Contents

I Letter to Shareholders

Letter to Shareholders

Dear Shareholders,

Since liberalization of the telecommunications market in Taiwan, the mobile telecommunications industry has experienced significant growth over the past ten years. During this period, second- and third-generation mobile operators enter the market, various multimedia services are launched and the introduction of number portability is available to consumers. With all above mentioned affairs, consumers are able to benefit from more convenient and diverse services in mobile communications.

Today's mobile telecommunications market is extremely competitive, and the penetration rate of sim cards is near the point of saturation. Although number of subscribers remained stable, mobile communication industry experienced negative revenue growth for the first time last year. This downward trend was attributable to intensified price competition for voice service, operators' irregular handset subsidy, and decline of prepaid market. The only way for any operator to outperform its peers was to broaden market niche based on current services offering and actively developed innovative services in order to achieve win-win situation for consumers, investors, and the operator itself.

In the face of challenges, Far EasTone still delivered outstanding financial results. Total consolidated revenue and consolidated service revenue, including Far EasTone and its subsidiaries (KGT Telecom and Arcoa), reached NT$67,227 million and NT$60,472 million, respectively. Other important numbers include the Service EBITDA Margin of 49.8%, a net income after tax of NT$13,156 million and the earnings per share (EPS) of NT$3.40.

Furthermore, Far EasTone achieved many operational accomplishments. In June 2006, Far EasTone was awarded by Asian MobileNews, the internationally renowned telecommunications magazine, as "Mobile Operator of the Year, Taiwan" and "Most Innovative Mobile Service Campaign". Far EasTone is the only mobile operator in Taiwan to receive both distinctive honors. In August, Far EasTone received Qualicert service certification from SGS (Société Générale de Surveillance), the globally renowned Swiss company. The certification criteria included assessment of customer service center, FET's retails, as well as franchises. Far EasTone is the first mobile operator in Asia and in Taiwan to receive such distinguished recognition.

2006 Operational Highlights and Accomplishments

- **Leads in Data Revenue**
  - Far EasTone has been the leader in data service, and data revenue in 2006 represented 42% of data market revenue share.
  - Packet data usage had shown a monthly increase since the beginning of 2006. At the end of the year 2006, the total amount of non-voice revenue hit a new record high, accounting for 10.3% of service revenue. In average, total non-voice services accounted for 9.6 % of the service revenue in 2006 full year, performing much better than the Taiwanese average market value of 7.1%.

- **3.5G/HSPA The Winning Speed**

  - Far EasTone was the first to launch 3.5G/HSPA (High Speed Packet Access) service, with 3.6 Mbps download speed.

- Launched 3.5G/HSPA data card with 3.6Mbps maximum transfer speed. Customers can now considerably shorten download time and view online contents more rapidly.In February 2007, Far EasTone released the first i-mode® 3.5G/HSPA dual-mode handset, providing a more technologically advanced device to customers in need of portable high-speed download.

υ **Leads in Service Contents**

- Far EasTone offered Taiwanese television dramas premieres on 3G channels in January, 2006, the unprecedented event attracted more than 20,000 hits during the time. The event was nominated by annual Golden Bells Awards as the Best Marketing in Television Program.
- Far EasTone was the first mobile operator in Asia to release “Mobile MSN Messenger” service.
- Formed exclusive partnership with the movie "The Da Vinci Code" and introduced QR-Code technology into all everyday leisure activities.

According to forecast published by the Directorate-General of Budget, Accounting and Statistics of the Executive Yuan, 2007 GDP growth rate is forecasted at 4.3 %, and private consumption expenditure growth is estimated to be at 3%. However, the telecommunications market is facing enormous challenge due to various factors. Among them, the Government requires for operators to reduce tariffs in the next three years, in compliance with the newly amended Administrative Regulation Governing Tariffs of Type I Telecommunications Enterprises. Earnings in the telecommunications industry are expected to take a hard hit once regulation is implemented. Moreover, all telecommunications operators will be required by the Government to reduce base stations in 2007. It might create serious impact on communication quality, which in turn affects operational performance.

Consequently, the number of subscribers and total market revenue growth in 2007 will be limited comparing with that in 2006. In addition, the anticipated release of WiMAX license by the Government in July 2007 requires all operators to put more resources behind license bidding for the extension of business scope. Facing future competition, Far EasTone has already taken the next steps. On of the concrete example, in May 2007, Far EasTone, together with Uni-President and Q-WARE Systems & Services Corp., established Q-WARE Communications, aiming to expand wireless services and broaden business.

2007 Operational Plans and Outlook

υ **Maintain Stable Revenue Share and Continue to Drive Operational Efficiency**

- Offer more attractive voice rate plans and services, and continue to enhance competitiveness in voice related services.
- Provide data related rate plans and richer contents for multimedia services in order to maintain Far EasTone's leading position in data services market.
- Introduce 3.5G/HSPA data card and other more advanced mobile internet devices, as well as numerous exclusive mobile handsets.

υ **Adopt Practical Approach in Network Expansion**

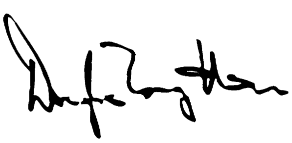
- Expand 3G and HSPA deployment with balanced expansion synchronized to user development
- Build 3.5G/HSPA networks throughout the island, with software upgrade in over 3,000 base stations before the end of 2007.

- **Integration of Service Convergence**

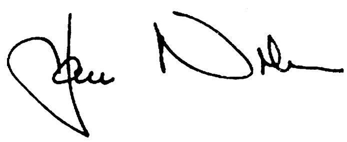
  - Intensify efforts in the area of service convergence, providing seamless services to customers irrespective of their locations, access technologies, and terminals

For a decade, Far EasTone has been a service provider by offering full-line services, providing innovative corporate solutions, and joining strategic alliances with domestic and international enterprises to increase its competitive advantage. In addition, it has been improving the quality on customer service and receiving various major international awards. Facing intensified competition and rapid developments in both domestic and foreign markets in the future, Far EasTone, apart from strengthening the market presence and the scope of its operations, is committed to first-rate corporate governance, providing transparent financial information and solid performance in all aspects. Far EasTone enhances internal risk management, in order for the company to operate effectively, increase performance and maintain long-term competitiveness.

By attaining these objectives, Far EasTone can further fulfill its responsibilities as a corporate citizen and allowing its shareholders, investors and employees to obtain the most benefits. To manage rapid changes in the market, Far EasTone expands its service scope and thus becoming a leading full service provider for electronic communication, information, entertainment, and transaction. Far EasTone is well prepared for facing the new convergence era.



Douglas Hsu, Chairman



Jan Nilsson, President

II Company Profile

1. Date of Incorporation

2. Company History

1 Date of Incorporation:

Far EasTone Telecommunications Co., Ltd. (the "Company") was incorporated on April 11, 1997.

2 Company History

2-1. Milestones:

1997/1	Awarded two licenses from MOTC to provide GSM1800 services island-wide and GSM900 services 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 a 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 years in a row
2001/4	Launched innovative enterprise solution Mobile Information on Demand (MIoD) and led the trend to enterprise mobilization
2001/12	Listed on 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 advanced technologies such as MMS, MPS and JAVA, the Company launched its innovative Br@vo service, the first multimedia service plan in Taiwan. The Br@vo service provides customers with a comprehensive offer to enjoy mobile multimedia life
2003/4	Made Taiwan's first live 3G video call on the commercial 3G network, marking a significant step forward in the evolution and development of multimedia services
2004/1	Merger and acquisition with KGT was approved by the Fair Trade Commission, Executive Yuan. The Company officially merged with 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 rewards plan
2004/4	The Company's subscribers were able to enjoy i-mode service, the world's most popular mobile internet service provided by NTT DoCoMo Grand opening of FET Town Taiwan's first venue providing 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 tailor 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, raised up the company's long-term credit rating and unsecured corporate bond issue rating to twAA. Standard & Poor's notched the company's long-term credit rating to BBB+
2005/2	Obtained a 55.3 % stake in handset chain store Arcoa Co., Ltd.

2005/3 Awarded the certification of the international BS 7799 Information Security

2005/4 First domestic telecommunications operator to be certified as compliant with the international BS 7799 Information Security Management Systems standard

2005/5 Acquired its 3G mobile services subsidiary Yuan-Ze Telecommunications

2005/6 Launched "Mailgene Plus", the first push-email automated mail service in Taiwan

2005/7 Launched 3G multimedia services, becoming the first 3G WCMDA provider in Taiwan

2005/8 Officially listed on the Taiwan Stock Exchange as an electronics stock

2005/10 Selected as one of "Asian's 150 Best Companies" in the October issue of Asia Business Week, the only Taiwanese telecommunications provider to make the list

2006/1 Launched "MSN Messenger" services, becoming the first domestic mobile telecommunications operator to partner with the MSN website. Subscribers may receiver and send messages at any time

2006/3 Taiwan Ratings Corp. upgraded FET long-term corporate credit rating and unsecured corporate bonds to "twAA+" Standard & Poor's upgraded FET long-term corporate ratings to "A-"

2006/4 FET and 6 leading Asian mobile operators formed alliance for global roaming and corporate mobile services In December, the alliance announced its official name-Conexus

2006/6 Named “Mobile Operator of the Year, Taiwan” and “Most Innovative Mobile Service Campaign” by the Asia Mobile News Awards. FET was the only mobile operator in Taiwan to receive two awards

2006/8 FET services passed Qualicert certification process of the internationally renowned SGS (Société Générale de Surveillance) from Switzerland. FET was the first mobile operator in Asia to be awarded this certification

2006/10 Launched Taiwan’s first 3.6 Mbps HSPA technology-based services, ushering in the age of 3.5G mobile communications

2-2. Status of Acquisitions

(1) Merger with KG Telecommunications Co., Ltd.

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 fist-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 shares. 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.

(2) Merger and Acquisition with Yuan-Ze Telecommunications Co., Ltd.

The Board of Directors resolved on February 24, 2005 that the company should merge with Yuan-Ze Telecommunications. The resolution was approved by the Directorate of General Telecommunication (DGT) and ROC Over-the-Counter Securities Exchange on March 16, 2005 and April 19, 2005 respectively. The closing date of the merge was May 2, 2005. Upon the merge, the company is the surviving company, while Yuan-Ze Telecommunications was the extinguished company.

2-3. Status of the Affiliated Company in the Recent Years until the Annual Report being Published：

2006/12/31

Affiliated Company	Investment of the Company	
	Share	%
KG Telecommunications Co., Ltd.	1,332,997,916	100.00
ARCOA communications Co., Ltd.	79,353,013	59.10
Far Eastern Info Service (Holding) Ltd.	1,200	100.00
E. World (Holdings) Ltd.	6,014,622	85.92
Far Eastern Electronic Toll Collection Co., Ltd.	106,650,000	42.66
Ding Ding Integrated Marketing Service Co., Ltd.	4,500,000	15.00
Far EasTron Co., Ltd.	100,000	0.67
Far EasTron (Holding) Ltd.	4,486,988	100.00

2-4. Status of the Reorganization of the Subsidiary in the Recent Years until the Annual Report being published: None

2-5. Changes in Directors, Supervisors, Shareholders with Greater than 10% Shareholding or Their Selling of a Large Number of Shares in the Recent Years until the Annual Report being Published: None

2-6. Material Impact Event on the Shareholders' Equity from Change of Ownership, Business Operating, Business Content and Others in the Recent Years until the Annual Report being Published:

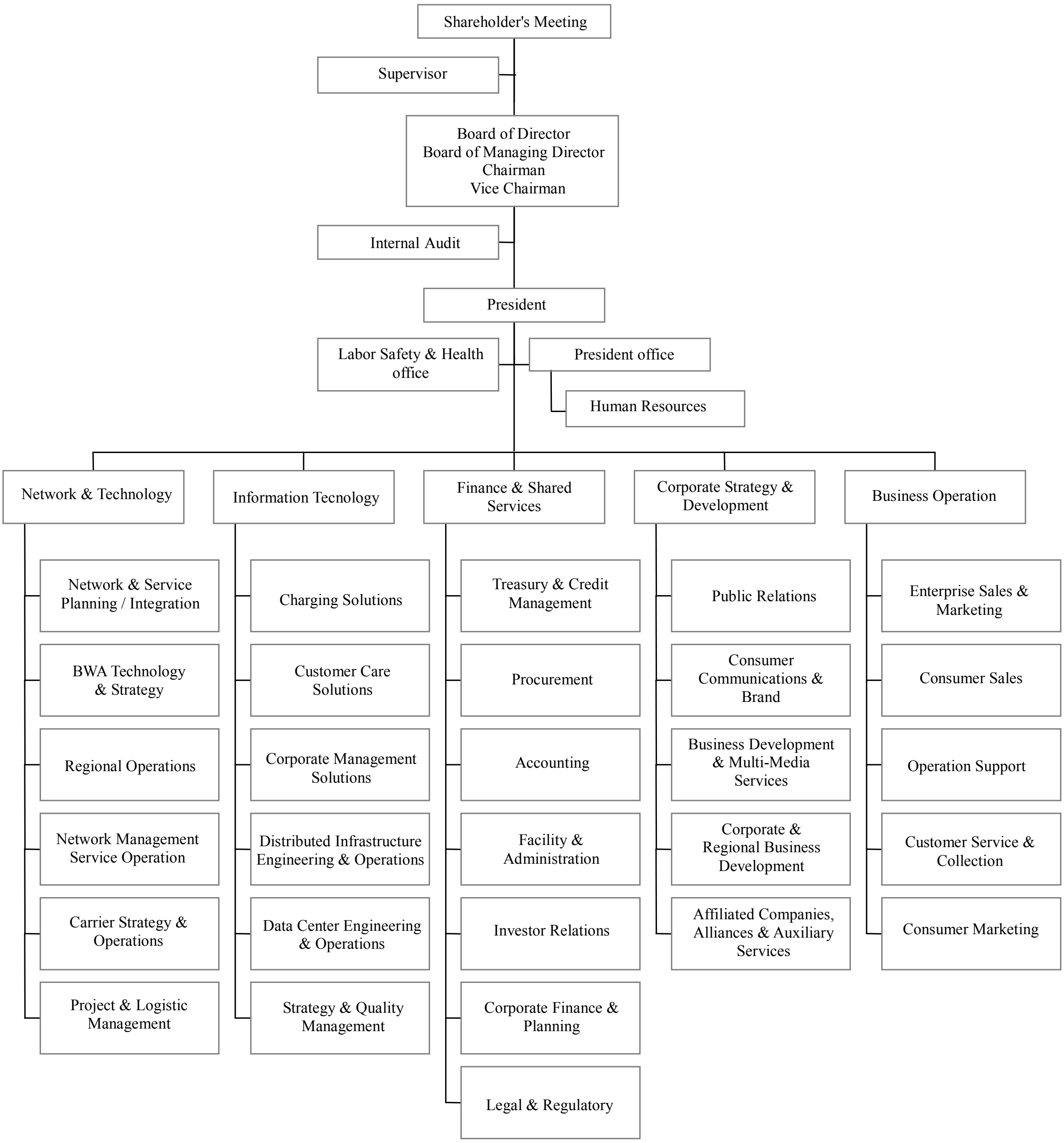
The original intention behind the Company's investment into FETC was to create the first intelligent transportation system in Taiwan and to maximize national economic efficiency. Nevertheless, since the foundation of FETC, it has been under political attack and suffered from untruthful media accusation. The company was, therefore, affected by increasing operating risks and negative corporate reputation. Consequently, on August 11, 2006, the Company announced a proposal to withdraw from FETC by unconditionally donating its FETC shareholding to the Government, so that the Government will be able to plan the future for ETC operation on a brand new basis and further enhance domestic transportation efficiency and national competitiveness. The Company's board of directors approved this proposal on August 22, 2006. The donation will be made depending on the Government's response.

III Corporate Governance

1. Organization Structure
2. Directors, Supervisors and Executive Management
3. Corporate Governance Executive Status
4. Public Expenses of CPA
5. Information for change of CPA
6. The Company's chairman, president and managers responsible for finance or accounting who have held a post in the CPA office or its affiliated within the latest one year
7. Shareholding Transferred or Pledged by Directors, Supervisors, and Management, or Major Shareholders
8. Top ten shareholders being the related party as defined in Statement of Financial Accounting Standards No. 6.
9. Shareholdings of the Company Directors, Supervisors, Managements, and Direct and Indirect Investments of the Company in Affiliated Companies

1 Organization Structure

1-1 Organization Chart



1-2. Roles and Responsibilities

Division Name	Function Description
Internal Audit	Responsible for auditing internal operations
President Office	Responsible for cross-departmental and external issues
Labor Safety and Health Office	Responsible for maintaining and ensuring a safe and healthy workplace
Human Resources	Responsible for human resource management and development
Network &Technology	Responsible for planning and operation of all production, platforms and network for the company and support to managed affiliated companies
Information Technology	Responsible for operations of billing system, customer care system, and company information management system for the company and support to managed affiliated companies
Finance & Shared Services	Responsible for treasury, accounting, investor relations, procurement, process control, general administration, legal and contracts management, shared services management
Corporate Strategy & Development	Responsible for planning, developing and implementing marketing strategies, public and media affairs
Business Operation	Responsible for convergence products and services in consumer and enterprise market, maintaining and developing the company's controlled retail channels

2 Directors, Supervisors and Executive Management

2-1. Directors and Supervisors

2007/4/13

Title	Name	Election Date	Tenure (year)	First Election Date	Shareholding when elected		Current Shareholding		Shares held of		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 Yuang Ding Investment Co., Ltd.	2006/ 5/26	3	1997/ 4/11	1,320,197,849 *0	34.09 *0	1,320,197,849 *0	34.09 *0	0 *0	0 *0	0 *0	0 *0	M.S.,Economics, Columbia University; USA Honorary Ph. D., Management Science, 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 Corp. Chairman of U-Ming Marine Transport Corp. Chairman of Far Eastern International Bank	Director Director	Peter Hsu Johnny Shih	Brother Brother-in-law
Managing Director	Champion Lee, Representative of Yuang Ding Investment Co., Ltd.	2006/ 5/26	3	1997/ 4/11	1,320,197,849 *73	34.09 *0	1,320,197,849 *73	34.09 *0	0 *905	0 *0	0 *0	0 *0	MBA, Texas A&M University, USA	Director and Senior VP of Far Eastern Textile Ltd; CFO of Far Easter Group.	None	None	None
Director	Jan Nilsson, Representative of Yuang Ding Investment Co., Ltd.	2006/ 5/26	3	1997/ 4/11	1,320,197,849 *35,000	34.09 *0	1,320,197,849 *96,000	34.09 *0	0 *0	0 *0	0 *0	0 *0	Sr. Executive VP in Satelindo Telecom Indonesia; M.S., Industrial and Management Engineering, Linkoping University, Sweden.	President of Far EasTone Telecom	None	None	None
Managing Director	Peter Hsu, Representative of Yuang Ding Co., Ltd.	2006/ 5/26	3	2006/ 5/26	5,153,148 *0	0.13 *0	5,153,148 *0	0.13 *0	0 *0	0 *0	0 *0	0 *0	M.S., Operations Management, Stanford University, USA	Supervisor of Far Eastern Textile Ltd; Vice president of central procurement in Far Eastern Textile Ltd.	Chairman Director	Douglas Hsu Johnny Shih	Brother Brother-in-law
Director	Johnny Shih, Representative of Yuang Ding Co., Ltd.	2006/ 5/26	3	2006/ 5/26	5,153,148 *694,880	0.13 *0.02	5,153,148 *290,880	0.13 *0.01	0 *228,314	0 *0.01	0 *0	0 *0	M.S., Computer Science, Columbia University, USA	Vice chairman and President of Far Eastern Textile Ltd; Vice chairman of Oriental Union Chemical Corp.	Chairman Director	Douglas Hsu Peter Hsu	Brother-in-law Brother-in-law
Director	S. T. Peng, Representative of Yue Ding Industry Co., Ltd.	2006/ 5/26	3	2003/ 5/23	1,037,115 *0	*0.03 *0	1,037,115 *0	*0.03 *0	0 *0	0 *0	0 *0	0 *0	Ph.D., Elect. Engineering, Polytechnic University, USA	Professor and Director of Communications Research Center of Dept. of Elect. Engineering, Yuan Ze University	None	None	None
Director	Yuji Yamamoto Representative of NTT DoCoMo Inc.	2006/ 5/26	3	2004/ 6/30	190,040,265 *0	4.91 *0	190,040,265 *0	4.91 *0	0 *0	0 *0	0 *0	0 *0	MBA, Rutgers University, USA M.S., Mechanical Engineering, University of Tokyo, Japan	Executive Director, Head of New Business Development, Global Business Department, NTT DoCoMo	None	None	None

Title	Name	Election Date	Tenure (year)	First Election Date	Shareholding when elected		Current Shareholding		Shares held of		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
Independent director	Kurt Roland Hellström	2006/ 5/26	3	2005/ 5/20	*0	*0	*0	*0	*0	*0	*0	*0	President of Ericsson Group and CEO	Director of India Bharti Televentures	None	None	None
Independent director	Lawrence Juen-Yee LAU	2006/ 5/26	3	2005/ 5/20	*0	*0	*0	*0	*0	*0	*0	*0	Academician, 14th Session of Academia Silica Professor of Stanford University M. A., Economics, University of California, Berkeley Ph. D. Economics, University of California, Berkeley	President and Vice-Chancellor of The Chinese University of Hong Kong Independent Supervisor of Shin Kong Financial Holding Co., Ltd. Independent Director of China National Offshore Oil Corp.(HK)	None	None	None
Supervisor	Eli Hong, Representative of Far Eastern International Leasing Corp.	2006/ 5/26	3	2000/ 12/28	32,985,723 *0	0.85 *0	32,985,723 *0	0.85 *0	0 *0	0 *0	0 *0	0 *0	Vice President of Citibank; B.S., Economics, National Chung Hsing University	President of Far Eastern International Bank	None	None	None
Supervisor	Morton Huang, Representative of Asia Investment Corp.	2006/ 5/26	3	2006/ 5/26	1,059,844 *0	0.03 *0	1,059,844 *0	0.03 *0	0 *0	0 *0	0 *0	0 *0	Lawyer and M.S., Legal, National Chung Hsing University	Counselor of the Far Eastern Group and Special Assistant of Chairman, Far Eeastern textile Ltd.	None	None	None
Independent Supervisor	Chen-en Ko	2006/ 5/26	3	2005/ 5/20	*0	*0	*0	*0	*0	*0	*0	*0	Dean, College of Management, National Taiwan University Chairman, Corporate Governance Association in Taiwan Doctor of Accounting of University of Minnesota	Government appointed director of Taiwan Stock Exchange Corp. Independent director of E. Sun Financial Holding Co., Ltd, Yageo Corp. and Chang Type Industrial Co., Ltd.	None	None	None

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

2-2. Information of Directors and Supervisors

Condition / Name	With work experience for more than 5 years and the following professional qualification requirements			Conform to Independent (Note)										Independent Director with other Company
	An instructor or higher up in a department of commerce, law, finance, accounting, or other academic department related to company business in a public or private junior college, college, university	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been awarded a certificate in a professional capacity that is necessary for company business	Having work experience in the area of commerce, law, finance, or accounting, or other wise necessary company business	1	2	3	4	5	6	7	8	9	10	
Douglas Hsu			V			V				V		V		None
Champion Lee			V			V	V			V	V	V		None
Jan Nilsson			V			V	V	V	V	V	V	V		None
Peter Hsu			V			V				V		V		None
Johnny Shih			V			V				V		V		None
S. T. Peng	V				V	V	V	V	V	V	V	V		None
Yuji Yamamoto			V	V	V	V	V	V	V	V	V	V		None
Kurt Roland Hellström			V	V	V	V	V	V	V	V	V	V	V	None
Lawrence Juen-Yee LAU	V			V	V	V	V	V	V	V	V	V	V	None
Eli Hong			V			V	V	V		V	V	V		None
Morton Huang		V	V			V	V	V	V	V	V	V		None
Chen-en Ko	V		V	V	V	V	V	V	V	V	V	V	V	3

Note: V indicates qualified Directors and Supervisors during the two years before being elected or during the term of the appointment.

(1) Not an employee of the Company or any of its affiliates.

(2) Not a director or supervisor of the company or any its affiliates. (Unless the person is an independent director of the company, or any subsidiary in which the company holds, directly or indirectly, more than 50 percent of the voting shares.)

(3) Not an individual shareholder who holds shares, together with those held by the person’s spouse, minor children, or held under others’ names, in an aggregate amount of one percent or more of the total outstanding shares of the company or ranks among the top ten shareholders who are natural persons in terms of the share volume held.

(4) Not a spouse, or relative within the second degree of kinship, or lineal relative within the fifth degree of kinship, of any the persons in the preceding three subparagraphs.

(5) Not a director, supervisor, or employee of a corporate shareholder that directly holds five percent or more of the total outstanding shares of the company or ranks among the top five corporate shareholders in term of share volume held.

(6) Not a director, supervisor, executive officer, or shareholder holding five percent or more shares of a specific company or institution and who also has financial or business dealings with the company.

(7) Not a professional, or owner, partner, director, supervisor, or executive officer and the spouse thereof of a sole proprietorship, partnership, company, or institution that provides commercial, legal, financial, accounting or consulting services to the company or to any affiliates of the company.

(8) Not a spouse, or relative within the second degree of kinship of any directors.

(9) Not has any of the circumstance in the subparagraphs of Article 30 of the Company Law.

(10) Not elected in the capacity of a government agency, a juristic person, or a representative thereof, as provided in Article 27 of the Company Law.

2-3. Major Shareholders of the Institutional Shareholders

2007/4/13

Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Yuang Ding Investment Co., Ltd.	Far Eastern Textile Ltd.(99.99%)
Yuang Ding Co., Ltd.	Far Eastern Textile Ltd.(37.13%)、Asia Cement Co., Ltd.(35.50%)、Der Ching Investment Corp.(14.50%)、Yuang Ding Investment Co., Ltd. (12.86%)、U-Ming Trading Co., Ltd.(0.01%)、Far Eastern Department Stores Co., Ltd.(0.00%)
NTT DoCoMo Inc.	Nippon Telegraph & Telephone(59.05%)、Japan Trustee Services Bank, Ltd.(Trust Account)(2.31%)、The Master Trust Bank of Japan, Ltd.(Trust Account)(2.06%)、State Street Bank and Trust Company 505103(0.74%)、Hero & Co.(0.62%)、Societe Generale Paris SGOP/DAI paris 6Z(0.52%)、Japan Trustee Services Bank, Ltd.(Trust Account4)(0.45%)、Northern Trust Company (AVFC)Sub-account American clients(0.44%)、Investors Bank And Trust Company(0.44%)、Nomura Securities Co., Ltd.(0.42%)
Yue Ding Industry Co., Ltd.	Fu-Da Transportation Co., Ltd.(26.95%)、An Ho Garment Co., Ltd.(26.50%) 、Yue-Tung Investment Co., Ltd.(25.36%)、Tou Fu Investment Corp.(4.61%)、Ta Juh Chemical Fibers Co., Ltd.(3.89%)、Ya-Li Precast & Prestressed Concrete Industries Corp.(3.89%)、Yu Ming Trading Co., Ltd.(2.59%)、Yuang Ding Co., Ltd. (2.59%)、Bai-Ding Investement Corp. (2.31%)、Ding Yuan International Investment Corp. (1.30%)
Far Eastern International Leasing Corp.	Dai-Yang Investement Co., Ltd.(28.88%)、Yuang Ding Investment Co., Ltd.(16.41%)、Kai Yuan International Investment Corp.(16.35%)、Yuan Ding Leasing Corp.(13.77%)、Der Ching Investment Corp.(9.87%)、Yue Yuan Investment Corp.(9.87%)、Bai-Ding Investment Corp.(4.84%)
Asia Investment Corp.	Asia Cement Co., Ltd.(100%)

Institutional Shareholder Representatives for Major Shareholders of the Institutional Shareholders

2007/4/13

Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Far Eastern Textile Ltd.	Asia Cement Co., Ltd. (23.77%)、Oriental Institute of Technology (4.81%)、Far Eastern Medical Foundation(3.48%)、Far Eastern Memorial Foundation (2.95%)、Yuan-Ze University(2.74%)、JP Morgan Chase Bank in Custody for the Euro-Pacific Growth Fund(2.33%)、National Financial Stabilization Fund(1.89%)、Douglas Hsu(1.59%)、Der Ching Investment Corp. (1.41%)、Bureau of Labor Insurance(1.34%)
Asia Cement Co., Ltd.	Far Eastern Textile Ltd.(24.05%)、Far Eastern Medical Foundation(5.03%)、Yu Yuan Investment Corp. (4.99%)、JP Morgan Chase Bank in Custody for the Emerging Markets Growth Fund(3.30%)、Far Eastern Department Stores Co.,Ltd.(2.02%)、Bai-Ding Investment Co., Ltd.(1.95%)、ADR-Asia Cement Co,. Ltd.(1.88%)、JP Morgan Chase Bank in Custody for the global Emerging Markets Fund of American Capital(1.60%)、Cathy Life Insurance Co., Ltd.(1.56%)、Far Eastern Construction Co,. Ltd.(1.45%)
Der-Ching Investement Corp.	Asia Cement Co., Ltd.(99.97%)、T.H. Chang(0.01%)、R.H.Shao(0.01%)、L.H.Fang (0.01%)
Yuang Ding Investment Co., Ltd.	Far Eastern Textile Ltd.(99.99%)
Fu-Da Transportation Co., Ltd.	Fu-Ming Transportation Co., Ltd.(99.90%)、Johnny Shih(0.03%)、T.C. Liu(0.03%)、K.Y.Lee(0.03%)
An Ho Garment Co., Ltd.	Far Eastern Textile Ltd.(100%)
Yue Tung Investment Co., Ltd.	U-Ming Marine Transport Corp.(100%)
Tou Fu Investment Corp.	Oriental Union Chemical Corp.(100%)
Ta Juh Chemical Fibers Co., Ltd.	Yuang Ding Investment Co., Ltd.(41.86%)、Yue Ding Industry Co., Ltd(38.76%)、Yue Li Investment Corp.(19.38%)
Ya-Li Precast & Prestressed Concrete Industries Corp.	Asia Cement Co., Ltd. (83.77%)、Far Eastern General Contractor Inc.(16.03%)
Yu-Ming Trading Co., Ltd.	Bai-Ding Investment Co., Ltd.(47%)、Yuang Ding Investment Co., Ltd.(45.50%)、Yue Ding Industry Co., Ltd.(5%)、Ding & Ding Management Consultants Co., Ltd.(1%)、Yuang Ding Co., Ltd. (1%)、Yuan Ding Leasing Crp.(0.5%)
Yuang Ding Co., Ltd.	Far Eastern Textile Ltd.(37.13%)、Asia Cement Co., Ltd. (35.50%)、Der-Ching Investment Corp.(14.50%)、Yuang Ding Investment Co., Ltd.(12.86%)、U-Ming Trading Co., Ltd(0.01%)、Far Eastern Department Stores Co., Ltd.(0.00%)
Bai-Ding Investement Corp.	Far Eastern Department Stores Ltd.(66.66%)、Dai-Yang Investement Corp.(33.34%)
Ding Yuan International Investment Corp.	Far Eastern Textile Ltd.(100%)
Dai-Yang Investement Corp.	Far Eastern Department Stores Co.,Ltd.(100%)
Kai Yuan International Investment Corp.	Far Eastern Textile Ltd.(100%)
Yuan Ding Leasing Co., Ltd.	Yuang Ding Investment Co., Ltd.(46.20%)、Asia Cement Co., Ltd. (43.60%)、Far Eastern Department Stores Co., Ltd.(9.20%)、Yue Yuan Investment Corp.(1%)
Yue Yuan Investment Corp.	Asia Cement Co., Ltd. (36.42%)、Yuang Ding Co., Ltd.(25.02%)、Yuang Ding Investment Co., Ltd.(19.05%)、U-Ming Marine Transport Corp. (17.66%)、Yue-Tung Investment Co., Ltd.(1.84%)、T.H.Chang(0.01%)

Note:The Major Shareholders of the Institutional Shareholders of the NTT DoCoMo Inc. can not be acquired by the limit of Japanese laws.

2-4. Executive Management

2007/4/13

Title	Name	Effective Date	Current Shareholding		Shares held by Spouse & Minor		Shares held in Name of Others		Major Education and Experience	Current Position with Other Company	Managers are Spouse or Consanguinity within 2nd Degree to Each Other		
			Shares	%	Shares	%	Shares	%			Title	Name	Relation
President	Jan Nilsson	2002.9.1	96,000	0.00	0	0.00	0	0.00	Sr. Executive VP of Satelindo Telecom Indonesia; M.S., Industrial and Management Engineering, Linkoping University	Director of Far Eastone Telecom Director of KG Telecom President of KG Telecom Director of Far Eastern Electronic Toll Collection Co., Ltd. Director of Ding Ding Integrated Marketing Service Co., Ltd. Director of KGEx.com Co., Ltd. Chairman of Far EasTron (Holding) Ltd. Chairman of Far Eastron Co., Ltd. Chairman of Yuan Cing Co., Ltd.	None	None	None
Executive VP, NT	Jeffey Gee	2004.5.1	0	0.00	0	0.00	0	0.00	Vice President, KG Telecom , MS, Mathematics, Missouri State University; MS, Computer Science, New York State University	Chairman and President of KGEx.com Co., Ltd.	None	None	None
Executive VP, IT	Eton Shu	2004.5.1	0	0.00	0	0.00	0	0.00	VP of information technology in KG Telecom; MS, Computer Science and Information Engineering, National Taiwan University	None	None	None	None
Executive VP, F&SS	Yvonne Li	2004.5.1	0	0.00	0	0.00	0	0.00	VP in Citibank Taiwan; Master of Accounting, University of Illinois at Urbana-Champaign	Supervisor of Oriental Union Chemical Corp. Supervisor of Far Eastern Electronic Toll Collection Co., Ltd. Supervisor of iScreen Co., Ltd. Supervisor of KGEx.com Co., Ltd. Supervisor of Far Eastron Co., Ltd. Supervisor of Yuan Cing Co., Ltd. Director of Far Eastern Info Service (Holding) Ltd. Director of Far Eastern Tech-info Ltd.(Shanghai)	None	None	None
Executive VP, CS&D	Benjamin Ho	2004.5.1	0	0.00	0	0.00	0	0.00	CMO of Motorola Asia Pacific Ltd. B.S. in Institute of Marketing, Stanford Group of College	None	None	None	None
Executive VP, BO	Philby Chen	2004.5.1	0	0.00	0	0.00	0	0.00	CFO in Tai Chia Technology Inc.; B.S., Accounting, Northern Arizona University	Supervisor of Far Eastern Department Stores Ltd. Chairman of ARCOA Communications Co., Ltd. Director of Yuan Cing Co., Ltd. Director of Far Eastern Info Service (Holding) Ltd. Director of Far Eastern Tech-info Ltd.(Shanghai) Director of THI Consultants Inc.	None	None	None
VP, NT	Herman Rao	2000.9.15	200,000	0.01	0	0.00	0	0.00	Director of AT&T Wireless; Ph.D. of Computer Science, Arizona University	None	None	None	None
VP, F&SS	David Tsai	2005.7.1	0	0.00	0	0.00	0	0.00	Manager of U-Ming Marine Transport Corp., EMBA of Yuan-Ze University	Supervisor of ARCOA Communications Co., Ltd.	None	None	None

Title	Name	Effective Date	Current Shareholding		Shares held by Spouse & Minor		Shares held in Name of Others		Major Education and Experience	Current Position with Other Company	Managers are Spouse or Consanguinity within 2nd Degree to Each Other		
			Shares	%	Shares	%	Shares	%			Title	Name	Relation
VP, F&SS	Jessica Chen	2005.4.18	0	0.00	0	0.00	0	0.00	Judge of Taipei District Court, Prosecutor of Shihlin Prosecutors Office, Lawyer of Lee and Li , B.S., Legal, National Taiwan University(LL.B.)	Director of KGEx.com Co., Ltd. Director of ARCOA Communications Co., Ltd. Director of Far Eastron Co., Ltd. Director of Yuan Cing Co., Ltd.	None	None	None
VP, CS&D	Jennifer Liu	2003.7.1	6,198	0.00	0	0.00	0	0.00	Special Assistant to Chairman, Far Eeastern Textile Ltd., MBA, New York University	None	None	None	None
VP, CS&D	Peter Yen	2005.10.17	0	0.00	0	0.00	0	0.00	Vice President of New Century Info Comm. Tech Co., Ltd; M.S., Computer Science & Architecture, North Carolina State University	None	None	None	None
VP, BO	Guang Ruey Chiang	2003.7.1	196,384	0.01	0	0.00	0	0.00	Director in LONG CHENG; M.S., Marketing, University of Kansas	Director and President of ARCOA Communications Co., Ltd.	None	None	None
VP, BO	Maxwell Cheng	2003.8.1	368,881	0.01	0	0.00	0	0.00	Brand Manager in Nestle Taiwan Group; M.S., Material Science and Engineering, University of Michigan	None	None	None	None
VP, BO	Samuel Yuan	2003.7.1	0	0.00	0	0.00	0	0.00	Director in Alive Networks HK; B.S., Financial Analysis & Management Information Systems, State University of New York	President of Yuan Cing Co., Ltd.	None	None	None
VP, BO	Maggie Mei	2006.1.1	97,822	0.00	0	0.00	0	0.00	Assistant Manager of Call Center, Citibank; International Trade, China University of Technology	None	None	None	None
VP,HR	Patrick Wu	2006.1.2	0	0.00	0	0.00	0	0.00	Executive Vice President of Human Resources in KGI Securities Co., Ltd.(Asia Pacific Region); Head of Human Resources in American Express Company (Taiwan); MBA, Leicester University	None	None	None	None
Chief Auditor	Doris Wu	2004.6.1	0	0.00	0	0.00	0	0.00	CFO of PSINET Taiwan, B.S., Accounting in California State University	None	None	None	None
Director, NT	S. C. Lee	2000.6.1	93,525	0.00	0	0.00	0	0.00	Sr. Project Manager of SIEMENS; Mechanical & Electrical Engineering Dept, National Taipei Institute of Technology	Director of KGEx.com Co., Ltd.	None	None	None
Director, NT	Howard Tsao	1998.10.22	0	0.00	0	0.00	0	0.00	Manager, Industrial Technology Research Institute; B.S.E.E., Chung-Yuen University	None	None	None	None
Director, NT	Tony Wang	2003.3.1	0	0.00	0	0.00	0	0.00	Manager, Yuan Ting Construction; M.S., Engineering, University of Texas at Austin	None	None	None	None
Director, NT	James Lee	2004.1.1	837	0.00	0	0.00	0	0.00	Director,KG Telecom; B.S., Electrical Engineering, Feng Chia University	None	None	None	None
Director, NT	Johnson Yuh	1999.7.1	0	0.00	0	0.00	0	0.00	Director,GE Capital Taiwan; M.S.,Management Science, National Chiao Tung University	None	None	None	None
Director, IT	Iris Su	2004.1.1	59,526	0.00	0	0.00	0	0.00	Manager, KG Telecom; MS of Computer Information System, Arizona State University	None	None	None	None

Title	Name	Effective Date	Current Shareholding		Shares held by Spouse & Minor		Shares held in Name of Others		Major Education and Experience	Current Position with Other Company	Managers are Spouse or Consanguinity within 2nd Degree to Each Other		
			Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director, IT	Leon Li	2004.1.1	0	0.00	0	0.00	0	0.00	Manager, KG Telecom; M.S., Computer Science, Monmouth University	None	None	None	None
Director, IT	Hae-Shung Ju	2004.1.1	0	0.00	0	0.00	0	0.00	Senior consultant, NCR , M.S., Computer Science, East Texas State University	None	None	None	None
Director, IT	Michelle Peng	2002.11.1	738	0.00	0	0.00	0	0.00	Software development Manager, Vondelon International Corp.; Electronic data process in Ming-Chung college	None	None	None	None
Director, IT	Jessica Sung	1999.10.25	0	0.00	0	0.00	0	0.00	MIS Manager, Janssen Cilag Taiwan, Johnson & Johnson; EMBA, National Taiwan University; CPA of California, USA	None	None	None	None
Director, IT	James Chen	2005.4.14	0	0.00	0	0.00	0	0.00	Engineering Supervisor, Fujitsu Corp.; Engineering Dept., Da Hwa University,	None	None	None	None
Director, F&SS	Stephen Tung	2003.3.1	0	0.00	0	0.00	0	0.00	Deputy Manager of Finance Dept., Walsin Liwa Corp; MBA, Management Science in Sonoma State University	None	None	None	None
Director, F&SS	Robert Chu	1999.11.1	217,201	0.01	0	0.00	0	0.00	Admin Manager of Honeywell Taiwan Ltd.; B.S., Finance and Taxation Fung Chia University	None	None	None	None
Director, F&SS	Sharon Lin	2003.12.8	13,709	0.00	0	0.00	0	0.00	Costing Manager of Vishay General Semiconductor Taiwan Ltd. M.S, Finance, University of Wisconsin	Supervisor of ARCOA Communications Co., Ltd.	None	None	None
Director, F&SS	Ann Chang	1997.8.4	16,526	0.00	0	0.00	0	0.00	Arthur Andersen CPA firm; M.S., Management science, National Chiao Tung University	None	None	None	None
Director, F&SS	Sharon Fan	2004.7.1	0	0.00	0	0.00	0	0.00	Management Controller of Credit Loynnais Taipei; MBA, University of Washington	None	None	None	None
Director, CS&D	Alison Kao	2005.10.24	0	0.00	0	0.00	0	0.00	Spokesperson,Core Pacific City Living Mall ; Public Affairs Manager & Spokesperson, Carrefour; MBA, Long Island University, NY, USA	None	None	None	None
Director, CS&D	Emily Liu	2005.7.1	10,990	0.00	0	0.00	0	0.00	Account Manager, Ogilvy & Mather Public Relation Taiwan; M.S., Public Relations, Boston University	None	None	None	None
Director, CS&D	Roger Chen	2004.1.1	0	0.00	0	0.00	0	0.00	Director, KG Telecom; M.S., Mechanical Engineering, National Taiwan university	Director of iScreen Co., Ltd.	None	None	None
Executive VP, BTD	Jay Shy (Note 1)	2004.5.1	55,000	0.00	0	0.00	0	0.00	Director, DBTEL International Ltd.; B.S., Information Engineering and Computer Science in Fang Chia University	Director of ARCOA Communications Co., Ltd. Chairman of iScreen Co., Ltd. Director and President of Far Eastron Co., Ltd. Director of Far Eastern Info Service (Holding)Ltd. Director of Far Eastern Tech-info Ltd.(Shanghai)	None	None	None
Director, NT	James Wu (Note 2)	2000.6.1	338,532	0.01	0	0.00	0	0.00	Director, TTN; B.S., Electronic Engineering, Chung Yuan University	None	None	None	None

Title	Name	Effective Date	Current Shareholding		Shares held by Spouse & Minor		Shares held in Name of Others		Major Education and Experience	Current Position with Other Company	Managers are Spouse or Consanguinity within 2nd Degree to Each Other		
			Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director, NT	James Lin (Note 2)	2000.3.13	0	0.00	0	0.00	0	0.00	Director, DBTEL; B.S., Electronic Engineering, National Taiwan University of Science and Technology	None	None	None	None
Director, NT	Paul Chang (Note 2)	2004.1.1	116,058	0.00	0	0.00	0	0.00	Director, KG Telecom; M.S., Automatic Control Engineering, Feng Chia University	None	None	None	None
Director, NT	Brian Shean (Note 2)	2004.1.1	247,461	0.01	0	0.00	0	0.00	Director, KG Telecom; B.S., Electrical Engineering, Feng Chia University	None	None	None	None
Director, NT	Jonathan Ou (Note 2)	2004.1.1	21,381	0.00	3,686	0.00	0	0.00	Director, KG Telecom; M.S., National Cheng Kung University	None	None	None	None
Director, NT	Bruce Yu (Note 2)	2000.6.1	0	0.00	0	0.00	0	0.00	Manager, HCL Technology; B.S., Information Engineering, National Chiao Tung University	None	None	None	None
Director,BO	Sharon Chao (Note 2)	2000.10.1	0	0.00	0	0.00	0	0.00	Account Director, Lintas Taiwan; B.S., English Literature, Tamkang university	None	None	None	None

Note 1: Jay Shy resigned on May 1, 2007.

