-Hwa S. Rd., Sec. 2, Taipei City, Taiwan, R.O.C.	USD 12,000	Third generation wireless telecommunications service.
Far Eastern Info Service (Holding) Ltd. (British Bermuda Islands)	July 17, 2002	Clarendon House, 2 Church Street Hamilton HM11, British Bermuda Island	USD 7,000,000	International investments
E. World (Holdings) Ltd. (British Cayman Islands)	April 7, 2000	4th Floor, One Capital Place, P.O. Box 847 G.T., Grand, British Cayman Island	150,000	International investments
KG Satellite Co., Ltd.	April 17, 1999	11th Floor, No. 113, Sec. 2, Jhongshan N. Rd., Taipei City, Taiwan, R.O.C.	USD 50,000	Type I telecommunications service, satellite TV channel KU and channel C and equipment assembling
KGT International Holding Co., Ltd. (British Virgin Islands)	January 6, 2000	11th Floor, No. 113, Sec. 2, Jhongshan N. Rd., Taipei City, Taiwan, R.O.C. (Domestic address)		International investments

Company	Date of Incorporation	Place of Registration	Paid-in Capital	Major Business Activities
KGEx.com Co., Ltd.	August 9, 2000	11th Floor, No. 113, Sec. 2, Jhongshan N. Rd., Taipei City, Taiwan, R.O.C.		Type II telecommunications service
Far Eastern Tech-info Ltd. (Shanghai)	November 18, 2002	3rd Floor, Building No. 23, Pudong Software District, No. 498, Guoshoujing Rd., Jhangjiang High Tech District, Pudong Sin Section, Shanghai, P.R.C.		Computer software, data processing and internet content providing services
E. World Co., Ltd.	August 5, 2000	28th Floor, No. 207, Section 2, Tun-Hwa S. Rd., Taipei City Taiwan, R.O.C.		Data processing service

(3) Companies presumed to have a relationship of control and subordination with Far EastTone Telecommunications under Article 369-3 of the Company Law: None.

(4) Industries covered by the business operated by the affiliates and the description of the mutual dealings and division of work among such affiliates:

Far EastTone and its subsidiaries and affiliates provide wireless telecommunications service, leased-circuit service, International Simple Resale (ISR) services, internet service, satellite TV channel, sale of cellular phone equipments and accessories and international investments.

The mutual dealings and division of work among such affiliates:

- The transactions between Far EastTone and KG Telecom consist of the interconnection and roaming activities for KG Telecom's use of Far EastTone's network and vice versa.
- Far EastTone collects the international direct dialing revenue for KGEx through call-by call selection service and routes the traffic through KGEx's telecommunication facilities.
- Far EastTone is provided the data processing and related consulting services by Far Eastern Tech-info Ltd. (Shanghai)

(5) Directors, supervisors, and general manager of Far EastTone and affiliates:

Unit: Number of Shares; %				
Company	Title	Name of Representative	Shareholding	
			Share	%
Far EastTone Telecommunications Co., Ltd.	Chairman	Yuan Ding Investment Co., Ltd. Douglas Hsu	1,320,197,849	34.36
	Vice chairman	Yuan Ding Investment Co., Ltd. Laurence Yang	1,320,197,849	34.36
	Managing director	TCC Investment Co., Ltd. Leslie Koo	5,458,671	0.14
	Director	Yuan Ding Investment Co., Ltd. Champion Lee	1,320,197,849	34.36
	Director	Yue-Li Investment Co., Ltd. Peter Hsu	2,283	-
	Director	Far Eastern Y.Z. Hsu Science and Technology Memorial Foundation Hsing-Yi Chen	2,099,276	0.05