Note 2: Who weren't executive manager after May 1, 2007.

2-5. Remuneration to Directors, Supervisors, President, and Vice Presidents

Remuneration to Directors

2006/12/31; NT$'000

<table>
<tr><th rowspan="3">Title</th><th rowspan="3">Name</th><th colspan="6">Remuneration to Directors</th><th rowspan="2" colspan="2">(A+B+C) Percentage of net income after tax (%)</th><th colspan="8">Remuneration to employees</th><th rowspan="2" colspan="2">Percentage of net income after tax (%)</th><th rowspan="3">Other remuneration from investment business except subsidiary</th></tr>
<tr><th colspan="2">Compensation (A)</th><th colspan="2">Remuneration paid from distribution of earnings (B)(Note 2)</th><th colspan="2">Operating allowance(C)</th><th colspan="2">Salary, bonus, special allowance (D) (Note 3)</th><th colspan="4">Bonus to employees from distribution of earnings (E)</th><th colspan="2">Number of held employee share subscription (F)</th></tr>
<tr><th>The company</th><th>Con-solidated</th><th>The company</th><th>Con-solidated</th><th>The company</th><th>Con-solidated</th><th>The company</th><th>Con-solidated</th><th>The company</th><th>Con-solidated</th><th>The company Cash bonus</th><th>The company Stock bonus</th><th>Consolidated Cash bonus</th><th>Consolidated Stock bonus</th><th>The company</th><th>Con-solidated</th><th>The company</th><th>Cons-olidated</th></tr>
<tr><td>Chairman</td><td>Douglas Hsu, Representative of Yuang Ding Investment Co., Ltd.</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">111,781</td><td rowspan="13">111,818</td><td rowspan="13">5,851</td><td rowspan="13">5,851</td><td rowspan="13">0.89</td><td rowspan="13">0.90</td><td rowspan="13">15,393</td><td rowspan="13">15,393</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">0</td><td rowspan="13">1.01</td><td rowspan="13">1.02</td><td rowspan="13">None</td></tr>
<tr><td>Managing Director</td><td>Champion Lee, Representative of Yuang Ding Investment Co., Ltd.</td></tr>
<tr><td>Managing Director</td><td>Peter Hsu, Representative of Yuang Ding Co., Ltd.</td></tr>
<tr><td rowspan="10">Director</td><td>Jan Nilsson, Representative of Yuang Ding Investment Co., Ltd.</td></tr>
<tr><td>Johnny Shih, Representative of Yuang Ding Co., Ltd.</td></tr>
<tr><td>S. T. Peng, Representative of Yue Ding Industry Co., Ltd.</td></tr>
<tr><td>Yuji Yamamoto Representative of NTT DoCoMo</td></tr>
<tr><td>Lawrence Juen-Yee LAU</td></tr>
<tr><td>Kurt Roland HellstrÖm</td></tr>
<tr><td>Peter Hsu, Representative of Yue Li Investment Corp.(Note 1)</td></tr>
<tr><td>Hsing-Yi Chen, Representative of Far Eastern Memorial Foundation (Note 1)</td></tr>
<tr><td>Leslie Koo, Representative of TCC Investment Corp.(Note 1)</td></tr>
<tr><td>Nelson Chang, Representative of TCC Investment Corp. (Note 1)</td></tr>
</table>

Note 1：The Directors before reelection on May 26, 2006.

Note 2：The remuneration from 2006 distribution of earnings is subject to approval of 2007 Shareholders' Meeting and not actual payment amount yet. The aforementioned remuneration paid to each seat of Director when allocating escalation is the average of total remuneration paid to the juristic Director.

Note 3：Including salary, position compensation, pension fund, bonus, transporting allowance, other compensation, other allowance, accommodation allowance, business vehicle…etc, among which accommodation allowance is NT$1,485 thousand for house rental and business vehicle is NT$823 thousand for car rental. In addition, the compensation paid to the driver is NT$815 thousand in total, but excluding in remuneration to employees.

Escalation for remuneration to Directors

Escalation for remuneration paid to individual directors of the Company (NTD)	Number of directors			
	Total of (A+B+C)		Total of (A+B+C+D+E)	
	The Company	All companies in the consolidated statement	The Company	All companies in the consolidated statement
Less than 2,000,000	6	6	6	6
2,000,000～5,000,000（inclusive of 2,000,000）	0	0	0	0
5,000,000～10,000,000（inclusive of 5,000,000）	2	2	2	2
10,000,000～15,000,000（inclusive of 10,000,000）	2	2	2	2
15,000,000～30,000,000（inclusive of 15,000,000）	3	3	3	3
30,000,000～50,000,000（inclusive of 30,000,000）	0	0	0	0
50,000,000～100,000,000（inclusive of 50,000,000）	0	0	0	0
More than 100,000,000	0	0	0	0
Total	13	13	13	13

The percentage of remuneration paid to Board of Directors over net income after tax in recent two years:

Year	The Company	All companies in the consolidated statement
2005	0.91%	0.91%
2006	0.89%	0.90%

Remuneration to Supervisors

2006/12/31; NT$'000

Title	Name	Remuneration to Supervisors						(A+B+C) Percentage of net income after tax (%)		Other remuneration from investment business except subsidiary
		Compensation (A)		Remuneration paid from distribution of earnings (B) (Note 2)		Operating allowance(C)				
		The company	Con-solidated	The company	Con-solidated	The company	Con-solidated	The company	Con-solidated	
Supervisor	Eli Hong, Representative of Far Eastern International Leasing Corp. Morton Huang, Representative of Asia investment Corp. Chen-en Ko Jenniffer Wang, Representative of Ta Ho Maritime Corp. (Note 1)	0	0	6,177	6,189	1,924	1,924	0.06	0.06	None

Note 1：The Supervisor before reelection on May 26,2006.
Note 2：The remuneration from 2006 distribution of earnings is subject to approval of 2007 Shareholders' Meeting and not actual payment amount yet.

Escalation for remuneration to supervisors

Escalation for remuneration paid to individual supervisors of the Company (NTD)	Number of supervisors	
	Total of (A+B+C)	
	The Company	All companies in the consolidated statement
Less than 2,000,000	2	2
2,000,000～5,000,000 （inclusive of 2,000,000）	2	2
5,000,000～10,000,000（inclusive of 5,000,000）	0	0
10,000,000～15,000,000（inclusive of 10,000,000）	0	0
15,000,000～30,000,000（inclusive of 15,000,000）	0	0
30,000,000～50,000,000（inclusive of 30,000,000）	0	0
50,000,000～100,000,000（inclusive of 50,000,000）	0	0
More than 100,000,000	0	0
Total	4	4

The percentage of remuneration paid to Board of Supervisors over net income after tax in recent two years:

Year	The Company	All companies in the consolidated statement
2005	0.04%	0.04%
2006	0.06%	0.06%

<u>The policy, criteria, composition, process to set remuneration for Board of Directors and Supervisors and the correlation with operational performance:</u>

There are three kinds of remuneration: compensation, remuneration paid from distribution of earnings and operating allowance. Compensation is set according to Article 15 of Articles of Incorporation of the Company: "As to the compensation for Chairman and Vice Chairman, it is proposed to authorize the Board of Directors with consideration of industry and listing companies' compensation level…(omitted)". For remuneration paid from distribution of earnings, the standard is set according to Article 26 of Articles of Incorporation of the Company: "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 1%~2% taken for bonus to employees, and 1% taken as remuneration to the directors and supervisors." Since the remuneration is taken as fixed percentage of the annual earnings, its amount has high correlation with operational performance of the Company. Operating allowance is major of transportation allowance, which is based on consideration of high tech industry, and is approved by the Board of Directors.

Remuneration to President and Vice Presidents

2006/12/31; NT$'000

Title	Name	Salary(A)		Bonus and special allowance(B) (Note 3)		Bonus to employees from distribution of earnings in 2006(C)(Note 4)				Percentage of net income after tax (%)		Number of held employee share subscription warrants		Other remuneration from investment business except subsidiary
		The Company	Consolidated	The Company	Consolidated	The Company		Consolidated		The Company	Consolidated	The Company	Consolidated	
						Cash dividend	Stock dividend	Cash dividend	Stock dividend					
President	Jan Nilsson													
Executive VP	Benjamin Ho													
Executive VP	Yvonne Li													
Executive VP	Jeffey Gee													
Executive VP	Philiby Chen													
Executive VP	Jay Shy (Note 1)													
Executive VP	Eton Shu													
VP	Herman Rao													
VP	Guang Ruey Chiang													
VP	Samuel Yuan	$75,573	$75,573	$20,240	$20,240	18,041	0	18,041	0	0.87	0.87	0	0	None
VP	Maxwell Cheng													
VP	Jennifer Liu													
VP	Jessica Chen													
VP	David Tsai													
VP	Maggie Mei													
VP	Peter Yen													
VP	Patrick Wu													
VP	Michael Lo (Note 2)													
Chief Auditor	Doris Wu													

Note 1：Jay Shy resigned on May 1, 2007

Note 2：Michael Lo resigned on September 30, 2006.

Note 3：Including salary, position compensation, pension fund, bonus, transporting allowance, other compensation, other allowance accommodation allowance, business vehicle…etc, among which accommodation allowance is NT$2,985 thousand for house rental and business vehicle is NT$4,224 thousand for car rental. In addition, the compensation paid to the driver is NT$815 thousand in total, but excluding in remuneration to employees.

Note 4：The remuneration from 2006 distribution of earnings is subject to approval of 2007 Shareholders' Meeting and not actual payment amount yet.

Escalation for remuneration to President and Vice Presidents

Escalation for remuneration paid to presidents and Vice Presidents of the Company (NTD)	Number of president and vice presidents	
	The Company	All companies in the consolidated statement
Less than 2,000,000	0	0
2,000,000～5,000,000（inclusive of 2,000,000）	11	11
5,000,000～10,000,000（inclusive of 5,000,000）	6	6
10,000,000～15,000,000（inclusive of 10,000,000）	1	1
15,000,000～30,000,000（inclusive of 15,000,000）	1	1
30,000,000～50,000,000（inclusive of 30,000,000）	0	0
50,000,000～100,000,000（inclusive of 50,000,000）	0	0
More than 100,000,000	0	0
Total	19	19

The percentage of remuneration paid to President and Vice Presidents over net income after tax in recent two years:

Year	The Company	All companies in the consolidated statement
2005	0.63%	0.63%
2006	0.87%	0.87%

<u>The policy, criteria, composition, process to set remuneration for President and Vice Presidents and the correlation with operational performance:</u>

There are three kinds of remuneration: salary, bonuses and special allowance, bonuses to employees paid from distribution of earnings. As salary is the compensation based on Article 15 of the Company Articles of Incorporation: "...(omitted). As to the compensation for President, it is proposed to authorize the Chairman of the Company to approve pursuant to related regulations of the Company. It is proposed to authorize the President of the Company to approve the compensation for Vice President and below managers according to related regulations of the Company."; As bonuses and special allowance is major of transporting allowance that three options can be chosen: fixed amount allowance or rental cars or allowance by mileage. As bonuses to employees paid from distribution of earnings, Article 26 of the Company Articles of Incorporation is followed: "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 1%~2% taken for bonus to employees, and 1% taken as remuneration to the directors and supervisors." Since the bonuses are taken as fixed percentage of the annual earnings, its amount has high correlation with operational performance of the Company.

Bonuses to Executive Officers

2006/12/31; Unit: NT$'000

	Title	Name	Stock dividend	Cash dividend (Note 3)	Total	Percentage of Net income after tax (%)
Executive Officer	President	Jan Nilsson	0	$48,472	$48,472	0.37
	Executive VP	Yvonne Li				
	Executive VP	Jay Shy (Note 1)				
	Executive VP	Philby Chen				
	Executive VP	Jeffey Gee				
	Executive VP	Benjamin Ho				
	Executive VP	Eton Shu				
	VP	Herman Rao				
	VP	David Tsai				
	VP	Maxwell Cheng				
	VP	Guang Ruey Chiang				
	VP	Samuel Yuan				
	VP	Jennifer Liu				
	VP	Patrick Wu				
	VP	Peter Yen				
	VP	Jessica Chen				
	VP	Maggie Mei				
	Chief Auditor	Dories Wu				
	Director	Ann Chang				
	Director	S.C. Lee				
	Director	James Chen				
	Director	Howard Tsao				
	Director	Alison Kao				
	Director	Tony Wang				
	Director	Stephen Tung				
	Director	Robert Chu				
	Director	Johnson Yuh				
	Director	Michelle Peng				
	Director	Jessica Sung				
	Director	Emily Liu				
	Director	James Lee				
	Director	Sharon Fan				
	Director	Hae-Shung Chu				
	Director	Roger Chen				
	Director	Sharon Lin				
	Director	Iris Su				
	Director	Leon Li				
	Director	James Wu (Note 2)				
	Director	James Lin (Note 2)				
	Director	Bruce Yu (Note 2)				
	Director	Jonathan Ou (Note 2)				
	Director	Paul Chang (Note 2)				
	Director	Brian Shean (Note 2)				
	Director	Sharon Chao (Note 2)				

Note 1：Jay Shy resigned on May 1, 2007

Note 2：Who weren't executive manager after May 1, 2007.

Note 3：The bounses to employees from distribution of earnings of 2006 have not been approved by the Shareholders' Meeting, just proposed distribution.

2-6. Name, Position and Bonuses Amount, of Top Ten Recipients of Bonuses Share:

Name (Note 1)	Position	Bonuses Amount (NT$, 000)(Note 2)			
		Cash Dividend	Stock dividend		
			Shares	Market Price	Amount
Jan Nilsson	President	11,702	0	Not Applicable	0
Benjamin Ho	Executive VP				
Eton Shu	Executive VP				
Yvonne Li	Executive VP				
Philby Chen	Executive VP				
Jay Shy (Note 3)	Executive VP				
Jeffey Gee	Executive VP				
Guang Ruey Chiang	VP				
Peter Yen	VP				
Herman Rao	VP				

Note 1：Names of employees with the same position are in order of Chinese last name.
Note 2：The bonuses to employees from distribution of earnings of 2006 have not been approved by the shareholder meeting, just proposed distribution.
Note 3：Jay Shy resigned on May 1, 2007.

3 Corporate Governance Executive Status

3-1. Executive Status of the Board of Director

Holding 6 times (A) of the Board Meeting, and the attendance status of Board of Directors and Supervisors in the recent Year：

Title	Name	Times of Attendance (B)	Times of by Attendance by Proxy (C)	Actual Percentage of Attendance (%)【B/A】	Percentage of Attendance (%)【(B+C)/A】	Remark
Chairman	Douglas Hsu, Representative of Yuang Ding Investment Co., Ltd.	6	0	100	100	Reappointment (Note 1)
Managing Director	Champion Lee, Representative of Yuang Ding Investment Co., Ltd.	5	1	83	100	Reappointment (Note 1)
Director	Jan Nilsson, Representative of Yuang Ding Investment Co., Ltd.	5	1	83	100	Reappointment (Note 1)
Managing Director	Peter Hsu, Representative of Yuang Ding Co., Ltd.	6	0	100	100	Reappointment (Note 1)
Director	Johnny Shih, Representative of Yuang Ding Co., Ltd.	4	0	80	80	Newly appointed (Note 2)
Director	S. T. Peng, Representative of Yue Ding Industry Co., Ltd.	3	1	60	80	Newly appointed (Note 2)
Director	Yuji Yamamoto Representative of NTT DoCoMo Inc.	6	0	100	100	Reappointment (Note 1)
Director	Hsing-Yi Chen, Representative of Far Eastern Memorial Foundation	1	0	100	100	Dismissed (Note 3)
Managing Director	Leslie Koo, Representative of TCC Investment Corp.	0	1	0	100	Dismissed (Note 3)
Director	Nelson Chang, Representative of TCC Investment Corp.	1	0	100	100	Dismissed (Note 3)
Independent director	Lawrence Juen-Yee LAU	5	0	83	83	Reappointment (Note 1) (Note 4)
Independent director	Kurt Roland Hellström	3	2	50	83	Reappointment (Note 1)
Supervisor	Eli Hong, Representative of Far Eastern International Leasing Corp.	4	0	67	67	Reappointment (Note 1)
Supervisor	Morton Huang, Representative of Asia investment Corp.	4	0	80	80	Newly appointed (Note 2)
Supervisor	Jenniffer Wang, Representative of Ta Ho Maritime Corp.	0	0	0	0	Dismissed (Note 3)
Independent Supervisor	Chen-en Ko	6	0	100	100	Reappointment (Note 1)

Other matters of importance:

1. If there are the circumstances referred to in Article 14-3 of Securities and Exchange Act and resolutions of the directors' meetings objected by independent directors or subject to qualified opinion and recorded or declared in writing, should specify the dates of meetings, sessions, contents of motions, all independents' opinion and the Company's response to independent directors' opinion: None
2. If there is directors' avoidance of motions in conflict of interest, should specify the directors' names, contents of motions, causes for avoidance and voting: The Company proposed a motion to donate the whole shares of Far Eastern Electronic Toll Collection Co., Ltd. to the R.O.C. Government unconditionally in the 4th term of Board of Directors, 3rd Meeting on August 22, 2006. Other than Chairman Douglas Hsu, Director Peter Hsu and Director Johnny Shih, who were the interested parties and, therefore, did not take part in the resolution, all of the six directors attending the meeting made the resolution for the donation without objection.
3. Objectives to improve the functions of the Board of Directors in the year and recent years (e.g. establishment of audit committee, and strengthen disclosure of information, etc.) and evaluation on the execution thereof: The Company has resolved at the 3rd term of the Board of Directors, 25th Meeting on March 3, 2006 to amend the Articles of Incorporation to establish the audit committee or any other functional committees and also approved that the regulations governing authority of the committees shall be included into the authority of the Board of Directors. Meanwhile, it was resolved at the 4th term of Board of Directors, 6th Meeting on February 9, 2007 that the audit committee was changed into the quasi-audit committee otherwise it will be confused with the "audit committee" referred to in Article 14-4 of the Securities and Exchange Act. The resolutions will be executed in a timely manner upon approval of the general shareholders' meeting in 2007.

Note 1: The reelected after the reelection of directors/supervisors at the general shareholders' meeting on May 26, 2006; required attendances: 6 times

Note 2: The newly elected after the reelection of directors/supervisors at the general shareholders' meeting on May 26, 2006; required attendances: 5 times

Note 3: The dismissed after the reelection of directors/supervisors at the general shareholders' meeting on May 26, 2006; required attendance: 1 time

Note 4: Director Lawrence Juen-Yee LAU was supposed to attend the 4th term of Board of Directors, 5th Meeting in the form of videoconference on December 27, 2006. However, the video connection did not work, because of the severe earthquake in Taiwan for the previous day. Therefore, He attended the meeting in the form of conference call. According to the laws, the attendance in the form of conference call cannot be counted as a formal attendance. If it could be, the actual attendance rate would have been 100%.

3-2. Executive Status of the Audit Committee: The Company has not established the audit committee so it is not applicable.

3-3. Corporate Governance Execution Status and Deviations from 'Corporate Governance Best-Practice Principles for TSEC/GTSM listed Companies' and Its Reasons

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.	The Company's spokesperson and the contracted stock transfer agent, Oriental Securities Co., Ltd. handles shareholder's suggestions or inquiries. And the Legal & Regulatory Division deals with disputes or legal cases.	
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 TSEC Listed Companies.	Comply with the "Corporate Governance Best-Practice principles for TSEC/GTSM listed 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 "Agreement governing the relevant financial and business operations between company and affiliated enterprises". 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	Two independent directors were reelected in the regular shareholders' meeting in 2005, namely Lawrence Juen-Yee Lau and Kurt Roland HellstrÖm.	Comply with the "Corporate Governance Best-Practice principles for TSEC/GTSM listed Companies".
2-2 Evaluation of the independence of the Company's appointed CPA	The company evaluates the independence of the CPA engaged by the company regularly and annually, including appointment and CPA public expense.	

3. Structure and duties of supervisors 3-1 Status of appointing independent supervisors 3-2 Communications between supervisors and the Company's employees and shareholders	One independent supervisor was reelected in the regular shareholders' meeting in 2005, namely Chen-en Ko. The Company has set up the supervisor's mailbox that employees and shareholders have adequate access to the supervisors for communications.	Comply with the "Corporate Governance Best-Practice principles for TSEC/GTSM listed Companies".
4. Communication with the stakeholders	Suggestions or disputes by stakeholders have adequate connect with the Company's spokesperson, supervisor's mail box , and contracted stock transfer agent, Oriental Securities Co.	Comply with the "Corporate Governance Best-Practice principles for TSEC/GTSM listed Companies".
5. Information disclosure 5-1 The Company website discloses financial, operational and corporate governance related information 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, etc.)	The Company's corporate website address is: www.fareastone.com.tw, in order to enhance the accuracy and timeliness of the material information disclosed. The Company has set up English web sit and appoints personnel responsible for gathering and disclosing the financial and business relevant information, process of institutional investors meeting, etc.	Comply with the "Corporate Governance Best-Practice principles for TSEC/GTSM listed Companies".
6. Establishment of nomination, compensation or any other functional committees	The Company has resolved at the 3rd term of the Board of Directors, 25th Meeting on March 3, 2006 to amend the articles of incorporation to establish the audit committee or any other functional committees and also approved that the regulations governing authority of the committees shall be included into the authority of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors, 6th Meeting on February 9, 2007 that the audit committee was changed to the quasi-audit committee otherwise it will be confused with the "audit committee" referred to in Article 14-4 of the Securities and Exchange Act.	The functional committees will be executed in a timely manner upon approval of the general shareholders' meeting in 2007.

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:

Though the Company has not yet defined its governance practices in accordance with the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies, as stated in the deviation of such implementation from the Corporate Governance Best-Practice Principles for TSEC/GTSM Listed Companies, and the reason(s) for any such deviation, the Company substantially has implemented the relevant requirements provided in such Principles in the spirit of corporate governance and will have the Board of Directors enact the "corporate governance practices" in good time.

8. Execution of the social responsibilities

2006 Charity Activities:

Active Involvement in Charities, Proactive and Innovative Marketing

The Company strongly believes that involvement in public welfare is an indispensable part of a modern corporation's social obligations and we must become responsible corporate citizens. In response to recent changes in the media, society and environment, the Company this year also changed its approach to involvement in charity activities. Rather than continuing with our low profile approach to corporate philanthropy we have now adopted a more visible manner in our involvement in order to expand the reach of our efforts and strengthen our promotional effects.

"Your Love, Our Passion" – Supporting Children's Education

In 2006 from January to March the Company and World Vision Taiwan launched a joint campaign based on the theme "Your Love, Our Passion". Through donation boxes at our 375 direct-owned and franchisee stores around Taiwan, we encouraged customers to donate their spare change and help students from poor families with school costs and accommodation subsidies as well as children's development classrooms in isolated areas. The campaign enabled World Vision to help approximately 40,000 Taiwanese children and youths to attend schools well so that children from poor families can receive a good education and realize the dream of going to school. The Company also invited many star players from the Uni-President Pro Baseball Team "Lions" to participate in a charity action held at the Company Guancian Concept Store with the proceeds going to help with the education of children from poor families.

"**Love closes Distance**" **– Helping young people return to their families**

To raise public awareness of the increasing severity of youth issues, the Company has continued to introduce "Love close Distance" case in partnership with the "Teacher Chang" Foundation in the first half of 2006. These include: speaking tours at junior and senior high schools around Taiwan, parent-children communication seminars designed for parents, parent development group training courses, training community communication promoters. These hope to stimulate parent and children interactions, strengthen young people's personal communication skills, improve family relationships and promote social harmony. These goals to help young people return to their families and spread love to the edge of Taiwan.

"Saving life, saving children" – Let Love show the way to happiness

The Company and the Children Welfare League collaborated on the "Saving life, saving children" annual fundraising event in August. With "Let Love show the way to happiness" as the event theme, the popular group S.H.E. was invited to become the event's ambassadors of love and mobilize the Company and ARCOA's 700 plus stores around Taiwan. By encouraging customers to donate their spare change at stores and donating directly by dialing "380" from their mobile phones, the funds raised were used to help children that must go into foster care due to family reasons. Through the campaign, these children now have the chance to find the way to happiness.

Advertising theme "He's got the whole world in your hands" adapted for charity album

Recognizing the serious social problem of abandoned children, the Company adapted our advertising theme "He's got the whole world in your hands" into a variety of musical styles such as R&B, Hip Hop, Jazz and more. These were recorded by Universal Music's new talent Alicia (Pan Wei-yi) as a charity album in order to bring love, compassion and hope through her voice to every corner of the world. For every NT$170 donated by the general public they received a "He's got the whole world in your hands" album from the Company in order to thank them for their charity.

Through the passionate participation of the general public, the Company employees, our corporate partners and the Company affiliates, this campaign was a great success and over five million dollars were raised over three months. The funds went to help the Children Welfare League's "Saving life, saving children–Abandoned Children Care Fund" to give foster children from broken homes or saved abused children for a brighter future. This was also the first time that a mobile operator had adapted its advertising theme and used it for a charity album.

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

9-1 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	2005/2/24	2005/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for TSEC/GTSM listed Company	3
		2005/2/24	2005/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
		2005/11/30	2005/11/30	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2006/8/18	2006/8/18	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
Managing Director	Champion Lee	2005/2/24	2005/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for TSEC/GTSM listed Company	3
		2005/2/24	2005/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
		2005/11/30	2005/11/30	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2006/8/18	2006/8/18	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
Director	Jan Nilsson	2005/2/24	2005/2/24	Underwriting Dept. of Grand	Advanced Study of Securities Regulation for	3

				Cathay Securities Corp. Corporate	TSEC/GTSM listed Company	
		2005/2/24	2005/2/24	Governance Association	Corporate Governance and Risk Management	3
		2006/8/18	2006/8/18	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
Director	Johnny Shih	2006/8/18	2006/8/18	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
Managing Director	Peter Hsu	2005/2/24	2005/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for TSEC/GTSM listed Company	3
		2005/11/30	2005/11/30	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2006/8/18	2006/8/18	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
Director	S.T.Peng	2005/2/24	2005/2/24	Underwriting Dept. of Grand Cathay Securities Corp. Corporate	Advanced Study of Securities Regulation for TSEC/GTSM listed Company	3
		2005/2/24	2005/2/24	Governance Association	Corporate Governance and Risk Management	3
Supervisor	Eli Hong	2005/2/24	2005/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for TSEC/GTSM listed Company	3
		2005/2/24	2005/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
		2006/8/18	2006/8/18	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
Supervisor	Morton Huang	2006/8/18	2006/8/18	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3

9-2 Company's Risk management Organization:

9-2-1. Executive Management Team

This is Far EasTone's highest level of supervisory unit on corporate security policy.

9-2-2. Corporate Securities Committee

(1) This is the Company's security policy decision-making unit and it is guided by policies set out by the Executive Management Team.

(2) The Committee is a permanent inter-division committee composed of Corporate Security, Divisional Security Officers and Functional Security Representatives.

(3) The Committee's Sponsor is selected from the Committee Chairman's parent division. It must be the highest-level executive from those who can participate in Executive Management Team meetings. They are responsible for supervising the Committee's meetings on regular administration affairs, and are also responsible for liaising between the Executive Management Team and the Corporate Security Committee.

(4) The Committee holds a meeting once a month, which is to be called by the Corporate Security. Additional meetings can be held when necessary if approved by the Committee Sponsor.

9-2-3. Corporate Security

(1) This is the top-level management unit for the Company's corporate security policy.

(2) It is responsible for the formulation, revision, announcement, implementation, auditing and authorization of exceptions of corporate security and other security related policies.

(3) The position of Corporate Security Officer is to be held by the head of Corporate Security. The CSO is responsible for promoting and supervising the management of the Company's security related management

issues (including but not limited to the investigation of corporate security incidents) as well as serving as the Chairman of the Corporate Security Committee.

9-2-4. Divisional Security Officer:

(1) The Divisional Security Officer is a full-time position that is to be filled by an Assistant Manager or higher as assigned by each business division's executive deputy general manager. The tenure is for one year, and where necessary the assignment may be extended at the discretion of each business division's executive deputy general manager.

(2) The DSO is a core member of the Corporate Security Committee, and acts as that business division's corporate security representative.

(3) The DSO's responsibilities are as follow:

a. Establish and maintain the business division's security mechanisms including the formulation, specification and auditing of relevant policies.

b. Serve as the channel for communications between colleagues in their business division and .the Corporate Security Committee.

c. Communicate Corporate Security Committee resolutions or announcements to colleagues within the division.

d. Serve as each division's contact point when the Corporate Security Committee is implementing various programs.

e. Confirm and review that their division's colleagues are complying with security policies, managing exceptions according to regulations, as well as setting time limits on use of exceptions.

f. Confirm and review their division's use and management of customer data, including but not limited to the storage or destruction of records for future inspection.

g. Supervise their business division's security management of non-FET employees when they are working on the Company business sites.

9-2-5. Functional Security Representative:

(1) To bring together all divisions within the Company organization related to corporate security, all functional departments should provide a representative to the Corporate Security Committee.

(2) The Functional Departments refers to:

a. Legal and Regulatory (F&SS / L&R);

b. Public Relations (CS&D / Public Relations);

c. Customer Fraud Management (BO / CS&C / Fraud);

d. Consumer Sales & Service (BO / Consumer Sales);

e. Human Resources (PO / HR);

f. General Security (F&SS / General Security);

g. Service Network Operation (NT / NMC / SNO);

h. IT Security Technology (IT / S&QM / IT Security);

i. Other divisions determined as functional department by the Corporate Security Committee.

(3) The Functional Security Representative may also be their division's Divisional Security Officer.

9-3 Execution of policies to protect consumers or customers: The Company has followed up the related policies.

9-4 The company's purchase of liability insurance for directors and supervisors: The insurance coverage and necessity are still under assessment and will be subject to the resolution of the board of directors.

9-5 Employees' code of conduct or ethics

It is necessary for each employee to sign the "employees' code of conduct" and "non-disclosure agreement" and declare his/her agreement to comply with the "employees' manual" and "work rules" in his/her "employment contract". The said documents will be kept in the employees' files and disclosed on the Company's intranet to be available to all employees. The contents of the documents are briefed as following:

a. Employees' code of conduct, including: (1) the liability for making good use of and maintaining the Company's resource; (2) the Company's gifts and premiums must comply with the commercial customs, laws and code of ethics; (3) code of conduct outside the Company; (4) code of conduct inside the Company; (5) Code of social intercourse; (6) Social courtesy; (7) confidentiality of the Company's information; (8) internal information management; (9) information must be recorded and maintained in good faith.

b. Non-disclosure agreement, including (1) definition of confidential information; (2) assignment of rights; (3) non-disclosure obligation; (4) legal effect for breach of the agreement and liability thereof; (5) effect upon termination of the employment relationship; (6) successors and assignment of rights; (7) governing law and jurisdiction.

c. Employment contract, including (1) date of hiring; (2) salary; (3) bonus; (4) benefit; (5) special leave; (6) insurance; (7) transfer; (8) work hours; (9) health examination; (10) code of management.

d. Employees' manual, including (1) recruitment and appointment; (2) salary and benefit; (3) training and development; (4) compensation and pension for occupation disaster; (5) entrance guard security; (6) service of labor safety and health; (7) code of conduct and non-disclosure undertaking; (8) information service and rules for emails; (9) service of workers' benefit commission; (10) channel of communication.

e. Work rules including (1) employment, severance and resignation; (2) wage and bonus; (3) work hours, rest, vacation and leave; (4) retirement; (5) performance appraisal and reward/punishment; (6) compensation and pension for occupation disaster; (7) benefit measures and safety and health.

9-6 The personnel related to the Company's financial information that obtained the relevant licenses designated by the competent authorities

R.O.C. CPA: three persons in the financial and accounting departments and the auditing department

U.S.A. CPA: three persons in the financial and accounting departments and the auditing department

R.O.C. internal auditors: five persons in the financial and accounting departments and the auditing department

Computer internal auditor: two persons in the auditing department

BS7799 internal auditor: one person in the auditing department

Bond personnel's proficiency test held by Securities and Futures Institute: one person in the financial and accounting departments

Stock personnel's proficiency test held by Securities and Futures Institute: one person in the financial and accounting departments

9-7 Self-evaluation result, major defects or suggestions and improvement of corporate governance:

The Company has made a preliminary self-evaluation on its current condition according to the corporate governance evaluation:

(1) Protect shareholders' equity and interests:

a. The Company treats all shareholders fairly, ensures shareholders' rights of being fully informed of important matters and information, and provides comprehensive rules in accordance with the Company Law and relevant laws to encourage shareholders to actively participate in the corporate governance. The Company designates the personnel exclusively dedicated to handling shareholders' proposals, inquiries and suggestions.

b. The Company has also enacted the "relevant regulations governing the financial and business operations between affiliated enterprises" to conduct the risk management mechanism and establish appropriate firewalls.

(2) Strengthen functions of the Board of Directors:

a. The Company has enacted the rules for proceedings of board meetings to enhance the operational efficiency and decision-making capability of the board. There have been two independent directors elected at the shareholders' meetings to ensure that the Board of Directors will exercise its functions objectively and fairly.

b. When the board deliberates on other material financial or operational transactions, sufficient consideration shall be given to the opinion of the independent directors.

c. The Company will establish and enact the functional committees related to the corporate governance, the relevant regulations and rules governing independent directors' functions in a timely manner upon evaluation.

d. The Company has not yet purchased the liability insurance for directors, but will report it to the Board of Directors for examination after conducting thorough investigation and evaluation on the contents and essentiality of the insurance.

(3) Fulfill the function of supervisors:

a. The Company has three supervisors, including one independent supervisor. The supervisors may audit the Company's operating business from time to time and the execution of the Company's internal control system.

b. The supervisors have held meetings with the Company's management periodically and made suggestions in writing to strengthen the Company's risk management and financial/operational management.

c. The Company has not yet purchased the liability insurance for supervisors, but will report it to the Board of Directors for examination after conducting thorough investigation and evaluation on the contents and essentiality of the insurance.

(4) Ensure the management's discipline:

a. The Company has a complete internal control system and conducts the self-examine faithfully; the board of directors and the management review the result of the voluntary reviews of each department and the report of the internal audit department at least annually.

b. Supervisors also pay attention to and exercise oversight of the internal control system to ensure that the system can be carried out effectively on a continuous basis and to fulfill the corporate governance.

(5) Respect stakeholders' rights and interests:

a. In order to protect and respect stakeholders' rights and interests, the Company has established the various fair and workable communication channels. When stakeholders legal rights are harmed upon, the company will handle such matter in a proper manner and in good faith.

b. In developing its normal business and maximizing the shareholders' interests, the Company has paid attention to consumers' interest, environmental protection of community and public interest issues, and has high regard for the social responsibility of the Company.

(6) Enhance information transparency

a. The Company has established websites in Chinese and English versions to disclose the financial, business, corporate governance information and held an institutional investor meeting in accordance with laws and regulations of the TSEC and GTSM. The Company also designated the specified personnel dedicated to collection and disclosure of the Company’s information.

b. The Company has established the spokesperson system to ensure the proper and timely disclosure of information about policies that might affect the decisions of shareholders and stakeholders.

3-4. Internal Control System Execution Status

(1)

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

Date: February 9, 2007

Based on the self-examination results of the internal control system for January 1, 2006 to December 31, 2006 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 degree that effectiveness and efficiency of business operation and financial objectives achieved
  2. The reliability of the financial and related reports
  3. The compliance of the relevant laws/regulations and internal policies
  4. Safeguard of company assets and information

II. Limitations that may hinder the effectiveness of an otherwise adequate system of controls include resource constraints, faulty judgments, unintentional errors, and circumvention by collusion, and management overrides. The presence of these limitations may not always be detected by the audit. Controls cannot prevent all problems because they would not be cost-effective. Moreover, the effectiveness of controls changes over time. Since the Company internal control system has included self-examination capability, the Company will make immediate corrections considering materiality when material 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). 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 Guidelines.

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 and financial objectives achieved
  2. The reliability of the financial and related reports
  3. The compliance of the relevant laws/regulations and company policies
  4. Safeguard of company assets and information

VI. This Declaration is a significant item in the Company annual report and prospectus available to the general public. If it contains false information or omits any material contents, the Company is in violation of Article 20, Article 32, Article 171 and Article 174 set forth in the ROC Security and Exchange Law.

VII. The board of directors has approved the Declaration of Internal Control System in the board meeting held on February 9, 2007.

Far EasTone Telecommunications Co., Ltd.

Chairman: Douglas Hsu **President: Jan Nilsson**

(2) The investigative report of entrusting CPA to examine the internal control system: None

3-5. In Recent Years until the Annual Report being Published, Violation of Internal Control Policies by Employees:

3-5-1 Penalty to the Company pursuant to laws:

a. TSEC informed the Company via its letter under TSEC ruling No. 0950101447 dated June 9, 2006 that the Company was fined NT$30,000 for violation of the "Rules Governing Reporting Operation of Listed Companies' Information" resulting from the Company's failure to report to TSEC the date of suspension period for Year 2005 cash dividends at least within 12 business days before the date of changing the roster of shareholders.

b. Major defects and improvements:

With respect to the relevant announcements about distribution of cash dividends for 2005, the Company has posted the following information on M.O.P.S within the specific time limit pursuant to the relevant requirements: (1) material information and (2) general shareholders' meetings and distribution of dividends – the relevant information applicable upon identification of the shareholders' meetings. The aforementioned public information fully disclosed the cash dividends distributed in 2005, suspension period for cash dividends, ex-dividend date and date of release of cash dividends. The Company has also informed TDCC in written documents of the aforementioned information within the specific time limit. However, it failed to disclose the "record date for determining the entitlement to dividends" and, therefore, the Company was fined. The Company will act carefully thereafter, and the relevant personnel will read the relevant laws carefully and report the information pursuant to the requirements.

3-5-2 The penalty to the internal relationship person: None.

3-6. In Recent Years until the Annual Report being Published, Major Resolution of Shareholder's Meetings and Board Meetings

Date	Resolutions of Shareholders' Meetings
March 3, 2006	**Matters to be discussed** (1) Approval of the Company's financial statement for 2005. (2) Approval of the Company's distribution of earnings for 2005. (3) Approval of the amendments to the Company's articles of incorporation. (4) Approval of the amendments to the Company's "procedure for acquisition or disposition of assets". (5) Approval of the amendments to the Company's "procedure for endorsement and guaranty". (6) Approval of the amendments to the Company's "procedure for granting loans". (7) Approval of the amendments to the Company's "Rules Governing the Conduct of the Board Meeting". (8) The terms of office of the Company's directors and supervisors in 3rd term will expire on May 22, 2006 and approval of the directors/supervisors reelection. (9) Approval of the release of the non-competition restriction on directors in accordance with Article 209 of the Company Law. (10) Approval of the dates and agenda of the Company's Shareholders' Meeting in 2006. (11) Approval of the financial forecast for 1st quarter of 2006.
May 26, 2006	**Matters to Discussed** (1) Approval of the financial forecast for 2nd quarter of 2006. (2) Approval of the record date of the ex-cash dividend for 2005 as June 19, 2006. (3) Approval of the proposal to provide endorsements / guarantees to FETC for its bank facility. The Chairman is authorized, by the end of Year 2006 and with the amount under NTD 500,000,000, to determine on behalf of the Company and to be ratified by the Board immediately held after the completion thereof.
August 22, 2006	**Matters to Ratified** **(1)** Approval of the proposal to provide endorsements / guarantees provision to FETC. **Matters to Discussed** (1) Approval of the Company's financial statement for first half of 2006. (2) Approval of the financial forecast for 3rd quarter of 2006. (3) Approval of the donation of all FETC shareholding to ROC government without condition.
November 7, 2006	**Matters to Discussed** (1) Approval of the financial forecast for 4th quarter of 2006.
December 27, 2006	**Matters to Discussed** (1) Approval of the capital loaning to FETC.
February 9, 2007	**Matters to Discussed** (1) Approval of the Company's financial statement for 2006. (2) Approval of the amendment to the Company's Articles of Incorporation. (3) Approval of the amendment to the Company's "Rules Governing the Conduct of the Board Meeting". (4) Approval of the dates and agenda of the Shareholders' Meeting in 2007. (5) Approval of the financial forecast for 1st quarter of 2007.
February 14, 2007	**Matters to Discussed** (1) Approval of the acquisition of 36,459,930 shares of Q-Ware Communications Co., Ltd. at NTD 13.60 per share, or NTD 495,855,048 in total, for the expansion of wireless services offered.
April 19, 2007	**Matters to Discussed** (1) Approval of the Company's financial forecast for 2nd quarter of 2007. (2) Approval of the mutual guarantee with KG Telecommunications Co., Ltd. and the provision of KGEx.com Co., Ltd. guarantee due to performance bond requirement upon telecom product / service certificate. (3) Approval of the Company's distribution of earning for 2006 (4) Approval of the amendment to "Procedures for Handling Acquisition or Disposal of Assets" of the Company. (5) Approval of the amendment to "Procedures for Making Endorsements and Guarantees" of the Company. (6) Approval of the amendment to "Rules Governing the Conduct of Board Meeting" of the Company.

	(7) Approval of the amendment to "Directors and Supervisors Election Guidelines" of the Company. (8) Approval of the amendment to Year 2007 Annual Shareholders' Meeting's agenda.
April 30, 2007	**Matters to Discussed** (1) Approval of the capital reduction of the Company. (2) Approval of the amendment to Year 2007 Annual Shareholders' Meeting's agenda.

Date	Resolutions of Shareholders' Meetings	Execution
May 26, 2006	Resolutions in the Annual Shareholders' Meeting of Year 2006	
	Matters to be reported	
	1. Business report of Year 2005	
	2. Financial report of Year 2005	
	3. Review of the Year 2005 closing report by Supervisors	
	4. The amendment to "Rules Governing the Conduct of the Board Meeting"	
	Matters to be approved	
	1. Approval of the Year 2005 closing report	
	2. Approval of the proposal regarding Year 2005 earnings distribution (Cash dividend per share NT$3.1)	June 19, 2006 was fixed to be the record date of ex dividend, and cash dividend was released on July 12, 2006
	Matters to be discussed	
	1. Approval of the amendment to the Company's Articles of Incorporation	Operating pursuant to amended Articles of Incorporation
	2. Approval of the amendment to the Company's "Procedures for Handling Acquisition or Disposal of Assets"	Operating pursuant to the amended Procedures
	3. Approval of the amendment to the Company's Operational Procedures for Endorsements/Guarantees	Operating pursuant to the amended Procedures
	4. Approval of the amendment to the Company's Operational Procedures for Loaning Funds to Others	Operating pursuant to the amended Procedures
	5. Approval of the release of the non-competition restrictions on directors	Resolution being complied with
	Election	**Name list of elected**
	1. Reelection of nine directors and three supervisors	Newly directors: 1. Douglas Hsu, Representative of Yuang Ding Investment Co. Ltd. 2. Lawrence Juen-Yee LAU (Independent director) 3. Kurt Roland Hellström (Independent director) 4. Champion Lee, Representative of Yuang Ding Investment Co. Ltd. 5. Johnny Shih, Representative of Yuang Ding Co. Ltd. 6. Peter Hsu, Representative of Yuang Ding Co. Ltd. 7. Jan Nilsson, Representative of Yuang Ding Investment Co. Ltd. 8. Yuji Yamamoto, Representative of NTT DoCoMo 9. S. T. Peng, Representative of Yue Ding Industry Co. Ltd. Newly supervisors: 1. Eli Hong, Representative of Far Eastern International Leasing Corp. 2. Chen-en Ko(Independent Supervisor) 3. Morton Huang, Representative of Asia investment Corp.

3-7. In Recent Years until the Annual Report being Published, Dissenting Comments on Major BOD Resolutions from Directors and Supervisors

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 2005 and 2006 as of the publication date of the Annual Report: None

3-8. The Resigned Situation of the Officers (Including Chairman, President, Accounting Manager, And Internal Auditor Manager) being Relationship to Financial Report: None

4 Public Expenses of CPA

4-1. In the event that the non-audit public expenses paid to CPA, the CPA's office and the affiliates account more than one-fourths of the audit public expenses, the amount of audit and non-audit public expenses and contents of non-audit services:

Accounting Firm	Name of CPA		Audit Fee (NT$'000)	Non-audit Fee					Whether the Certified Public Accountant's Audit Period Covers an Entire Fiscal Year			Note (NT$'000)
				System Design	Registration	Human Resource	Other (NT$'000)	Total (NT$'000)	Yes	No	Audit Period	
Deloitte & Touche	Benjamin Shih	Annie Lin	$11,000	None	None	None	$1,380	$1,380	V		2006.01.01~ 2006.12.31	Non-audit Fee mainly including service fee for administration succor and transfer pricing

4-2. In the event that the CPA firm is changed and the audit public expenses paid in the year when the CPA firm is less than that paid in the preceding year, reduction of the audit public expenses, percentage and causes: Not applicable

4-3. In the event that the audit public expenses reduce by 15% compared with that was charged in the preceding year, reduction of audit public expenses, percentage and causes: Not applicable

5 Information for change of CPA

5-1. Regarding the former CPA

Date of change	Nov. 2005		
Cause and explanation	The original CPA, Edward Y. Wei, was changed to CPA Benjamin Shih, because of the internal transfer and arrangement taking place in Deloitte & Touche.		
Specify whether appointer or CPA terminates or rejects the appointment	Concerned party Circumstance	CPA	Appointer
	Terminate the appointment voluntarily	√	
	Reject (refuse to accept) the appointment		
The comments and causes for issue of the audit report other than retained opinions within the latest two years	No		
Disagreement with the publisher	Yes		Accounting principles or practices
			Disclosure of financial statement
			Scope or steps of audit
			Others
	No	√	
	Please specify it.		
Other information to be disclosed (to be disclosed according to Item 2(1).4 of Article 20-2 of the Principles	No		

5-2. Regarding the succeeding CPA

Name of office	Deloitte & Touche
Name of CPA	CPA Benjamin Shih
Date of appointment	November 2005
Accounting measures or principles with respect to certain transactions prior to the appointment and inquiries and result as to the comments likely to be issued with respect to the financial statement	Not applicable
Succeeding CPA's written opinion towards the disagreement with the former CPA	Not applicable

5-3. The former CPA's response to the issues referred to in Article 10.5.1 and Item 3 of Article 10.5.2 of the Regulations Governing Information to Be Published in Annual Reports of Public Companies.: Not applicable

6 The Company's chairman, president and managers responsible for finance or accounting who have held a post in the CPA office or its affiliated within the latest one year:

None

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

7-1. Shareholding Variation:

Title	Name	2006		2007/4/13	
		Shares Increased (Decreased)	Pledged Shares Increased (Decreased)	Shares Increased (Decreased)	Pledged Shares Increased (Decreased)
Chairman	Douglas Hsu, Representative of Yuang Ding Investment Co., Ltd. (Note 1)	0 *0	122,800,000 *0	0 *0	18,800,000 *0
Managing Director	Champion Lee, Representative of Yuang Ding Investment Co., Ltd. (Note 1)	0 *0	122,800,000 *0	0 *0	18,800,000 *0
Director	Jan Nilsson, Representative of Yuang Ding Investment Co., Ltd. (Note 1)	0 *71,000	122,800,000 *0	0 *0	18,800,000 *0
Managing Director	Peter Hsu, Representative of Yuang Ding Co., Ltd.	0 *0	0 *0	0 *0	0 *0
Director	Johnny Shih, Representative of Yuang Ding Co., Ltd.	0 *0	0 *0	0 *0	0 *0
Director	S. T. Peng, Representative of Yue Ding Industry Co., Ltd.	0 *0	0 *0	0 *0	0 *0
Director	Yuji Yanamoto, Representative of NTT DoCoMo Inc.	0 *0	0 *0	0 *0	0 *0
Independent Director	Kurt Roland Hellström	0	0	0	0
Independent Director	Lawrence Juen-Yee Lau	0	0	0	0
Supervisor	Eli Hong, Representative of Far Eastern International Leasing Corp.	0 *0	0 *0	0 *0	0 *0
Supervisor	Morton Huang, Representative of Asia investment Corp.	0 *0	0 *0	0 *0	0 *0
Independent Supervisor	Chen-en Ko	0	0	0	0
President	Jan Nilsson	71,000	0	0	0
Chief Auditor	Doris Wu	0	0	0	0
Executive VP	Yvonne Li	0	0	0	0
Executive VP	Jay Shy (Note 2)	0	0	0	0
Executive VP	Philby Chen	(252,281)	0	0	0
Executive VP	Benjamin Ho	0	0	0	0
Executive VP	Eton Shu	0	0	0	0
Executive VP	Jeffey Gee	0	0	0	0
VP	Patrick Wu	0	0	0	0
VP	Herman Rao	(30,000)	0	0	0
VP	Peter Yen	0	0	0	0
VP	Jessica Chen	0	0	0	0
VP	David Tsai	(15,392)	0	0	0
VP	Jennifer Liu	0	0	(5,000)	0
VP	Maggie Mei	0	0	0	0
VP	Guang Ruey Chiang	0	0	0	0
VP	Samuel Yuan	0	0	0	0
VP	Maxwell Cheng	0	0	(20,000)	0
Director	Alison Kao	0	0	0	0
Director	S.C. Lee	(10,000)	0	0	0
Director	Howard Tsao	0	0	0	0
Director	James Lee	0	0	0	0
Director	Tony Wang	0	0	0	0
Director	Stephen Tung	0	0	0	0
Director	Robert Chu	0	0	0	0

Director	Sharon Lin	(20,000)	0	0	0
Director	Ann Chang	0	0	0	0
Director	Sharon Fan	0	0	0	0
Director	Michelle Peng	0	0	0	0
Director	Jessica Sung	0	0	0	0
Director	Iris Su	0	0	0	0
Director	Leon Li	0	0	0	0
Director	Hae-Shung Ju	0	0	0	0
Director	James Chen	0	0	0	0
Director	Roger Chen	0	0	0	0
Director	Johnson Yuh	0	0	0	0
Director	Emily Liu	0	0	0	0
Director	Paul Chang (Note 3)	0	0	0	0
Director	James Lin (Note 3)	0	0	0	0
Director	James Wu (Note 3)	0	0	0	0
Director	Brian Shean (Note 3)	(75,000)	0	0	0
Director	Jonathan Ou (Note 3)	(78,000)	0	0	0
Director	Bruce Yu (Note 3)	0	0	0	0
Director	Sharon Chao (Note 3)	0	0	0	0

Note 1: Who are the major shareholders that hold over 10% shares.
Note 2: Jay Shy resigned on May 1, 2007.
Note 3: Who were not the executive managers after May 1, 2007.
*Number of shares held and shareholding percentage of the individual representative.

7-2. 2005 Shareholding Transferred: None due to the counter party is not a related party.

7-3. Shareholding Pledged: None due to the counter party is not a related party.

8 Top ten shareholders being the related party as defined in Statement of Financial Accounting Standards No. 6.

Name	Current Shareholding		Spouse & Minor Children's Shareholding		Share-holding in Name of Others		Name, relationship of top ten shareholders being the related party as defined in Statement of Financial Accounting Standards No. 6.		Remark
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Yuang Ding Investment Co., Ltd.	1,320,197,849	34.09	0	0.00	0	0.00	An Ho Garment Co., Ltd. Yuan Tung Investment Co., Ltd. Kai Yuan International Investment Corp.	Same ultimate parent company Same ultimate parent company Same ultimate parent company	
Douglas Hsu, Representative of Yuang Ding Investment Co., Ltd.	0	0.00	0	0.00	0	0.00	None	None	
Champion Lee, Representative of Yuang Ding Investment Co., Ltd.	73	0.00	905	0.00	0	0.00	None	None	
Jan Nilsson, Representative of Yuang Ding Investment Co., Ltd.	96,000	0.00	0	0.00	0	0.00	None	None	
Capital World Growth and Income Fund, Inc. entrusted to JP Morgan Chase & Co.	192,780.000	4.98	0	0.00	0	0.00	None	None	
NTT DoCoMo Inc.	190,040,265	4.91	0	0.00	0	0.00	None	None	
Goldman Sachs International Investment account entrusted to HSBC	137,235,850	3.54	0	0.00	0	0.00	None	None	
China Development Industrial Bank	122,677,274	3.17	0	0.00	0	0.00	None	None	
Yuan Tong Investment Co., Ltd.	117,150,440	3.03	0	0.00	0	0.00	Yuang Ding Investment Co., Ltd. Kai Yuan International Investment Corp. An Ho Garment Co., Ltd.	Same ultimate parent company Same ultimate parent company Same ultimate parent company	
Kai Yuan International Investment Corp.	112,657,603	2.91	0	0.00	0	0.00	None	None	
Cathy Life Insurance Co., Ltd.	112,343,000	2.90	0	0.00	0	0.00	None	None	
An Ho Garment Co., Ltd	106,833,700	2.76	0	0.00	0	0.00	Yuang Ding Investment Co., Ltd. Yuan Tong Investment Co., Ltd. Kai Yuan International Investment Corp.	Same ultimate parent company Same ultimate parent company Same ultimate parent company	
Na Shan Life Insurance Co., Ltd.	89,895,000	2.32	0	0.00	0	0.00	None	None	

9 Shareholdings of the Company Directors, Supervisors, Managements, and Direct and Indirect Investments of the Company in Affiliated Company

2006/12/31 Unit: shares; %

Affiliated Company	Investment of Far EasTone		Directors, Supervisors, Managements Direct and Indirect Investment of Far EasTone		Total Investment	
	Shares	%	Shares	%	Shares	%
KG Telecommunications Co., Ltd	1,332,997,916	100.00	0	0	1,332,997,916	100.00
ARCOA communication Co., Ltd.	79,353,013	59.10	0	0	79,353,013	59.10
Far Eastern Info Service （Holding） Ltd.	1,200	100.00	0	0	1,200	100.00
E. World (Holding) Ltd.	6,014,622	85.92	0	0	6,014,622	85.92
FarEastern Electronic Toll Collection Company	106,650,000	42.66	10,693,000	4.28	117,343,000	46.94
Ding Ding Integrated Marketing Service Co., Ltd.	4,500,000	15.00	18,000,000	60.00	22,500,000	75.00
Far Eastron Co., Ltd.	100,000	0.67	14,900,000	99.33	15,000,000	100.00
Far Eastron (Holding) Ltd.	4,486,988	100.00	0	0	4,486,988	100.00

IV Fund Utilization Status

1. Capital and Shares
2. Issuance of Corporate Bonds
3. Preferred Shares
4. Issuance of Depository Receipt
5. Employee Stock Options
6. Share Issued for Merger or Acquisition
7. Fund Utilization Plans and Status

1 Capital and Shares

1-1 History of Capitalization

2006/12/31

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.
1997.4	10	900,000	9,000,000	900,000	9,000,000	Cash Founding NT$9,000,000,000	None	--
1998.12	10	1,400,000	14,000,000	1,070,000	10,700,000	Cash capital call NT$1,700,000,000	None	(Note 1)
1999.9	10	1,400,000	14,000,000	1,137,000	11,370,000	Cash capital call NT$670,000	None	(Note 2)
2000.7	10	1,400,000	14,000,000	1,225,743	12,257,430	Capitalization of capital surplus NT$887,430,000	None	(Note 3)
2000.10	10	1,400,000	14,000,000	1,400,000	14,000,000	Cash capital call NT$1,742,570,000	None	(Note 4)
2001.7	10	3,360,000	33,600,000	1,890,000	18,900,000	Capitalization of retained earning and capital surplus NT$4,900,000,000	None	(Note 5)
2002.8	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	None	(Note 6)
2003.7	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	None	(Note 7)
2004.5	10	3,360,000	33,600,000	2,698,348	26,983,482	Increasing from ECB conversion of NT$5,622,000	None	(Note 8)
2004.5	10	3,504,353	35,043,531	3,391,871	33,918,714	Increasing from share swap of NT$6,935,232,000	None	(Note 9)
2004.9	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	None	(Note 10)
2004.11	10	4,200,000	42,000,000	3,763,151	37,631,514	Increasing from ECB conversion of NT$320,929,000	None	(Note 11)
2005.2	10	4,200,000	42,000,000	3,842,311	38,423,114	Increasing from ECB conversion of NT$791,600,000	None	(Note 12)
2005.4	10	4,200,000	42,000,000	3,872,663	38,726,630	Increasing from ECB conversion of NT$303,516,000	None	(Note 13)

Note 1: 1998.10.22 (87) Taiwan Finance Securities (I) Ruling Ref. No.87084
Note 2: 1999.5.21 (88) Taiwan Finance Securities (I) Ruling Ref. No.47451
Note 3: 2000.5.22 (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: 2001.6.15 (90) Taiwan Finance Securities (I) Ruling Ref. No.138249
Note 6: 2002.7.9 (91) Taiwan Finance Securities (I) Ruling Ref. No.0910137602
Note 7: 2003.6.10 (92) Taiwan Finance Securities (I)Ruling Ref. No.0920125457
Note 8: 2004.5.8 OTC Ruling Ref. No.09301085420
Note 9: 2004.4.8 (93) Taiwan Finance Securities (I) Ruling Ref. No.0930112339
Note 10: 2004.7.14 (93) Financial Supervisory Commission (I) Ruling Ref. No. 0930130872
Note 11: 2004.11.17 OTC Ruling Ref. No. 09301207180
Note 12: 2005.3.4 OTC Ruling Ref. No.09401035600
Note 13: 2005.5.3 OTC Ruling Ref. No.09401077810

2006/12/31; Unit:'000 Shares

Type of Stock	Authorized Capital			Note
	Shares Outstanding	Un-issued	Total	
Common Shares	3,872,663	327,337	4,200,000	Listed stock

1-2 Information for Shelf Registration: Not Applicable

1-3 Shareholder Structure

2007/4/13

Shareholder Structure / Quantity	Government Institutions	Financial Institutions	Other Institutional Shareholders	Individual Shareholders	Foreign Institutions and Individual Shareholders	Total
Numbers	6	42	91	12,603	315	13,057
Shares	14,947,169	413,527,054	1,904,329,127	95,407,190	1,444,452,509	3,872,663,049
%	0.39	10.68	49.17	2.46	37.30	100.00

1-4 Share Distribution-Common Stock

NT$10 per share; 2007/4/13

Level	Number of shareholders	Shares	%
1 - 999	4,770	1,202,551	0.03
1,000 - 5,000	5,082	11,329,175	0.29
5,001 - 10,000	1,261	9,438,860	0.24
10,001 - 15,000	447	5,397,891	0.14
15,001 - 20,000	286	5,148,629	0.13
20,001 - 30,000	278	6,868,473	0.18
30,001 - 50,000	250	10,010,505	0.26
50,001 - 100,000	220	15,946,135	0.41
100,001 - 200,000	117	16,437,202	0.42
200,001 - 400,000	102	29,753,176	0.77
400,001 - 600,000	32	16,089,411	0.42
600,001 - 800,000	22	15,703,495	0.41
800,001 - 1,000,000	16	14,331,446	0.37
1,000,001 and above	174	3,715,006,100	95.93
Total	13,057	3,872,663,049	100.00

This Company has not yet issued any preferred shares before Dec. 31, 2006.

1-5 Top 10 Major Shareholders

2007/4/13

Major Shareholders \ Shares	Shares	%
Yuang Ding Investment Co., Ltd.	1,320,197,849	34.09
Capital World Growth and Income Fund, Inc. entrusted to JP Morgan Chase Bank	192,780,000	4.98
NTT DoCoMo Inc.	190,040,265	4.91
Goldman Sachs International Investment account entrusted to HSBC	137,235,850	3.54
China Development Industrial Bank	122,677,274	3.17
Yuang Tung Investement Co., Ltd.	117,150,440	3.03
Kai Yuan International Investment Corp.	112,657,603	2.91
Cathy Life Insurance Co., Ltd.	112,343,000	2.90
An Ho Garment Co., Ltd.	106,833,700	2.76
Na Shan Life Insurance Co., Ltd.	89,895,000	2.32

1-6 Share Price, Net Value, Earnings, Dividends and Related Information in the Recent 2 years

Unit: NT$; shares

Item \ Year			2005	2006	2007 (as of March 31)
Share price (Note 1)	High		42.1	43.0	39.0
	Low		36.2	34.1	35.3
	Average		38.96	37.40	37.03
Net Value per share	Before distribution		18.91	19.09	19.84
	After distribution (Note 2)		15.70	Not Applicable	Not Applicable
Earnings per share	Weighted-average outstanding shares		3,872,663,049	3,872,663,049	3,872,663,049
	Earnings per share	Before adjustment	3.80	3.40	0.75
		After adjustment (Note 7)	3.80	3.40	0.75
Dividend per share (Note 3)	Cash dividend		3.00	3.10	Not Applicable
	Stock dividend	Retained earnings	0	0	Not Applicable
		Capital surplus	0	0	Not Applicable
	Accumulated un-distributed dividend		0	0	Not Applicable
Return on Investment	Price/Earning Ratio (Note 4)		10.25	11.00	Not Applicable
	Price/Dividend Ratio (Note 5)		12.57	12.06	Not Applicable
	Cash dividend yield (Note 6)		7.96%	8.29%	Not Applicable

Note 1: High/Low means the highest/lowest share price for the period and average share price is calculated based on transaction amount and volume 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.

1-7 Dividend Policy

1-7-1. Dividend Policies under Articles of Incorporation

Dividend policy under Articles of Incorporation: The dividend policy of the Company accrued shall not be less than 50% of the 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.

1-7-2. Proposed Dividend Allocation to be approved at the Annual Shareholders' Meeting

On April 19, 2007, the Board of Director resolved the proposed 2006 dividend distribution to be approved at 2007 Annual Shareholders' Meeting as following: 2006 earning of NT$11,441,896,397 and undistributed earnings of NT$563,395,055, total NT$12,005,255,452 will be distributed as cash dividends of NT$3.1 per share.

1-8 Impact of Stock Dividend Distribution on Business Performance, EPS and Return on Investment:

Not Applicable.

1-9 Bonuses for Employees, Directors and Supervisors

1-9-1 Description regarding Bonuses for Employees, Directors and Supervisors 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 1%-2% taken for bonus to employees, and 1% taken as remuneration to the directors and supervisors.

1-9-2 Proposed bonuses for employees, directors and supervisors:

(1) This Company Board resolved on April 19, 2007, to use the profits from the 2006 financial year to pay bonuses to employees, directors, and supervisors to the following amount:

Unit: NT$'000

Item / Amount	Bonuses for Employees	Bonuses for directors and Supervisors
Proposed Distribution	$235,915	$117,958

(2) The formula for employee bonuses limitation 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)
$235,915	$0	Not Applicable	$0	$235,915

Unit: NT$'000

Net Income after Tax (F)	Earnings to be distributed (accumulated earnings in beginning of the year + net income after tax) (G)	Total amount of the reserve legal surplus, Special reserve and loss deficit (H)	50% of Net Income after Tax (I=50%*F)	50% of Earnings to be distributed (deducted legal reserve, special reserve and loss deficit) (J=50%*(G-H)
$13,156,225	$14,667,598	$1,360,455	$6,578,113	$6,653,572

(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, 2006 EPS after tax will be reduced from NT$ 3.40 to NT$ 3.31.

1-9-3 Bonuses to employees, directors and supervisors for 2005 as approved at the Board Meeting on March 3, 2006 and Shareholders' Meeting on May 26, 2006 are as follows:

Unit: NT$'000

Item / Amount	Bonuses for Employees	Bonuses for directors and Supervisors
Proposed Distribution（A）	$264,913	$132,457
Actual Distribution（B）	$264,913	$132,457
Variance（B）-（A）	$0	$0

1-10 Share buy back by the Company: None

2 Issuance of Corporate Bonds

2-1 Corporate Bonds

2007/3/31

Corporate Bond Type		2nd Domestic Unsecured Bond	3rd Domestic Unsecured Bond
Issue Date		2003. 3.28~2003. 4. 3	2003.12.12~2003.12.19
Denomination		NT$ 1,000,000	NT$ 5,000,000
Issuance and Listing		OTC Securities Exchange (ROC)	OTC Securities Exchange (ROC)
Offering Rate		Par	Par
Total Amount		NT$ 1,470,000,000	NT$ 3,000,000,000
Coupon Rate		* The annual coupon rate for the 1st year is 2.6% * From 2nd year to maturity the annual coupon rate is 3.2% minus benchmark interest rate, while the annual coupon rate can not be lower than 0%. (Note 1)	* Trenched A: 1.83% * Trenched B: 1.92% * Trenched 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%. (Note1)
Duration		5 year, Maturity: 2008. 3.28~2008. 4. 3	* Trenched A: 3 year; Maturity: 2006.12.12~2006.12.16 * Trenched B: 4 year; Maturity: 2007.12.12~2007.12.16 * Trenched C: 5 year; Maturity: 2008.12.12~2008.12.19
Guarantor		None	None
Trustee		Trust Department of Mega International Commercial Bank	Trust Department of Chinatrust Commercial Bank
Underwriter		None	None
Legal Counsel		Mr. Morton Huang	Mr. Morton Huang
Certified Public Accountant		Clark C.Chen, Edward Y. Way	Clark C.Chen, Edward Y. Way
Auditor Repayment		Due upon expiration of the five years as of the issue date, and repayment of principal in lump sum	* Trenched A: Due upon expiration of the three years as of the issue date, and repayment of principal in lump sum * Trenched B: Due upon expiration of the four years as of the issue date, and repayment of principal in lump sum * Trenched C: Due upon expiration of the five years as of the issue date, and repayment of principal in lump sum
Outstanding Amount		NT$ 1,470,000,000	NT$ 2,100,000,000
Redemption or Early Repayment Clause		None	None
Covenant applicable		Not applicable	Not applicable
Crediting Rating		Received a rating of "twAA"+ from Taiwan Ratings Corp. on March 2,2006	Received a rating of "twAA"+ from Taiwan Ratings Corp. on March 2,2006
Other Rights of Bond Holders	Amount Converted into, exchanged or subscribed to Common Shares, ADRs or other securities	Not applicable	Not applicable
	Conversion Rights	Not applicable	Not applicable
Dilution Effect and Other Adverse		Not applicable	Not applicable
Custodian		Not applicable	Not applicable

Note 1: The reference rate is defined as the fixing rate of US$ 6-month LIBOR quoted on Hong Kong Bridge Telerate Page 3750 at 11am London time, 2 business days before each interest period commences.

2-2 Corporate Bonds to be due within one year upon publication of the financial statement:

According to the covenants of the Company's 2nd issuance of domestic unsecured bond, the Company shall repay NT$1.47 billion. during March 28, 2008~April 2, 2008.According to the covenants of the Company's 3rd issuance of domestic unsecured bond, the Company shall repay NT$900 million on Dec. 12, 2007, Dec. 15, 2007 and Dec. 16, 2007 respectively. Therefore, the total amount of corporate bonds to be due within one year is NT$2.37 billion.

2-3 Convertible Bond: None

2-4 Exchangeable Bond: None

2-5 Shelf Registrations for Issuing Corporate Bonds: None

2-6 Bond with Warrants: None

2-7 Issuance of Corporate Bonds Through Private Placement in the Recent 3 years: None

3 Preferred Shares

None

4 Issuance of Depository Receipt

2007/03/31

Item \ Date of Issuance			June 11, 2004
Place of issuance			Luxembourg Stock Exchange
Total Price of Issuance			US$132,190,000
Unit Price of Issuance			US$13.219
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
Depositary Bank			The Bank of New York (Luxembourg) S.A.
Custodian Bank			Far Eastern International Bank
Number of outstanding shares			41,613,321
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 Depositary Agreement and Custodian Agreement			None
Market Price per unit	2006	High	US$19.45
		Low	US$15.50
		Average	US$17.1953
	2007 (as of March 31, 2007)	High	US$18.05
		Low	US$15.00
		Average	US$16.9417

5 Employee Stock Options

None

6 Share Issued for Merger or Acquisition

6-1 Completed Merger or Acquisition in the recent years until the Annual Report being published: None

6-2 Merger or Acquisition Approved by the Board Meeting in the recent years until the Annual Report being Published: None

6-3 Impact from Shares Issued for Merger or Acquisition in the recent years until the Annual Report being published: None

7 Fund Utilization Plans and Status

Uncompleted bond issues, private placement of securities, completed bond issues or private placement of securities in the recent 3 years whose return of investment has not emerged: None

V Operational Highlights

1. Business Activities
2. Markets and Sales Overview
3. Employee Information in the Recent 2 Years
4. Environmental Protection Expenditure
5. Employee Relations
6. Major Contracts

1.Business Activities

1-1 Business Scope

1-1-1 Major Business Items:

＞G901011 Type I Telecommunications Enterprise;
＞G902011 Type II Telecommunications Enterprise;
＞F213060 Retail Sale of Telecom Instruments;
＞F113070 Wholesale of Telecom Instruments;
＞JA02010 Electric Appliance and Audiovisual Electric Products Repair Shops;
＞E701010 Telecommunications Construction;
＞E701030 Restrained Telecom Radio Frequency Equipments and Materials Construction;
＞F401010 International Trade;
＞F204110 Retail sale of Cloths, Clothes, Shoes, Hat, Umbrella and Apparel, Clothing Accessories and Other Textile Products;
＞CC01070 Telecommunication Equipment and Apparatus Manufacturing;
＞I301020 Data Processing Services;
＞IZ11010 Overdue receiverables management service business;
＞F201070 Retail sale of Flowers;
＞F209060 Retail sale of Stationery Articles, Musical Instruments and Educational Entertainment Articles;
＞F213030 Retail sale of Computing and Business Machinery Equipment;
＞F218010 Retail Sale of Computer Software;
＞IZ12010 Manpower Services;
＞JZ99050 Agency Services;
＞I301030 Digital Information Supply Services;
＞I401010 General Advertising Services;
＞IZ99990 Other Industry and Commerce Services Not Elsewhere Classified;
＞JE01010 Rental and Leasing Business;
＞I199990 Other Consultancy;
＞IE 01010 Telecommunications Number Agencies;
＞JA02990 Other Repair Shops;
＞F401021 Restrained Telecom Radio Frequency Equipments and Materials Import;
＞All business items that are not prohibited or restricted by law, except those that are subject to special approval.

1-1-2 Operating Revenue Breakdowns

Unit: NT$'000

Year / Item	2005		2006	
	Amount	%	Amount	%
Mobile Service Revenue	39,602,474	92	39,891,379	92
Sales of Cellular Phones and Accessories	3,450,964	8	3,209,482	8
Others	96,238	0	106,656	0
Total	43,149,676	100	43,207,517	100

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

Will continue to focus on value added information services with plans for the development of various new products and the main categories of which are listed below:

- 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;
- Intelligent voice dialing service;
- IP Multimedia sub-system, Integrated Network Services (e.g. Wireless Internet Telephony VoIP)
- HSDPA high-speed wireless internet access
- Online Personal Network Backup (e.g. Back up of contact lists, calendar, multimedia files in mobile
- phones, message etc.)
- Enhanced GPS applications and services (onboard units that integrate navigation, communications and
- entertainment)
- Enhanced mobile Push-mail capability (support for personal mail-boxes and mail management)
- Mobile barcode service (QR Code)
- Mobile business services
- Mobile health care services

1-2 Industry Overviews

1-2-1 Industry status and development

Due to increasing deregulation and government policies, the country's telecommunications industry business environment is also moving towards liberalization and greater competition. The five telecommunications providers (FET, Chunghwa Telecom, Taiwan Mobile, Asia Pacific Broadband Wireless and Vibo Telecom) had at their peak a total 25,290,000 subscribers and by the end of 2006 still had 23,240,000 subscribers, translating to a market penetration of over 101%. This is the highest mobile phone penetration rate in the world; Due to differences in operators' service offerings, or to acquire new mobile handsets more cheaply through subsidy program, many subscribers apply for more than one number.

In the future if operators cannot offer differentiating services, the penetration rate might not be able to further increase. In other words, the mobile service market has been stabilized.

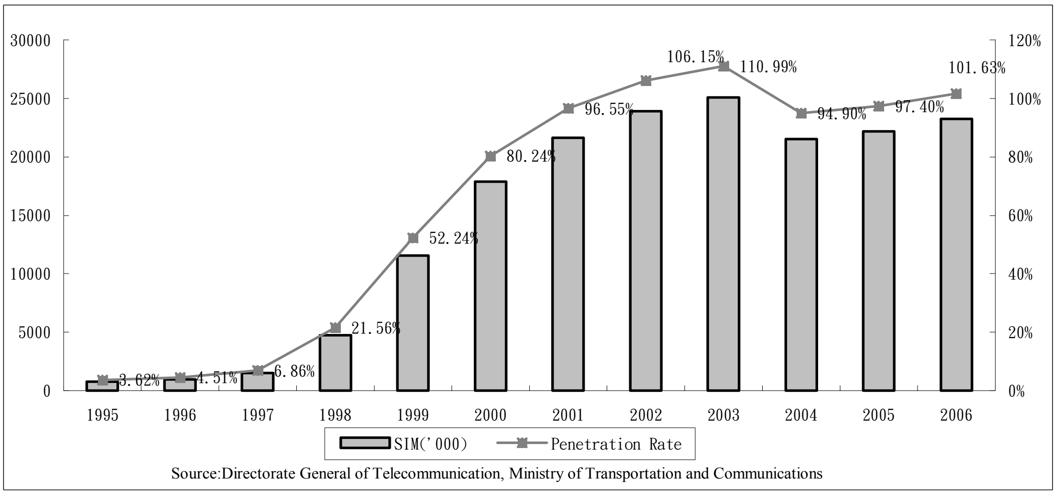
Taiwan's telecommunications market is characterized by the following factors, among others:

A. Non-voice services – source of revenue growth

Apart from the existing voice-oriented 2G services, all operators are now offering 3G services, which emphasize faster and more diverse multimedia applications. There is a close link between the Average Revenue per User (ARPU, indicating each mobile phone user's contribution to revenues each month, and this is closely linked to the market penetration rate mentioned previously. With the release of GPRS enabling handsets, operators have offered non-voice services, which led to increased usage.

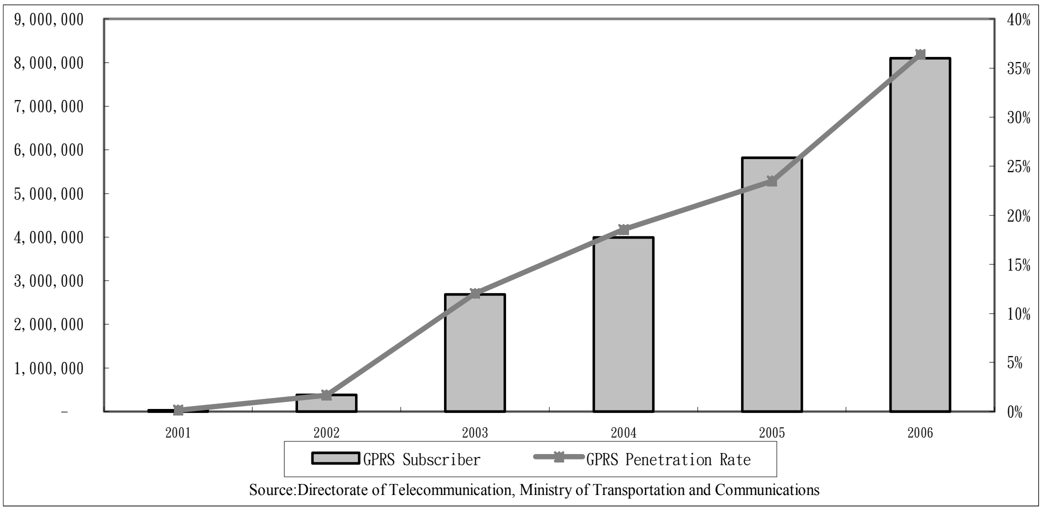
Since 2000, the average mobile phone talk time remained flat or slight growth, while ARPU continued to drop. The main reason is the continuously lowered tariff due to market competition. Under such circumstances, bringing new non-voice services is becoming the key strategy for operators to increase revenue.

Mobile SIM Card Growth in Taiwan



From the end of 2001 to mid-2002, operators launched GPRS one after another one. As of December 2006 the number of GPRS customers was 8.10 millions. The penetration rate also grew from 1.59% in December 2002 to current 36.40%.

GPRS Subscriber Growth in Taiwan

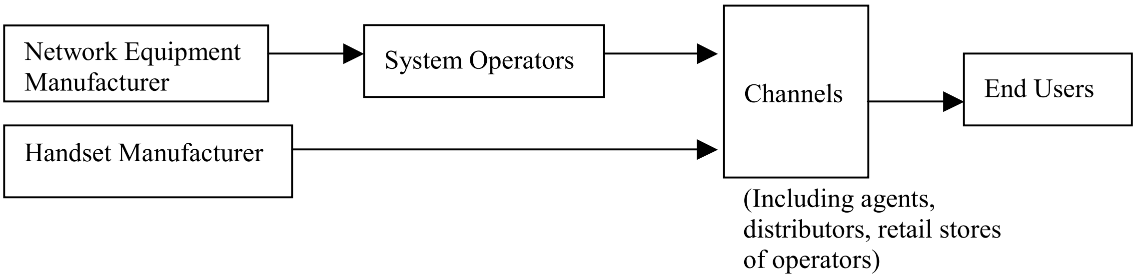


B. 3G – the next market focus

As GPRS value-added service market is getting saturated due to constrained data transmission rate, expanding customer base is no longer operators' major 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.

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 Trends of Products and Services

A. 3G

As the WCDMA system is now becoming the main stream of global 3G development, all the major 3G handset makers are planning to release a large number of new models this year. Far EasTone will therefore continue promoting its 3G business and strengthen the development of related services. The IP Multimedia Subsystem (IMS) will be introduced this year, with the focus on developing an IP based network for multimedia services. This will enable mobile users to communicate between different networks and to share voice, data and interactive multimedia services. For wireless connections on mobile services, the goal is to increase data transmission rate through HSDPA/HSUPA technology to achieve compatible speed offered by fixed network operators.

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	General	Better
Number of Base Station	General	Fewest	Most
Construction Cost	Low	General	High

With the increasing popularity of wireless broadband technologies, many potential wireless internet services will soon join the competition; based on a mobile communications operator's inherent advantages in ease of use, popularity and range of services, smart phone devices are still superior to other personal digital IT tools. This means 3G mobile communications systems will hold the best position, and also be a network, which can most easily integrates with other technologies.

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, and can also provide video call, video streaming, audio-video on demand all the way up to Mobile Instant Messaging, Push to Talk (PoC), and other interactive multimedia services.

C. Convergence of broadband media, telecommunications and technology platform

Digital lifestyle technologies today are all moving towards broadband, wireless and mobile. On the road to 3G popularizations, improvements of mobile handsets' features and technology will decide 3G's pace of development. Far EasTone will leverage its network, which is equipped with mobile communications, mobile commerce, and various mobile content and entertainment services to encourage handset makers to accelerate their research into client devices that integrate telecommunications and broadband media. The goal is one of sustainable and continuous development for the industry. In the "Post-PC Era", the lack of appropriate software limited the development of the entire industry, while convergence of services will be the road to success for the future development of the telecommunications industry.

1-2-4 Product Competitions

As operators' investment in network construction and hardware is usually enormous, all operators try to expand customer base to reach economic scale. Three national operators, FET, CHT and TCC, basically share the market. 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 mobile messaging services (mobile multimedia messaging service), mobile network services (subscribers information and such as pictures, music, ring tone, e-card download) and mobile transaction services (mobile banking, mobile payment) 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

Major R&D Expense in Recent Years

Unit: NT thousand

Item \ Year	2006	2007 Q1
R&D Expense	263,321	57,790
Total Operating Revenue	43,207,517	10,854,366
R&D Expense as percentage of Total Operating Revenue(%)	0.61	0.53

Products and Services Developed in the Recent Years

Striving to provide customers with leading value-added communication services, the Company has developed the following services and products in the recent years:

Year	Value-Added Service Name	Value-Added Service Content
2006	Next Generation Wireless Network Integrated Platform Project	This project is a part of the National Telecommunications Technology Project Phase 2. It aims to integrate wide-area and local area wireless networks to create a pilot project zone for Mobile and WLAN services in eastern Taipei near SOGO, providing networking roaming value-added services such as voice, instant messaging and WebTV.
	M_Taiwan Project	This project is a major 3 year infrastructure project provided by the Industrial Development Bureau of the Ministry of Economic Affairs. It aims to build Taiwan into the island for mobile applications services and promote domestic communications manufacturing industry. FET's project blue print and service range: This project is centered around on the freeways and uses the existing infrastructure to build a 3G/WiMax/WiFi based island-wide mobile broadband zone. This will provide the full range of mobile living and intelligent transportation services.
	V_City –E Shopping	Established an e-commerce transaction platform to provide users with an easy-to-use online shopping portal. By allowing online communities to carry out commercial transactions, users can enjoy shopping from the convenience of their home.
	V_City-Play Blog II	Upgraded the V-City blog service system to include MMS (multimedia services) support. EC (e-commerce) support was also added to offer users with a more complete range of services.
	"FET Car Portal" Service	Apart from the "FET Car Portal" internet access service and the "FET Car Portal Voice Service", the Company also added Car Devices, Open Market PDA and Smart-Phone support through "FET Car Devices GPS Info 2 Go"; apart from supporting a greater range of hardware, the net portal offered a greater variety of integrated information as well to provide users with travel information, traffic updates, popular discussion boards and GPS photo upload services. These provide a telemetric value-added service that integrates Internet and Telecom services.
	Mobile Wallet	The Mobile Wallet integrated payment methods such as micro-payments, credit-card and virtual accounts so users can use their mobile phones to quickly and securely pay for services, make payments, order tickets, purchase merchandise and other e-commerce applications.
	3.5G Wireless Broadband Internet Access	The Company was the first operator offering high-speed 3.6Mbps maximally in Taiwan, integrated 3.5G (HSDPA- High Speed Downloading Packet Access) and Wireless data card to provide customers high-speed internet access services at any place and any time.
	Windows Live Messenger (originally MSN Messenger)	The Company launched the first joint venture with MSN in Asia to launch a Java-based Windows Live Messenger for mobile phones. This enabled mobile phone users to enjoy convenient access to MSN instant messaging services even away from their PCs.
	InfoTicker Interactive Ticker	Subscribers to the InfoTicker service can use supported mobile phone models to automatically receive the latest lifestyle news and information sent from the server. Subscribers don't have to open a web browser – they can instead view the latest news, weather, horoscopes, entertainment and other information from the stand-by screen.
	Remote Surveillance Service	The Company launched the exclusive Amoi V07 remote surveillance device that allowed consumers to use their 3G mobile phones to monitor their home or office in real-time. Simply put the 3G remote surveillance device in an appropriate location and it's possible to use a 3G mobile phone to remotely view, record video, photograph or record audio in real-time.

	FET Mailgene+	The “FET Mailgene+” personal edition is designed for the average consumer. A smart phone allows the mobile phone to carry out POP3 and SMTP mail access just like the PC e-mail client. No software download is required or a new e-mail address required. Through the fast speed of the 3G broadband personal emails can be sent or received at any time so users can enjoy the mobile life of having a portable e-mail box.
	211 Emotional Messages	This was a new generation messaging service that the Company launched for the first time in Taiwan. No matter it is a text-based SMS or a MMS multimedia message, simply add 211 in front of the recipient’s number (e.g. 211 0930789XXX) then the sent message will not only contain the original message but also include cute pictures or the sender’s personalized signature. These personalize sent messages, making them more fun and expressive!
	IVR 966 Music Net	By using a highly accurate voice recognition technology that supports both Mandarins, Taiwanese and English, this new voice-based interface makes traditional IVR layer-based menus obsolete. When subscribers dial 966, they only have to say the singer or song name to quickly find the ring-tone or music that they wish to download.