Company	Title	Name of Representative	Shareholding	
			Share	%
	Director	Yue Ding Industry Co., Ltd. Jan Nilsson	1,037,115	0.03
	Director	Yuan Ding Investment Co., Ltd. Jordan M. Roderick	5,153,148	0.13
	Director	TCC Investment Co., Ltd. Nelson Chang	5,458,671	0.14
	Director	NTT DOCOMO Inc. Toshinari Kunieda	116,643,621	3.04
	Director	S. T. Peng	-	-
	Supervisor	Far Eastern International Leasing Co., Ltd. Eli Hong	32,985,723	0.86
	Supervisor	Ta-Ho Maritime Corporation C. H. Jiang	603,357	0.02
	Supervisor	Asia Investment Corporation Charles Wang	1,059,844	0.03
	General manager	Jan Nilsson	-	-
KG Telecom- munications Co., Ltd.	Chairman	Far EasTone Telecommunications Co., Ltd. Douglas Hsu	1,332,997,916	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Laurence Yang	1,332,997,916	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Champion Lee	1,332,997,916	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Leslie Koo	1,332,997,916	100.00
	Supervisor	Far EasTone Telecommunications Co., Ltd. Charles Wang	1,332,997,916	100.00
Yuan-Ze Telecom- munications 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
Far Eastern Info Service (Holding) Ltd. (British Bermuda Islands)	Director	Far EasTone Telecommunications Co., Ltd. Champion Lee Philby Chen Yvonne Li I-Chung Kuo Li-Chi Chen	1,200	100.00
E. World (Holdings) Ltd. (British Cayman Islands)	Director	Far EasTone Telecommunications Co., Ltd. Douglas Hsu Laurence Yang Champion Lee Jordan M. Roderick Joseph O'Konek	6,014,622	85.92

Company	Title	Name of Representative	Shareholding	
			Share	%
KG Satellite Co., Ltd.	Chairman	Taiwan Cement Engineering Co., Ltd. Leslie Koo	1,000,000	6.67
	Director	KG Telecommunications Co., Ltd. Yvonne Li	9,950,000	66.33
	Director	KG Telecommunications Co., Ltd. Jay Shy	9,950,000	66.33
	Director	Zhong Cheng Investment Co., Ltd. Ding-Kai Wu	1,000,000	6.67
	Director	Huo Xun Investment Co., Ltd. Bo-Yuan Wang	1,000,000	6.67
	Supervisor	KG Telecommunications Co., Ltd. Tian-Li Huang	9,950,000	66.33
KGT International Holding Co., Ltd. (British Virgin Islands)	Director	KG Telecommunications Co., Ltd. Leslie Koo	50,000	100.00
KGEx.com Co., Ltd.	Chairman	Taiwan Cement Engineering Co., Ltd. Leslie Koo	34,650,000	9.90
	Director	KG Telecommunications Co., Ltd. Douglas Hsu	175,931,000	50.27
	Director	KG Telecommunications Co., Ltd. Jan Nilsson	175,931,000	50.27
	Director	Cathay Life Insurance Co., Ltd.	17,500,000	5.00
	Supervisor	Chinatrust Commercial Bank Ltd. Lian-Fu Luo	17,500,000	5.00
	Supervisor	KG Telecommunications Co., Ltd. Yvonne Li	175,931,000	50.27
Far Eastern Tech-info Ltd. (Shanghai)	Director	Far Eastern Info Service (Holding) Ltd.	-	100.00
E. World Co., Ltd.	Chairman	E. World (Holdings) Ltd. Douglas Hsu	19,349,994	99.99
	Director	E. World (Holdings) Ltd. Laurence Yang	19,349,994	99.99
	Director	E. World (Holdings) Ltd. Jordan M. Roderick	19,349,994	99.99
	Supervisor	E. World (Holdings) Ltd. Champion Lee	19,349,994	99.99
	General manager	Tien-Fen He	-	-

(6) Operation overview of Far EasTone and affiliates:

Unit: In Thousand of New Taiwan Dollars, Except Stated Otherwise.