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

1-4-1 Short-term plans

A. Marketing Strategy

a. 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.

b. Launch new product and services ahead of competitors and continuously develop new sales channels, points of sales, and distribution methods.

c. Insist on reasonable pricing strategy to secure high-value loyal customer groups.

d. 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

a. Continuously improve network quality to reduce congestion and dropped- call rate and offer world-class sound quality.

b. 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

a. Our company will continue to invest in 3G mobile phone network infrastructure in order to fulfill our commitment to customers by providing higher quality voice and data services as well as richer mobile telephony services.

b. Continue to provide attractive rate-plan and promotional programs to increase mobile and active value-added-service customers.

c. Continue to focus in enterprise product development and sales, mobile advertising business development, and providing integrated value-added-service.

d. Beyond continuing to expand our points of presence and diversify our outlet formats, in 2006 we passed the Qualicert certification process by the Swiss SGS group. We were the first mobile operator in Taiwan to achieve this certification and this is part of our effort to provide our customers with more convenient, more comprehensive and higher quality sales service and after-sales service.

1-4-2 Long-term plans

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 develop new sales channels.

B. Direction for Product Development

Simultaneously 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.Markets and Sales Overview

2-1 Market Analysis

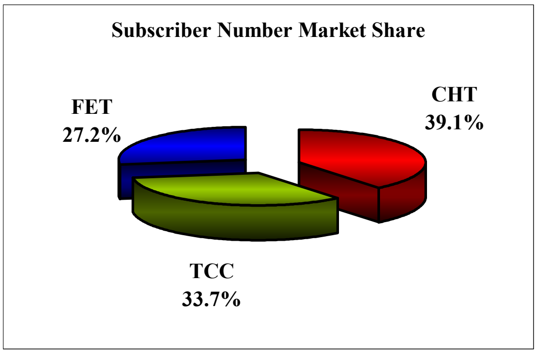
2-1-1 Main Products and Service Areas

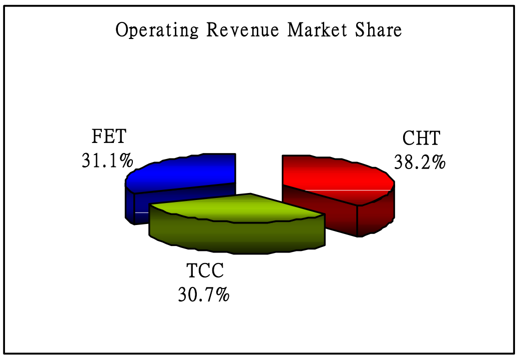
The Company acquired KGT in January 2004 and since then KGT has become a wholly owned subsidiary of the Company. In January 2005 the Company also invested in ARCOA to represent a deeper penetration into the telecommunications distribution channels to achieve vertical integration of the value chain. This will also be used to expand the coverage of the retail network to make our services more accessible to customers. The Company and KGT's retail network now covers all of Taiwan, with up to 375 direct, franchisee, concept and flagship stores by the end of December 2006. By rationalizing outlets and increasing productivity, synergies have been achieved. A new marketing concept - the "Mobile Promotion Van"- are now working in concert with organized events throughout Taiwan to bring the Company services straight to consumers. They are also participating in community charity events to contribute to society.

The Company's and KGT's total subscriber numbers have by the end of December 2006 reached 5,940,000. In the future, the Company will continue following its brand concept of "Any time, any where, communications enriching the lives of people". With 3G going on air, the associated network infrastructure investments are now progressively being completed. The Company has already developed a wide range of value-added mobile communications services to meet customer demands.

2-1-2 Market Share

After the fierce 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. Despite the competition from private operators, Chunghwa Telecom has continued to maintain its lead in terms of its share of subscribers and telecommunications service revenues – these being 39.1% and 38.2% respectively. The two major private operators are also quite significant. Taiwan Mobile (including TransAsia and MOBITAI) controls 33.7% and 30.7% of the market respectively. The Company’s and KGT’s combined subscribers and telecommunication service revenues represent 27.2% and 31.1% of the market, demonstrating that these customers are mostly high-use subscribers (Source: the subscriber numbers and telecommunications revenues are based on each company’s publicly available information. Note: As other operators do not announce their operational information, they have not been included into the calculations)





2-1-3 Future Market Demands and Potential

The mobile market in Taiwan is gradually becoming saturated. Up until December 2006, mobile market penetration has reached 80%, 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, a 3G/WLAN dual-mode 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 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" and "Big on net" 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 GSM900/1800 dual band 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 direct-owned stores, franchise concept stores, flagship stores, service stores and other sales channels. The Company is also seeking cross-industry partnership (for instance, the investment in Arcoa Corporation) to ensure that the Company will remain the industry leader for service and network coverage.

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 continues to offer wireless Internet service over GPRS network and MMS. In 2005, it went even further to integrate 3G 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) After the implementation of Mobile Number Portability, 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) Competitors are fighting market share through price-cutting and monopoly position

To upgrade their market share, the main competitors have continued to reduce their calling fees. It also possesses many other telecommunications operations outside the mobile phone market to which it still retain monopoly status, or where privately owned businesses are only beginning to compete, creating a certain level of unfair competition.

Proposed strategies:

a. Increase the number of base station sites to improve communication quality

b. Increase customer loyalty through effective marketing strategies and more diversified value added services and brand efficiency

c. Integrate mobile communication with the Internet to provide integrated mobile Internet services

d. 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 communications; interconnection with other operators' networks
3G Service	WCDMA communications; interconnection with CHT and operators’ networks

2-2-2 Manufacture Process:

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	2005				2006			
	Company	Amount	% of Total Operating Cost	Relations with the Company	Company	Amount	% of Total Operating Cost	Relations with the Company
1	Chunghwa Telecom	2,806,323	12.82	None	Chunghwa Telecom	2,883,284	12.29	None

2-4-2 Major Customers

Unit: NT$'000, %

Year / Item	2005				2006			
	Company	Amount	% of Total Operating Revenue	Relations with the Company	Company	Amount	% of Total Operating Revenue	Relations with the Company
1	Chunghwa Telecom	7,207,952	16.71	None	Chunghwa Telecom	6,653,776	15.40	None

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 the recent 2 years.

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

Item \ Quantity / Year	2005				2006			
	Imports		Exports		Imports		Exports	
	Quantity	Amounts	Quantity	Amounts	Quantity	Amounts	Quantity	Amounts
Service revenue	*4,035,126	39,698,712	0	0	*4,061,503	39,998,035	0	0
Handset and Accessory Sales	1,079,084	3,450,964	0	0	1,102,623	3,209,482	0	0
Total	Not Applicable	43,149,676	Not Applicable	0	Not Applicable	43,207,517	Not Applicable	0

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

3.Employee Information in the Recent 2 Years

4/30/2007

Year		2005	2006	4/30/2007
Number of Employees	Manager and above	317	317	315
	Technical staff	853	824	821
	Customer care staff	1,030	984	972
	General staff	1,271	1,245	1,229
	Total	3,471	3,370	3,337
Average Age		31.88	32.78	33.1
Average Years of Service		3.67	4.45	4.71
Breakdown of Educational Level (%)	Ph. D	0.11	0.09	0.09
	Master	9.14	10.24	10.31
	College	81.02	81.84	80.82
	High School	9.73	7.83	8.78
	Below High School	0	0	0

4. Environmental Protection Expenditure

None

5.Employee Relations

5-1. Description of Policies and Programs on Welfare, Learning, Training and Retirement of Employees, As Well As Various Protections 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, employee handset subsidy and airtime subsidy each month. 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, holiday bonus and event subsidy 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. 872 training courses were conducted for 32,353 employees in 2006.

C. Two-ways Communications

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

5-1-2 Retirements

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. Furthermore, Labor Pension Act has been enforced as of July 1, 2005. The Company will contribute 6% of the insurance amount to the Labor Insurance Bureau on a monthly basis for employees who choose to apply the new system.

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

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

5-1-4 Company Work Environment and Employee Personal Safety Provisions

Regulations and documents related to labor safety and health are published on the company intranet. These are available to all employees at any time. A summary of the main measures is as follows:

- Established Labor Safety and Health Office, with full-time LSH personnel assigned to the Northern, Central and Southern regions: (1) Implement work environment improvements and ensure safe work practices (2) Educate staff and specific personnel as necessary on accident prevention concepts (3) Arrange safety training for all employees, and provide specific personnel with online training courses on labor health and safety (4) Regularly conduct work site hazard inspections as mandated by law (5) Provide safety equipment as necessary for work tasks and conduct regular census (6) Formulate contractor employee safety and health regulations. Also provide related training in order to avoid accidents from improper work practices and clarify legal liability issues (7) Conduct regular outsourced contractor work health and safety inspections.
- Established Labor Health and Safety Committee: (1) Formulate occupation injury prevention plan and automatic inspection plan (2) Hold regular meetings to review employees safety and health improvement issues (3) establish regional safety and health supervisors to carry out management and communication of accident prevention.
- Established full-time professional medical staff and contract doctor clinics: (1) Implemented new recruit physical checkups and arrange for regular company wide health checkups (2) Arrange for regular CPR training so certified employees can provide immediate assistance during emergencies (3) Provide visually impaired masseuses to reduce employee stress and improve health.
- Other: (1) Hold regular fire drills to reduce the danger of fire to employees and property (2) Train engineering staff so they can handle public protests and protect employees from harm.

5-1-5 Sexual harassment prevention related measures

When Gender Equality in employment act was enforced, the Company has communicated with the employees throughout Taiwan with respect to the prevention of sexual harassment in the workplace. Nevertheless, in order to cope with the enforcement of Prevention Act of Sexual Harassment, the Company proceeded with the relevant publicity in its major offices throughout Taiwan and established the procedure and organization for processing the sexual harassment cases pursuant to the relevant requirements, in order to keep the healthy workplace from any harassment and discrimination.

5-2 Losses caused by labor disputes in the recent year:

One employee in charge of demanding receivables had bad performance and failed to rectify his performance after the supervisor's guidance, and also refused to accept the transfer provided in the "major five principles for transfer" without justified reasons. The employee was, therefore, dismissed. However, given that the employee had already petitioned for meditation with the Department of Labor, the Company's decision for dismissal violated the laws and regulations, and the Company paid him the severance pay in the amount of NT$343,730.

6.Major Contracts

Contract type	Counter Party	Terms of the contract	Description	Restriction Clauses
Procurement	Ericsson Taiwan Ltd.	Dec.5,1996~present	BTS facilities, software and installation	None
		July.1,2006	Provide the service for expansion and installation of 3G phase 4 mobile phone system	None
		Dec.4,2006	Provide the service for expansion and installation of 3.5G mobile phone system	None
		Dec.5,2006	Provide the service for expansion and installation of IMS system	None
	Sharp Corporation	Oct.9,2002~present	Mobile phones	None
	Motorola Electronics Taiwan Ltd.	Nov.27,2006~Dec.1,2007	Mobile phones	None
Sales and Distribution	Arcoa Co., Ltd.	July.1,2005~Jun.30,2007	Promotion and distribution of mobile services	None
	Tecom Co., Ltd.	July.1,2005~Jun.30,2007	Promotion and distribution of mobile services	None
	Systex Corporation Ltd.	July.1, 2005~Jun.30, 2007	Promotion and distribution of mobile services	None
	Synnex Corporation Ltd.	July.1, 2005~Jun.30, 2007	Promotion and distribution of mobile services	None
	OK Convenience Store (Taiwan) Ltd.	Jan.1, 2005~Dec.31,2005 (Note 1)	Promotion and sales for prepaid recharge card	None
	President Chain Store Corp.	Jan.1, 2007~Dec.31, 2007 (Note 1)	Promotion and sales for prepaid recharge card	None
	Hi-Life International Co., Ltd.	Jan.1, 2007~Dec.31, 2007 (Note 1)	Promotion and sales for prepaid recharge card	None
	Taiwan Familymart Corporation Ltd.	Jan.1, 2006~Dec.31, 2006 (Note 1)	Promotion and sales for prepaid recharge card	None
	Taiwan Nokomart Co., Ltd	July 1, 2006 ~ Dec. 31, 2006 (Note 1)	Promotion and sales for prepaid recharge card	None
Network Interconnection	Chung Hwa Telecommunications	Dec. 1, 2004 ~ Nov. 30, 2005 negotiating for extension (Note 2)	Network Interconnection	None
	Taiwan Fixed-Line Network	July. 1, 2005 ~ Jun. 30, 2006 negotiating for extension (Note 2)	Network Interconnection	None
	New Century InfoComm	July. 1, 2005 ~ Jun. 30, 2006 negotiating for extension (Note 2)	Network Interconnection	None
	Asia Pacific Broadband Telecom	Sep. 1, 2005 ~ Aug. 31, 2006 negotiating for extension (Note 2)	Network Interconnection	None
	Taiwan Cellular Corporation	Feb. 10, 2004 ~ Feb. 9, 2005 negotiating for extension (Note 2)	Network Interconnection	None
	KG Telecommunications	Feb. 5, 2004 ~ Feb. 4, 2005 negotiating for extension (Note 2)	Network Interconnection	None
	MOBITAI Telecommunications	Jan. 10, 2004 ~ Jan. 9, 2005 negotiating for extension (Note 2)	Network Interconnection	None
	TransAsia Telecommunications	Apr. 29, 2004 ~ Apr. 28, 2005 negotiating for extension (Note2)	Network Interconnection	None
	Asia Pacific Broadband Wireless	July 17, 2003 ~ July 16, 2004 negotiating for extension (Note 2)	Network Interconnection	None
	First International Telecom Corporation	Aug. 1 , 2005 ~ July 31, 2006 negotiating for extension (Note2)	Network Interconnection	None
	VIBO	Sep. 29, 2005~Sep. 28, 2006 negotiating for extension (Note 2)	Network Interconnection	None
Warehousing and transportation services	Arcoa Co., Ltd.	May 8, 2006~May 7, 2007	Warehousing and transportation services	None
	Hsin Chu Transportation	June 1, 2006~May 31, 2008	Warehousing and transportation services	None

Contract type	Counter Party	Terms of the contract	Description	Restriction Clauses
Syndicated Loan	Led by Citibank	Feb. 4, 2002 ~ Feb. 4, 2007	NT$4.3B; 5 years term revolving credit line (The limit has been canceled voluntarily on February 10,2006)	1. There are restrictions on the percentage of major shareholders shareholding. 2. There are restrictions on financial ratios of the Company.
Technology service and licensing	NTT DoCoMo Inc.	Oct. 26, 2004~present	Technology license for upgrade of DoJa 2.5 version	None
Agreement for reimbursement under government's project	Industrial Development Bureau of the Ministry of Economic Affairs	Dec.1, 2005~Dec.31, 2007	The development guidance plan for promotion of the application of mobile life and learning	None
	Industrial Development Bureau of the Ministry of Economic Affairs	Oct.2, 2006~Dec.31, 2008	Development and promotion of the Wireless LAN project of ''M-Taiwan''	None
Agreement for government's project	National Communications Commission	Dec.22, 2006~March.31, 2008	The experimental plan of the Digital Video Broadcasting – handheld playing	None
Shareholders' Agreement	FET President Chain Store Corp.	Feb.14, 2007	FET will subscribe the capital call shares of Q-Ware Communications Co., Ltd., setup by Q-Ware Systems & Service Corp. of Uni-President Group, if certain conditions are fulfilled.	None
Agreement for Acquisition Stake	FET Q-ware Communications Co., Ltd.	Feb.15, 2007	FET will subscribe the capital call shares of Q-Ware Communications Co., Ltd.	None
Strategic Consortium	NTT DoCoMo, Inc. StarHub Mobile FET Group (FET and KGT) Hutchison (Hong Kong)	Feb.13, 2006	Asia Pacific Strategic Consortium for Telecommunication Providers	None

Note 1: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 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 NCC's arbitration, the interconnection agreement shall remain effective until the arbitration is announced.

VI Financial Information

1. Condensed Financial Statement for the Recent 5 Years
2. Financial Analysis for the Recent 5 Years
3. 2006 Supervisors' Report-Not Consolidated
4. 2006 Independent Auditors' Report, Financial Statements and Notes
3. 2006 Supervisors' Report Consolidated Report
6. 2006 Independent Auditors' Report, Consolidated Financial Statements and Notes
7. Impact of the financial distress occurred to the Company and Affiliates

1.Condensed Financial Statement for the Recent 5 Years

1-1 Condensed Balance Sheet

Unit: NT$' 000

Item \ Year		Financial Information In Recent Years (Note 1)					
		2007 Q1	2006	2005	2004	2003	2002
Current Assets		10,869,873	9,363,567	8,679,748	10,829,712	10,767,793	8,537,035
Fund and Investments		38,917,137	37,883,330	37,532,567	44,030,365	21,641,987	8,223,198
Properties		31,564,929	32,927,648	36,360,999	32,616,540	37,796,898	40,120,073
Intangible assets		8,585,802	8,768,479	9,499,186	-	-	-
Other Assets		783,033	843,013	951,211	1,391,283	1,225,601	1,912,536
Total Assets		90,720,774	89,786,037	93,023,711	88,867,900	71,432,279	58,792,842
Current Liabilities	Before Distribution	11,446,187	12,748,687	13,502,181	10,173,647	10,624,554	9,273,638
	After Distribution	(Note 2)	(Note 2)	25,904,806	22,170,799	15,594,254	12,482,005
Long-term Liabilities		2,082,359	2,764,398	5,977,100	8,714,250	17,557,378	9,345,839
Other Liabilities		355,491	346,250	324,328	267,937	220,119	2,122,857
Total Liabilities	Before Distribution	13,884,037	15,859,335	19,803,609	19,155,834	28,402,051	20,742,334
	After Distribution	(Note 2)	(Note 2)	32,206,234	31,152,986	33,371,751	23,950,701
Capital Stocks		38,726,630	38,726,630	38,726,630	38,423,115	26,977,860	23,058,000
Capital Surplus		15,003,956	15,003,956	15,003,956	14,506,182	5,973,600	5,996,658
Retained Earnings	Before Distribution	23,136,614	20,240,948	19,487,348	16,767,098	10,075,716	8,992,752
	After Distribution	(Note 2)	(Note 2)	7,084,723	4,769,946	3,545,755	1,887,583
Unrealized loss on financial product		(38,697)	(49,792)	-	-	-	-
Cumulative Translation Adjustment		8,234	4,960	2,168	15,671	3,052	3,098
Unrecognized net loss on pension		-	-	-	-	-	-
Total Share-holders' Equity	Before Distribution	76,836,737	73,926,702	73,220,102	69,712,066	43,030,228	38,050,508
	After Distribution	(Note 2)	(Note 2)	60,817,477	57,714,914	38,060,528	34,842,141

Note 1: The financial Statements for the first quarter of 2007 has been reviewed. Others have been audited.

Note 2: The appropriation of 2006 earning has not been approved by the shareholders' Meeting.

1-2 Condensed Income Statement

Unit: Except EPS is NT dollar; others are NT$'000

Item \ Year	Financial Information In Recent 5 Years (Note)					
	2007 Q1	2006	2005	2004	2003	2002
Operating Revenues	10,854,366	43,207,517	43,149,676	40,229,481	37,067,163	34,478,035
Gross Profit	5,028,097	19,747,593	21,256,728	20,534,347	18,456,708	17,296,689
Operating Income	2,251,516	9,403,731	11,385,325	11,046,594	8,450,066	7,916,320
Non-Operating Income and gain	1,183,590	5,550,647	5,048,687	4,228,055	303,918	174,313
Non-Operating Expense and loss	68,390	368,359	189,648	722,020	665,481	416,751
Income before Income Tax from Operating Business	3,366,716	14,586,019	16,244,364	14,552,629	8,089,103	7,673,882
Net Income from Operating Business	2,895,666	13,156,225	14,717,402	14,043,076	8,188,133	7,808,417
Net Income from Discontinued Business	-	-	-	-	-	-
Abnormal net income	-	-	-	-	-	-
Accumulated number from accounting policy changes	-	-	-	-	-	-
Net Income	2,895,666	13,156,225	14,717,402	14,043,076	8,188,133	7,808,417
Basic Earning per Share in NT$	0.75	3.40	3.80	3.75	3.04	3.39

Note: The financial Statements for the first quarter of 2007 have been reviewed. Others have been audited.

1-3 Impacts on the consistency of financial statements including changes of accounting principles, merger and acquisition, discontinued operations and others:

The Company merged the subsidiary, which just started up, Yuan-Ze Telecommunication, in May 2005. Therefore, no significant effect was produced to the financial statement for the same year.

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

Year	Audit Firm	Auditors' Name	Opinion
2002	TN Soong & Co.	Clark C. Chen, Edward Y. Way	Unqualified opinion
2003	Deloitte and Touche Co.	Clark C. Chen, Edward Y. Way	Unqualified opinion
2004	Deloitte and Touche Co.	Annie Lin, Edward Y. Way	Unqualified opinion
2005	Deloitte and Touche Co.	Annie Lin, Benjamin Shih	Unqualified opinion
2006	Deloitte and Touche Co.	Annie Lin, Benjamin Shih	Modified Unqualified opinion

Reason of Auditor change: Due to the internal job adjustment and arrangement in Deloitte and Touche Co. auditor Clark C. Chen was replaced with Annie Lin in 2004. and auditor Edward Y. Way was replaced with Benjamin Shih in 2005.

2.Financial Analysis for the Recent 5 Years

2-1 Financial Ratio Analysis

Item			Financial Analysis In Recent 5 Years (Note)					
Item / Year			2007 Q1	2006	2005	2004	2003	2002
Financial Structure	Debt to Asset Ratio		15.30	17.66	21.29	21.56	39.76	35.28
	Long-term Funds to Fixed Assets Ratio		250.02	232.91	217.81	240.45	160.30	118.14
Liquidity Analysis	Current Ratio (%)		94.97	73.45	64.38	106.45	101.35	92.06
	Quick Ratio (%)		84.67	65.73	56.01	87.97	78.10	66.04
	Times Interest Earned (times)		360.08	157.70	93.24	44.17	26.59	26.23
Operating Performance	Accounts Receivable Turnover (times)		9.53	9.01	9.08	9.10	9.42	8.34
	Average Collection Days (days)		38.29	40.50	40.19	40.13	38.74	43.79
	Inventory Turnover (times)		7.38	6.77	6.73	4.96	3.82	2.23
	Accounts Payable Turnover (times)		6.53	6.51	8.00	4.64	3.19	2.61
	Inventory Turnover Days (times)		49.48	53.94	54.26	73.91	95.64	163.68
	Fixed Assets Turnover (times)		1.38	1.31	1.19	1.23	0.98	0.86
	Total Assets Turnover (times)		0.48	0.48	0.46	0.45	0.52	0.59
Profitability Analysis	Return on Assets (%)		12.86	14.47	16.33	17.84	12.94	14.40
	Return on Equity (%)		15.37	17.88	20.59	24.91	20.20	22.20
	To Capital ratio	Operating Income	23.26	24.28	29.40	28.75	31.32	34.33
		Income before Tax	34.77	37.66	41.95	37.87	29.98	33.28
	Net Income Ratio (%)		26.68	30.45	34.11	34.91	22.09	22.65
	Basic EPS in NT$		0.75	3.40	3.80	3.75	3.04	3.39
	Diluted EPS in NT$		0.75	3.40	3.80	3.61	2.95	3.39
	Earning Per Share in NT$		0.75	3.40	3.80	3.75	2.76	2.63
Cash flow	Cash Flow Ratio (%)		39.55	172.57	181.69	179.94	134.26	165.27
	Cash Flow Equivalent Ratio (%)		123.99	117.36	112.16	88.41	67.88	69.20
	Cash Reinvestment Ratio (%)		3.81	8.50	11.35	12.31	13.23	20.08
Leverage Ratio	Operating Leverage (times)		2.18	2.18	1.89	1.89	3.08	1.99
	Financial Leverage (times)		1.00	1.01	1.02	1.03	1.04	1.04

Note: The financial Statements for the first quarter of 2007 have been reviewed. Others have been audited.

Analysis of variation plus and minus 20% in the recent 2 years:

(1) Times Interest Earned：The income before tax decrease due to the increase in cost of telecommunications services than last year.

(2) Cash Reinvestment Ratio：The decrease is due to decrease in cash inflow from operating activities in 2006.

2-2 Condensed Financial Ratio Analysis:

Item		Financial Analysis In Recent 5 Years (Note) 2007 Q1	2006	2005	2004	2003	2002
Financial Structure	Debt to Asset Ratio	18.30	20.33	25.35	35.87	41.44	37.37
	Long-term Funds to Fixed Assets Ratio	152.21	142.10	130.72	131.01	154.75	118.14
Liquidity Analysis	Current Ratio (%)	145.64	112.23	80.95	81.51	186.56	92.07
	Quick Ratio (%)	132.05	101.20	68.44	71.69	165.31	66.05
	Times Interest Earned (times)	310.20	155.54	64.90	24.62	26.69	26.20
Operating Performance	Accounts Receivable Turnover (times)	8.72	8.45	8.87	10.86	9.42	8.34
	Average Collection Days (days)	41.84	43.18	41.15	33.60	38.74	43.79
	Inventory Turnover (times)	5.66	5.60	7.51	5.91	3.82	2.96
	Accounts Payable Turnover (times)	5.14	5.64	9.16	5.61	3.19	3.46
	Inventory Turnover Days	64.49	65.19	48.59	61.80	95.64	123.44
	Fixed Assets Turnover (times)	1.20	1.23	1.17	1.02	0.94	0.86
	Total Assets Turnover (times)	0.66	0.72	0.72	0.60	0.50	0.57
Profitability Analysis	Return on Assets (%)	12.18	13.55	14.28	15.98	12.61	14.14
	Return on Equity (%)	15.05	17.47	20.36	24.91	20.29	22.18
	To Captial ratio – Operating Income	38.20	42.81	47.84	47.81	30.87	34.18
	To Captial ratio – Income before Tax	37.56	41.65	46.11	42.17	30.12	33.24
	Net Income Ratio (%)	18.18	19.36	20.37	21.43	22.19	22.62
	Basic EPS in NT$	0.75	3.40	3.80	3.75	3.04	3.39
	Diluted EPS in NT$	0.75	3.40	3.80	3.61	2.95	3.39
	Earning Per Share in NT$	0.75	3.40	3.80	3.75	2.76	2.63
Cash flow	Cash Flow Ratio (%)	48.47	164.32	158.34	126.33	116.20	163.30
	Cash Flow Equivalent Ratio (%)	177.27	174.23	167.90	131.17	91.34	79.34
	Cash Reinvestment Ratio (%)	5.39	10.91	14.58	22.05	14.51	22.30
Leverage Ratio	Operating Leverage (times)	2.08	2.00	1.93	1.91	3.11	2.00
	Financial Leverage (times)	1.00	1.01	1.02	1.04	1.04	1.04

Note: The financial Statements for the first quarter of 2007 have been reviewed. Others have been audited.

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 plus 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. 2006 Supervisors' Report-Not Consolidated

May 10, 2007

The Board of Directors have prepared and submitted to us the Company's 2006 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 and Article 36 of the Securities and Exchange Act, we hereby submit this report.

To

FET 2007 Shareholders' Meeting

Supervisors

Chen-en Ko

Eli Hong

Morton Huang

4. 2006 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, 2006 and 2005, 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 the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and 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, 2006 and 2005, 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, regulations related to financial accounting standards stated in Business Accounting Law, and Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the financial statements, starting on January 1, 2006, the Company adopted the newly released ROC Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions of previously issued Statements. In addition, based on the revised ROC SFAS No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method," goodwill should be subjected to impairment test annually instead of being amortized.

Also, we have audited the consolidated financial statements of the Company and subsidiaries as of and for the years ended December 31, 2006 and 2005 and have issued a modified unqualified opinion thereon in our report dated February 6, 2007.

Deloitte & Touche

February 6, 2007

<u>Notice to Readers</u>

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, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2006 Amount	%	2005 Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 3,095,929	3	$ 2,436,827	3
Accounts and notes receivable, net of allowance for doubtful accounts of $809,203 in 2006 and $1,204,019 in 2005 (Note 2)	3,803,080	4	3,773,299	4
Accounts and notes receivable from related parties (Notes 2 and 18)	813,591	1	759,638	1
Inventories, net (Notes 2 and 5)	475,778	-	654,430	1
Prepaid expenses (Note 2)	507,836	1	472,880	-
Deferred income tax assets - current (Notes 2 and 14)	612,115	1	560,730	-
Other current assets	55,238	-	21,944	-
Total current assets	9,363,567	10	8,679,748	9
LONG-TERM INVESTMENTS				
Equity-method investments (Notes 2, 6, 19 and 20)	37,883,330	42	37,532,567	41
PROPERTIES (Notes 2, 7 and 18)				
Cost				
Land	847,138	1	847,138	1
Buildings and equipment	1,647,956	2	1,632,094	2
Operating equipment	61,172,350	68	57,177,639	61
Computer equipment	8,902,253	10	8,293,927	9
Office equipment	757,878	1	798,031	1
Leasehold improvements	1,514,262	2	1,471,169	2
Miscellaneous equipment	255,937	-	214,638	-
Total cost	75,097,774	84	70,434,636	76
Less - accumulated depreciation	45,884,705	51	38,581,582	42
	29,213,069	33	31,853,054	34
Construction-in-progress and advances for acquisition of equipment	3,714,579	4	4,507,945	5
Net properties	32,927,648	37	36,360,999	39
INTANGIBLE ASSETS				
3G concession, net (Notes 1 and 2)	8,768,479	10	9,499,186	10
OTHER ASSETS				
Rental assets, net (Notes 2 and 8)	198,009	-	200,053	-
Refundable deposits (Note 18)	259,136	-	249,260	-
Deferred income tax assets - noncurrent (Notes 2 and 14)	383,318	1	493,226	1
Other	2,550	-	8,672	-
Total other assets	843,013	1	951,211	1
TOTAL	$ 89,786,037	100	$ 93,023,711	100

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

	2006		2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Commercial paper payable (Note 9)	$ -	-	$ 49,996	-
Notes payable	34,729	-	33,931	-
Accounts payable	545,257	1	611,684	1
Accounts and notes payable to related parties (Note 18)	1,805,198	2	790,492	1
Income tax payable (Notes 2 and 14)	722,585	1	836,955	1
Accrued expenses	3,223,117	3	3,785,860	4
Payables for acquisition of properties	1,732,319	2	2,287,620	3
Guarantee deposits received - current	761,462	1	934,840	1
Unearned revenue (Notes 2 and 18)	714,708	1	802,018	1
Current portion of long-term bond payable (Notes 7 and 10)	2,960,000	3	3,040,000	3
Lease payable - current (Notes 2, 7 and 18)	19,880	-	19,150	-
Other current liabilities	229,432	-	309,635	-
Total current liabilities	12,748,687	14	13,502,181	15
LONG-TERM LIABILITIES , NET OF CURRENT PORTION				
Bonds payable (Notes 7 and 10)	2,670,000	3	5,630,000	6
Long-term bank loans (Notes 7 and 11)	-	-	300,000	-
Hedging derivative financial liabilities - noncurrent (Notes 2 and 3)	66,158	-	-	-
Lease payable - noncurrent (Notes 2, 7 and 18)	28,240	-	47,100	-
Total current liabilities	2,764,398	3	5,977,100	6
OTHER LIABILITIES				
Accrued pension costs (Notes 2 and 12)	288,079	1	273,918	-
Guarantee deposits received - noncurrent	58,171	-	50,410	-
Total other liabilities	346,250	1	324,328	-
Total liabilities	15,859,335	18	19,803,609	21
STOCKHOLDERS' EQUITY				
Capital stock - NT$10.00 par value; authorized - 4,200,000 thousand shares; issued and outstanding - 3,872,663 thousand shares	38,726,630	43	38,726,630	42
Capital surplus				
Paid-in capital in excess of par value	6,510,964	7	6,510,964	7
From business combination	8,482,381	10	8,482,381	9
From long-term equity-method investments	10,611	-	10,611	-
Total capital surplus	15,003,956	17	15,003,956	16
Retained earnings				
Legal reserve	5,573,350	6	4,101,609	4
Unappropriated earnings	14,667,598	16	15,385,739	17
Total retained earnings	20,240,948	22	19,487,348	21
Other adjustments				
Cumulative translation adjustments	4,960	-	2,168	-
Unrealized losses on financial products	(49,792	-	-	-
Total other adjustments	(44,832	-	2,168	-
Total stockholders' equity	73,926,702	82	73,220,102	79
TOTAL	$ 89,786,037	100	$ 93,023,711	100

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated February 6, 2007)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006 Amount	%	2005 Amount	%
OPERATING REVENUE (Notes 2 and 18)				
Sales of cellular phone equipment and accessories, net	$ 3,209,482	8	$ 3,450,964	8
Telecommunications service revenues	39,891,379	92	39,602,474	92
Other	106,656	-	96,238	-
Total operating revenues	43,207,517	100	43,149,676	100
OPERATING COSTS (Notes 2, 15 and 18)				
Cost of sales	3,987,778	9	4,271,472	10
Cost of telecommunications services	19,472,146	45	17,621,476	41
Total operating costs	23,459,924	54	21,892,948	51
GROSS PROFIT	19,747,593	46	21,256,728	49
OPERATING EXPENSES (Notes 2, 15 and 18)				
Marketing	6,819,463	16	6,184,325	14
General and administrative	3,261,078	7	3,385,675	8
Research and development	263,321	1	301,403	1
Total operating expenses	10,343,862	24	9,871,403	23
OPERATING INCOME	9,403,731	22	11,385,325	26
NONOPERATING INCOME AND GAINS				
Equity in investees' net gains (Notes 2 and 6)	4,984,178	12	4,524,170	11
Commission (Note 18)	253,408	1	290,712	1
Management services revenue (Note 18)	131,902	-	139,709	-
Interest	30,803	-	35,366	-
Other (Note 18)	150,356	-	58,730	-
Total nonoperating income and gains	5,550,647	13	5,048,687	12
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2 and 7)	93,081	-	176,102	-
Losses on disposal of properties, including idle properties, net (Note 2)	250,046	1	2,402	-
Other (Notes 15 and 18)	25,232	-	11,144	-
Total nonoperating expenses and losses	368,359	1	189,648	-

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
INCOME BEFORE INCOME TAX	$14,586,019	34	$16,244,364	38
INCOME TAX (Notes 2 and 14)	1,429,794	4	1,526,962	4
NET INCOME	$13,156,225	30	$14,717,402	34

	2006		2005	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 16)				
Basic	$3.77	$3.40	$4.20	$3.80
Diluted	$3.77	$3.40	$4.20	$3.80

The pro forma financial information (after income tax) had the newly issued Statements of Financial Accounting Standards Nos. 34 and 36 been adopted on January 1, 2005 is as follows (Note 3):

	2006	2005
PRO FORMA NET INCOME	$13,156,225	$15,615,663
PRO FORMA EARNINGS PER SHARE (NT$)		
Basic	$3.40	$4.03
Diluted	$3.40	$4.03

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

(With Deloitte & Touche audit report dated February 6, 2007) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock Issued and Outstanding (Notes 2 and 13)		Capital Surplus (Notes 2 and 13)			Retained Earnings (Notes 2 and 13)		Other Adjustments		
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	From Business Combination	From Long-term Equity-method Investments	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments (Note 2)	Unrealized Gains (Losses) on Financial Products (Notes 2, 3 and 17)	Total Stockholders' Equity
BALANCE, JANUARY 1, 2005	3,842,311	$38,423,115	$6,023,801	$8,482,381	$-	$2,697,301	$14,069,797	$15,671	$-	$69,712,066
Conversion of overseas convertible bonds into common stock	30,352	303,515	487,163	-	-	-	-	-	-	790,678
Appropriation of the 2004 earnings										
Legal reserve	-	-	-	-	-	1,404,308	(1,404,308)	-	-	-
Bonus to employees	-	-	-	-	-	-	(252,775)	-	-	(252,775)
Remuneration to directors and supervisors	-	-	-	-	-	-	(126,388)	-	-	(126,388)
Cash dividends - NT$3.0 per share	-	-	-	-	-	-	(11,617,989)	-	-	(11,617,989)
Net income in 2005	-	-	-	-	-	-	14,717,402	-	-	14,717,402
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	10,611	-	-	-	-	10,611
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	(13,503)	-	(13,503)
BALANCE, DECEMBER 31, 2005	3,872,663	38,726,630	6,510,964	8,482,381	10,611	4,101,609	15,385,739	2,168	-	73,220,102
Adjustment due to accounting changes (Note 3)	-	-	-	-	-	-	-	-	(68,978)	(68,978)
Appropriation of the 2005 earnings										
Legal reserve	-	-	-	-	-	1,471,741	(1,471,741)	-	-	-
Bonus to employees	-	-		-	-	-	(264,913)	-	-	(264,913)
Remuneration to directors and supervisors	-	-	-	-	-	-	(132,457)	-	-	(132,457)
Cash dividends - NT$3.1 per share	-	-	-	-	-	-	(12,005,255)	-	-	(12,005,255)
Net income in 2006	-	-	-	-	-	-	13,156,225	-	-	13,156,225
Equity in changes in subsidiary's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(174)	(174)
Equity in changes in subsidiary's unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	532	532
Changes in unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	18,828	18,828
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	2,792	-	2,792
BALANCE, DECEMBER 31, 2006	3,872,663	$38,726,630	$6,510,964	$8,482,381	$10,611	$5,573,350	$14,667,598	$4,960	$(49,792)	$73,926,702

The accompanying notes are an integral part of the financial statements

.(With Deloitte & Touche audit report dated February 6, 2007)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 13,156,225	$ 14,717,402
Depreciation and amortization	7,988,612	7,329,672
Amortization of 3G concession	730,707	487,137
Allowance for doubtful accounts	322,415	551,386
Provision (reversal of allowance) for losses on decline in value of inventories	(1,355)	4,953
Losses on obsolescence of inventories	4,799	1,133
Equity in investees' net gains	(4,984,178)	(4,524,170)
Cash dividends from equity-method investees	4,636,033	3,745,191
Losses on disposal of properties, including idle properties, net	250,046	2,402
Accrued pension cost	14,161	66,824
Deferred income taxes	75,063	670,802
Interest premium on convertible bonds	-	1,070
Other	-	1,179
Net changes in operating assets and liabilities		
Accounts and notes receivable	(352,196)	(832,111)
Accounts and notes receivable from related parties	(56,597)	147,935
Inventories	175,208	(89,854)
Prepaid expenses	(34,956)	1,000,631
Other current assets	(28,272)	100,089
Notes payable	798	(7,401)
Accounts payable	(66,427)	230,539
Accounts and notes payable to related parties	1,014,706	470,608
Income tax payable	(114,370)	835,499
Accrued expenses	(562,743)	404,443
Unearned revenues	(87,310)	(855,931)
Other current liabilities	(80,203)	37,215
Net cash provided by operating activities	22,000,166	24,496,643
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of equity-method investments	-	(1,606,444)
Acquisition of properties	(5,402,822)	(5,296,979)
Proceeds of the sales of properties, including idle properties	28,520	9,125
Decrease (increase) in refundable deposits	(9,876)	2,709
Decrease in other assets	1,352	6,922
Net cash used in investing activities	(5,382,826)	(6,884,667)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in commercial paper payable	(49,996)	(619,213)
Decrease in short-term bank loans	-	(2,250,000)
Proceeds of long-term liabilities	-	6,549,788
Repayment of long-term liabilities	(3,340,000)	(9,909,788)

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	**2005**
Decrease in guarantee deposits received	$ (165,617)	$ (235,071)
Bonus paid to employees and directors	(397,370)	(379,163)
Cash dividends paid	(12,005,255)	(11,617,989)
Net cash used in financing activities	(15,958,238)	(18,461,436)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	659,102	(849,460
CASH RECEIVED ON MERGER WITH YUAN-ZE TELECOMMUNICATIONS CO., LTD.	-	20,856
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,436,827	3,265,431
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,095,929	$ 2,436,827
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 232,570	$ 283,643
Less - interest capitalized	76,459	105,369
Interest paid, net of capitalized interest	$ 156,111	$ 178,274
Income tax paid	$ 1,469,103	$ 6,461
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 2,979,880	$ 3,059,150
Reclassification of properties into rental assets	$ -	$ 11,109
Conversion of overseas convertible bonds into common stock and capital surplus	$ -	$ 790,678
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 4,829,391	$ 4,791,118
Decrease in payables for acquisition of properties	555,301	513,111
Decrease (increase) in lease payables	18,130	(7,250)
Cash paid for acquisition of properties	$ 5,402,822	$ 5,296,979
PROCEEDS OF THE DISPOSAL OF PROPERTIES, INCLUDING IDLE PROPERTIES		
Total amount of sold properties, including idle properties	$ 30,898	$ 3,656
Increase in receivables on properties sold	(5,022)	(182)
Decrease in receivable from related parties	2,644	5,651
Cash received on disposal of properties	$ 28,520	$ 9,125

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

SUPPLEMENTARY INFORMATION ON SUBSIDIARIES ACQUIRED:

In February 2005, the Company bought 55.37% of Arcoa Communications Co., Ltd.'s common shares; the fair value of total assets and total liabilities at the time of acquisition was as follows:

	Amount
Cash and cash equivalents	$ 157,224
Financial assets at fair value through profit or loss - current	662,800
Accounts and notes receivable, net	310,974
Inventories, net	627,274
Prepaid expenses	40,892
Other current assets	118,338
Equity-method investments	19,811
Financial assets carried at cost - noncurrent	49,332
Properties, net	544,691
Refundable deposits	42,993
Deferred charges, net	185,857
Other assets	8,825
Short-term bank loans	(282,586)
Notes payable	(78,354)
Accounts payable	(358,125)
Accrued expenses	(174,836)
Unearned revenues	(64,120)
Other current liabilities	(28,814)
Long-term liabilities	(50,188)
Other liabilities	(8,843)
	1,723,145
Percentage of ownership acquired	55.37%
	954,135
Goodwill	254,811
Cash consideration of the merger	1,208,946
Less: Decrease in restricted assets	320,000
Cash payment due to merger	$ 888,946

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

On May 2, 2005, the Company completed the merger with Yuan-Ze Telecommunications Co., Ltd.; the fair values of total assets and total liabilities upon completion of the merger were as follows:

	Amount
Cash and cash equivalents	$ 20,856
Prepaid expenses	164,294
Other current assets	92,994
Construction-in-progress and advances for the acquisition of equipment	6,298,125
Refundable deposits	9
3G concession, net	9,986,323
Other assets	2,152
	$ 16,564,753
Short-term bank loans	$ 2,250,000
Commercial paper payable	669,209
Accounts and notes payable to related parties	126,864
Accrued expenses	38,636
Payables related to acquisition of properties	1,249,715
Long-term bank loans	3,000,000
	$ 7,334,424

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

(With Deloitte & Touche audit report dated February 6, 2007) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Far EasTone Telecommunications Co., Ltd. (the "Company") was incorporated in the Republic of China (ROC) on April 11, 1997 and began commercial operations on January 20, 1998. The Company's shares began to be traded on the ROC Over-the-Counter (OTC) Securities Exchange (known as GreTai Securities Market) on December 10, 2001. Later, the Company's share ceased to be traded on the OTC exchange and became listed on the ROC Taiwan Stock Exchange on August 24, 2005. The Company provides wireless communications, leased circuit, Internet and international simple resale (ISR) services and also sells cellular phone equipment and accessories. As of December 31, 2006, Far Eastern Textile Co., Ltd. ("Far Eastern Textile") and its affiliates directly and indirectly owned 42.83% of the Company's shares. Since the Company's chief executive officer is appointed by Far Eastern Textile's 99.99% subsidiary, Far Eastern Textile has control over the Company's finances, operations and personnel affairs. Thus, Far Eastern Textile is the ultimate parent company of the Company.