Company	Common Stock Issued	Total Assets	Total Liabilities	Total Stock- holders' Equity	Total Operating Revenue	Operating Income (Loss)	Net Income (Loss)	Basic EPS (NT\$)
Far EasTone Telecommunications Co., Ltd.	\$ 38,423,115	\$ 88,867,900	\$ 19,155,834	\$ 69,712,066	\$ 40,229,481	\$ 11,046,594	\$ 14,043,076	\$ 3.75
KG Telecommunications Co., Ltd.	13,329,979	48,356,932	14,570,366	33,786,566	27,068,199	7,373,559	4,161,551	3.12
Yuan-Ze Telecommunications Co., Ltd.	10,370,000	15,888,640	6,298,500	9,590,140	-	(277,214)	(278,123)	(0.27)
Far Eastern Info Service (Holding) Ltd. (British Bermuda Islands)	USD 12,000	USD 2,493,162	USD 12,397	USD 2,480,765	-	(USD 4,500)	(USD 1,012,871)	(USD 844.06)
E. World (Holdings) Ltd. (British Cayman Islands)	USD 7,000,000	USD 1,307,939	USD 1,858	USD 1,306,081	-	(USD 10,907)	(USD 9,214)	(USD 0.0013)
KG Satellite Co., Ltd.	150,000	123,443	359	123,084	-	(2,625)	(6,202)	(0.41)
KGT International Holding Co., Ltd. (British Virgin Islands)	USD 50,000	USD 3,081,818	-	USD 3,081,818	-	(USD 10,154,689)	(USD 11,830,544)	(USD 236.61)
KGEx.com Co., Ltd.	3,500,000	2,219,017	430,504	1,788,513	611,697	(155,842)	(1,151,983)	(3.29)
Far Eastern Tech- info Ltd. (Shanghai)	RMB 20,675,000	RMB 34,753,018.91	RMB 14,171,238.40	RMB 20,581,780.51	RMB 38,865,178.68	RMB 9,198,676.03	RMB 8,413,583.81	N/A
E. World Co., Ltd.	193,500	19,377	575	18,802	900	171	22	0.0011

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

February 4, 2005

We hereby declare that the consolidated financial statements of affiliated enterprises as of and for the year ended 2004 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 2004 dated February 4, 2005 had been prepared according to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliates Enterprises ("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, 2004 ("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 2004 Affiliation Report and the Criteria and the Notes for the year ended December 31, 2004.

Deloitte & Touche

(2) Declaration for the Affiliation Report of the Company

**DECLARATION FOR THE AFFILIATION REPORT OF
FAR EASTONE TELECOMMUNICATIONS CO., LTD.**

We hereby declare that the Affiliation Report of 2004 had been prepared according to the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliates Enterprises 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, 2004.

Very truly yours,

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

By



DOUGLAS HSU
Chairman

February 4, 2005

(3) The Relationship Between the Subordinate Company And the Parent Company

DECEMBER 31, 2004

(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
Yuan Ding Investment Co., Ltd.	Over 50% outstanding voting shares of Far Eastern and Yuan Tong are held by the same ultimate stockholders	1,320,197,849	34.36	287,000,000	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	-	-	-	-	-
Ding Yuan International Investment Corp.	EasTone Over 50% outstanding voting shares of Far Eastern and Ding Yuan are held by the same ultimate	2,112,598	0.05	-	-	-
Yuan Tong Investment Co., Ltd.	stockholders Over 50% outstanding voting shares of Far Eastern and Yuan Tong are held by the same ultimate	229,629,940	5.98	60,300,000	-	-
An Ho Garment Co., Ltd.	stockholders Over 50% outstanding voting shares of Far Eastern and An Ho are held by the same ultimate	161,652,700	4.21	28,350,000	-	-
Kai Yuan International Investment Co., Ltd.	stockholders Over 50% outstanding voting shares of Far Eastern and Kai Yuan are held by the same ultimate	160,194,103	4.17	57,000,000	-	-