The Company provides 2G (second-generation wireless communications services) by geographical sector under two type I licenses - GSM900 for the northern region of Taiwan and GSM1800 island-wide ("GSM" means "global system for mobile communications") - issued by the DGT of the ROC. These licenses allow the Company to provide services for 15 years from 1997, with an annual license fee of 2% of total 2G wireless communications service revenues.

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

To integrate the telecommunications business and enhance the Company's operational efficiency, the Company's Board of Directors approved the Company's merger with Yuan-Ze Telecommunications Co., Ltd. ("Yuan-Ze Telecom"), its wholly owned subsidiary, on February 24, 2005. The merger was completed on May 2, 2005, with the Company as the survivor company.

In 2002, Yuan-Ze Telecom received from the DGT the 3G (third-generation wireless communications system) concession, with a bidding price of $10,169,000 thousand, included in intangible assets - 3G concession. On January 24, 2005, the DGT issued to Yuan-Ze Telecom a 3G license, which is valid through December 31, 2018. Through the completion of the merger with Yuan-Ze Telecom, the Company became licensed to provide 3G wireless communications service and began commercial operations on July 13, 2005.

The Company had 3,370 and 3,471 employees as of December 31, 2006 and 2005, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports for Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the ROC. In preparing financial statements in conformity with these guidelines and principles, the Company is required to make certain estimates and assumptions that could affect the allowance for doubtful accounts, provision for losses on decline in value of inventories, depreciation and amortization, impairment loss on tangible and intangible assets, product warranty reserve, income taxes and pension cost. Actual results could differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 financial statements shall prevail.

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

Current and Noncurrent Assets and Liabilities

Current assets are unrestricted cash or cash equivalents as well as other assets to be converted into cash or consumed within 12 months after the balance sheet date. Property and equipment, intangible assets and those not classified as current assets are noncurrent assets. Current liabilities are obligations to be settled within 12 months after the balance sheet date. All other liabilities are classified as noncurrent.

Cash Equivalents

Commercial paper and bonds purchased under resell agreements with original maturities of not more than three months are classified as cash equivalents. Their carrying values approximate their fair values.

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Revenue is recognized when the earnings process is completed or virtually completed and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to the 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; (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. This sale 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 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 using the pro forma interest rate method.

An allowance for doubtful accounts is provided on the basis of the aging of the receivables, customers' credit, prevailing economic development and estimated collectibility of receivables from subscribers and other parties.

Promotion Expenses

Commissions and cellular phone equipment 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.

Inventories

Inventories are stated at the lower of cost or market value (net realizable value). Cost is determined using the weighted-average method. Losses on disposal of inventory are evaluated on the basis of the changes in marketing strategy. Losses on decline in value of inventory are evaluated on the basis of market demand and should be recognized when the net realizable value is lower than the cost.

Equity-method Investments

Long-term investments 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. On the acquisition date or the adoption of the equity method for the first time, the difference between investment cost and underlying equity in net assets is amortized using the straight-line method over 3 to 5 years.

As required, however, by the revised ROC Statement of Financial Accounting Standards No. 5 - "Long-term Investments in Equity Securities," starting on January 1, 2006, the cost of acquisition is subjected to an initial analysis. The investment cost in excess of the fair value of identifiable net assets is recognized as goodwill. Goodwill is no longer amortized but instead tested annually for impairment. An impairment test is also required when there is evidence indicating that goodwill might be impaired due to an event or change in the economic environment. If the fair value of identifiable net assets acquired exceeds the cost of investments, the excess should be assigned to noncurrent assets proportionately to their respective fair values (except for financial assets not under the equity method, assets for disposal, deferred income tax assets and prepaid pension costs or other retirement benefit costs). If these assets are all reduced to zero, the remaining excess should be recognized as extraordinary gain. Starting on January 1, 2006, the unamortized balance of the investment cost in excess of the equity in investee's net assets is no longer amortized and is instead subject to the same accounting treatment as that for goodwill; the negative goodwill previously acquired should be amortized over the remaining estimated economic lives.

An increase in the Company's proportionate share in the net assets of its investee resulting from its subscription for additional shares of stock issued by the investee at a rate different from its existing equity ownership in the investee's net assets, capital surplus is debited. If capital surplus is not enough for debiting purposes, the different is debited to unappropriated earnings.

Properties and Rental Assets

Properties and rental assets are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Major additions, renewals and improvements as well as interest expense incurred during the construction year are capitalized, while maintenance and repairs are expensed currently. Properties still being used beyond their initially estimated service lives are depreciated over their newly estimated service lives.
Equipment covered by capital lease agreements 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 price.

Useful lives are estimated as follows:

	Useful Life Years
Buildings	48
Building and 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 assets, 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.

3G Concession

The 3G concession, which was stated at cost, is amortized on a straight-line basis from January 24, 2005, the issuance date of the concession license, until the license expiry date on December 31, 2018.

Impairment Loss

An impairment loss should be recognized if the carrying value of assets (including properties, rental assets, 3G concession, and equity-method investment) exceed their recoverable amount, and this impairment loss should be charged to current income. The accumulated impairment loss of an asset recognized in prior years can be reversed if, later on, the estimate of the asset's recoverable amount later has changed so as to increase the recoverable amount. Then, the asset's carrying amount can be increased to its recoverable amount; however, the recoverable amount should not exceed the carrying amount that would have been after the deduction of depreciation or amortization if it had not been impaired. An impairment loss recognized on goodwill can not be reversed.

Deferral of Unrealized Intercompany Profit

The entire gains or losses from the Company's sales of products to its subsidiaries are deferred and included in deferred income. In addition, the Company classifies deferred income as current or noncurrent on the basis of the length of the gain realization period.

The Company defers gains or loss on its product sales in proportion to ownership percentages for sales to equity-method investees that are not majority owned.

The Company defers its gains or losses on the subsidiaries' sales of products to the Company or on the sale among subsidiaries in proportion to its equity in the subsidiaries.

All of the deferred gains and losses are realized on the subsequent sale of related items to third parties.

Pension Costs

The Company has two types of pension plans: defined benefit and defined contribution. Under the defined benefit pension plan, pension costs are recognized on the basis of actuarial calculations. Under the defined contribution plan, the Company should make monthly contributions to employees' individual pension accounts at a fixed percentage of monthly salaries and wages and recognize these contributions as pension cost.

Convertible Bonds

Before December 31, 2005, the Company issued convertible bonds at par value 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 issuance costs of convertible bonds are classified as deferred charges and should be amortized by the straight-line method over the year between the issuance date and the redemption date at the option of the bondholders.

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

Income Tax

The inter-period and intra-period allocation methods are used for income taxes. 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 for financial reporting. 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, personnel training expenses and equity-method investments are accounted for as a reduction of the current year's income tax expense.

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

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

Foreign Currency Transactions and Translation of Foreign-currency Financial Statements

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 prevailing foreign exchange rates when cash in foreign currency is converted into New Taiwan dollars or when nonmonetary foreign-currency denominated assets and liabilities are settled, are credited or charged to income in the year of settlement.

On the balance sheet dates, the balances of nonmonetary foreign-currency denominated assets and liabilities are evaluated at fair value, such as equity instruments, are restated at the prevailing exchange rates, and the resulting differences are recorded as adjustment to stockholders' equity or as profit or loss in the current year. Financial assets and liabilities measured at holding cost are stated at historical exchange rates; while equity-method investments are recorded as cumulative translation adjustments under stockholders' equity.

Hedging Derivative Financial Instruments

Hedging derivative financial instruments are measured at fair value. The changes in fair values of these instruments are debited or charged to either stockholders' equity or current income depending on the hedged items.

Hedge Accounting

Hedge accounting involves the recognition of the offsetting effects on profit or loss of changes in fair values of the hedging instrument and the hedged item.

Derivative instruments held by the Company are for cash flow hedge purposes. Under the cash flow hedge, the gains or losses from the changes in fair values of the hedging instruments are recognized under stockholders' equity and are recognized as current income if the hedged forecast transaction affects net gains or losses. If hedging would give rise to a nonfinancial asset or liability, the gain or loss will be recognized as the adjustment to the original cost or carrying amount of the hedged asset or liability. If recognized adjustments to stockholders' equity result in irreversible losses, these losses should be immediately charged to current income.

The Company uses interest rate swaps to hedge cash flow risk from interest rate fluctuations.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to be consistent with the presentation of financial statements as of and for the year ended December 31, 2006.

3. CHANGES IN ACCOUNTING PRINCIPLES

On January 1, 2006, the Company adopted the new ROC Statements of Financial Accounting Standards ("Statement" or SFAS) No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and related revised Statements.

The effects of the accounting changes are summarized as follows:

a. Reclassification of financial assets and liabilities

On the basis of the accounting changes, the Company reclassified derivative instruments for cash flow hedge as adjustments to stockholders' equity.

The effects of the first time adoption of the Statements are as follows:

	As Adjustments to Stockholders' Equity (After Tax)
Hedging derivative financial liabilities	$ 68,446
Hedging derivative financial liabilities recognized from subsidiaries	532
	$ 68,978

The accounting change resulted in an increase of $181 thousand in net income before income tax expense.

b. Other information on the accounting changes

The following accounting policy was being used by the Company before adopting SFAS Nos. 34 and 36:

Interest rate swap

The contract (notional) amounts of interest rate swap agreements, which are entered into as hedges of interest rate risks, 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.

The Company adopted new Statement as required by the revised ROC SFAS No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5 - "Long-term Investments in Equity Securities," and SFAS No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method." These revisions stated that the difference between the cost of an investment and the amount of the underlying equity in net assets of an investee should no longer be amortized. If the difference is goodwill, it should be tested for impairment loss periodically instead of being amortized. The adoption of the revised Statements resulted in an increase of $864,669 thousand in net income before income tax expense without any cumulative changes in accounting principles and an increase of NT$0.22 in basic earnings per share after income tax for the year ended December 31, 2006.

4. CASH AND CASH EQUIVALENTS

	December 31 2006	December 31 2005
Cash		
Cash on hand	$ 2,786	$ 8,195
Checking and demand deposits	584,490	881,510
	587,276	889,705
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.61%-1.65% in 2006 and 1.40%-1.48% in 2005	2,508,653	1,497,122
Bonds purchased under resell agreements - interest of 1.59%	-	50,000
	2,508,653	1,547,122
	$ 3,095,929	$ 2,436,827

As of December 31, 2006 and 2005, foreign demand deposits were as follows:

	December 31 2006	December 31 2005
Belgium (US$822 thousand in 2006 and US$175 thousand in 2005)	$ 26,795	$ 5,733

5. INVENTORIES

	December 31 2006	December 31 2005
Cellular phone equipment	$ 421,926	$ 575,412
SIM cards and prepaid cards	50,504	82,555
Cellular phone accessories	26,560	16,362
Others	324	4,992
	499,314	679,321
Less - allowance for losses	23,536	24,891
	$ 475,778	$ 654,430

6. EQUITY-METHOD INVESTMENTS

	December 31			
	2006		2005	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Common stocks with no quoted market prices				
KG Telecommunications Co., Ltd.	$ 36,124,571	100.00	$ 35,192,374	100.00
ARCOA Communication Co., Ltd.	1,026,383	59.10	1,171,320	59.10
Far Eastern Electronic Toll Collection Co., Ltd.	395,686	42.66	789,096	42.66
Far Eastern Info Service (Holding) Ltd.	134,999	100.00	141,174	100.00
Far EasTron Holding Ltd.	100,542	100.00	143,331	100.00
E. World (Holdings) Ltd.	73,717	85.92	66,664	85.92
Ding Ding Integrated Marketing Services Co., Ltd.	26,790	15.00	27,680	15.00
Far EasTron Co., Ltd.	642	0.67	928	0.67
	$ 37,883,330		$ 37,532,567	

a. KG Telecommunications Co., Ltd. ("KG Telecom")

KG Telecom, formerly Yuan Ho Telecommunications Co., Ltd., was incorporated in the ROC on September 25, 2003. It is a wholly owned subsidiary of the Company. After its incorporation, KG Telecom merged with the former KG Telecommunications Co., Ltd. (the "former KGT") through a two-step merger agreement. The merger was completed on May 20, 2004 after the registration of the shares with MOEA.

The former KGT provides 2G 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 2G wireless communications service revenues. Moreover, the merger of former KGT with TUNTEX (with a license of 2G to provide wireless communications service under a type I license - GSM1800 for the central and southern region of Taiwan issued by the DGT) is effective from January 1, 2000. Thus, the former KGT provided island-wide 2G wireless communications services under a type I license - GSM1800. 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 1% of leased circuit service revenues.

b. Yuan-Ze Telecommunications Co., Ltd. ("Yuan-Ze Telecom")

On February 24, 2005, the Board of Directors of the Company approved the Company's merger with Yuan-Ze Telecom, with the Company as the survivor company. The merger was approved by the DGT on March 16, 2005 and by OTC exchange on April 19, 2005. The date of the merger was May 2, 2005.

The following pro forma financial information presents the combined financial information of the Company and Yuan-Ze Telecom as of and for the year ended December31, 2005, assuming that the Company merged with Yuan-Ze Telecom on January 1, 2005.

(In Thousands, Except Earnings Per Share)

	Year Ended December 31, 2005
Current assets	$ 8,679,748
Properties, net	36,360,999
Current liabilities	13,502,181
Operating revenue	43,149,676
Income before income tax	16,244,364
Net income	14,717,402
Earnings per share	3.80

The pro forma combined financial information are presented for illustrative purposes only. That is, this information does not necessarily show the financial position and results of operations under the assumption that the Company merged with Yuan-Ze Telecom on January 1, 2005 nor does it show the future financial position or results of operations of the Company and Yuan-Ze Telecom.

c. ARCOA Communication Co., Ltd. ("ARCOA")

The Company bought from ARCOA's stockholders 79,353 thousand shares between February 4, 2005 and July 25, 2005 for $1,278,944 thousand. As a result, the Company owned 59.10% of ARCOA's common shares and became its parent company.

The following pro forma financial information presents the combined financial information of the Company and ARCOA as of and for the year ended December 31, 2005. This information is based on the assumption that the Company bought the majority interest of ARCOA on January 1, 2005.

(In Thousands, Except Earnings Per Share)

	Year Ended December 31, 2005
Current assets	$ 10,346,705
Properties, net	36,874,925
Current liabilities	14,496,109
Operating revenue	47,849,485
Income before income tax	16,228,971
Net income	14,701,571
Earnings per share	3.80

The pro forma combined financial information are presented for illustrative purposes only. That is, this information does not necessarily show the financial position and results of operations under the assumption that the Company bought the majority interest of ARCOA on January 1, 2005 nor does it show the Company's future financial position or results of operations.

d. Far Eastern Electronic Toll Collection Co., Ltd.

On February 26, 2004, Far Eastern Electronic Toll Collection Co. ("FETC", which is originally known as "Far Eastern Consortium" established by the Company, TECO Electric & Machinery Co., Ltd., Systex Corporation and MiTAC Inc.) was selected by the Taiwan Area National Freeway Bureau ("the TANFB") as the best qualified candidate for its "Private Participation in the Electronic Toll Collection BOT Project" ("ETC Project")." On April 27, 2004, FETC and the TANFB completed negotiations and signed the project contract. This 20-year contract covers both the construction and operation of the ETC system. Upon completion of the ETC system construction on February 10, 2006, the TANFB cleared FETC for testing system operations. Later, the Ministry of Transportation and Communications ("the MOTC") gave its official clearance for FETC to do the operational testing.

On February 24, 2006, however, the Taipei High Administrative Court announced its decision to revoke the status of FETC as the best qualified candidate for the ETC project. Then, on August 3, 2006, the Supreme Administrative Court ruled that the original screening process conducted by TANFB was flawed and in violation of the principles of equality and public interest and stripped FETC of its "best qualified candidate" status. On December 5, 2006, in response to the verdict, the TANFB announced a second bidding for the ETC Project. On December 25, 2006, FETC applied to TANFB to participate in the second bidding. As of February 6, 2007, the date of the accompanying auditors' report, the bidding was still in progress.

The original intention behind the Company's investment in FETC was to create the first intelligent transportation system in Taiwan and to maximize national economic efficiency. Nevertheless, since the foundation of the FECT, it has been under political attack and suffered from untruthful media accusation. FETC was thus affected by increasing operating risks and negative corporate reputation. Consequently, on August 11, 2006, the Company announced a proposal to withdraw from FETC by unconditionally donating its FETC shareholding to the Government so that the Government will be able to plan the future for ETC operation on a brand new basis and further enhance domestic transportation efficiency and national competitiveness. The Company's board of directors approved this proposal on August 22, 2006. The donation will be made depends on the Government's response.

e. Equity in investees' net gains or losses

Since the combined equity interests of the Far Eastern Group in Ding Ding Integrated Marketing Service Co., Ltd. ("DDIM") and Far EasTron Co., Ltd. ("Far EasTron") allow the Company to exercise significant influence on these investees' operating and financial policy decisions, the investments in DDIM and Far EasTron are accounted for by the equity method even though the Company's equity in DDIM and Far EasTron are only 15% and 0.67%, respectively.

The carrying values of the foregoing investments accounted for by equity method are based on audited financial statements as of December 31, 2006 and 2005. For the year ended December 31, 2006 and 2005, the equity in investees' net gains were $4,984,178 thousand and $4,524,170 thousand, respectively.

f. Consolidation

Effective January 2005, investees in which the Company directly or indirectly holds more than 50% of voting rights or de facto control (except KG Satellite, KG Telecom's 66.33% subsidiary, which resolved to liquidate itself on July 11, 2005) are included in the consolidated financial statements in accordance with the amendments to the ROC Statement of Financial Accounting Standards No. 7 - "Consolidated Financial Statements." All significant intercompany accounts and transactions have been eliminated in the consolidation. For subsidiaries acquired during the year, their revenues and expenses generated before the acquisition dates will not be consolidated.

g. Goodwill

For the year ended December 31, 2006, the difference between investment cost and its equity in its investees' net assets, which was treated as goodwill, is as follows:

	Beginning Balance	Increase	Decrease	Ending Balance
Goodwill	$ 255,828	$ -	$ -	$ 255,828

7. PROPERTIES

a. Accumulated depreciation consisted of:

	December 31	
	2006	2005
Buildings and equipment	$ 491,151	$ 408,865
Operating equipment	37,073,499	31,304,582
Computer equipment	6,508,415	5,265,265
Office equipment	686,266	650,659
Leasehold improvements	1,035,271	883,124
Miscellaneous equipment	90,103	69,087
	$ 45,884,705	$ 38,581,582

b. The Company leases computer equipment from Far Eastern International Leasing Corporation under a contract valid from July 2004 to June 2009, with annual lease payments of $15,414 thousand. The amount paid for the leased properties at the start of the lease was $73,750 thousand net of the market price of new equipment of $138,716 thousand less the equipment changed amounting to $64,966 thousand. The total lease payments were $77,068 thousand. The lease agreement qualifies as a capital lease since (a) the present value of the future lease payments plus the bargain purchase price under the lease 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 Company leases another computer equipment from Far Eastern International Leasing Corporation under a contract valid from March 2006 to February 2011, with annual lease payments of $5,063 thousand. The total lease payments were $25,313 thousand. The lease agreement qualifies as a capital lease since (a) the present value of the future lease payments plus the bargain purchase price under the lease 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, 2006 and 2005 are as follows:

	December 31	
	2006	2005
Total future lease payments	$ 52,097	$ 71,553
Less - imputed interest expense	3,977	5,303
	48,120	66,250
Less - current portion of lease payable	19,880	19,150
Long-term lease payable	$ 28,240	$ 47,100

c. Capitalized interest on properties was as follows:

	Year Ended December 31	
	2006	2005
Total interest expense	$ 169,540	$ 281,471
Less - interest capitalized (included in construction in process and advances for acquisition of equipment)	76,459	105,369
Interest expense, net of amounts capitalized	$ 93,081	$ 176,102
Interest rate capitalized	2.09%-2.51%	2.32%-2.73%

d. Properties amounting to $3,107,935 thousand had been pledged or mortgaged as collaterals as of December 31, 2005.

8. RENTAL ASSETS, NET

	December 31	
	2006	2005
Cost		
Land	$ 105,366	$ 105,366
Buildings	100,136	100,136
	205,502	205,502
Less - accumulated depreciation		
Buildings	7,493	5,449
	$ 198,009	$ 200,053

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

Year	Amount
2007	$ 13,952
2008	13,993
2009	12,576
2010	8,037
After 2010	9,783

9. COMMERCIAL PAPER PAYABLE

The Company issued commercial paper guaranteed by financial institutions, which were discounted at 1.28%, were fully repaid on January 3, 2006.

10. BONDS PAYABLE

	December 31, 2006		
	Due Within One Year	Due After One Year	Total
Bonds payable			
Domestic unsecured bonds - 1st	$ 2,060,000	$ -	$ 2,060,000
Domestic unsecured bonds - 2nd	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd	900,000	1,200,000	2,100,000
	$ 2,960,000	$ 2,670,000	$ 5,630,000

	December 31, 2005		
	Due Within One Year	Due After One Year	Total
Bonds payable			
Domestic unsecured bonds - 1st	$ 2,140,000	$ 2,060,000	$ 4,200,000
Domestic unsecured bonds - 2nd	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd	900,000	2,100,000	3,000,000
	$ 3,040,000	$ 5,630,000	$ 8,670,000

a. Domestic unsecured bonds - 1st

Five-year domestic unsecured bonds were issued at par value on February 19, 2002. The total face value of the bonds is $4,200,000 thousand, with face value of $1,000 thousand 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. The Company already repaid $2,140,000 thousand on February 19, 2006.

b. Domestic unsecured bonds - 2nd

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

c. Domestic unsecured bonds - 3rd

Three-year, four-year and five-year domestic unsecured bonds were issued at par value on December 12, 2003. The total face value of the bonds is $3,000,000 thousand, with a face value of $5,000 thousand and annual interest rates of 1.83% (three-year bonds) and 1.92% (four-year bonds). The interest rate for five-year bonds is 5.2% minus USD six-month LIBOR rate if the LIBOR rate is greater than 1.05%; otherwise, the interest is at the LIBOR rate plus 1%, payable semiannually. The Company should redeem the full amount when the bonds become due in 2006, 2007 and 2008. The Company already repaid $900,000 thousand on December 12, 2006.

11. LONG-TERM BANK LOANS

As of December 31, 2005, the Company had unsecured bank loans with annual interest rates of 1.60% to 1.64%, which were due on January 4, 2006. Under a revolving agreement, the bank loan has been made available for the Company through November 2007 instead.

12. PENSION PLAN

a. The Labor Pension Act (the "Act") took effect on July 1, 2005. This Act provides for a defined contribution plan featuring a portable pension. Employees subject to the Labor Standards Law before June 30, 2005 were allowed to choose to remain subject to the pension mechanism under the Labor Standard Law or choose to be subject to the pension mechanism under the Act, with their service years accumulated before the enforcement of this Act to be retained. Those hired on or after July 1, 2005 automatically become subject to the Act.

b. Under the Act, the Company has a defined contribution pension plan. Since July 1, 2005, the Company has made monthly contributions to the employees' individual pension accounts in the Bureau of Labor Insurance at 6% of salaries and wages. The pension cost under the defined contribution plan was $115,708 thousand and $56,683 thousand for the years ended December 31, 2006 and 2005, respectively.

c. The Company has a defined benefit pension plan under the Labor Standards Law (the "Law"). Under this pension plan, employees can accumulate two base points for every service year within the first 15 service years and one base point for every service year thereafter. Employees can accumulate up to 45 base points.

   Under the Law, the Company (including KG Telecom, Far EasTron and Yuan Cing Co., Ltd.) accrue pension costs individually on the basis of actuarial calculations and make monthly contributions at 2% of salaries and wages to each company's pension fund, which is administered by each company's pension plan committee and deposited in the respective committees' names in the Central Trust of China.

d. Additional information on the defined benefit pension plan is as follows:

   1) Net pension cost consists of:

	2006	2005
Service cost	$ 30,912	$ 72,875
Interest cost	26,078	22,624
Expected return on pension assets	(10,851)	(9,994)
Amortization of net transition obligation	1,213	1,213
Amortization of unrecognized pension loss	6,949	4,363
Net pension cost	$ 54,301	$ 91,081

2) Reconciliation of the fund status of the plan and accrued pension cost is as follows:

	December 31	
	2006	**2005**
Benefit obligation		
Vested benefit obligation	$ 5,840	$ 5,919
Non-vested benefit obligation	526,397	440,167
Accumulated benefit obligation	532,237	446,086
Additional benefits based on projected and future salaries	505,043	423,168
Projected benefit obligation	1,037,280	869,254
Fair value of plan assets	(388,087)	(340,092)
Funded status	649,193	529,162
Unrecognized net transition obligation	(7,273)	(8,486)
Unrecognized pension loss	(353,841)	(246,758)
Accrued pension cost	$ 288,079	$ 273,918
Vested benefit amounts were as follows:	$ 4,061	$ 7,415

3) Actuarial assumptions were as follows:

	2006	**2005**
Discount rate used in determining present value	2.75%	3.00%
Rate of salary increase	3.50%	3.50%
Expected return on plan assets	2.75%	3.00%

13. STOCKHOLDERS' EQUITY

a. Capital surplus

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, capital surplus (including both paid-in capital in excess of par value and that arising from business combination) may be used to offset a deficit or transferred to capital as a stock dividend, with the transfer to be made within prescribed limits only.

b. Appropriation of earnings and dividend policy

The Company's Articles of Incorporation provide that, every year, 10% of net income less any accumulated deficit should be appropriated as legal reserve. In addition, if the Company decides to distribute dividends, 1% to 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.

At least 50% of the balance of net income less accumulated deficit, legal reserve and special reserve should be appropriated as dividends. The cash dividends should be at least 50% 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 or plan to improve financial structure.

A regulation issued by the Securities and Futures Bureau requires the setting aside from the unappropriated earnings of a special reserve equal to any debit balance of an account under stockholders' equity. The balance of this special reserve is adjusted on the basis of the debit balance of the stockholders' equity account at year-end.

Under the ROC Company Law, legal reserve should be appropriated until the accumulated reserve equals the Company's paid-in capital. Legal reserve may be used to offset a deficit. When the reserve exceeds 50% of the Company's paid-in capital, the excess may be distributed as follows: (a) if the Company has no earnings, the excess may be declared as dividends or bonus; and (b) if the Company has no deficit, only the excess portion that is over 25% of the Company's paid-in capital may be declared as stock dividends.

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

The appropriation of the 2005 and 2004 earnings were approved by the stockholders on May 26, 2006 and May 20, 2005, respectively.

	Appropriation and Distribution		Dividend Per Share (Dollars)	
	2005	**2004**	**2005**	**2004**
Legal reserve	$ 1,471,741	$ 1,404,308		
Bonus to employees - cash	264,913	252,775		
Remuneration to directors and supervisors	132,457	126,388		
Cash dividend	12,005,255	11,617,989	$ 3.10	$ 3.00

Had the above bonus to employees and directors been charged to net income in 2005 and 2004, the basis earnings per share for 2005 and 2004 (after tax), based on the weighted-average number of outstanding shares would have decreased from NT$3.80 to NT$3.70 and from NT$3.75 to NT$3.65, respectively.

The appropriation of the 2006 earnings of the Company had not been approved by the board of directors as of January 22, 2007. Related information can be accessed through the Market Observation Post System on the Taiwan Stock Exchange Corporation's website.

c. Global depositary receipts

The Company's Global Depositary Receipts (GDRs) as of December 31, 2006 were as follows:

		GDRs (in Thousand Units)	Equivalent Common Stock (in Thousand Shares)
Initial offering	1)	10,000	150,000
Converted from overseas unsecured convertible bonds	2)	165	2,473
Issued for capital increase	3)	296	4,448
Reissued within authorized units	4)	19,907	298,607
GDRs transferred to common stock		(26,577)	(398,651)
Outstanding GDRs issued		3,791	56,877

1) On June 1, 2004, the Securities and Futures Bureau (SFB) approved the Company's request to sell to foreign investors 150,000 thousand shares of the Company's common stock in the form of 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 per unit.

2) 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, 2006, 165 thousand units of GDRs had been issued for the conversion of overseas unsecured convertible bonds, representing 2,473 thousand common shares.

3) In 2004, the Company issued 296 thousand units of GDRs as a result of a capital increase from capital surplus and retained earnings. The GDRs represented 4,448 thousand common shares.

4) Under the terms of the GDR offering, following the completion of an offering to the extent that previously issued GDRs have been withdrawn, GDRs reissuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of December 31, 2006, the Company had reissued 19,907 thousand GDR units, representing 298,607 thousand common shares.

The owner of GDR have the same rights as holders of common stock, except that the GDR owners should exercise, through a depositary trust company, the following beneficial interests subject to the terms of the Deposit Agreements and the relevant ROC laws and regulations:

1) Exercise voting rights;
2) Transfer the GDRs into common stocks; and
3) Receive dividends and exercise preemptive rights or other rights and interests.

14. INCOME TAX

a. The Income Basic Tax Act (the "IBT Act"), which took effect on January 1, 2006, requires that the income basic tax should be 10% of the sum of the taxable income as calculated in accordance with the Income Tax Act plus tax benefit regulated by the Income Tax Act or other laws. The tax payable of the current year would be the higher of the income basic tax and income tax payable calculated in accordance with the Income Tax Act. The effect of the IBT Act on the Company's income tax is not material.

b Reconciliation of income tax expense based on income before income tax at statutory income tax rates to income tax expense - current was as follows:

	December 31	
	2006	2005
Income tax expense computed at statutory tax (25%)	$ 3,646,505	$ 4,061,091
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	(999,461)	(1,262,477)
Equity in investees' net gains	(1,257,220)	(1,117,170)
Other	7,821	(152,808)
Temporary differences	(89,271)	8,118
Unappropriated earnings tax (10%)	84,303	-
Less - investment tax credits	(199,721)	(700,469)
Income tax payable - current	1,192,956	836,285
Prepaid income tax	(600,647)	(530)
Accrued income tax payable in administrative remedy	130,276	1,200
Income tax payable	$ 722,585	$ 836,955

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

c. Income tax expense consisted of:

	Years Ended December 31 2006	2005
Income tax expense - current	$ 1,192,956	$ 836,285
Income tax expense - deferred	75,063	670,802
Prior year's adjustment	156,239	14,200
Income tax expense on income subjected to a separate rate of 20%	5,536	5,675
Income tax expense	$ 1,429,794	$ 1,526,962

d. Deferred income taxes assets (liabilities) were as follows:

	December 31 2006	2005
Current		
Provision for doubtful accounts	$ 594,841	$ 557,028
Provision for losses on decline in value of inventories	5,884	6,223
Investment tax credits	3,971	
Unrealized foreign exchange gains, net	(177)	(2,521)
Other	11,567	-
	616,086	560,730
Less - valuation allowance	3,971	-
	$ 612,115	$ 560,730

(Continued)

	December 31 2006	2005
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 278,992	$ 359,941
Accrued pension cost	81,247	89,078
Unrealized loss on financial products	16,540	-
Investment tax credits	26,841	-
Equity in investees' net losses (gains)	6,539	(4,637
Losses on disposal of properties	-	13,246
Impairment loss on idle properties	-	30,598
Other	-	5,000
	410,159	493,226
Less - valuation allowance	26,841	-
	$ 383,318	$ 493,226

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

e. Integrated income tax information was as follows:

	December 31 2006	December 31 2005
Balance of imputation credit account (ICA)	$ 247,789	$ 59,684

The estimated ratio of the ICA balance as of December 31, 2006 to undistributed earnings as of such date was 1.69%. When the dividends from the unappropriated earnings as of December 31, 2005 were distributed in 2006, the actual ratios used were 16.18%.

Based on the Income Tax Law, the imputation tax credits allocated to each stockholder are based on the ICA balance as of the date of dividend distribution. The estimated creditable ratio for the 2006 earnings appropriation, which the Company had calculated in consideration of current year's income tax expenses, may be adjusted when the imputation credits are distributed. On the other hand, the creditable ratio for the 2005 earnings appropriation has been determined, and the actual ratio is disclosed.

f. Investment tax credits were as follows:

The unused investment tax credits of the Company as of December 31, 2006 are summarized as follows:

Regulatory Basis of Tax Credits	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 3,971	$ 3,971	2007
	Purchase of automated equipment or technology	26,841	26,841	2008
		$ 30,812	$ 30,812	

g. Status of income tax returns are as follows:
Income tax returns of the Company through 2002 had been examined by the tax authorities. The tax authorities assessed an additional tax on the Company's income tax returns for 2000 to 2002. The Company had filed an appeal for the reexamination of above-mentioned returns and accrued the related tax thereof. Income tax returns of Yuan-Ze Telecom through 2005 had been examined and cleared by the tax authorities.

15. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31, 2006				
	Operating Costs	Operating Expenses	Nonoperating Expenses And Losses	As Reduction of Operating Costs and Expenses	Total
Employee expenses					
Salaries	$ 255,116	$ 971,701	$ -	$ 981,072	$ 2,207,889
Pension	26,726	80,325	-	62,958	170,009
Meal	5,900	34,393	-	28,482	68,775
Employee benefit	-	43,203	-	-	43,203
Insurance	17,617	88,121	-	77,238	182,976
Miscellaneous	9,531	30,270	-	23,101	62,902
	$ 314,890	$ 1,248,013	$ -	$ 1,172,851	$ 2,735,754
Depreciation	$ 6,682,216	$ 1,299,582	$ 2,044	$ -	$ 7,983,842
Amortization	$ -	$ 4,770	$ -	$ -	$ 4,770

	Year Ended December 31, 2005				
	Operating Costs	Operating Expenses	Nonoperating Expenses And Losses	As Reduction of Operating Costs and Expenses	Total
Employee expenses					
Salaries	$ 193,510	$ 865,533	$ -	$ 1,119,255	$ 2,178,298
Pension	10,854	59,346	-	77,564	147,764
Meal	4,545	31,326	-	32,632	68,503
Employee benefits	-	43,047	-	61	43,108
Insurance	12,964	75,716	-	82,754	171,434
Miscellaneous	17,925	33,412	-	22,800	74,137
	$ 239,798	$ 1,108,380	$ -	$ 1,335,066	$ 2,683,244
Depreciation	$ 6,026,987	$ 1,300,630	$ 2,032	$ -	$ 7,329,649
Amortization	$ -	$ 23	$ -	$ -	$ 23

The Company provided management services to certain equity-method investees (Note 18). The employee expenses were charged on the basis of agreed-upon terms and recorded as a reduction of operating costs and expenses.

16. EARNINGS PER SHARE

	Amount (Numerator)			Earnings Per Share (NT$)	
	Income Before Income Tax	Net Income	Common Stock (Denominator) (in Thousand Shares)	Income Before Income Tax	Net Income
2006					
Basic EPS					
Net income	$ 14,586,019	$ 13,156,255	3,872,663	$3.77	$3.40
2005					
Basic EPS					
Net income	$ 16,244,364	$ 14,717,402	3,871,066	$4.20	$3.80
Effect of potential dilutive common stock					
Convertible bonds	2,249	2,038	1,597		
Diluted EPS					
Net income including the effect of potential dilutive common stock	$ 16,246,613	$ 14,719,440	3,872,663	$4.20	$3.80

17. FINANCIAL INSTRUMENTS

a. Fair value information:

	December 31			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Equity-method investments	$37,883,330	$-	$37,532,567	$-
Refundable deposits	259,136	258,888	249,260	248,486
Liabilities				
Bonds payable (including current portion)	5,630,000	5,630,000	8,670,000	8,932,267
Lease payable (including current portion)	48,120	48,120	66,250	66,250
Long-term bank loans (including current portion)			300,000	300,000
Guarantee deposits received (including current portion)	819,633	819,633	985,250	985,250
Derivative Instruments				
Hedging derivative financial liabilities - noncurrent	(66,158)	(66,158)	-	(91,261)

The Company adopted ROC SFAS No. 34 - "Accounting for Financial Instruments" on January 1, 2006. Thus, some derivatives were not included in the financial statements in 2005 (Note 3).

b. Methods and assumptions used for estimating the fair values of financial instruments were as follows:

1) Cash and cash equivalents, notes and accounts receivable, accounts and notes receivables from related parties, commercial paper payable, notes payable, accounts payable, accounts and notes payables to related parties and payables for acquisition of properties, excluded from the financial instruments mentioned in the table above, are recorded at their carrying values because of the short maturities of these instruments.

2) If quoted market prices are available, these are used as fair value of derivatives. Otherwise, the fair value is evaluated by the Company using the same estimates and assumptions used by other market participants (e.g., banks or derivative sellers) to value the derivatives. These estimation and assumptions are available to the Company.

   The Company uses the exchange quotations of the Reuters (or the Associated Press) to calculate fair value of each interest rate swap based on the net cash flow.

3) The fair value of equity-method investments with no quoted market prices cannot be estimated because related stocks have no active market and a reliable determination of their fair value entails an unreasonably high cost.

4) Fair values of bonds payable, lease payable, long-term bank loans, refundable deposits and guarantee deposits received are measured at the present values of expected cash flows, which are discounted at the interest rates for bank loans with similar maturities.

c. The fair values of financial assets and financial liabilities, which were determined at their quoted prices in an active market or at estimated prices, were as follows:

	December 31			
	Quoted Price		Estimated Price	
	2006	2005	2006	2005
Liabilities				
Hedging derivative financial liabilities - noncurrent	$ -	$ -	$ (66,158)	$ (91,261)

d. As of December 31, 2006 and 2005, financial assets with fair value risk from interest rate fluctuations amounted to $2,767,789 thousand and $1,796,382 thousand, respectively, while financial liabilities with fair value risk from interest rate fluctuations amounted to $3,827,753 thousand and $7,401,496 thousand, respectively. As of December 31, 2006 and 2005, financial assets with cash flow risk from interest rate fluctuations amounted to $584,490 thousand and $881,510 thousand, respectively, while the year-end amounts of the financial liabilities with cash flow risk from interest rate fluctuations were $2,670,000 each.

e. Financial risks

1) Market risk
The Company entered into interest rate swap contracts to hedge the effect of interest rate fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts. Therefore, the market risk is not material.

2) Credit risk
The Company and its subsidiaries are exposed to credit risk on counter-parties' default on contracts. The Company's and its subsidiaries' maximum exposure to credit risk is equal to book value. The Company conducts transactions only with selected financial institutions and corporations with good credit ratings. Thus, management does not anticipate any material losses resulting from default on contracts.

3) Liquidity risk
The Company and its subsidiaries have sufficient operating capital to meet cash requirement. Thus, the Company and its subsidiaries do not have liquidity risk.

The Company entered into interest rate swaps to hedge cash flow risks. The interest rate swap contracts are settled at net amounts; thus, the expected cash demand is not significant. However, the Company also made equity-method investments with no quoted prices in an active market; thus, it might face liquidity risks.

KG Telecom invested in mutual funds that have quoted prices in an active market and can be sold immediately at prices close to their fair values. However, KG Telecom also invested in domestic private fund and equity-method investments with no quoted prices in an active market; thus, these investments could expose KG Telecom to liquidity risks.

ARCOA invested in mutual funds that have quoted prices in an active market and can be sold immediately at prices close to their fair values. However, ARCOA also invested in financial bonds and equity instruments with no quoted prices in an active market; thus, these investments could expose ARCOA to liquidity risks.