(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, 2004**

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							
Far Eastern Textile Co., Ltd.									
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 annually	Same		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	Same	186	None
Leasing	Nei-Li MSC	No. 80, Yuan-Tung Rd., Nei-Li, Tao-Yuan County	05.01.2002-04.30.2007	Operating	Same as normal leasing	Bank remittance monthly	Same	2,796	None
Leasing	BTS1588	No. 2, Alley 266, Fu-Hsin Rd., Hu-Kuo, Hsin-Chu County	11.15.2000-11.14.2015	Operating	Same as normal leasing	Bank remittance monthly	Same	183	None
Total								<u>\$3,392</u>	

(8) Endorsement 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 24, 2005

Based on the self-examination results of the internal control system for January 1, 2004 to December 31, 2004, 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 Securities and Futures 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. As required by "Taiwan Stock Exchange Corporation Procedures for Review of Securities Listings" and the "Guidelines" for Main Board Listing application, the company has appointed Deloitte to perform special audit on the internal control system in the areas of financial reporting reliability and assets safeguard (to ensure company assets have not been acquired, used, or disposed without proper authorization) during the assessing period. The audit result stated the company internal control system design and implementation have effectively preventing the following:
1. Major fault on financial information recording, processing, and summarizing, and its reliance.
 2. Major default in the assets safeguard: assets been acquired, used, or disposed without proper authorization.
- VII. 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.
- VIII. The board of directors has approved the Declaration of Internal Control System in the board meeting held on February 24, 2005.

Far EasTone Telecommunications Co., Ltd.



Douglas Hsu, Chairman



Jan Nilsson, President

Independent Auditor's Report on Internal Control System

We have audited the declaration of Far EastOne Telecommunications Co., Ltd. regarding the purposes of the establishment of its internal control system which are to assure the reliability of the financial reports and safeguard of company assets (to prevent unauthorized acquisition, utilization, and disposal of assets) and the effectiveness of the design and execution of the system during the period from January 1, 2004 to December 31, 2004.

We conducted our audits in accordance with the Guidelines for Establishment of Internal Control Systems by Public Companies issued by Securities and Futures Bureau ("the SFB") and auditing standards generally accepted in the Republic of China. Those standards require that we understand and assess the design of the internal control system, test and evaluate the execution, and other necessary procedures. We believe that our audits provide a reasonable basis for our opinion.

Due to the innate limitation in designing a faultless internal control system, this system may consists undiscovered mistakes or defects. In additions, as the environment changes over time the level of attachment to the system may also be lowered. Therefore, the effectiveness within the period does not guarantee the effectiveness in the future.

We hereby acknowledge the effectiveness of the declaration of Far EastOne Telecommunications Co., Ltd. regarding that the purposes of the establishment of its internal control system were to assure the reliability of the financial reports and safeguard of company assets (to prevent unauthorized acquisition, utilization, and disposal of assets) and the effectiveness of the design and execution of the system during the period from January 1, 2004 to December 31, 2004. Judging by the criteria stated in the Guidelines, there are no material concerns regarding the system.

Deloitte & Touche

February 25, 200

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 2004 and 2005 as of the publication date of the Annual Report: None