4) Cash flow risk from interest fluctuations

The Company and subsidiaries have short-term and long-term liabilities with floating interest rates. As a result, the effective interest rates on these loans will change as the market interest rates change.

f. Cash flow hedge

The Company used interest rate swaps to hedge overall cash flow fluctuations on its liabilities:

Unrealized gains or losses on financial products

In 2006, the changes in unrealized gains and losses on financial products were as follows:

		Year Ended December 31, 2006
The Company		
As adjustments to stockholders' equity	$	(19,999)
Recognized as profit or loss		38,827
	$	18,828
ARCOA		
As adjustments to stockholders' equity	$	581
Recognized as profit or loss		319
	$	900

18. RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Company
Yuan Ding Co.	Same chairman
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman
Far Eastern Textile Ltd.	Ultimate parent company
KG Telecommunications Co., Ltd. (KG Telecom)	Subsidiary
KGEx.com Co., Ltd. (KGEx)	Subsidiary of KG Telecom
KGT International Holding Co., Ltd.	Subsidiary of KG Telecom
KG Satellite Co., Ltd.	Subsidiary of KG Telecom (dissolved in July 2005)
Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze Telecom)	Subsidiary (merged with the Company in May 2005)
ARCOA Communication Co., Ltd. (ARCOA)	Subsidiary since February 2005
Far Eastern Info Service (Holding) Ltd. (Bermuda)	Subsidiary
Far Eastern Tech-info Ltd. (Shanghai) (FETI)	Subsidiary of FEIS
E. World (Holdings) Ltd.	Subsidiary
Yuan Cing Co., Ltd. (formerly E. World Ltd. Taiwan)	Subsidiary of E. World (Holdings) Ltd.
Far EasTron Holding Ltd.	Subsidiary
Far EasTron Co., Ltd.	Subsidiary of Far EasTron Holding Ltd.
Far Eastern Technology Developmental Foundation (FETTDF)	The Company's donation is over one third of the foundation's fund
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern Department Stores Co., Ltd.	Same chairman
Asia Cement Co., Ltd.	Same chairman
Far Eastern International Bank	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
Far Eastern Memorial Hospital	Same chairman
Yuan-Ze University	Same chairman
Far Eastern Apparel Co., Ltd.	Same ultimate parent company
Ding Ding Integrated Marketing Service Co., Ltd. (DDIM)	Equity-method investee
Far Eastern Electronic Toll Collection Co., Ltd. (FETC)	Equity-method investee
NTT DoCoMo Inc.	Director
Far Eastern International Leasing Corp. (FEILC)	Supervisor
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company

In addition to those disclosed in Notes 7, 15 and 19, the significant transactions with the above parties are summarized as follows:

		2006		2005	
		Amount	**%**	**Amount**	**%**
During the year					
Operating revenue	a.				
KG Telecom	b.	$ 2,794,346	6	$ 2,520,762	6
NCIC	c.	464,900	1	714,604	2
KGEx	d.	238,039	1	177,702	-
ARCOA	e.	70,356	-	99,517	-
Other	v.	32,664	-	10,846	-
		$ 3,600,305	8	$ 3,523,431	8
		Amount	**%**	**Amount**	**%**
Operating costs and expenses					
Cost of telecommunications service					
KG Telecom	b.	$ 1,562,707	8	$ 1,206,382	7
NCIC	c.	30,224	-	38,516	-
Other	v.	12,813	-	2,734	-
		$ 1,605,744	8	$ 1,247,632	7
Cost of sales					
ARCOA	e.	$ 262,341	7	$ 19,845	-
Rental					
FETRD	f.	$ 52,221	2	$ 52,405	3
FEILC	g.	36,892	2	44,245	2
Other	v.	28,760	1	24,959	1
		$ 117,873	5	$ 121,609	6
Research and development expenses					
FETTDF	h.	$ 5,020	11	$ 11,968	60
Service fee					
FETI	i.	$ 115,510	55	$ 148,268	64
FCHRC	j.	53,898	26	55,287	23
Other	v.	1,456	-	-	-
		$ 170,864	81	$ 203,555	87
Marketing expense					
ARCOA	e.	$ 465,063	7	$ 466,927	8
KG Telecom	k.	183,755	3	155,371	3
Other	v.	29,310	-	15,798	-
		$ 678,128	10	$ 638,096	11
Reductions of employee expenses					
FETC	o.	$ 11,392	-	$ 5,909	-
Nonoperating income and gains					
Management services revenue					
KG Telecom	l.	$ 123,314	93	$ 125,489	90
KGEx	m.	7,500	6	7,500	5
Yuan-Ze Telecom	n.		-	6,720	5
Other	v.	1,088	1	-	-
		$ 131,902	100	$ 139,709	100
Commissions					
KG Telecom	k.	$ 253,408	100	$ 290,712	100
Other revenue					
FETC	o.	$ 17,894	12	$ 26,782	46

(Continued)

		2006		2005	
		Amount	%	Amount	%
Nonoperating expense and losses					
Donation expense (including in nonoperating expense and losses)					
Yuan-Ze University	p.	$ 16,000	100	$ -	-
Acquisition of properties					
KGEx	q.	$ 71,373	1	$ -	-
NCIC	r.	2,675	-	54,794	1
KG Telecom	s.	1,951	-	25,691	1
FEILC	g.		-	22,000	-
Other	v.	980	-	17,057	-
		$ 76,979	1	$ 119,542	2
Disposal of properties					
KGEx	t.	$ 24,168	78	$ -	-
Other	v.	145	-	-	-
		$ 24,313	78	$ -	-
<u>At end of year</u>					
Accounts and notes receivable from related parties					
KG Telecom	b. and l.	$ 604,162	74	$ 611,732	81
ARCOA	e.	112,718	14	8,488	1
KGEx	d. and m.	46,345	6	46,435	6
FETC	o.	34,000	4	23,014	3
Other	v.	16,366	2	69,969	9
		$ 813,591	100	$ 759,638	100
Refundable deposits					
DDIM	u.	$ 25,554	10	$ 9,066	4
Other	v.	7,674	3	8,098	4
		$ 33,228	13	$ 17,164	8
Accounts and notes payable to related parties					
KG Telecom	b., k. and s.	$ 1,464,120	81	$ 503,615	64
ARCOA	e.	229,938	13	168,308	21
DDIM	u.	31,641	2	29,740	4
Other	v.	79,499	4	88,829	11
		$ 1,805,198	100	$ 790,492	100
Unearned revenues					
FETC	o.	$ -	-	$ 17,401	2
Lease payable (including current portion)					
FEILC	g.	$ 48,120	100	$ 66,250	100

Descriptions of transactions with related parties are as follows:

a. Operating revenues (such as service revenues, revenues from sales of cellular phone equipments and accessories and leased-circuit revenue) from related parties were 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 fees received from KG Telecom for its use of the Company's network were included in service revenue. The interconnection fee paid by the Company on its use of KG Telecom's network and related billing processing costs were included in the cost of telecommunications services.

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 and vice versa. The interconnection fees paid by the Company on its use of NCIC's fixed-line network and related billing processing costs pertaining to the interconnect services provided by NCIC to the Company were included in the cost of telecommunications services. The international direct dialing revenue collected by the Company for NCIC was treated as a reduction of service revenue.

d. The interconnection fees paid by KGEx for its use of the Company's network and related services provided by the Company to KGEx were included in telecommunications service revenue and accounts and notes receivable from related parties. The international direct dialing revenues collected by the Company for KGEx through call-by-call selection service were treated as a reduction of the telecommunications service revenue and were settled at net amounts based on related agreements.

e. The revenues from the sales of cellular phone equipment and accessories to ARCOA are recognized as operating revenues. The Company has agreed to pay to ARCOA handset subsidies and commissions (included in marketing expenses) because of ARCOA's promotion of the Company's SIM card numbers; these payments are settled at net amounts. The Company's purchases of cellular phone units and accessories from ARCOA are recorded as cost of sales and accounts and notes payable to related parties. The Company's sales of prepaid cards and SIM cards of mobile virtual network operator services to ARCOA are recorded as accounts and notes receivable from related parties.

f. The Company leases from FETRD several building spaces and parcels of land under contracts with terms from September 2003 to November 2013. The properties are located on Yatung Street and Renai Street in Panchao City, Wuku in Taipei County and other locations in Taiwan.

g. Under operating lease agreements, the Company leased from FEILC the following: (a) its office spaces in Tainan and Kaohsiung; (b) the land and mobile switch centers located in Neihu, Taichung and Xinzhu from November 1999 to June 2004; and (c) vehicles. The contracts will remain valid unless either the Company or FEILC informs the other party to cancel the contracts.

   When the related contracts expire, the Company is entitled to renew the contracts or to buy the buildings or land at the following prices:

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

   The Company leases from FEILC computer equipment, under capital lease agreements, with annual lease payments of $20,477 thousand (Note 7).

h. FETTDF provides telecommunications technology researches and training programs to the Company.

i. The Company signed with FETI a service agreement, under which the Company will pay FETI service charges. Moreover, the advances to FETI were treated as accounts and notes receivable from related parties and were settled at net amount against the fees paid.

j. The Company has contracts with FCHRC for manpower dispatching services, under which the Company pays service charges for FCHRC's providing the Company with temporary or specific personnel demands.

k. 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. Bills collected on behalf of KG Telecom were included in accounts and notes payable to related parties.

l. The Company provides management services and advances to KG Telecom for its daily operating expenditures. The service revenue and advances are collected monthly.

m. The Company provides management services to KGEx and the service revenues are collected monthly. The Company also gives advances to KGEx for its daily operating expenditures and the advances are collected at various times depending on the cash balances of KGEx.

n. The Company provides management services and advances to Yuan-Ze Telecom for its daily operating expenditures before April 2005. The service revenue and advances are collected monthly.

o. In June 2005, the Company contracted FETC to implement the trouble ticket system for handling ticket problems or customers' complaints. The fees collected were based on the terms of the related contract and were treated as unearned revenues. Unearned revenues were recognized using the percentage of construction completion method. Moreover, the Company gave FETC advances for its daily operating expenditures, and the repayment for these advances will be collected at various times depending on the cash balances of FETC. Moreover, the Company has provided personnel support for FETC's daily operation, and related charges to FETC were recorded as reductions to related personnel expenses.

p. The Company made a donation to Yuan-Ze University for further intergration and development of telecommunications business and personnel.

q. The Company bought KGEx's telecommunications equipment.

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

s. The Company bought from KG Telecom operating and computer equipment as well as store decoration.

t. The Company had sold properties to KGEx. The properties were sold at net book value and the proceeds were amounted to $24,168 thousand.

u. In March 2005, the Company authorized DDIM to manage the accumulation and redemption of reward points for customers. The related service charges were treated as marketing expense and accounts and notes payable to related parties. The Company had given DDIM monthly refundable deposits, which were calculated at a fixed percentage of the unused reward points.

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

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

19. COMMITMENTS AS OF DECEMBER 31, 2006

The Company had the following significant commitments:

a. The Company was under contracts to acquire properties and cellular phone equipment for $778,782 thousand and $699,862 thousand, respectively.

b. The Company's outstanding letters of credit amounted to US$1,971 thousand (equivalent to $64,251 thousand) and ￥94,462 thousand (equivalent to $25,892 thousand).

c. Payments for the rentals of land, buildings and cell sites for future years are summarized as follows:

Year	Amount
2007	$ 1,580,238
2008	1,641,505
2009	1,705,165
2010	1,771,312
2011	1,840,042

d. On July 25, 2006, the Company provided a $154,000 thousand guarantee for FETC's bank loan. As of December 31, 2006, FETC had obtained a bank loan of $99,000 thousand under this guarantee.

e. On December 27, 2006, the Company's board of directors had approved to provide financial support to FETC within the amount of $50,000 thousand for its use of participating in the second round bidding for "Private Participation in the Electronic Toll Collection BOT Project" and its daily operations. As of December 31, 2006, the Company had not yet provided any financing to FETC.

20. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

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

1) Financing provided: Note 19

2) Endorsement/guarantee provided: Schedule A

3) Marketable securities and investments in shares of stock held: Schedule B

4) Marketable securities acquired and disposed of at costs or prices of at least NT$100 million or 20% of the paid-in capital: Schedule C

5) Acquisition of individual real estate at costs of at least NT$100 million or 20% of the paid-in capital: None

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

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

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule E

9) Names, locations, and related information of investees on which the Company exercises significant influence: Schedule F

10) Derivative financial instruments of investees: Note 17

b. Investment in Mainland China:

1) 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 G
2) Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 18

21. SEGMENT INFORMATION

a. Industry

The Company is comprised of telecommunications services department and cellular phone equipment sales department. The Telecommunications services department is the primary department since the revenues and identifiable assets from telecommunications services accounted for more than 90% of the Company's total revenues and identifiable assets.

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

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. A customer accounting for at least 10% of the Company's total operating revenues is as follows:

	Years Ended December 31			
	2006		2005	
	Amount	Percentage of Operating Revenue (%)	Amount	Percentage of Operating Revenue (%)
Company A	$ 6,653,776	15	$ 7,207,952	17

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES
ENDORSEMENT/GUARANTEE PROVIDED
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

No.	Endorser/ Guarantor	Receiving Party		Maximum Guarantee/ Endorsement Amount Allowed for Receiving Party (Note 2)	Maximum Balance for the Period	Ending Balance	Value of Collateral Property, Plant, and Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Total Guarantee/ Endorsement Allowed to Be Provided by the Guarantor/Endorser (Note 2)
		Name	Nature of Relationship						
0	Far EasTone Telecommunications Co., Ltd. ("Far EasTone")	Far Eastern Electronic Toll Collection Co., Ltd. (FETC)	Equity-method investee	$73,926,702	$154,000 (Note 1)	$154,000 (Note 1)	$ -	0.21%	$147,853,404

Note 1: Represents the actual amount of guarantee provided, as of December 31, 2006, FETC had obtained a bank loan of $99,000 thousand under this guarantee.

Note 2: The maximum total guarantee/endorsement amount equals 200% of Far EasTone's net worth, while the limit of guarantee/endorsement amount for each receiving party should not exceed 100% of Far EasTone's net worth.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES
MARKETABLE SECURITIES HELD
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Highest Shares/ Units Held during the Year	Note
				Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value		
Far EasTone Telecommunications Co., Ltd.	Stocks								
	KG Telecommunications Co., Ltd.	Equity-method investee	Equity-method investments	1,332,997,916	$36,124,571	100.00	$36,124,571	1,332,997,916	Note A
	ARCOA Communication Co., Ltd.	Equity-method investee	Equity-method investments	79,353,013	1,026,383	59.10	1,026,383	79,353,013	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Equity-method investments	106,650,000	395,686	42.66	395,686	106,650,000	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Equity-method investments	1,200	134,999	100.00	134,999	1,200	Note A
	Far EasTron Holding Ltd.	Equity-method investee	Equity-method investments	4,486,988	100,542	100.00	100,542	4,486,988	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Equity-method investments	6,014,622	73,717	85.92	73,717	6,014,622	Note A
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Equity-method investments	4,500,000	26,790	15.00	26,790	4,500,000	Note A
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	100,000	642	0.67	642	100,000	Note A
KG Telecommunications Co., Ltd.	Stocks								
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	186,390,714	1,084,619	74.56	1,084,619	260,915,000	Note A
	KGT International Holding Co., Ltd.	Equity-method investee	Equity-method investments	50,000	82,913	100.00	82,913	50,000	Note A
	iScreen	Equity-method investee	Equity-method investments	4,000,00	20,998	40.00	20,998	4,000,000	Note A
	Mutual funds								
	Far Eastern Alliance Taiwan Bond Security Investment Trust Fund	-	Available-for-sale financial assets - current	46,468,833.40	501,752	-	501,752	46,468,833.40	Note B
	JF (Taiwan) European Bond Fund	-	Available-for-sale financial assets - current	20,000,000.00	198,030	-	198,030	20,000,000.00	Note B
	FEA Long-Short Private Placement Fund	-	Financial assets measured at holding cost - noncurrent	10,000,000.00	100,000	-	-	10,000,000.00	Note C
ARCOA Communication Co., Ltd.	Stocks								
	Hi Information Co., Ltd.	Equity-method investee	Equity-method investments	4,975,000	6,026	33.17	6,026	4,975,000	Note D
	THI consultants	-	Financial assets measured at holding cost - noncurrent	1,134,200	13,729	18.29	-	1,134,200	Note C
	Chunghwa Int'l Communication Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,830,901	6,714	4.20	-	2,830,901	Note C
	Taiwan Fixed Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,100,000	21,000	0.03	-	2,100,000	Note C
	VIBO Telecom Inc.	-	Financial assets measured at holding cost - noncurrent	2,000,000	20,000	0.13	-	2,000,000	Note C

(Continued)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2006 Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value	Highest Shares/ Units Held during the Year	Note
	Web Point Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	160,627	$1,618	0.63	$ -	160,627	Note C
	Mutual funds								
	Capital Income Fund	-	Financial assets at fair value through profit or loss - current	6,145,477.50	91,507	-	91,507	10,334,101.90	Note B
	ABN AMRO Income Fund	-	Financial assets at fair value through profit or loss - current	1,263,463.79	20,002	-	20,002	1,268,568.67	Note B
	Prudential Financial Bond Fund	-	Financial assets at fair value through profit or loss - current	1,368,578.80	20,001	-	20,001	1,368,578.80	Note B
	CITC Cash Reserves	-	Financial assets at fair value through profit or loss - current	1,098,619.40	15,002	-	15,002	1,120,850.10	Note B
	Bonds								
	Ta Chong Bank Financial Bonds 93 Series-I	-	Bonds measured at amortized cost - current	3,000,000.00		-	-	3,000,000.00	Note C
Far Eastern Info Service (Holding) Ltd.	Share certificates								
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Equity-method investments	-	US$ 3,641,000	100.00	US$3,641,000	-	Note A
Far EasTron Holding Ltd.	Stocks								
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	14,900,000	US$ 3,063,000	99.33	US$3,063,000	14,900,000	Note A
E. World (Holdings) Ltd.	Stocks								
	Yuan Cing Co., Ltd.	Equity-method investee	Equity-method investments	19,349,994	US$ 1,686,000	99.99	US$1,686,000	19,349,994	Note A
	Ideaculture (Cayman) Ltd.	-	Financial assets measured at holding cost - noncurrent	1,195,141	US$ 431,000	17.96	-	1,195,141	Note D
KGT International Holding Co., Ltd.	Stocks								
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	11,465,000	66,490	4.59	66,490	16,051,000	Note A

Note A: Calculation was based on audited financial statements as of December 31, 2006.
Note B: The market values of open-ended mutual funds were calculated at their net asset values as of December 31, 2006 while that of bonds was based on cost.
Note C: Calculation was based on cost because the security did not have a quoted price in an active market.
Note D: Calculation was based on the most current financial statements.
Note E: Carrying value of available-for-sale financial assets - current and financial assets at fair value through profit or loss - current were equal to market values as of December 31, 2006.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES
MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST $100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Related Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs	Gain or Loss	Share/Units	Amount
KG Telecommunications Co., Ltd.	FEA Long-Short Private Placement Fund	Financial assets measured at holding cost - noncurrent	-	-	-	$ -	10,000,000.00	$100,000	-	$ -	$ -	$ -	10,000,000.00	$100,000
	FEA Taiwan - Bond Security Investment Trust Fund	Available-for-sale financial assets - current	-	-	-	-	46,468,833.40	500,000	-	-	-	-	46,468,833.40	500,000
ARCOA Communication Co., Ltd.	Capital Income Fund	Financial assets at fair value through profit or loss - current	-	-	10,334,101.90	151,500	24,723,665.80	366,000	28,912,290.20	427,492	426,000	1,492	6,145,477.50	91,500
	CITC Cash Reserves	Financial assets measured at holding cost - noncurrent	-	-	1,729,340.90	20,000	7,748,879.60	90,000	9,478,220.50	110,177	110,000	177	-	-
	Fuhwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	1,584,836.29	20,000	14,169,410.86	180,000	15,754,247.15	200,391	200,000	391	-	-
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,862,319.11	170,000	12,862,319.11	170,459	170,000	459	-	-
	Jih Sun Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	11,079,318.13	150,000	11,079,318.13	150,294	150,000	294	-	-

Note: Except for the disposal price, other amounts were their respective investment costs.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

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

YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars)

Purchaser (Seller) of Goods	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/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	Telecommunications service revenues	$(2,794,346)	(6%)	Based on agreement	-	-	Accounts receivable	5%
			Cost of telecommunications service	1,562,707	8%	Based on agreement	-	-	Accounts payable	(6%)
	ARCOA Communication Co., Ltd.	Subsidiary	Marketing expenses and cost of sales	727,404	3%	Based on agreement			Accounts payable and accrual expense	(6%)
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	Telecommunications service revenues	(238,039)	(1%)	Based on agreement	-	-	Accounts receivable	1%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(464,900)	(1%)	Based on agreement	-	-	Accounts receivable (Note)	-
									Accounts payable (Note)	(2%)
	Far Eastern Tech-info Ltd. (Shanghai)	Subsidiary of Far Eastern Info Service (Holding) Ltd.	Service fee	115,510	55%	Based on agreement	-	-	Accrual expense	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications service revenues	(1,562,707)	(6%)	Based on agreement	-	-	Accounts receivable	2%
			Cost of telecommunications service	2,794,346	24%	Based on agreement	-	-	Accounts payable	(52%)
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(135,218)	(1%)	Based on agreement	-	-	Accounts receivable	-
	ARCOA Communication Co., Ltd.	Same parent company	Marketing expenses and cost of sales	194,308	5%	Based on agreement	-	-	Accounts payable and accrual expense	(2%)
	KGEx.com Co., Ltd.	Subsidiary company	Telecommunications service revenues	(141,202)	(1%)	Based on agreement	-	-	Accounts receivable	1%
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue and sales	(727,404)	(11%)	Based on agreement	-	-	Accounts receivable	61%
	KG Telecommunications Co., Ltd.	Same parent company	Commission revenue and sales	(208,960)	(5%)	Based on agreement	-	-	Accounts receivable	10%
KGEx.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Cost of telecommunications service	238,039	23%	Based on agreement	-	-	Accounts payable	(29%)
	KG Telecommunications Co., Ltd.	Parent company	Cost of telecommunications service	141,202	14%	Based on agreement	-	-	Accounts payable	(13%)
	New Century InfoComm Tech Co., Ltd.	Same chairman of ultimate parent company	Cost of telecommunications service	$167,	16%	Based on agreement	-	-	Accounts payable	(10%)
Far Eastern Tech-info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Service revenues	(115,	(69%)	Based on agreement	-	-	Accounts receivable 2,280	4%

Note: All interconnect revenues, costs and collection of international direct dial revenues between Far EasTone and NCIC were settled at net amounts and were included in payables to related parties

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES
RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	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	$604,162	(Note A)	$ -	-	$32,364	$ -
	ARCOA Communication Co., Ltd.	Subsidiary	112,718	13.28	-	-	-	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	1,464,210	(Note B)	-	-	460,908	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	229,938	4.44	-	-	182	-

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

Note B: The turnover rate is unavailable as the receivables from related parties were mainly due to collection of telecommunications bills by the Company.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES
NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2006			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				December 31, 2006	December 31, 2005	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	Type I telecommunications services	$29,629,139	$29,629,139	1,332,997,916	100.00	$36,124,571	$5,568,497	$5,568,404	Notes A and B
	ARCOA Communication Co., Ltd.	Taiwan	Type II telecommunications services, manufacture and sale of communications products and office equipment	1,278,944	1,278,944	79,353,013	59.10	1,026,383	(245,260)	(144,937)	Notes A and B
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	1,066,500	1,066,500	106,650,000	42.66	395,686	(982,928)	(393,410)	Notes B and C
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	134,999	(9,169)	(9,169)	Notes A and B
	Far EasTron Holding Ltd.	Cayman Islands	Investment	150,000	150,000	4,486,988	100.00	100,542	(42,749)	(42,749)	Notes A and B
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	73,717	8,397	7,215	Notes A and B
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	26,790	(5,935)	(890)	Notes B and C
	Far EasTron Co., Ltd.	Taiwan	Internet service	1,000	1,000	100,000	0.67	642	(42,812)	(286)	Notes B and D
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	2,197,794	2,197,652	186,390,714	74.56	1,084,619	(192,174)		Notes B and D
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	82,913	(7,897)		Notes B and D
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	20,998	250		Notes B and E
ARCOA Communication Co., Ltd.	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	6,026	11,250		Notes E and F
Far EasTron Holding Ltd.	Far EasTron Co., Ltd.	Taiwan	Internet service	US$4,532,000	US$4,532,000	14,900,000	99.33	US$3,063,000	(42,812)		Notes B and D
Far Eastern Info Service (Holding) Ltd.	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer service providing	US$2,500,000	US$2,500,000	-	100.00	US$3,641,000	(8,811)		Notes B and D
E. World (Holdings) Ltd.	Yuan Cing Co., Ltd.	Taiwan	Call center services	193,500	193,500	19,349,994	99.99	US$1,686,000	8,371		Notes B and D
KGT International Holding Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	US$4,822,000	US$4,822,000	11,465,000	4.59	66,490	(192,174)		Notes B and D

Notes:
A. Subsidiary.
B. Calculation based on audited financial statements as of December 31, 2006.
C. Equity-method investee of the Company.
D. Subsidiary of KG Telecom, E. World (Holdings), Far Eastern Info Service (Holding), or Far EasTron Holding.
E. Equity-method investee of KG Telecom or ARCOA.
F. Calculation was based on the most current financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES
INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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, 2006	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of December 31, 2006 (Note A)	Accumulated Inward Remittance of Earnings as of December 31, 2006	Accumulated Investment in Mainland China as of December 31, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Far Eastern Tech-info Ltd. (Shanghai)	Computer software, data processing and network information providing services	$81,488 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$(8,811)	$118,678 (US$3,641,000)	$ -	$92,616	$92,616	$16,285,340 (Note C)

Note A: Calculation based on audited financial statements as of December 31, 2006.
Note B: The Company made the investment through a company registered in a third region.
Note C: Based on the limit stated in the Principles Governing the Review of Investment or Technical Corporation in Mainland China, which was issued by the ROC Investment Commission on March 1, 2004.
Note D: Please refer to Note 18 for significant transactions with the investee company.

5. 2006 Supervisors' Consolidated Report

May 10, 2007

The Board of directors have prepared and submitted to us the Company's 2006 the consolidated Financial Reports audited by the CPAs of Deloitte & Touche Co. The above consolidated Financial Reports have been further examined as being correct and accurate by the undersigned Supervisors of Far EasTone Telecommunications Co., Ltd. According to Article 219of the Company Law and Article 36 of the Securities and Exchange Law, we hereby submit this report.

To

FET 2007 Shareholdes' Meeting

Supervisors

Chen-en Ko

Eli Hong

Morton Huang

6. 2006 Independent Auditors' Report, Consolidated Financial Statements and Notes

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated balance sheets of Far EasTone Telecommunications Co., Ltd. ("the Company") and subsidiaries as of December 31, 2006 and 2005, 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 the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and 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 the Company and subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, regulations related to financial accounting standards stated in Business Accounting Law, and Guidelines Governing Business Accounting and accounting principles generally accepted in the Republic of China.

As disclosed in Note 4 to the consolidated financial statements, starting on January 1, 2006, the Company and subsidiaries adopted the newly released ROC Statements of Financial Accounting Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and SFAS No. 36 - "Disclosure and Presentation of Financial Instruments" and related revisions of previously issued Statements. In addition, based on the revised ROC SFAS No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method," goodwill should be subjected to impairment test annually instead of being amortized.

Deloitte & Touche

February 6, 2007

Notice to Readers

The accompanying consolidated 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 consolidated 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
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

	2006		2005	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 5)	$ 7,851,646	8	$ 4,640,298	5
Financial assets at fair value through profit or loss - current (Notes 2, 4, 6 and 28)	146,512	-	216,500	-
Available-for-sale financial assets - current (Notes 2, 4 and 7)	699,782	1	199,956	-
Bonds measured at amortized cost - current (Notes 2, 4 and 8)	3,000	-	3,000	-
Accounts and notes receivable, net of allowance for doubtful accounts of $1,334,622 in 2006 and $1,962,008 in 2005 (Note 2)	6,095,877	7	6,514,395	6
Accounts and notes receivable from related parties (Notes 2 and 26)	57,042	-	65,976	-
Inventories, net (Notes 2 and 9)	972,613	1	1,611,630	2
Prepaid expenses (Note 2)	769,175	1	721,240	1
Deferred income tax assets - current (Notes 2 and 21)	973,897	1	905,175	1
Pledged certificates of deposits - current (Note 28)	53,508	-	51,506	-
Other current assets	112,326	-	156,457	-
Total current assets	17,735,378	19	15,086,133	15
LONG-TERM INVESTMENTS				
Equity-method investments (Notes 2 and 10)	449,500	1	857,390	1
Financial assets carried at cost - noncurrent (Notes 2, 4 and 11)	177,137	-	63,517	-
Total long-term investments	626,637	1	920,907	1
PROPERTIES (Notes 2, 12, 26 and 28)				
Cost				
Land	1,490,772	2	1,514,204	2
Buildings and equipment	2,872,605	3	2,865,633	3
Operating equipment	98,326,132	105	94,269,851	95
Computer equipment	14,009,777	15	13,220,429	13
Office equipment	924,882	1	992,571	1
Leasehold improvements	1,715,118	2	1,670,987	2
Miscellaneous equipment	489,835	-	430,829	-
Total cost	119,829,121	128	114,964,504	116
Less - accumulated depreciation	69,252,838	74	58,426,942	59
	50,576,283	54	56,537,562	57
Construction-in-progress and advances for acquisition of equipment	4,089,508	4	4,954,996	5
Net properties	54,665,791	58	61,492,558	62
INTANGIBLE ASSETS				
Goodwill, net (Notes 2 and 13)	10,542,521	11	10,542,515	11
3G concession, net (Notes 1 and 2)	8,768,479	9	9,499,186	9
Total intangible assets	19,311,000	20	20,041,701	20
OTHER ASSETS				
Rental assets, net (Notes 2 and 14)	198,009	-	226,517	-
Idle assets, net (Note 2)	338,514	-	333,537	-
Refundable deposits (Note 26)	404,847	1	402,200	1
Deferred charges, net (Note 2)	159,511	-	275,730	-
Deferred income tax assets - noncurrent (Notes 2 and 21)	420,316	1	632,055	1
Other (Notes 2, 19 and 28)	18,916	-	12,644	-
Total other assets	1,540,113	2	1,882,683	2
TOTAL	$ 93,878,919	100	$ 99,423,982	100

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated February 6, 2007

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

	2006		2005	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Short-term bank loans (Notes 15 and 28)	$ 128,956	-	$ 295,618	-
Commercial paper payable (Note 16)	-	-	49,996	-
Notes payable	131,692	-	104,728	-
Accounts payable	1,155,141	2	1,303,447	2
Accounts and notes payable to related parties (Note 26)	127,029	-	122,060	-
Income tax payable (Notes 2 and 21)	2,032,083	2	2,132,118	2
Accrued expenses	4,775,531	5	5,945,324	6
Guarantee deposits received - current	1,047,667	1	1,273,105	1
Payables for acquisition of properties	1,949,357	2	2,558,661	3
Unearned revenues (Notes 2 and 26)	1,082,025	1	1,289,456	1
Current portion of long-term bonds payable (Note 17)	2,960,000	3	3,040,000	3
Current portion of long-term bank loans (Notes 18 and 28)	38,095	-	38,095	-
Lease payable - current (Notes 2, 12 and 26)	40,514	-	38,913	-
Other current liabilities (Notes 2 and 4)	335,153	1	463,189	1
Total current liabilities	15,803,243	17	18,654,710	19
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Bonds payable (Note 17)	2,670,000	3	5,630,000	6
Long-term bank loans (Notes 18 and 28)	95,238	-	433,333	-
Hedging derivative financial liabilities - noncurrent (Notes 2 and 4)	66,158	-	-	-
Lease payable- noncurrent (Notes 2, 12 and 26)	57,004	-	95,361	-
Total long-term liabilities	2,888,400	3	6,158,694	6
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 19)	293,963	-	280,712	-
Guarantee deposits received - noncurrent	98,672	-	97,753	-
Other	4,672	-	9,343	-
Total other liabilities	397,307	-	387,808	-
Total liabilities	19,088,950	20	25,201,212	25
FAR EASTONE'S EQUITY				
Capital stocks - NT$10.00 par value; authorized - 4,200,000 thousand shares; issued and outstanding - 3,872,663 thousand shares	38,726,630	41	38,726,630	39
Capital surplus				
Paid-in capital in excess of par value	6,510,964	7	6,510,964	7
From business combination	8,482,381	9	8,482,381	8
From long-term equity-method investments	10,611	-	10,611	-
Total capital surplus	15,003,956	16	15,003,956	15
Retained earnings				
Legal reserve	5,573,350	6	4,101,609	4
Unappropriated earnings	14,667,598	16	15,385,739	16
Total retained earnings	20,240,948	22	19,487,348	20
Other adjustments				
Cumulative translation adjustments	4,960	-	2,168	-
Unrealized losses on financial products	(49,792	-	-	-
Total other adjustments	(44,832	-	2,168	-
Total controlling interest of Far EasTone	73,926,702	79	73,220,102	74
MINORITY INTEREST	863,267	1	1,002,668	1
Total stockholders' equity	74,789,969	80	74,222,770	75
TOTAL	$ 93,878,919	100	$ 99,423,982	100

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
OPERATING REVENUES (Notes 2 and 26)				
Sales of cellular phone equipment and accessories, net	$ 6,754,578	10	$ 8,368,029	12
Telecommunications service revenues	59,882,979	89	62,425,644	87
Other	589,407	1	1,118,498	1
Total operating revenues	67,226,964	100	71,912,171	100
OPERATING COSTS (Notes 2, 23 and 26)				
Cost of sales	7,604,492	11	9,105,380	13
Cost of telecommunications services	27,429,567	41	26,913,298	37
Other	518,353	1	812,502	1
Total operating costs	35,552,412	53	36,831,180	51
GROSS PROFIT	31,674,552	47	35,080,991	49
OPERATING EXPENSES (Notes 2, 23 and 26)				
Marketing	9,632,810	14	9,459,288	13
General and administrative	5,168,164	8	6,737,323	9
Research and development	295,962	-	358,153	1
Total operating expenses	15,096,936	22	16,554,764	23
OPERATING INCOME	16,577,616	25	18,526,227	26
NONOPERATING INCOME AND GAINS				
Interest (Note 2)	82,422	-	63,360	-
Advertising income	33,782	-	48,293	-
Gain from sale of nonperforming accounts receivable (Note 22)	23,862	-	-	-
Rental income	23,834	-	28,953	-
Other (Note 26)	366,641	1	83,544	-
Total nonoperating income and gains	530,541	1	224,150	-
NONOPERATING EXPENSES AND LOSSES				
Loss on disposal of properties, including idle properties, net (Note 2)	408,169	1	118,783	-
Equity in investees' net losses (Notes 2 and 10)	394,160	1	243,426	-
Interest (Notes 2, 12 and 26)	104,363	-	279,457	1
Other (Notes 23 and 26)	73,149	-	252,005	-
Total nonoperating expenses and losses	979,841	2	893,671	1

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	**%**	**Amount**	**%**
COMBINED INCOME BEFORE INCOME TAX	$ 16,128,31	24	$ 17,856,70	25
INCOME TAX (Notes 2 and 21)	3,111,32	5	3,207,43	5
COMBINED NET INCOME	$ 13,016,98	19	$ 14,649,27	20
ATTRIBUTABLE TO:				
Controlling interest	$ 13,156,22	19	$ 14,717,40	20
Minority interest	(139,23	-	(68,12	-
	$ 13,016,98	19	$ 14,649,27	20

	2006		2005	
	Before Income Tax	**After Income Tax**	**Before Income Tax**	**After Income Tax**
EARNINGS PER SHARE (Note 24)				
Basic	$ 3.77	$ 3.40	$ 4.20	$ 3.80
Diluted	$ 3.77	$ 3.40	$ 4.20	$ 3.80

The pro forma financial information (after income tax) had the newly issued Statements of Financial Accounting Standards Nos. 34 and 36 been adopted on January 1, 2005 is as follows (Note 4):

	2006	2005
PRO FORMA COMBINED NET INCOME	$13,016,987	$15,548,364
PRO FORMA EARNINGS PER SHARE (NT$)		
Basic	$3.40	$4.03
Diluted	$3.40	$4.03

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated February 6, 2007) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	Capital Stock Issued and Outstanding (Notes 2 and 20)		Capital Surplus (Notes 2 and 20)			Retained Earnings (Notes 2 and 20)		Other Adjustments				
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	From Business Combination	From Long-term Equity-method Investments	Legal Reserve	Unappropriated Earnings	Cumulative Translation Adjustments (Note 2)	Unrealized Gains (Losses) on Financial Products (Notes 2, 4 and 25)	Controlling Interest of Far EasTone	Minority Interest	Total Stockholders' Equity
BALANCE, JANUARY 1, 2005	3,842,311	$38,423,115	$6,023,801	$8,482,381	$-	$2,697,301	$14,069,797	$15,671	$-	$69,712,066	$-	$69,712,066
Effect of change in consolidated entities since 2005	-	-	-	-	-	-	-	-	-	-	812,889	812,889
Acquisition of ARCOA's capital stock in February 2005	-	-	-	-	-	-	-	-	-	-	690,845	690,845
Acquisition of KGEx.com's capital stock in 2005	-	-	-	-	-	-	-	-	-	-	(432,937)	(432,937)
Conversion of overseas convertible bonds into common stock	30,352	303,515	487,163	-	-	-	-	-	-	790,678	-	790,678
Appropriation of the 2004 earnings												
Legal reserve	-	-	-	-	-	1,404,308	(1,404,308)	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	(252,775)	-	-	(252,775)	-	(252,775)
Remuneration to directors and supervisors	-	-	-	-	-	-	(126,388)	-	-	(126,388)	-	(126,388)
Cash dividend - NT$3.0 per share	-	-	-	-	-	-	(11,617,989)	-	-	(11,617,989)	-	(11,617,989)
Combined net income in 2005	-	-	-	-	-	-	14,717,402	-	-	14,717,402	(68,129)	14,649,273
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	10,611	-	-	-	-	10,611	-	10,611
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	(13,503)	-	(13,503)	-	(13,503)
BALANCE, DECEMBER 31, 2005	3,872,663	38,726,630	6,510,964	8,482,381	10,611	4,101,609	15,385,739	2,168	-	73,220,102	1,002,668	74,222,770
Adjustment due to accounting changes (Note 4)	-	-	-	-	-	-	-	-	(68,978)	(68,978)	(368)	(69,346)
Acquisition of KGEx.com's capital stock in 2006	-	-	-	-	-	-	-	-	-	-	(136)	(136)
Appropriation of the 2005 earnings												
Legal reserve	-	-	-	-	-	1,471,741	(1,471,741)	-	-	-	-	-
Bonus to employees	-	-	-	-	-	-	(264,913)	-	-	(264,913)	-	(264,913)
Remuneration to directors and supervisors	-	-	-	-	-	-	(132,457)	-	-	(132,457)	-	(132,457)
Cash dividend - NT$3.1 per share	-	-	-	-	-	-	(12,005,255)	-	-	(12,005,255)	-	(12,005,255)
Combined net income in 2006	-	-	-	-	-	-	13,156,225	-	-	13,156,225	(139,238)	13,016,987
Equity in changes in subsidiary's unrealized loss on available-for-sale financial assets	-	-	-	-	-	-	-	-	(174)	(174)	-	(174)
Equity in changes in subsidiary's unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	532	532	368	900
Changes in unrealized loss on cash flow hedge	-	-	-	-	-	-	-	-	18,828	18,828	-	18,828
Translation adjustments on long-term equity-method investments	-	-	-	-	-	-	-	2,792	-	2,792	(27)	2,765
BALANCE, DECEMBER 31, 2006	3,872,663	$38,726,630	$6,510,964	$8,482,381	$10,611	$5,573,350	$14,667,598	$4,960	$(49,792)	$73,926,702	$863,267	$74,789,969

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated February 6, 2007)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Combined net income	$ 13,016,987	$ 14,649,273
Amortization of 3G concession	730,707	669,814
Depreciation and amortization	11,928,782	12,407,949
Allowance for doubtful accounts	567,159	1,068,500
Losses (gains) on revaluation of financial assets	(12)	44
Losses on obsolescence of inventories	4,996	1,945
Provision for loss on decline in value of inventories	21,450	24,292
Gains on sale of financial assets	-	(2,807)
Equity in investees' net losses	394,160	243,426
Losses on disposal of properties, including idle properties	408,169	118,783
Provision for impairment loss on idle properties	5,770	13,756
Accrued pension cost	13,597	54,404
Deferred income taxes	159,557	1,085,806
Interest premium on convertible bonds	-	1,070
Other	-	1,997
Net changes in operating assets and liabilities		
Financial assets held for trading	70,045	496,865
Accounts and notes receivable	(152,812)	(1,035,228)
Accounts and notes receivable from related parties	8,935	(119,966)
Inventories	396,043	(312,856)
Prepaid expenses	(36,675)	1,061,434
Other current assets	(30,158)	180,153
Notes payable	26,958	(15,466)
Accounts payable	(199,392)	365,412
Accounts and notes payable to related parties	4,969	(76,954)
Income tax payable	(100,034)	(193,787)
Accrued expenses	(1,117,049)	504,460
Unearned revenues	(17,282)	(1,084,798)
Other current liabilities	(136,798)	(107,154)
Net cash provided by operating activities	25,968,072	30,000,367
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(500,000)	-
Proceeds of the sale of available-for-sale financial assets	-	92,807
Acquisition of financial assets carried at cost	(100,000)	-
Acquisition of equity-method investments	-	(526,500)
Return of capital by a dissolved investee	78,133	-
Acquisition of properties	(6,080,520)	(6,167,968)
Proceeds of the sale of properties, including idle properties	99,859	58,582
Decrease (increase) in refundable deposits	(414)	13,919

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
Increase in deferred charges	$ (24,185)	$ (107,193)
Decrease (increase) in pledged certificates of deposits	(9,941)	1,500
Decrease in other assets	2,672	5,587
Net cash used in investing activities	(6,534,396)	(6,629,266)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term bank loans	(166,662)	(2,296,968)
Decrease in commercial paper payable	(49,996)	(848,195)
Proceeds of long-term liabilities	-	7,049,788
Repayment of long-term liabilities	(3,378,095)	(17,744,086)
Bonus paid to employees and directors	(397,370)	(379,163)
Cash dividends paid	(12,005,255)	(11,617,989)
Decrease in guarantee deposits received	(224,670)	(289,369)
Decrease in other liabilities	(4,671)	(4,064)
Decrease in minority interest	(142)	(478,342)
Cash payment due to merger	-	(888,946)
Net cash used in financing activities	(16,226,861)	(27,497,334)
EFFECT OF EXCHANGE RATE CHANGES	4,533	(13,503)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,211,348	(4,139,736)
CASH AND CASH EQUIVALENTS ARISING FROM MERGER	-	178,080
CASH AND CASH EQUIVALENTS DUE TO CHANGE IN CONSOLIDATED ENTITIES	-	99,262
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,640,298	8,502,692
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 7,851,646	$ 4,640,298
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	$ 243,944	$ 455,406
Less - interest capitalized	76,459	140,379
Interest paid, net of capitalized interest	$ 167,485	$ 315,027
Income tax paid	$ 3,034,970	$ 2,263,522

(Continued)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 3,038,609	$ 3,117,008
Reclassification of properties into rental assets	$ -	$ 37,573
Reclassification of rental assets into properties	$ 26,379	$ -
Reclassification of properties into idle properties	$ 30,591	$ -
Conversion of overseas convertible bonds into common stock and capital surplus	$ -	$ 790,678
Receivable from the dissolved investee for the return of the capital	$ -	$ 78,133
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 5,434,332	$ 5,508,289
Decrease in payables for acquisition of properties	609,303	675,953
Decrease (increase) in lease payables	36,885	(16,274)
Cash paid for acquisition of properties	$ 6,080,520	$ 6,167,968
PROCEEDS OF THE DISPOSAL OF PROPERTIES, INCLUDING IDLE PROPERTIES		
Total amount of sold properties and idle properties	$ 75,438	$ 62,054
Increase in receivables from properties sold	(2,726)	(8,019)
Decrease in accounts and notes receivable from related parties	27,147	4,547
Cash received from disposal of properties	$ 99,859	$ 58,582

SUPPLEMENTARY INFORMATION ON THE FAIR VALUE OF ARCOA'S TOTAL ASSETS AND TOTAL LIABILITIES ACQUIRED IN FEBRUARY 2005:

	December 31, 2005
Cash and cash equivalents	$ 157,224
Financial assets at fair value through profit or loss - current	662,800
Accounts and notes receivable, net	310,974
Inventories, net	627,274
Prepaid expenses	40,892
Other current assets	118,338
Equity-method investments	19,811
Financial assets carried at cost - noncurrent	49,332
Properties, net	544,691
Refundable deposits	42,993
Deferred charges, net	185,857
Other assets	8,825
Short-term bank loans	(282,586)
Notes payable	(78,354)
Accounts payable	(358,125)

(Continued)

	December 31, 2005
Accrued expenses	$ (174,836)
Unearned revenues	(64,120)
Other current liabilities	(28,814)
Long-term liabilities	(50,188)
Other liabilities	(8,843)
	1,723,145
Percentage of ownership acquired	55.37%
	954,135
Goodwill	254,811
Cash consideration of the merger	1,208,946
Less: Decrease in restricted assets	320,000
Cash payment due to merger	$ 888,946

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

(With Deloitte & Touche audit report dated February 6, 2007) (Concluded)

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. ORGANIZATION AND OPERATIONS

Far EasTone Telecommunications Co., Ltd. ("Far EasTone") was incorporated in the Republic of China (the ROC) on April 11, 1997 and began commercial operations on January 20, 1998. Far EasTone's shares began to be traded on the ROC over-the-counter (OTC) securities exchange (known as GreTai Securities Market) on December 10, 2001. Later, Far EasTone's shares ceased to be traded on OTC exchange and became listed on the ROC Taiwan Stock Exchange on August 24, 2005. Far EasTone provides wireless communications, leased circuit, Internet and international simple resale (ISR) services and also sells cellular phone equipment and accessories. As of December 31, 2006, Far Eastern Textile Co., Ltd. ("Far Eastern Textile") and its affiliates directly and indirectly owned 42.83% of Far EasTone's shares. Since Far EasTone's chief executive officer is appointed by Far Eastern Textile's 99.99% subsidiary, Far Eastern Textile has control over Far EasTone's finances, operations and personnel affairs. Thus, Far Eastern Textile is the ultimate parent company of Far EasTone.