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
93.06.30	<p>Resolutions in the Annual Shareholders' Meeting of Year 2004:</p> <p>Matters to be reported</p> <ol style="list-style-type: none"> 1. Business report of Year 2003. 2. Financial report of Year 2003. 3. Review of the Year 2003 closing report by Supervisors. 4. Update on the Issuance of corporate bond in Year 2003. 5. Approve of the "Regulations for the Board of Director Meeting". 6. Merger of KGT. <p>Matters to be approved</p> <ol style="list-style-type: none"> 1. Approval of Year 2003 closing report. 2. Approval of the proposal regarding Year 2003 earnings allocation: NT\$2.4 per outstanding share, including cash dividend NT\$1.4 and stock dividend NT\$1.0 (NT\$1.86 from retained earning and NT\$0.54 from capital surplus) <p>Matters to be discussed</p> <ol style="list-style-type: none"> 1. Approval of proposal for capitalization of retained earnings and capital surplus: allocate a total of NT\$3,391,871,350 (NT\$1,560,260,820 from the retained earnings of 2003 and NT\$1,831,610,530 from capital surplus) for the issuance of 339,187,135 shares at face value NT\$10 and distribute to shareholders according to their shareholding ratio. NT\$1.0 per outstanding share, i.e., 100 shares of each thousand shares. 2. Approval of the amendment to the Company's Articles of Incorporation. 3. Approval of the release of the non-competition restriction on directors in accordance with Article 209 of the Company Law. 4. Approval of indirect investment of FEIS. <p>Matters to be election</p> <ol style="list-style-type: none"> 1. Re-elect two directors and one supervisor and elect two more directors in Year 2004 Annual shareholders' meeting.
Date	Resolutions of Board Meetings
93.05.17	<p>Matters to be Discussed</p> <ol style="list-style-type: none"> 1. Discuss and approve the appointment of Ms. Doris Wu as the Chief Auditor of FarEasTone Telecommunications 2. Approval of proposal for sponsoring the issuance of Global Depositary Receipts.
93.08.30	<p>Matters to be Discussed</p> <ol style="list-style-type: none"> 1. Discuss and approve the change of auditing CPA (Certified Public Accountant) (The GreTai Securities Market has revised the "GreTai Securities Market Operational Procedures for Review of Financial Statements of Over-the-Counter Companies" in April, 2003. According to the revised procedures, for those companies that remain the same auditing CPA for the last five years since going public, will be on the list of financial statements review. To avoid any inconvenience caused by this revision, it is proposed to change auditing CPA from Clark C. Chen and Edward Y. Way to Annie Lin and Edward Y. Way starting from financial statements for the 1st half of year 2004.)

Date	Resolutions of Board Meetings
94.02.24	<p>Matters to be Reported</p> <ol style="list-style-type: none"> 1. The Supervisor of the Company, Ta-Ho Maritime Corp., re-appointed its representative for Far EasTone Telecommunication Co., Ltd. (the "Company"). 2. The Directors (one seat from Yuan Ding Co., Ltd. and one seat from Mr. S. T. Peng) and the Supervisor of the Company (one seat from Asia Investment Corp.) hereby resigned their positions as Directors and Supervisor in the Company. <p>Matters to be Ratified</p> <ol style="list-style-type: none"> 1. Ratify the acquisition of Arcoa Co., Ltd. long-term equity. <p>Matters to be Discussed</p> <ol style="list-style-type: none"> 1. Discuss and approve the Main Board listing application of the Company. 2. Re-elect two independent directors and one independent supervisor in Year 2005 Annual Shareholders' Meeting. 3. Review and approve the amendment to the Articles of Incorporation of the Company.(In response to the authorities' request for establishing legitimate dividend policy, it is proposed that the Company's Articles of Incorporation be amended) 4. Discuss and approve the amendment to the closing date of the Merger Agreement with Yuan-Ze Telecommunications Co., Ltd. (To cope with the actual merger status, it is proposed to amend the closing date as May 25, 2005 (tentatively))
94.04.07	<p>Matters to be discussed</p> <ol style="list-style-type: none"> 1. Discuss and approve the dividend distribution of year 2004. 2. Discuss and approve the compensation of Chairman, Vice Chairman, President and other managers of the Company.
94.04.29	<p>Matters to be discussed</p> <ol style="list-style-type: none"> 1. Discuss and approve the closing date of the merge between the Company and its subsidiary Yuan-Ze Telecommunications Co., Ltd. (the closing date is amended from May 25, 2005 to May 2, 2005).

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 Impact on Shareholders' Equity or Share Price:

Re-election of two directors was conducted and two director positions were added at 2004 Shareholders' Meeting; In 2005 two directors resigned, resulting in change of more than 1/3 of the total number of directors, while no major impact was seen on shareholders' equity and share price.