Far EasTone provides 2G (second-generation wireless communications services) by geographical sector under two type I licenses - GSM900 for the northern region of Taiwan and GSM1800 island-wide ("GSM" means "global system for mobile communications") - issued by the DGT of the ROC. These licenses allow Far EasTone to provide services for 15 years from in 1997, with an annual license fee of 2% of total 2G wireless communications service revenues.

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

To integrate the telecommunications business and enhance Far EasTone's operational efficiency, the Board of Directors of Far EasTone approved Far EasTone's merger with Yuan-Ze Telecommunications Co., Ltd. ("Yuan-Ze Telecom"), its wholly owned subsidiary, on February 24, 2005. The merger was completed on May 2, 2005, with Far EasTone as the survivor company.

In 2002, Yuan-Ze Telecom received from the DGT the 3G (third-generation wireless communications system) concession, with a bidding price of $10,169,000 thousand, included in intangible assets - 3G concession. On January 24, 2005, the DGT issued to Yuan-Ze Telecom a 3G license, which is valid through December 31, 2018. Through the completion of the merger with Yuan-Ze Telecom, Far EasTone became licensed to provide 3G wireless communications service and began commercial operations on July 13, 2005.

Far EasTone and its consolidated subsidiaries (hereinafter referred to as the "Group") had 4,800 and 5,203 employees as of December 31, 2006 and 2005, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements were prepared in conformity with the Guidelines Governing the Preparation of Financial Reports for Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the ROC. In preparing consolidated financial statements in conformity with these guidelines and principles, the Group is required to make certain estimates and assumptions that could affect the allowance for doubtful accounts, provision for losses on decline in value of inventories, depreciation and amortization, impairment losses on tangible and intangible assets, product warranty reserve, income taxes and pension cost. Actual results may differ from these estimates.

For the convenience of readers, the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 consolidated financial statements shall prevail.

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

Consolidation

Investees in which Far EasTone directly or indirectly holds more than 50% of voting rights or de facto control are included in the consolidated financial statements. For subsidiaries acquired during the year, their revenues and expenses generated before the acquisition date need not be consolidated.

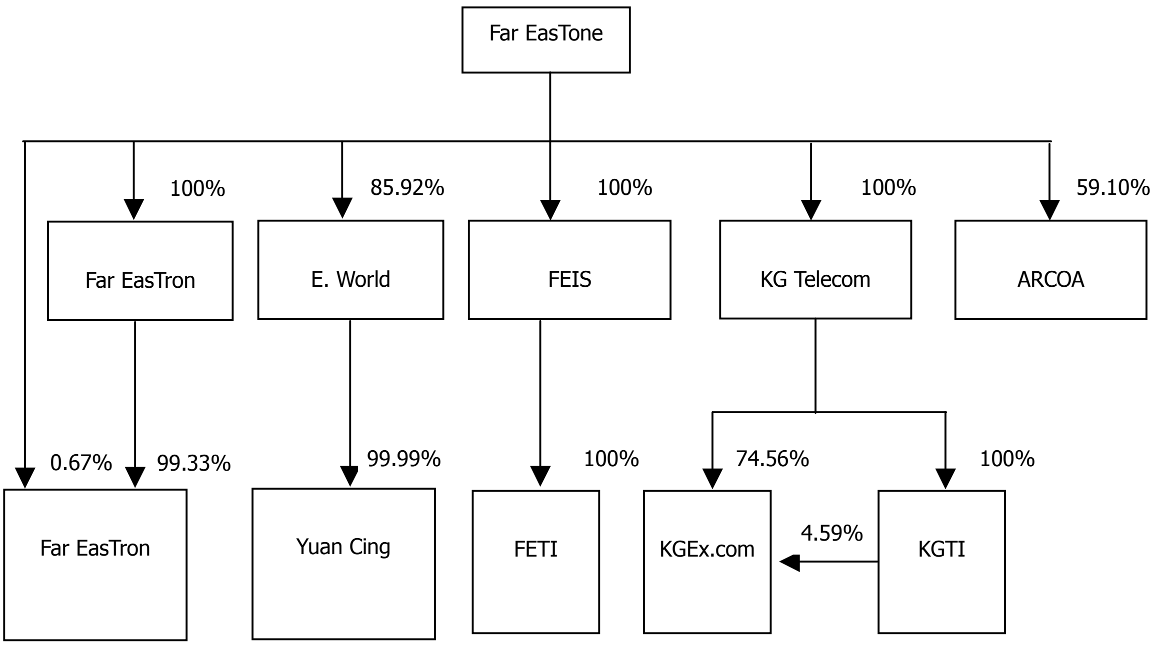
In the preparation of the consolidated financial statements, the financial statements of the foreign subsidiaries were translated from their respective functional currencies into New Taiwan dollars as follows:

a. All assets and liabilities at the exchange rate prevailing on the balance sheet dates;
b. Share capital, retained earnings and/or accumulated deficit at their historical exchange rates; and
c. All items in the statement of income at the average exchange rates for the year.

The cumulative translation effects of the subsidiaries' using functional currencies other than New Taiwan Dollars are included in the cumulative translation adjustments in stockholders' equity.

All significant intercompany transactions and balances were eliminated on consolidation.

Intercompany relationships and percentages of ownership as of December 31, 2006 are shown below:



a. Entities included in the consolidated financial statements as of and for the years ended December 31, 2006 and 2005 and their major business activities were as follows:

1) KG Telecommunications Co., Ltd. ("KG Telecom")

KG Telecom, formerly Yuan Ho Telecommunications Co., Ltd., was incorporated in the ROC on September 25, 2003. It is a wholly owned subsidiary of Far EasTone. After its incorporation, KG Telecom merged with the former KG Telecommunications Co., Ltd. (the "former KGT") through a two-step merger agreement. The merger was completed on May 20, 2004 after the registration of the shares with MOEA.

The former KGT provides 2G 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 2G wireless communications service revenues. Moreover, the merger of former KGT with TUNTEX (with a license of 2G to provide wireless communications service under a type I license - GSM1800 for the central and southern region of Taiwan issued by the DGT) is effective from January 1, 2000. Thus, the former KGT provided island-wide 2G wireless communications services under a type I license - GSM1800. 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 1% of leased circuit service revenues.

2) E. World (Holdings) Ltd. ("E. World")

E. World was incorporated in the Cayman Islands on April 7, 2000. Far EasTone originally owned 19.00% of E. World's stock. On June 30, 2004, Far EasTone acquired 66.92% of E. World's stock from Far Eastern Textile Co., Ltd. and its affiliates; thus, Far EasTone became E. World's parent company. E. World is primarily an investment holding company.

3) Far Eastern Info Service (Holding) Ltd. (FEIS)

FEIS was incorporated in the Bermuda Islands on July 17, 2002. Far EasTone became FEIS's parent company after its acquisition of FEIS's stock held by Far Eastern Polychem Industries on August 30, 2004. FEIS is primarily an investment holding company.

4) KGT International Holding Co., Ltd. (KGTI)

KGTI was incorporated in the British Virgin Islands on January 6, 2000. It is a wholly owned subsidiary of KG Telecom. KGTI is primarily an investment holding company.

5) KGEx.com Co., Ltd. ("KGEx.com")

KGEx.com was incorporated by KG Telecom and KGTI in the ROC on August 9, 2000. KG Telecom and KGTI together own 79.15% of KGEx.com's common stock. KGEx.com mainly provides Type II telecommunications services.

6) Yuan Cing Co., Ltd. ("Yuan Cing")

Yuan Cing was incorporated on August 5, 2000. E. World owns 99.99% of Yuan Cing's common stock. On June 20, 2005, the Board of Directors of Yuan Cing approved to change its name from E. World Co., Ltd. to Yuan Cing Co., Ltd. Yuan Cing provides customer services.

7) Far Eastern Tech-info Ltd. (Shanghai) (FETI)

FETI was incorporated in the People's Republic of China on November 18, 2002. It is a wholly owned subsidiary of FEIS. FETI provides computer software, data processing and Internet content providing services.

8) ARCOA Communication Co., Ltd. (ARCOA)

ARCOA was incorporated in the ROC on May 4, 1981. ARCOA's shares have been listed as emerging market stock on the OTC exchange since December 27, 2002. ARCOA sells cellular phone units and other telecommunications equipment or accessories and provides related maintenance services. The DGT issued to ARCOA a Type II license, allowing it to provide mobile virtual network operator services for three years from July 2006 for a fixed annual fee based on ARCOA's paid-in capital.

On December 22, 2004, the Board of Directors of ARCOA decided to withdraw its stock from the OTC exchange and became a private company. Far EasTone became ARCOA's parent company since February 2005. As of December 31, 2006, Far EasTone owns 59.10% of ARCOA's common stock.

9) Far EasTron Holding Ltd. ("Far EasTron Holding")

Far EasTron Holding was incorporated in the Cayman Islands on August 30, 2005. It is a wholly owned subsidiary of Far EasTone. Far EasTron Holding is primarily an investment holding company.

10) Far EasTron Co., Ltd. ("Far EasTron")

Far EasTron was incorporated in the ROC on August 12, 2005. It was originally a wholly owned subsidiary of Far EasTone. Subsequently, the equity of Far EasTron owned by Far EasTone decreased to 0.67% since Far EasTron Holding Ltd. subscribed the new shares issued by Far EasTron for $149,000 thousand (99.33%) in November 2005. Far EasTron mainly provides Internet content providing services. Since the combined equity of Far EasTone and Far EasTron Holding in Far EasTron allows Far EasTone to control Far EasTron's operating and financial policy decisions, Far EasTron is included in the consolidated entities.

b. As of December 31, 2005, KG Satellite is a 66.33% owned subsidiary of KG Telecom. KG Satellite engages in Type I telecommunications services and mainly provides satellite communications services.

In their special meeting on December 30, 2004, the stockholders of KG Satellite resolved to liquidate the company on July 11, 2005. The DGT approved this liquidation in January 2005 and allowed KG Satellite to discontinue its satellite communications services on the liquidation date. Therefore, KG Satellite's accounts were excluded from the consolidated financial statements as of and for the year ended December 31, 2005.

c. The entities in the "Consolidated Financial Statements of Far EasTone and Affiliates" are the same as those in the consolidated financial statements as required under ROC SFAS No. 7 - "Consolidated Financial Statements", thus, no consolidated financial statements of Far EasTone and affiliates will be compiled. The information needed in the consolidated financial statement of Far EasTone and affiliate is enclosed in the consolidated financial statements.

Current and Noncurrent Assets and Liabilities

Current assets are cash or cash equivalents, assets held mainly for trading and other assets to be converted into cash or consumed within 12 months after the balance sheet date. Property and equipment, intangible assets and those not classified as current assets are noncurrent assets. Current liabilities are obligations to be settled within 12 months after the balance sheet date. All other liabilities are classified as noncurrent.

Cash Equivalents

Commercial paper and bonds purchased under resell agreements with original maturities of not more than three months are classified as cash equivalents. Their carrying values approximate their fair values.

Financial Instruments at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value with fair value changes in profit or loss. On initial recognition, the financial instruments are measured at fair value, with transaction costs expensed currently. Subsequent changes in fair value are recognized as current gain or loss.

Purchase or sale of financial instruments under customary transactions is recognized and de-recognized using trade date accounting.

The fair value of mutual funds is determined at their net asset value on the balance sheet date.

Hybrid contracts containing one or more embedded derivatives are designated as financial assets or financial liabilities at fair value through profit or loss upon initial recognition.

Available-for-sale Financial Assets

On initial recognition, available-for-sale financial assets are recorded at fair value plus transaction costs on directly attributable to the acquisition of the assets. Gain or loss due to changes in fair value is recognized as adjustments to stockholders' equity, and the related cumulative gain or loss should be recognized in the current year when the financial asset is derecognized. Purchase or sale of financial assets under customary transactions is recognized and derecognized using trade date accounting.

An impairment loss should be recognized if there is objective evidence that a financial asset is impaired. This impairment loss can be reversed to the extent of the original carrying value and recognized as an adjustment to stockholders' equity.

The fair value of mutual funds is determined at their net asset value as of the balance sheet date.

Revenue Recognition, Accounts Receivable and Allowance for Doubtful Accounts

Revenue is recognized when the earnings process is completed or virtually completed and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to the excess of minutes of traffic included in the fixed monthly service fees) from wireless services and mobile virtual network operator 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; (b) prepaid call and Internet card services are recognized as income based upon customer usage; (c) one-time commission and subsidy revenue of a bundled contract (which covers both the purchase price of a cellular phone unit and a mobile phone number) or merely sales of mobile phone number as an agent for the telecommunications providers are accrued as activated; and (d) commission revenues are accrued monthly on the basis of related airtime revenue.

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. This sale 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 using the pro forma interest rate method.

An allowance for doubtful accounts is provided on the basis of the aging of the receivables, customers' credit, prevailing economic development and estimated collectibility of receivables from subscribers and other parties.

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 or cost of telecommunications service in the year when the service to a subscriber is activated.

Inventories

Inventories are stated at the lower of cost or market value (net realizable value). Cost is determined using the weighted-average method. Losses on disposal of inventory are evaluated on the basis of the changes in marketing strategy. Losses on decline in value of inventory are evaluated on the basis of market demand and should be recognized when the net realizable value is lower than the cost. When loss on scrap and slow-moving items is anticipated, these items are written down to their net realizable value, with loss on decline in value recognized under current income.

Bonds Measured at Amortized Cost

Bonds with fixed or determinable payments that are not quoted in an active market are measured at amortized cost. Bonds should be measured at original cost plus transaction cost on initial recognition. Gains or losses are recognized when de-recognition, impairment loss or amortization occurs. Purchase or sale of bonds is recognized and derecognized using trade date accounting.

An impairment loss should be recognized if there is objective evidence that a financial asset is impaired. If later on an indication suggest that the impairment may no longer exist or may have diminished, the impairment loss can be reversed to the extend that would otherwise result had no impairment loss been recognized for the assets in prior years.

Financial Assets Carried at Cost

Investments in equity instruments without quoted market prices in an active market, including investments in unlisted stocks and emerging stocks, are measured at cost upon initial recognition. Any cash dividends received are recognized as income on the ex-dividend date, but dividends declared attributable to earnings before investment is acquired are recognized as reduction of the carrying value of the investment.

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 shares held is recalculated on the basis of the total number of shares held after stock dividends are received.

An impairment loss should be recognized and charged to current income if there is objective evidence that a financial asset is impaired. This loss cannot be reversed.

Equity-method Investments

Long-term investments 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. On the acquisition date or the adoption of the equity method for the first time, the difference between investment cost and underlying equity in net assets is amortized using the straight-line method over 3 to 20 years.

As required, however, by the revised ROC Statement of Financial Accounting Standards No. 5 - "Long Term Investments in Equity Securities," starting on January 1, 2006, the cost of acquisition is subjected to an initial analysis. The investment cost in excess of the fair value of identifiable net assets is recognized as goodwill. Goodwill is no longer amortized but instead tested annually for impairment. An impairment test is also required when there is evidence indicating that goodwill might be impaired due to an event or a change in the economic environment. If the fair value of identifiable net assets acquired exceeds the cost of investments, the excess should be assigned to noncurrent assets proportionately to their respective fair values (except for financial assets not under the equity method, assets for disposal, deferred income tax assets and prepaid pension costs or other retirement benefit costs). If these assets are all reduced to zero, the remaining excess should be recognized as extraordinary gain. Starting on January 1, 2006, the unamortized balance of the investment cost in excess of the equity in investee's net assets is no longer amortized and is instead subject to the same accounting treatment as that for goodwill; the negative goodwill previously acquired should be amortized over the remaining estimated economic lives.

An increase in the Group's proportionate share in the net assets of its investee resulting from its subscription for additional shares of stock issued by the investee at a rate different from its existing equity ownership in the investee is credited to capital surplus. If the subscription results in a decrease in the Group's equity in an investee's net assets, capital surplus is debited. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated earnings.

If the Group losses its influence over an investee company because of a decrease in ownership percentage, it should cease using the equity method to account for the investment. In addition, the Group should apply the Statement of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments," which states that the new cost of investment will be the carrying amount of the investment at the time of the decrease in ownership percentage.

Properties and Rental Assets

Properties and rental assets are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Major additions, renewals and improvements as well as interest expense incurred during the construction year are capitalized, while maintenance and repairs are expensed currently. Properties still being used beyond their initially estimated service lives are depreciated over their newly estimated service lives.

Equipment covered by capital lease agreements 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 price.

Useful lives are estimated as follows:

	Useful Life Years
Buildings	48-55
Building equipment	3-18
Operating equipment	2-15
Computer equipment	3-10
Office equipment	3-10
Leasehold improvements	3-10
Miscellaneous equipment	3-10

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

Goodwill

Goodwill is the difference (the source of which cannot be identified) between investment costs and the equity in investees' net assets, which is amortized using the straight-line method over 3 to 15 years. However, under the revised ROC Statement of Financial Accounting Standards, goodwill is no longer amortized starting on January 1, 2006.

3G Concession

The 3G concession, which was stated at cost, is amortized on a straight-line basis from January 24, 2005, the issuance date of the concession license, until the license expiry date on December 31, 2018.

Deferred Charges

Deferred charges mainly include costs of retail store renovation and computer software, are amortized using the straight-line method over the terms of lease and agreements on the rights of software use. The cost of issuing convertible bonds before December 31, 2005 should be amortized by the straight-line method over the year between the issuance date and the redemption date at the option of the bondholder.

Idle Properties

Properties not currently used in operations are transferred to idle properties at the lower of net book value or net fair value, with difference charged to nonoperating expenses. However, starting on January 1, 2006, based on related regulations, idle property depreciation is calculated using the straight-line method over the estimated useful lives of the properties.

Impairment Loss

An impairment loss should be recognized if the carrying value of assets (including properties, rental assets, idle properties, 3G concession, goodwill, deferred charges and equity-method investment) exceed their recoverable amount, and this impairment loss should be charged to current income. The accumulated impairment loss of an asset recognized in prior years can be reversed if, later on, the estimate of the asset's recoverable amount later has changed so as to increase the recoverable amount. Then, the asset's carrying amount can be increased to its recoverable amount; however, the recoverable amount should not exceed the carrying amount that would have been after the deduction of depreciation or amortization if it had not been impaired. An impairment loss recognized on goodwill can not be reversed.

Deferral of Unrealized Intercompany Profit

The entire gains or losses from Far EasTone's sales of products to its subsidiaries are deferred and included in deferred income. In addition, Far EasTone classifies deferred income as current or noncurrent on the basis of the length of the gain realization period.

Far EasTone defers gains or loss on its product sales in proportion to ownership percentages for sales to equity-method investees that are not majority owned.

Far EasTone defers its gains or losses on the subsidiaries' sales of products to Far EasTone or on the sale among subsidiaries in proportion to its equity in the subsidiaries.

All of the deferred gains and losses are realized on the subsequent sales of related items to third parties.

Pension Costs

Far EasTone, KG Telecom, KGEx.com, ARCOA, Yuan Cing and Far EasTron have two types of pension plans: Defined benefit and defined contribution. Under the defined benefit plan, pension costs are recognized on the basis of actuarial calculations. Under the defined contribution plan, Far EasTone, KG Telecom, KGEx.com, ARCOA, Yuan Cing and Far EasTron should make monthly contributions to employees' individual pension accounts at a fixed percentage of monthly salaries and wages and recognize these contributions as pension costs.

FETI, under its government's regulations, has a defined contribution pension plan. It makes monthly contributions to employees' individual pension accounts at a fixed percentage of salaries and recognizes these contributions as pension costs.

FEIS, E. World, KGTI and Far EasTron Holding do not have pension plans because they do not have any employees.

Convertible Bonds

Before December 31, 2005, Far EasTone issued convertible bonds at par value 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 year from the issuance date of the bonds to the expiry date of the put option.

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

Income Tax

The inter-period and intra-period allocation methods are used for income taxes. 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 classification of the related assets and liabilities for financial reporting. 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, personnel training expenses and equity investments are accounted for as a reduction of the current year's income tax expense.

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

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

Foreign Currency Transactions and Translation of Foreign-currency Financial Statements

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 prevailing foreign exchange rates when cash in foreign currency is converted into New Taiwan dollars or when nonmonetary foreign-currency denominated assets and liabilities are settled, are credited or charged to income in the year of settlement.

On the balance sheet dates, the balances of nonmonetary foreign-currency denominated assets and liabilities evaluated at fair value, such as equity instruments, are restated at the prevailing exchange rates, and the resulting differences are recorded as adjustment to stockholders’ equity or as profit or loss in the current year. Financial assets and liabilities carried at cost are stated at historical exchange rates; while equity-method investments are recorded as cumulative translation adjustments under stockholders' equity.

Hedging Derivative Financial Instruments

Hedging derivative financial instruments are measured at fair value. The changes in fair values of these instruments are debited or charged to either stockholders’ equity or current income depending on the hedged items.

Hedge Accounting

Hedge accounting involves the recognition of the offsetting effects on profit or loss of changes in fair values of the hedging instrument and the hedged item.

Derivative instruments held by the Group are for cash flow hedge purpose. Under the cash flow hedge, the gains or losses from the changes in fair values on the hedging instruments are recognized under stockholders’ equity and are recognized as current income if the hedged forecast transaction affects net gains or losses. If hedging would give rise to a nonfinancial asset or liability, the gains or losses will be recognized as adjustments to the original cost or carrying amount of the hedged asset or liability. If recognized adjustments to stockholders’ equity result in irreversible losses, these losses should be immediately charged to current income.

The Group uses interest rate swaps and forward contracts to hedge cash flow risks from interest rate and exchange rate fluctuations of liabilities and firm commitments.

Reclassifications

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2005 have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the year ended December 31, 2006.

3. PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information presents the combined financial information of the Group as of and for the year ended December 31, 2005. This information is based on the assumption that Far EasTone bought majority interest of ARCOA on January 1, 2005.

(In Thousands, Except Earnings Per Share)

	For the Year Ended December 31, 2005
Current assets	$ 15,086,133
Properties, net	61,492,558
Current liabilities	18,654,491
Operating revenue	72,281,646
Income before income tax	17,909,004
Net income	14,701,571
Earnings per share	3.80

The pro forma combined financial information are presented for illustrative purposes only. That is, this information does not necessarily show the financial position and results of operations under the assumption that Far EasTone bought the majority interest of ARCOA on January 1, 2005 nor does it show the Group's future financial position or results of operations.

4. CHANGES IN ACCOUNTING PRINCIPLES

On January 1, 2006, the Group adopted the new ROC Statements of Financial Standards ("Statements" or SFAS) No. 34 - "Accounting for Financial Instruments" and ROC SFAS No. 36 - "Disclosure and Presentation of Financial Instruments" and related revised Statements.

The effects of the accounting changes are summarized as follows:

a. Reclassification of financial assets and liabilities

On the basis of the accounting changes, the Group reclassified financial assets and financial liabilities (including derivative instruments). The cumulative effect of changes in accounting principle should be recognized in the current year for adjustments to the carrying values of the financial assets at fair value through profit or loss. Available-for-sale financial instruments measured at fair value or the assets or derivatives for cash flow hedge are recognized as adjustments to stockholders' equity. In addition, an adjustment from assets or liabilities deferred from profit or loss under the cash flow hedge to stockholders' equity should be made for derivative instruments.

The effects of the first time adoption of the statements are as follows:

	As Adjustments to Stockholders' Equity (After Tax)
Hedging derivative financial liabilities - Far EasTone	$ 68,446
Hedging derivative financial liabilities - ARCOA	$ 900

The accounting change resulted in an increase of $186 thousand in consolidated net income before income tax expense.

b. Other information on the accounting changes

The following accounting policy was being used by the Group before adopting SFAS Nos. 34 and 36:

1) Short-term investments

Short-term investments in financial bonds or mutual funds are carried at the lower of aggregate cost or market value, and the loss on decline in value of short-term investments is recognized in current income.

An allowance for loss is provided and charged to income in the current year when the aggregate carrying value of investments exceeds the total market value. Any recovery of the market value to the extent of the original carrying value is recognized as income. The costs of short-term investments sold are determined using the weighted-average method or the specific identification method. The market values of financial bonds and mutual funds are based on cost and net asset values as of the balance sheet date, respectively.

2) Derivative financial instruments

Interest-linked structured deposits

The interest-linked structured deposits are recorded as assets when the principal is paid at the start of the contracts, and the interest is recognized as income over the terms of the contracts. The related gains and losses are recognized in the current year when the contracts are settled.

Forward contracts

Forward contracts are entered into as hedges of foreign-currency commitments and are recorded in New Taiwan dollars as assets and/or liabilities using the spot rate at the inception of the contracts. The premium or discount, which is the foreign-currency amount of the contract multiplied by the difference between the contracted forward rates and the spot rate at the inception of the contracts, 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 year), are recognized in the same way used for amortizing the premium or discount described above. In addition, the receivables and payables on forward contracts open as of balance sheet date are offset against each other, and the resulting balances are recorded as assets or liabilities.

Interest rate swap

The contract (notional) amounts of interest rate swap agreements, which are entered into as hedges of interest rate risks, 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.

3) Foreign-currency denominated long-term investments accounted for under the cost method

On the balance sheet dates, the balances of foreign-currency denominated long-term investments accounted for under the cost method are restated at the prevailing exchange rates, and the resulting differences are recorded as cumulative translation adjustments under stockholders’ equity if the restated balances are less than the original cost.

Based on the new Statements, the consolidated financial statements as of and for the year ended December 31, 2005 are reclassified as follows:

	December 31, 2005	
	Before Reclassification	**After Reclassification**
Balance sheet		
Short-term investments	$ 409,456	$ -
Investments in share of stock under the cost method	63,517	
Pledged certificates of deposits - current	10,000	
Payable on forward contracts (included in other current liabilities)	900	
Financial assets at fair value through profit or loss - current		216,500
Available-for-sale financial assets - current		199,956
Bonds measured at amortized cost - current		3,000
Financial assets carried at cost - noncurrent		63,517
Hedging derivative financial liabilities - current (included in other current liabilities)		900

	Year Ended December 31, 2005	
	Before Reclassification	**After Reclassification**
Income statement		
Losses on decline in value of short-term investment (included in nonoperating expenses and losses)	$ 44	$ -
Losses on revaluation of financial assets (included in nonoperating expenses and losses)	-	44

The Group adopted new Statements as required by the revised ROC SFAS No. 1 - "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5 - "Long-term Investments in Equity Securities," and SFAS No. 25 - "Business Combinations - Accounting Treatment under the Purchase Method." These revisions stated that the difference between the cost of an investment and the amount of the underlying equity in net assets of an investee should no longer be amortized. If the difference is goodwill, it should be tested for impairment loss annually instead of being amortized. The adoption of the revised Statements resulted in an increase of $864,870 thousand in consolidated net income before income tax expense without any cumulative changes in accounting principles and an increase of NT$0.22 in basic earnings per share after income tax for the year ended December 31, 2006.

5. CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Cash		
Cash on hand	$ 11,457	$ 15,977
Checking and demand deposits	855,109	1,350,159
Certificates of deposits - interest of 1.705%-5.130% in 2006 and 1.53%-4.25% in 2005	170,763	111,180
	1,037,329	1,477,316
Cash equivalents		
Commercial paper purchased under resell agreements - interest of 1.61%-1.65% in 2006 and 1.40%-1.48% in 2005	6,800,299	3,032,982
Bonds purchased under resell agreements - interest of 1.465% in 2006 and 1.55%-1.60% in 2005	14,018	130,000
	6,814,317	3,162,982
	$ 7,851,646	$ 4,640,298

As of December 31, 2006 and 2005, the Group had no certificates of deposits with maturity year exceeding one year.

As of December 31, 2006 and 2005, foreign demand deposits were as follows:

	December 31	
	2006	2005
Belgium (US$1,025 thousand in 2006 and US$327 thousand in 2005)	$ 33,413	$ 10,726
Hong Kong (US$22 thousand in 2006 and US$29 thousand in 2005)	717	952
	$ 34,130	$ 11,678

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

Financial assets held for trading and designated financial assets to be measured at fair value through profit or loss were as follows:

	December 31	
	2006	2005
Financial assets held for trading - mutual funds	$ 146,512	$ 206,500
Designated financial assets to be measured at fair value through profit or loss - interest-linked structured deposits	-	10,000
	$ 146,512	$ 216,500

Net gains on financial assets held for trading were $3,495 thousand and $7,480 thousand for the years ended December 31, 2006 and 2005, respectively.

In September 2003, ARCOA invested $10,000 thousand in interest-linked structured deposits, which is highly correlated to interest rates, to earn interest. ARCOA pledged the deposit as collateral for its short-term bank loans.

The original maturity date of the deposits was September 15, 2010, and the contract will become invalid once the actual return reaches 8%. ARCOA was informed by the bank that the contract became invalid on March 15, 2006 since the actual return reached 8%.

Net gains of those designated financial assets to be measured at fair value through profit or loss were $57 thousand and

$370 thousand for the years ended December 31, 2006 and 2005, respectively.

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	December 31	
	2006	2005
Open-ended mutual funds	$ 699,782	$ 199,956

8. BONDS MEASURED AT AMORTIZED COST - CURRENT

	December 31	
	2006	2005
Bond - Ta Chong Commercial Bank	$ 3,000	$ 3,000

On July 16, 2004, ARCOA bought a five-year corporate bond at par value, amounting to $3,000 thousand with coupon interest rate of 2.55%. The interest is payable on July 16 annually. The maturity date of the bond is July 16, 2009.

9. INVENTORIES, NET

	December 31	
	2006	2005
Cellular phone equipment	$ 896,464	$ 1,353,843
SIM cards and prepaid cards	41,743	147,938
Cellular phone accessories	48,849	58,046
Others	62,250	107,046
	1,049,306	1,666,873
Less - allowance for losses	76,693	55,243
	$ 972,613	$ 1,611,630

10. EQUITY-METHOD INVESTMENTS

	December 31			
	2006		2005	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Common stocks with no quoted market prices				
Far Eastern Electronic Toll Collection Co., Ltd.	$ 395,686	42.66	$ 789,096	42.66
Ding Ding Integrated Marketing Service Co., Ltd.	26,790	15.00	27,680	15.00
iScreen Corporation	20,998	40.00	20,949	40.00
Hi Information Co., Ltd.	6,026	33.17	5,537	33.17
THI Consultants Inc.	-	-	14,128	22.22
	$ 449,500		$ 857,390	

a. Far Eastern Electronic Toll Collection Co., Ltd.

On February 26, 2004, Far Eastern Electronic Toll Collection Co. (“FETC”, which is originally known as “Far Eastern Consortium” established by Far EasTone, TECO Electric & Machinery Co., Ltd., Systex Corporation and MiTAC Inc.) was selected by the Taiwan Area National Freeway Bureau (“the TANFB”) as the best qualified candidate for its “Private Participation in the Electronic Toll Collection BOT Project (“ETC project”).” On April 27, 2004, FETC and the TANFB completed negotiations and signed the project contract. This 20-year contract covers both the construction and operation of the ETC system. Upon completion of the ETC system construction on February 10, 2006, the TANFB cleared FETC for testing system operations. Later, the Ministry of Transportation and Communications ("the MOTC") gave its official clearance for FETC to do the operational testing.

On February 24, 2006, however, the Taipei High Administrative Court announced its decision to revoke the status of FETC as the best qualified candidate for the ETC project. Then, on August 3, 2006, the Supreme Administrative Court ruled that the original screening process conducted by TANFB was flawed and in violation of the principles of equality and public interest and stripped FETC of its "best qualified candidate" status. On December 5, 2006, in response to the verdict, the TANFB announced a second bidding for the ETC project. On December 25, 2006, FETC applied to TANFB to participate in the second bidding. As of February 6, 2007, the date of the accompanying auditors' report, the bidding was still in progress.

The original intention behind Far EasTone's investment in FETC was to create the first intelligent transportation system in Taiwan and to maximize national economic efficiency. Nevertheless, since the foundation of the FETC, it has been under political attack and suffered from untruthful media accusation. FETC was thus affected by increasing operating risks and negative corporate reputation. Consequently, on August 11, 2006, Far EasTone announced a proposal to withdraw from FETC by unconditionally donating its FETC shareholding to the Government so that the Government will be able to plan the future for the ETC operation on a brand new basis and further enhance domestic transportation efficiency and national competitiveness. Far EasTone's Board of Directors approved this proposal on August 22, 2006. The donation will be made depends on the Government's response.

b. Equity in investees' net gains or losses

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

ARCOA's investment in THI Consultants Inc ("THIC") was reclassified as financial assets carried at cost-noncurrent after THIC's capital increase for cash in September 2006. Because ARCOA did not participate in THIC's capital increase, ARCOA lost its influence on THIC's operating and financial policy decisions.

The financial statements as of and for the years ended December 31, 2006 and 2005, which were used as basis for calculating the equities in net assets of the foregoing equity-method investees, had all been audited, except those of THIC and Hi Information Co., Ltd. were calculated based on unaudited financial statements. The management believes that even if the financial statements of THIC and Hi Information Co., Ltd. are audited, the possibilities of effect on the financial statements presented are not material. In addition, under the revised ROC SFAS No. 5 - "Long-term Investment in Equity Securities," ARCOA started to recognize its equity in the net income or net loss of THIC in the same year starting in 2005. As a result, the equity in THIC in 2005 included the accounts of audited financial statements as of and for the years ended December 31, 2005 and 2004.

11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

	December 31	
	2006	2005
Emerging domestic common stock		
Taiwan Fixed Network Co., Ltd.	$ 21,000	$ 21,000
Unlisted domestic common stock		
VIBO Telecom Inc.	20,000	20,000
THI Consultants Inc.	13,729	-
Chunghwa Int'l Communication Network Co., Ltd.	6,714	6,714
Web Point Co., Ltd.	1,618	1,618
Unlisted foreign common stock		
Ideaculture Limited - US$431 thousand in 2006 and 2005	14,076	14,185
Private domestic mutual fund	100,000	-
	$ 177,137	$ 63,517

The Group's holdings of marketable equity securities and fund with no quoted market prices and with fair values that could not be reliably measured were evaluated at cost.

12. PROPERTIES

a. Accumulated depreciation consisted of:

	December 31	
	2006	2005
Buildings and equipment	$ 774,271	$ 628,907
Operating equipment	55,875,601	46,997,447
Computer equipment	10,486,141	8,921,267
Office equipment	793,585	765,006
Leasehold improvements	1,148,623	983,387
Miscellaneous equipment	174,617	130,928
	$ 69,252,838	$ 58,426,942

b. Far EasTone and KG Telecom leased computer equipment from Far Eastern International Leasing Corporation under a contract valid from July 2004 to June 2009, with annual lease payments of $30,828 thousand. The amount paid for the leased properties at the start of the lease was $147,500 thousand net of the market price of new equipment of $277,470 thousand less the equipment exchanged amounting to $129,970 thousand. The total lease payments were $154,136 thousand. The lease agreement qualifies as a capital lease since (a) the present value of the future lease payments plus the bargain purchase price 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.

   Far EasTone and KG Telecom leased another computer equipment from Far Eastern International Leasing Corporation under a contract valid from March 2006 to February 2011, with annual lease payments of $10,126 thousand. The total lease payments were $50,626 thousand. The lease agreements qualify as capital lease since (a) the present value of the future lease payments plus the bargain purchase price under the lease 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.

   KGEx.com leased computer equipment from a third party and Far Eastern International Leasing Corporation under contracts valid from June 2005 to August 2009, with annual lease payments of $901 thousand. The total lease payments were $2,704 thousand. The lease agreement qualifies as a capital lease since (a) the present value of the future lease payments exceeds 90% of the fair value of the leased assets, and (b) at the expiration of the lease term, the equipment will be transferred to KGEx.com.

The details of the lease as of December 31, 2006 and 2005 are as follows:

	December 31	
	2006	2005
Total future lease payments	$ 105,638	$ 145,270
Less - imputed interest expense	8,120	10,996
	97,518	134,274
Less - current portion of lease payable	40,514	38,913
Long-term lease payable	$ 57,004	$ 95,361

c. Capitalized interest on properties was as follows:

	Years Ended December 31	
	2006	2005
Total interest expense	$ 180,822	$ 419,836
Less - interest capitalized (included in construction in process and advances for acquisition of equipment)	76,459	140,379
Interest expense, net of amounts capitalized	$ 104,363	$ 279,457
Interest rate capitalized	2.09-2.51%	1.75-2.73%

13. GOODWILL

If an investment acquisition cost exceeds the fair value of identifiable net assets acquired, and the source of this excess cannot be identified, this excess should be recorded as goodwill.

Under Statement of Financial Accounting Standards No. 35 - “Accounting for Asset Impairment,” the Group is divided into three identifiable cash-generating units starting on January 1, 2005: Far EasTone, KG Telecom and ARCOA.

On December 31, 2006, the carrying value of the tangible and intangible assets used by the Group was $74,672,825 thousand. The Group’s management estimated the recoverable amount of core assets at their expected useful lives and thus based the cash flow forecast on discount rates of 9.15% (Far EasTone), 9.8% (KG Telecom) and 12.2% (ARCOA). The operating revenue forecast is based on the expected future growth rate of the telecom industry along with the prospective advancement of the business. On the basis of the anticipated effective customer base and sales predictions, the Group’s management believes that the carrying amounts of these tangible and intangible assets will not exceed their recoverable amounts even if there are changes in the basic assumptions used to estimate recoverable amounts as long as these changes are reasonable.

The principal assumptions and the relevant measurement of the recoverable amounts of the Group are summarized as follows:

a. Expected future growth rate of the telecommunications industry

1) Mobile voice service (MVS): The anticipated MVS growth rate is based on the actual effective customer base of the previous years and on assumptions that the 2G telecommunications services market is mature and there would be increased use of 3G telecommunications services. Therefore, the growth rate is expected to be stable.

2) Mobile data service (MDS): The demand for MDS is expected to grow. However, given the cycle in the industry, the growth rate for MDS will gradually decrease annually.

3) Business of selling cellular phone units: Based on past experience, plans and the trend in the overall market, the anticipated growth rate is expected to decrease.

b. Expected ratio of service EBITDA (earnings before interest, taxes, depreciation and amortization) to operating revenue: The ratio was around 50% in 2006; this ratio is expected to decrease in future years.

As of the evaluation date, the recoverable amount calculated on the basis of the above principal hypotheses exceeded the carrying amount of the tangible and intangible assets. Thus, no impairment loss was recognized.

14. RENTAL ASSETS, NET

	December 31	
	2006	2005
Cost		
Land	$ 105,366	$ 124,042
Buildings	100,136	109,698
	205,502	233,740
Less - accumulated depreciation		
Buildings	7,493	7,223
	$ 198,009	$ 226,517

Rental assets are offices of Far EasTone and ARCOA, which are intended to be used as operating premises for future business expansion. The rental agreements will expire on various dates through February 2013 (Far EasTone) and through May 2007 (ARCOA), respectively. However, the rental agreement of ARCOA was canceled in July 2006 by the transacting parties. Future rental income is summarized as follows:

Year	Amount
2007	$ 13,952
2008	13,993
2009	12,576
2010	8,037
After 2010	9,783

15. SHORT-TERM BANK LOANS

	December 31	
	2006	2005
Secured bank loans - interest of 2.05% in 2006 and 1.65% in 2005	$ 85,000	$ 50,000
Unsecured bank loans - interest of 2.20%-2.27% in 2006 and 1.75%-6.03% in 2005	43,956	245,618
	$ 128,956	$ 295,618

16. COMMERCIAL PAPER PAYABLE

Far EasTone issued commercial paper guaranteed by financial institutions, which was discounted at 1.28%, was fully repaid on January 3, 2006.

17. BONDS PAYABLE

	December 31, 2006		
	Due Within One Year	Due After One Year	Total
Bonds payable			
Domestic unsecured bonds - 1st - Far EasTone	$ 2,060,000	$ -	$ 2,060,000
Domestic unsecured bonds - 2nd - Far EasTone	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd - Far EasTone	900,000	1,200,000	2,100,000
	$ 2,960,000	$ 2,670,000	$ 5,630,000

	December 31, 2005		
	Due Within One Year	Due After One Year	Total
Bonds payable			
Domestic unsecured bonds - 1st - Far EasTone	$ 2,140,000	$ 2,060,000	$ 4,200,000
Domestic unsecured bonds - 2nd - Far EasTone	-	1,470,000	1,470,000
Domestic unsecured bonds - 3rd - Far EasTone	900,000	2,100,000	3,000,000
	$ 3,040,000	$ 5,630,000	$ 8,670,000

a. 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 thousand, with face value of $1,000 thousand 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. Far EasTone already repaid $2,140,000 thousand on February 19, 2006.

b. 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 thousand, with a face value of $1,000 thousand 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.

c. 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 thousand, with a face value of $5,000 thousand 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. Far EasTone already repaid $900,000 thousand on December 12, 2006.

18. LONG-TERM BANK LOANS

	December 31, 2006		
	Due Within One Year	Due After One Year	Total
Secured bank loans - KGEx.com	$ 38,095	$ 95,238	$ 133,333

	December 31, 2005		
	Due Within One Year	Due After One Year	Total
Unsecured bank loans - Far EasTone	$ -	$ 300,000	$ 300,000
Secured bank loans - KGEx.com	38,095	133,333	171,428
	$ 38,095	$ 433,333	$ 471,428

a. Secured bank loans - KGEx.com

KGEx.com obtained a secured bank loan at interest rates of 2.51% in 2006 and 2.10% to 2.345% in 2005, payable monthly. The loan is secured and repayable quarterly from April 2005 at equal installments, with final repayment due in April 2010.

b. Unsecured bank loans - Far EasTone

Far EasTone had secured bank loans at interest rate of 1.60% to 1.64%, which were due on January 4, 2006. Under a revolving agreement, the bank loan has been made available for Far EasTone through November 2007 instead.

19. PENSION PLAN

a. The Labor Pension Act (the "Act") took effect on July 1, 2005. This Act provides for a defined contribution plan featuring a portable pension. Employees of Far EasTone, KG Telecom, KGEx.com, ARCOA, Yuan Cing and Far EasTron subject to the Labor Standards Law before June 30, 2005 were allowed to choose to remain subject to the pension mechanism under the Labor Standards Law or choose to be subject to the pension mechanism under the Act, with their service years accumulated before the enforcement of this Act to be retained. Those hired on or after July 1, 2005 automatically become subject to the Act.

b. Based on the Act, rate of monthly contributions by Far EasTone, KG Telecom, KGEx.com, ARCOA, Yuan Cing and Far EasTron to the employees' individual pension fund accounts starting on July 1, 2005 is at 6% of monthly wages and salaries. The pension costs under the defined contribution plan amounted to $146,895 thousand and $70,054 thousand for the years ended December 31, 2006 and 2005, respectively. FETI, under its government's regulations, had recognized pension costs of $5,692 thousand and $4,953 thousand for the years ended December 31, 2006 and 2005, respectively.

c. Far EasTone, KG Telecom, KGEx.com, Yuan Cing, Far EasTron and ARCOA have a defined benefit pension plan for all regular employees required under Labor Standards Law. Under this pension plan, employees can accumulate two base points for every service year within the first 15 service years and one base point for every service year thereafter. Employees can accumulate up to 45 base points. Far EasTone, KG Telecom, KGEx.com, Yuan Cing, Far EasTron and ARCOA accrue pension costs on the basis of actuarial calculations and make monthly contributions, at 2% of salaries and wages, to their respective pension funds, which are administered by their respective pension plan committees and deposited in each committee's name in the Central Trust of China.

d. Additional information on the defined benefit pension plans of Far EasTone, KG Telecom, KGEx.com, Yuan Cing, Far EasTron and ARCOA is as follows:

1) Net pension cost consisted of:

	Year Ended December 31, 2006		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	KGEx.com	ARCOA
Service cost	$ 30,912	$ 284	$ 485
Interest cost	26,078	159	988
Expected return on pension assets	(10,851)	(164)	(1,192)
Amortization of net transition obligations (assets)	1,213	(302)	65
Amortization of unrecognized pension loss (gain)	6,949	-	-
Net pension cost	$ 54,301	$ (23)	$ 346

	Year Ended December 31, 2005		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	KGEx.com	ARCOA
Service cost	$ 72,875	$ 833	$ 3,258
Interest cost	22,624	168	1,035
Expected return on pension assets	(9,994)	(141)	(1,189)
Amortization of net transition obligations (assets)	1,213	(302)	421
Amortization of unrecognized pension loss (gain)	4,363	-	(202)
Net pension cost	$ 91,081	$ 558	$ 3,323

2) Reconciliation of the fund status of the plans and accrued pension cost (prepaid pension cost) is as follows:

	December 31, 2006		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	KGEx.com	ARCOA
Benefit obligation			
Vested benefit obligation	$ 5,840	$ -	$ -
Non-vested benefit obligation	526,397	2,395	26,905
Accumulated benefit obligation	532,237	2,395	26,905
Additional benefits based on projected and future salaries	505,043	1,938	10,580
Projected benefit obligation	1,037,280	4,333	37,485
Fair value of plan assets	(388,087)	(6,610)	(48,900)
Fund status	649,193	(2,277)	(11,415)

(Continued)

	December 31, 2006		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	KGEx.com	ARCOA
Unrecognized net transition obligations (assets)	$ (7,273)	$ 6,334	$ (2,530)
Unrecognized pension gain (loss)	(353,841)	1,827	4,131
Accrued pension cost (prepaid pension cost)	$ 288,079	$ 5,884	$ (9,814)
Vested benefit amounts were as follows:	$ 4,061	$ -	$ -

(Concluded)

	December 31, 2005		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	KGEx.com	ARCOA
Benefit obligation			
Vested benefit obligation	$ 5,919	$ -	$ -
Non-vested benefit obligation	440,167	3,301	21,655
Accumulated benefit obligation	446,086	3,301	21,655
Additional benefits based on projected and future salaries	423,168	2,464	6,567
Projected benefit obligation	869,254	5,765	28,222
Fair value of plan assets	(340,092)	(5,577)	(47,690)
Fund status	529,162	188	(19,468)
Unrecognized net transition obligations (assets)	(8,486)	6,636	(2,952)
Unrecognized pension gain (loss)	(246,758)	(30)	12,260
Accrued pension cost (prepaid pension cost)	$ 273,918	$ 6,794	$ (10,160)
Vested benefit amounts were as follows:	$ 7,415	$ -	$ -

3) Actuarial assumptions were as follows:

	Year Ended December 31, 2006		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	KGEx.com	ARCOA
Discount rate used in determining present value	2.75%	2.75%	3.25%
Rate of salary increase	3.50%	3.00%	2.00%
Expected return on plan assets	2.75%	2.75%	3.50%

	Year Ended December 31, 2005		
	Far EasTone, KG Telecom, Far EasTron and Yuan Cing	KGEx.com	ARCOA
Discount rate used in determining present value	3.00%	2.75%	3.50%
Rate of salary increase	3.50%	3.00%	2.00%
Expected return on plan assets	3.00%	2.75%	2.50%

20. STOCKHOLDERS' EQUITY

a. Capital surplus

Under government regulations, capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized. In addition, capital surplus (including both paid-in capital in excess of par value and that arising from business combination) may be used to offset a deficit or transferred to capital as a stock dividend, with the transfer to be made within prescribed limits only.

b. Appropriation of earnings and dividend policy

Far EasTone's Articles of Incorporation provide that, every year, 10% of net income less any accumulated deficit should be appropriated as legal reserve. In addition, if Far EasTone decides to distribute dividends, 1% to 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.

At least 50% of the balance of net income less accumulated deficit, legal reserve and special reserve should be appropriated as dividends. The cash dividends should be at least 50% 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 or plans to improve financial structure.

A regulation issued by the Securities and Futures Bureau requires the setting aside from the unappropriated earnings of a special reserve equal to any debit balance of an account under stockholders' equity. The balance of this special reserve is adjusted on the basis of the debit balance of the stockholders' equity account at year-end.

Under the ROC Company Law, legal reserve should be appropriated until the accumulated reserve equals Far EasTone's paid-in capital. Legal reserve may be used to offset a deficit. When the reserve exceeds 50% of Far EasTone's paid-in capital, the excess may be distributed as follows: (a) if Far EasTone has no earnings, the excess may be declared as dividends or bonus; and (b) if Far EasTone has no deficit, only the excess portion that is over 25% of Far EasTone's paid-in capital may be declared as stock dividends.

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 tax credits for the income tax paid by Far EasTone on earnings generated from January 1, 1998. Under this system, Far EasTone maintains an imputation credit account (ICA) for the income tax and the tax credits allocated to each stockholder. The maximum credit available for allocation to each stockholder cannot exceed the balance shown in the ICA on the date of dividend distribution.

The appropriation of the 2005 and 2004 earnings were approved by Far EasTone's stockholders on May 26, 2006 and May 20, 2005, respectively.

	Appropriation and Distribution		**Dividend Per Share (Dollars)**	
	2005	**2004**	**2005**	**2004**
Legal reserve	$ 1,471,741	$ 1,404,308		
Bonus to employees - cash	264,913	252,775		
Remuneration to directors and supervisors	132,457	126,388		
Cash dividend	12,005,255	11,617,989	$ 3.10	$ 3.00

Had the above bonus to employees and directors been charged to net income in 2005 and 2004, the basic earnings per share for 2005 and 2004 (after tax), based on the weighted-average number of outstanding shares would have decreased from NT$3.80 to NT$3.70 and from NT$3.75 to NT$3.65, respectively.

The appropriation of the 2006 earnings of Far EasTone had not been approved by the board of directors and stockholders as of January 22, 2007. Related information can be accessed through the Market Observation Post System on the Taiwan Stock Exchange Corporation's website.

c. Global depositary receipts

Far EasTone's Global Depositary Receipts (GDRs) as of December 31, 2006 were as follows:

		GDRs (in Thousand Units)	**Equivalent Common Stock (in Thousand Shares)**
Initial offering	1)	10,000	150,000
Converted from overseas unsecured convertible bonds	2)	165	2,473
Issued for capital increase	3)	296	4,448
Reissued within authorized units	4)	19,907	298,607
GDRs transferred to common stock		(26,577)	(398,651)
Outstanding GDRs issued		3,791	56,877

1) On June 1, 2004, the Securities and Futures Bureau (SFB) approved Far EasTone's request to sell to foreign investors 150,000 thousand shares of Far EasTone's common stock in the form of 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 per unit.

2) 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, 2006, 165 thousand units of GDRs had been issued for the conversion of overseas unsecured convertible bonds representing 2,473 thousand common shares.

3) In 2004, 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 common shares.

4) Under the terms of the GDR offering, following the completion of an offering to the extent that previously issued GDRs have been withdrawn, GDR reissuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of December 31, 2006, Far EasTone had reissued 19,907 thousand units of GDRs representing 298,607 thousand common shares.

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

1) Exercise voting rights;
2) Transfer the GDRs into common stocks; and
3) Receive dividends and exercise preemptive rights or other rights and interests.

21. INCOME TAX

a. The Income Basic Tax Act (the “IBT Act”), which took effect on January 1, 2006, requires that the income basic tax should be 10% of the sum of the taxable income as calculated in accordance with the Income Tax Act plus tax benefit regulated by the Income Tax Act or other laws. The tax payable of the current year would be the higher of the income basic tax and income tax payable calculated in accordance with the Income Tax Act. The effect of the IBT Act on the Group’s income tax is not material.

b. 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	
	2006	**2005**
Income tax expense computed at statutory tax (25% to 33%)	$ 5,452,901	$ 5,768,733
Add (deduct) tax effects of:		
Permanent differences		
Tax-exempt income	(999,461	(1,262,477
Equity in investees’ net gains	(1,221,416	(1,105,883
Other	(3,131	(148,196
Temporary differences	(137,185	176,778
Unappropriated earnings tax (10%)	84,303	1,438
Less - investment tax credits	(203,178	(721,671
Income tax payable - current	2,972,833	2,708,722
Prepaid income tax	(1,495,329	(897,812
Accrued income tax payable in administrative remedy	554,579	321,208
Income tax payable	$ 2,032,083	$ 2,132,118

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

c. Income tax expense consisted of:

	Years Ended December 31	
	2006	2005
Income tax expense - current	$ 2,972,833	$ 2,708,722
Income tax expense - deferred	159,557	486,826
Prior year's adjustment	(35,527)	1,327
Income tax expense on income subjected to a separate rate of 20%	14,466	10,558
Income tax expense	$ 3,111,329	$ 3,207,433

d. Deferred income taxes assets (liabilities) as of December 31, 2006 and 2005 were as follows:

	December 31	
	2006	2005
Current		
Provision for doubtful accounts	$ 953,749	$ 912,722
Loss carryforwards	36,675	65,090
Provision for losses on decline in value of inventories	17,960	12,599
Investment tax credits	3,971	2,489
Unrealized foreign exchange gains, net	(177	(2,544
Other	27,339	(168
	1,039,517	990,188
Less - valuation allowance	65,620	85,013
	$ 973,897	$ 905,175
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 281,071	$ 363,150
Loss carryforwards	312,224	223,809
Impairment loss on idle properties	217,021	110,165
Accrued pension cost	81,247	89,078
Equity in investees' net losses	22,963	25,666
Loss on disposal of properties	18,495	38,246
Unrealized losses on financial products	16,540	-
Unrealized loss on equity-method investments	14,071	14,071
Investment tax credits	27,464	-
Other	(295	6,200
	990,801	870,385
Less - valuation allowance	570,485	238,330
	$ 420,316	$ 632,055

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

e. Integrated income tax information was as follows:

	December 31	
	2006	2005
Balance of imputation credit account (ICA)		
Far EasTone	$ 247,789	$ 59,684
KG Telecom	$ 5,052	$ 898,809
ARCOA	$ 4,021	$ 3,360

Estimated ratio of the ICA balance for Far EasTone as of December 31, 2006 to unappropriated earnings as of such date was 1.69%. When the dividends from the unappropriated earnings as of December 31, 2005 was distributed in 2006, the actual ratios Far EasTone used was 16.18%.

Estimated ratio of the ICA balance for KG Telecom as of December 31, 2006 to unappropriated earnings as of such date was 0.09%. When the dividends from the unappropriated earnings as of December 31, 2005 was distributed in 2006, the actual ratios KG Telecom used was 0.11%.

ARCOA, Yuan Cing, Far EasTron and KGEx.com had no appropriated earnings as of December 31, 2006. Thus, their ICA balances will be accumulated until dividend distribution in the future.

Based on the Income Tax Law, the imputation tax credits allocated to each stockholder are based on the ICA balance as of the date of dividend distribution. The estimated creditable ratio for the 2006 earnings appropriation, which the Group had calculated in consideration of current year's income tax expenses, may be adjusted when the imputation credits are distributed. On the other hand, the creditable ratio for the 2005 earnings appropriation has been determined, and the actual ratio is disclosed.

f. Investment tax credits were as follows:

The unused investment tax credits of the Group as of December 31, 2006 are summarized as follows:

Far EasTone

Regulatory Basis of Tax Credits	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 3,971	$ 3,971	2007
	Purchase of automated equipment or technology	26,841	26,841	2008
		$ 30,812	$ 30,812	

ARCOA

Regulatory Basis of Tax Credits	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Expiry Year
Statute for Upgrading Industries	Personnel training expenses	$ 623	$ 623	2009

g. Loss carryforwards of the Group as of December 31, 2006 are as follows:

Expiry Year	ARCOA	KGEx.com	Yuan Cing	Far EasTron
2007	$ -	$ 36,546	$ 129	$ -
2008	-	53,341	179	-
2009	-	72,907	-	-
2010	37,459	37,056	-	2,716
2011	50,841	47,022	-	10,703
	$ 88,300	$ 246,872	$ 308	$ 13,419

h. The status of income tax returns are as follows:

Income tax returns of Far EasTone through 2002 had been examined by the tax authorities. The tax authorities assessed an additional tax on Far EasTone's income tax returns for 2000 to 2002. Far EasTone had filed an appeal for the reexamination of the above-mentioned returns and accrued the related tax thereof. The income tax returns of Yuan-Ze Telecom through 2005 had been examined and cleared by the tax authorities.

The income tax returns of KG Telecom through 2003 and the income tax returns of the former KG Telecom through 2002 had been examined by the tax authorities. However, KG Telecom disagreed with the tax authorities' assessment of the former KG Telecom's 2000 to 2002 returns and thus filed appeals for the reexamination of these returns. Nevertheless, KG Telecom accrued the related tax.

Income tax returns through 2003 of ARCOA had been examined by the tax authorities. However, ARCOA disagreed with tax authorities' assessment of its 2003 and 2002 returns and thus filed appeals for the reexamination of these returns. Nevertheless, ARCOA accrued the related tax.

Income tax returns of KGEx.com through 2003 had been examined and cleared by the tax authorities. Income tax returns of Yuan Cing through 2004 had been examined and cleared by the tax authorities. However, income tax return of Far EasTron for 2005 had not been examined and cleared by the tax authorities.

22. FACTORING OF NONPERFORMING ACCOUNTS RECEIVABLE

KG Telecom wrote off certain overdue/nonperforming accounts receivables. Under an agreement signed in March 2006, KG Telecom factored these receivables, i.e., sold them without recourse, to an asset management company. Thus, KG Telecom was no longer responsible for collecting these receivables.

Related information as of December 31, 2006 were as follows:

Counter Party	Amount of Accounts Receivables Sold	Proceeds from Sale of Accounts Receivable
Hui Cheng First Asset Management Co., Ltd.	$ 679,069	$ 23,862

23. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31, 2006			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	$ 612,241	$ 2,137,564	$ -	$ 2,749,805
Pension	52,112	155,099	-	207,211
Meal	16,913	79,402	-	96,315
Employee benefit	1,408	71,915	-	73,323
Insurance	52,117	192,016	-	244,133
Miscellaneous	14,487	54,088	-	68,575
	$ 749,278	$ 2,690,084	$ -	$ 3,439,362
Depreciation	$ 10,095,498	$ 1,704,869	$ 17,402	$ 11,817,769
Amortization	$ -	$ 111,013	$ -	$ 111,013

	Year Ended December 31, 2005			
	Operating Costs	Operating Expenses	Nonoperating Expenses and Losses	Total
Employee expenses				
Salaries	$ 518,440	$ 2,148,893	$ -	$ 2,667,333
Pension	30,462	123,464		153,926
Meal	13,876	78,320		92,196
Employee benefit	1,165	74,480		75,645
Insurance	43,843	178,201		222,044
Miscellaneous	21,367	76,739	-	98,106
	$ 629,153	$ 2,680,097	$ -	$ 3,309,250
Depreciation	$ 9,514,939	$ 1,924,807	$ 2,032	$ 11,441,778
Amortization	$ -	$ 966,171	$ -	$ 966,171

24. EARNINGS PER SHARE

The earnings per share (EPS) calculation was as follows:

	Amount (Numerator)		Common Stock (Denominator) (in Thousand Shares)	Earnings Per Share (NT$)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
2006					
Basic EPS					
Net income - Far EasTone	$ 14,586,019	$ 13,156,225	3,872,663	$ 3.77	$ 3.40
2005					
Basic EPS					
Net income - Far EasTone	$ 16,244,364	$ 14,717,402	3,871,066	$ 4.20	$ 3.80
Effect of potential dilutive common stock					
Convertible bonds	2,249	2,038	1,597		
Diluted EPS					
Net income including the effect of potential dilutive common stock - Far EasTone	$ 16,246,613	$ 14,719,440	3,872,663	$ 4.20	$ 3.80

25. FINANCIAL INSTRUMENTS

a. Fair value information

	December 31			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Financial assets at fair value through profit or loss – current	$146,512	$146,512	$216,500	$216,545
Available-for-sale financial assets - current	699,782	699,782	199,956	199,956
Bonds measured at amortized cost - current	3,000	-	3,000	-
Equity-method investments	449,500	-	857,390	-
Financial assets carried at cost - noncurrent	177,137	-	63,517	-
Refundable deposits	404,847	404,599	402,200	401,426
Liabilities				
Bonds payable (including current portion)	5,630,000	5,630,000	8,670,000	8,932,267
Long-term bank loans (including current portion)	133,333	133,333	471,428	471,428
Lease payable (including current portion)	97,518	97,518	134,274	134,274
Guarantee deposits received (including current portion)	1,146,339	1,146,339	1,370,858	1,370,858
Derivative instruments				
Hedging derivative financial liabilities - noncurrent - Far EasTone	(66,158)	(66,158)	-	(91,261)

The Group adopted ROC SFAS No. 34 - "Accounting for Financial Instruments" on January 1, 2006. Thus, some derivatives were not included in the consolidated financial statements in 2005 (Note 4).

b. Methods and assumptions used for estimating the fair values of financial instruments were as follows:

1) Cash and cash equivalents, notes and accounts receivable, accounts and notes receivable from related parties, pledged certificates of deposits, short-term bank loans, commercial paper payable, notes payable, accounts payable, accounts and notes payable to related parties and payables for acquisition of properties, excluded from the financial instruments mentioned in the table above, are recorded at their carrying values because of

the short maturities of these instruments.

2) If quoted market prices are available, these are used as fair values of financial instruments at fair value through profit or loss and available-for-sale financial assets.

   If quoted market prices are not available, the fair value is evaluated by the Group using the same estimates and assumptions used by other market participants (e.g., banks or derivative sellers) to value the derivatives. These estimation and assumptions are available to the Group.

   The Group uses the exchange quotations of the Reuters (or the Associated Press) to calculate fair value of each interest rate swap and forward contract based on the net cash flow and the exchange rate, respectively.

3) The fair values of financial assets carried at cost - noncurrent, bonds measured at amortized cost - current and equity-method investments with no quoted market prices cannot be estimated because related stocks have no active market and a reliable determination of their fair value entails an unreasonably high cost.

4) Fair values of bonds payable, lease payable, long-term bank loans, refundable deposits and guarantee deposits received are measured at the present values of expected cash flows, which are discounted at the interest rates for bank loans with similar maturities.

c. The fair values of financial assets and financial liabilities, which were determined at their quoted prices in an active market or at estimated prices, were as follows:

	December 31			
	Quoted Price		Estimated Price	
	2006	2005	2006	2005
Assets				
Financial assets at fair value through profit or loss - current	$ 146,512	$ 206,573	$ -	$ 9,972
Available-for-sale financial assets - current	699,782	199,956	-	-
Liabilities				
Hedging derivative financial liabilities - Far EasTone	-	-	(66,158)	(91,261)

d. As of December 31, 2006 and 2005, financial assets with fair value risk from interest rate fluctuations amounted to $7,455,537 thousand and $3,732,031 thousand, respectively, while financial liabilities with fair value risk from interest rate fluctuations amounted to $4,203,857 thousand and $7,505,132 thousand, respectively. As of December 31, 2006 and 2005, financial assets with cash flow risk from interest rate fluctuations amounted to $855,109 thousand and $1,360,159 thousand, respectively, while financial liabilities with cash flow risk from interest rate fluctuations amounted to $2,932,289 thousand and $3,487,042 thousand, respectively.

e. Financial risks

1) Market risk

   Far EasTone entered into interest rate swap contracts to hedge the effect of interest rate fluctuations on its obligations with floating interest rates. The contracts are settled at net amounts. Therefore, the market risk is not material.

   ARCOA entered into forward contracts to hedge its exposure to exchange rate fluctuations on firm commitments. Gains or losses on exchange rates fluctuations of the forward contracts are likely to offset the gains or losses on the hedged item. As a result, no significant exposure to market risk is anticipated.

2) Credit risk

The Group is exposed to credit risk on counter-parties default on contracts. The Group's maximum exposure to credit risk is equal to book value. The Group conducts transactions only with selected financial institutions and corporations with good credit ratings. Thus, management does not anticipate any material losses resulting from default on contracts.

3) Liquidity risk

The Group has sufficient operating capital to meet cash flow requirement. Thus, the Group does not have liquidity risk.

Far EasTone entered into interest rate swap to hedge cash flow risk. The interest rate swap contracts are settled at net amounts, and the expected cash demand is not significant. However, Far EasTone also made equity-method investment with no quoted prices in an active market; thus, it might face liquidity risk.

KG Telecom invested in mutual funds that have quoted prices in active markets and can be sold immediately at prices close to their fair values. However, KG Telecom also invested in domestic private fund and equity-method investments with no quoted prices in an active market; thus, these investments could expose KG Telecom to liquidity risks.

ARCOA invested in mutual funds that have quoted prices in an active market and can be sold immediately at prices close to their fair values. However, ARCOA also invested in financial bonds and equity instruments with no quoted prices in an active market; thus, these investments could expose ARCOA to liquidity risks.

4) Cash flow risk from interest rate fluctuations

The Group has short-term and long-term liabilities with floating interest rates. As a result, the effective interest rates on these loans will change as the market interest rates change.

f. Cash flow hedge

The Group used interest rate swap and forward contracts to hedge overall fluctuations on interest rates and exchange rates on their liabilities and firm commitments.

	Designated Hedging Instruments				Expected Year for
		Fair Value		Expected	Realization
	Financial	December 31		Year of	of Gains or
Hedged Items	**Instruments Designated**	**2006**	**2005**	**Cash Flows**	**Losses**
Bonds with floating interest rate	Interest rate swap - Far EasTone	$(66,158)	$(91,261)	2003-2008	2003-2008
Firm commitments	Forward contracts - ARCOA		(900)	2006	2006

Unrealized gains or losses on financial products

In 2006, the changes in unrealized gains and losses on financial products were as follows:

	Year Ended December 31, 2006
Far EasTone	
As adjustments to stockholders' equity	$ (19,999)
Recognized as profit or loss	38,827
	$ 18,828
ARCOA	
As adjustments to stockholders' equity	$ 581
Recognized as profit or loss	319
	$ 900

26. RELATED-PARTY TRANSACTIONS

The Group's related parties and their relationships were as follows:

Related Party	Relationship with the Group
Far Eastern Textile Ltd.	Ultimate parent company
KG Satellite Communication Co., Ltd.	Subsidiary of KG Telecom; dissolved in July 2005
Far Eastern Electronic Toll Collection Co., Ltd. (FETC)	Equity-method investee of Far EasTone
Ding Ding Integrated Marketing Service Co., Ltd. (DDIM)	Equity-method investee of Far EasTone
iScreen Corporation	Equity-method investee of KG Telecom
Far Eastern Technology Developmental Foundation (FETTDF)	Far EasTone's donation is over one third of the foundation's capital
NTT DoCoMo Inc.	Director of Far EasTone
Far Eastern International Leasing Corp. (FEILC)	Supervisor of Far EasTone
Yuang Ding Co.	Same chairman
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern Department Stores Co., Ltd.	Same chairman
Asia Cement Co., Ltd.	Same chairman
Far Eastern International Bank (FEIB)	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
Far Eastern Memorial Hospital	Same chairman
Far Eastern Y.Z. Hsu Science and Technology Memorial Foundation (FETSTMF)	Same chairman
Yuan-Ze University	Same chairman
Far Eastern Apparel Co., Ltd.	Same ultimate parent company
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company

In addition to those mentioned in Notes 12 and 27, the Group's significant transactions with the above parties are summarized as follows:

		2006 Amount	2006 %	2005 Amount	2005 %
During the year					
Operating revenue	a.				
NCIC	b.	$ 608,326	1	$ 993,332	1
Other	o.	65,068	-	85,353	-
		$ 673,394	1	$ 1,078,685	1
Operating costs and expenses					
Cost of telecommunications service					
NCIC	b.	$ 202,986	1	$ 68,096	-
Other	o.	7,474	-	2,456	-
		$ 210,460	1	$ 70,552	-

(Continued)

		2006 Amount	2006 %	2005 Amount	2005 %
Rental					
FETRD	c.	$ 52,221	1	$ 52,405	1
FEILC	d.	36,892	1	44,245	1
Other	o.	28,381	-	24,994	-
		$ 117,494	2	$ 121,644	2
Research and development expense					
FETTDF	e.	$ 14,979	32	$ 11,968	60
Service fee					
FCHRC	f.	$ 53,898	39	$ 55,287	43
Marketing expense					
DDIM	g.	$ 47,521	-	$ 26,093	-
Reductions of employee expenses					
FETC	h.	$ 11,392	-	$ 5,909	-
Nonoperating income and gains					
Other revenue					
FETC	h.	$ 17,894	5	$ 26,782	32
Nonoperating expenses and losses					
Interest expense					
FEIB	i.	$ -	-	$ 128	-
Donation expense (including in nonoprating expenses and losses)					
Yuan-Ze University	j.	$ 16,000	100	$ -	-
FETSTMF	j.	-	-	200,000	100
		$ 16,000	100	$ 200,000	100
Acquisition of properties					
NCIC	k.	$ 2,675	-	$ 55,743	1
FEILC	d.	162	-	44,446	1
Other	o.	76	-	17,057	-
		$ 2,913	-	$ 117,246	2
At end of year					
Accounts and notes receivable from related parties					
FETC	h.	$ 36,074	63	$ 28,431	43
NCIC	l.	11,645	20	31,646	48
NTT DoCoMo Inc.	m.	7,730	14	3,206	5
Other	o.	1,593	3	2,693	4
		$ 57,042	100	$ 65,976	100

(Continued)

		2006		2005	
		Amount	%	Amount	%
Refundable deposits					
DDIM	g.	$ 40,256	10	$ 14,419	4
Other	o.	7,714	2	8,107	2
		$ 47,970	12	$ 22,526	6
Accounts and notes payable to related parties					
NCIC	b.	$ 58,089	46	$ 30,501	25
DDIM	g.	48,868	39	46,540	38
FEILC	d.	6,588	5	9,069	7
FETRD	c.	4,294	3	9,015	7
FETL	n.	55	-	8,229	7
Other	o.	9,135	7	18,706	16
		$ 127,029	100	$ 122,060	100
Unearned revenues					
FETC	h.	$ -	-	$ 17,401	1
Lease payable (including current portion)					
FEILC	d.	$ 96,654	99	$ 132,927	99

Descriptions of transactions with related parties are as follows:

a. Operating revenues (such as service revenue and revenues from sales of cellular phone equipments, accessories and customer service revenues) from related parties were based on normal service rates, selling prices and collection terms.

b. The transactions between Far EasTone, KG Telecom, KGEx.com and NCIC were sales of cellular phone units and accessories and interconnection activities for NCIC's use of Far EasTone's, KG Telecom's and KGEx.com's network. The interconnection fees paid by Far EasTone, KG Telecom and KGEx.com on their use of NCIC's fixed-line network and billing processing costs pertaining to the interconnection services provided by NCIC to Far EasTone, KG Telecom and KGEx.com were included in cost of telecommunications services. 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 accounts and notes payable to related parties.

c. Far EasTone leases from FETRD several parcels of the land and building spaces under contracts with terms from September 2003 to November 2013. The properties are located on Yatung Street and Renai Street in Panchao City, Wuku in Taipei County, and other locations in Taiwan.

d. Under operating lease agreements, Far EasTone rented from FEILC the following: (a) its office spaces in Tainan and Kaohsiung; and (b) the land and mobile switch centers located in Neihu, Taichung and Xinzhu, from November 1999 to June 2004; and (c) vehicles. The contracts will remain valid unless either Far EasTone or FEILC informs the other party to cancel the contracts.

When the contracts expire, Far EasTone is entitled to renew the contracts or to buy the buildings or land at the following prices:

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

Far EasTone, KG Telecom and KGEx.com lease from FEILC computer equipment under capital lease agreement, with annual lease payments of $41,195 thousand (Note 12).

e. FETTDF provides telecommunications technology researches and training programs to Far EasTone and KG Telecom.

f. Far EasTone has contracts with FCHRC for manpower dispatching services. The service charges were based upon the services provided by FCHRC to supply temporary or specific personnel demands.

g. In March 2005, Far EasTone and KG Telecom authorized DDIM to manage the accumulation and redemption of reward points for customers. The related service charges were treated as marketing expense and accounts and notes payable to related parties. Far EasTone and KG Telecom had given DDIM monthly refundable deposits, which were calculated at a fixed percentage of the unused reward points.

h. In June 2005, Far EasTone contracted FETC to implement the trouble ticket system for handling ticket problems or customers' complaints. The fees collected were based on the terms of the related contract and were treated as unearned revenues. Unearned revenues were recognized using the percentage of construction completion method. Moreover, the Group has provided customer telephone service to FETC, and related revenue was recorded as other operating revenue. Moreover, Far EasTone gave FETC advances for its daily operating expenditures, and the repayment for these advances will be collected at various times depending on the cash balances of FETC. Moreover, Far EasTone has provided personnel support for FETC's daily operation, and related charges to FETC were recorded as reductions to related personnel expenses.

i. KG Telecom obtained a syndicated loan from a consortium of banks with interest payable monthly. A portion of the outstanding loans amounting to $34,000 thousand was drawn from FEIB, which was repaid in June 2005. In addition, FEIB provided a $30,600 thousand guarantee for KG Telecom's domestic secured bonds, which was fully repaid on August 4, 2005.

j. Far EasTone and KG Telecom made donation to non-profit organizations for further integration and development of telecommunications business and personnel.

k. Far EasTone bought NCIC's telecommunications network and backbone network facilities.

l. The advances for the construction and joint use of telecommunications network and backbone network facilities between Far EasTone and NCIC were included in accounts and notes receivable from related parties.

m. Far EasTone and KG Telecom provide international roaming services to the customers of NTT DoCoMo Inc. The service revenues are treated as telecommunications service revenues and accounts and notes receivable from related parties.

n. Far EasTone leases from FETL several buildings and parcels of land under contracts with terms from July 1997 to November 2014. The properties are located in Yuantung Street in Chungli city and other locations in Taiwan.

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

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

27. COMMITMENTS AS OF DECEMBER 31, 2006

The Group had the following significant commitments:

a. The Group were under contracts to acquire properties and cellular phone equipment for $891,612 thousand and $552,014 thousand, respectively.

b. The Group's outstanding letters of credit amounted to ￥94,462 thousand (equivalent to $25,892 thousand), US$2,391 thousand (equivalent to $77,941 thousand) and $22,860 thousand.

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

Year	Amount
2007	$ 2,413,911
2008	2,499,351
2009	2,566,010
2010	2,639,092
2011	2,710,720

d. On July 25, 2006, Far EasTone provided a $154,000 thousand guarantee for FETC's bank loan. As of December 31, 2006, FETC had obtained a bank loan of $99,000 thousand under this guarantee.

e. On December 27, 2006, Far EasTone's board of directors had approved to provide financing support to FETC within the amount of $50,000 thousand for their use of participating in the second round bidding for "Private Participation in the Electronic Toll Collection BOT Project" and their daily operations. As of December 31, 2006, Far EasTone had not yet provided any financing to FETC.

28. ASSETS PLEDGED OR MORTGAGED

Assets pledged or mortgaged, i.e., used as collaterals for customs duties, long-term and short-term bank loans and the purchase of inventory, were as follows:

	December 31	
	2006	2005
Financial assets at fair value through profit or loss - current	$ -	$ 10,000
Pledged certificates of deposits - current	53,508	51,506
Pledged certificates of deposits - noncurrent (included in other assets - other)	9,102	1,163
Properties, net	492,108	3,867,038
	$ 554,718	$ 3,929,707

29. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

a. Important transactions and b. information on the Group's investees.

1) Financing provided: Note 27

2) Endorsement/guarantee provided: Schedule A

3) Marketable securities and investments held: Schedule B

4) Marketable securities acquired and disposed of at costs or prices of at least NT$100 million or 20% of the paid-in capital: Schedule C

5) Acquisition of individual real estate at costs of at least NT$100 million or 20% of the paid-in capital: None

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

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

8) Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule E

9) Names, locations, and related information of investees on which Far EasTone exercises significant influence: Schedule F

10) Derivative financial instruments of investees: Note 25

c. Investment in Mainland China:

1) 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 G

2) Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Note 26

d. Additional disclosure for consolidated financial statements:

1) Significant transactions between Far EasTone and its subsidiaries and among subsidiaries: Schedule H

2) Reasons, amounts, number of shares held and subsidiaries' names, which owns Far EasTone's shares: None

30. SEGMENT INFORMATION

a. Industry: Schedule I.

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. A customer accounting for at least 10% of the Group's total operating revenue is as follows:

	2006		2005	
	Amount	**Percentage of Operating Revenue (%)**	**Amount**	**Percentage of Operating Revenue (%)**
Company A	$ 10,637,096	16	$ 11,888,145	17

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
ENDORSEMENT/GUARANTEE PROVIDED
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

No.	Endorser/ Guarantor	Receiving Party		Maximum Guarantee/ Endorsement Amount Allowed for Receiving Party (Note 2)	Maximum Balance for the Year	Ending Balance	Value of Collateral Property, Plant, and Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Total Guarantee/ Endorsement Allowed to Be Provided by the Guarantor/Endorser (Note 2)
		Name	Nature of Relationship						
0	Far EasTone Telecommunications Co., Ltd. ("Far EasTone")	Far Eastern Electronic Toll Collection Co., Ltd. (FETC)	Equity-method investee	$73,926,702	$154,000 (Note 1)	$154,000 (Note 1)	$ -	0.21%	$147,853,404

Note 1: Represents the actual amount of guarantee provided, as of December 31, 2006, FETC had obtained a bank loan of $99,000 thousand under this guarantee.
Note 2: The maximum total guarantee/endorsement amount equals 200% of Far EasTone's net worth, while the limit of guarantee/endorsement amount for each receiving party should not exceed 100% of Far EasTone's net worth.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES HELD
DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Highest Shares/ Units Held During the Year	Note
				Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value		
Far EasTone Telecommunications Co., Ltd.	Stocks								
	KG Telecommunications Co., Ltd.	Equity-method investee	Equity-method investments	1,332,997,916	$36,124,571	100.00	$36,124,571	1,332,997,916	Note A
	ARCOA Communication Co., Ltd.	Equity-method investee	Equity-method investments	79,353,013	1,026,383	59.10	1,026,383	79,353,013	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Equity-method investments	106,650,000	395,686	42.66	395,686	106,650,000	Note A
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Equity-method investments	1,200	134,999	100.00	134,999	1,200	Note A
	Far EasTron Holding Ltd.	Equity-method investee	Equity-method investments	4,486,988	100,542	100.00	100,542	4,486,988	Note A
	E. World (Holdings) Ltd.	Equity-method investee	Equity-method investments	6,014,622	73,717	85.92	73,717	6,014,622	Note A
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Equity-method investments	4,500,000	26,790	15.00	26,790	4,500,000	Note A
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	100,000	642	0.67	642	100,000	Note A
KG Telecommunications Co., Ltd.	Stocks								
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	186,390,714	1,084,619	74.56	1,084,619	260,915,000	Note A
	KGT International Holding Co., Ltd.	Equity-method investee	Equity-method investments	50,000	82,913	100.00	82,913	50,000	Note A
	iScreen	Equity-method investee	Equity-method investments	4,000,00	20,998	40.00	20,998	4,000,000	Note A
	Mutual funds								
	Far Eastern Alliance Taiwan Bond Security Investment Trust Fund	-	Available-for-sale financial assets - current	46,468,833.40	501,752	-	501,752	46,468,833.40	Note B
	JF (Taiwan) European Bond Fund	-	Available-for-sale financial assets - current	20,000,000.00	198,030	-	198,030	20,000,000.00	Note B
	FEA Long-Short Private Placement Fund	-	Financial assets measured at holding cost - noncurrent	10,000,000.00	100,000	-	-	10,000,000.00	Note C
ARCOA Communication Co., Ltd.	Stocks								
	Hi Information Co., Ltd.	Equity-method investee	Equity-method investments	4,975,000	6,026	33.17	6,026	4,975,000	Note D
	THI consultants	-	Financial assets measured at holding cost - noncurrent	1,134,200	13,729	18.29	-	1,134,200	Note C
	Chunghwa Int'l Communication Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,830,901	6,714	4.20	-	2,830,901	Note C
	Taiwan Fixed Network Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	2,100,000	21,000	0.03	-	2,100,000	Note C
	VIBO Telecom Inc.	-	Financial assets measured at holding cost - noncurrent	2,000,000	20,000	0.13	-	2,000,000	Note C
	Web Point Co., Ltd.	-	Financial assets measured at holding cost - noncurrent	160,627	1,618	0.63	-	160,627	Note C
	Mutual funds								
	Capital Income Fund	-	Financial assets at fair value through profit or loss - current	6,145,477.50	91,507	-	91,507	10,334,101.90	Note B
	ABN AMRO Income Fund	-	Financial assets at fair value through profit or loss - current	1,263,463.79	20,002	-	20,002	1,268,568.67	Note B

(Continued)

Holding Company Name	Type and Issuer of Securities	Relationship with the Holding Company	Financial Statement Account	December 31, 2006				Highest Shares/ Units Held During the Year	Note
				Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value		
	Prudential Financial Bond Fund	-	Financial assets at fair value through profit or loss - current	1,368,578.80	$20,001	-	$20,001	1,368,578.80	Note B
	CITC Cash Reserves	-	Financial assets at fair value through profit or loss - current	1,098,619.40	15,002	-	15,002	1,120,850.10	Note B
	<u>Bonds</u>								
	Ta Chong Bank Financial Bonds 93 Series-I	-	Bonds measured at amortized cost - current	3,000,000.00	3,000	-	-	3,000,000.00	Note C
Far Eastern Info Service (Holding) Ltd.	<u>Share certificates</u>								
	Far Eastern Tech-info Ltd. (Shanghai)	Equity-method investee	Equity-method investments	-	US$3,641,000	100.00	US$3,641,000	-	Note A
Far EasTron Holding Ltd.	<u>Stocks</u>								
	Far EasTron Co., Ltd.	Equity-method investee	Equity-method investments	14,900,000	US$3,063,000	99.33	US$3,063,000	14,900,000	Note A
E. World (Holdings) Ltd.	<u>Stocks</u>								
	Yuan Cing Co., Ltd.	Equity-method investee	Equity-method investments	19,349,994	US$1,686,000	99.99	US$1,686,000	19,349,994	Note A
	Ideaculture (Cayman) Ltd.	-	Financial assets measured at holding cost - noncurrent	1,195,141	US$431,000	17.96	-	1,195,141	Note D
KGT International Holding Co., Ltd.	<u>Stocks</u>								
	KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	11,465,000	66,490	4.59	66,490	16,051,000	Note A

Note A: Calculation was based on audited financial statements as of December 31, 2006.
Note B: The market values of open-ended mutual funds were calculated at their net asset values as of December 31, 2006 while that of bonds was based on cost.
Note C: Calculation was based on cost because the security did not have a quoted price in an active market.
Note D: Calculation was based on the most current financial statements.
Note E: Carrying value of available-for-sale financial assets - current and financial assets at fair value through profit or loss - current were equal to market values as of December 31, 2006.

(Concluded)

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
YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Related Party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs	Gain or Loss	Share/Units	Amount
KG Telecommunications Co., Ltd.	FEA Long-Short Private Placement Fund	Financial assets measured at holding cost - noncurrent	-	-	-	$-	10,000,000.00	$100,000	-	$-	$-	$-	10,000,000.00	$100,000
	FEA Taiwan - Bond Security Investment Trust Fund	Available-for-sale financial assets - current	-	-	-	-	46,468,833.40	500,000	-	-	-	-	46,468,833.40	500,000
ARCOA Communication Co., Ltd.	Capital Income Fund	Financial assets at fair value through profit or loss - current	-	-	10,334,101.90	151,500	24,723,665.80	366,000	28,912,290.20	427,492	426,000	1,492	6,145,477.50	91,500
	CITC Cash Reserves	Financial assets measured at holding cost - noncurrent	-	-	1,729,340.90	20,000	7,748,879.60	90,000	9,478,220.50	110,177	110,000	177	-	-
	Fuhwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	1,584,836.29	20,000	14,169,410.86	180,000	15,754,247.15	200,391	200,000	391	-	-
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,862,319.11	170,000	12,862,319.11	170,459	170,000	459	-	-
	Jih Sun Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	11,079,318.13	150,000	11,079,318.13	150,294	150,000	294	-	-

Note: Except for the disposal price, other amounts were their respective investment costs.

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
YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars)

Purchaser (Seller) of Goods	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Notes/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	Telecommunications service revenues	$(2,794,346)	(6%)	Based on agreement	-	-	Accounts receivable $276,073	5%
			Cost of telecommunications service	1,562,707	8%	Based on agreement	-	-	Accounts payable (43,960)	(6%)
	ARCOA Communication Co., Ltd.	Subsidiary	Marketing expenses and cost of sales	727,404	3%	Based on agreement			Accounts payable and accrual expense (229,938)	(6%)
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	Telecommunications service revenues	(238,039)	(1%)	Based on agreement	-	-	Accounts receivable 41,828	1%
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(464,900)	(1%)	Based on agreement	-	-	Accounts receivable (Note) -	-
									Accounts payable (Note) (14,081)	(2%)
	Far Eastern Tech-info Ltd. (Shanghai)	Subsidiary of Far Eastern Info Service (Holding) Ltd.	Service fee	115,510	55%	Based on agreement	-	-	Accrual expense (2,280)	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications service revenues	(1,562,707)	(6%)	Based on agreement	-	-	Accounts receivable 43,960	2%
			Cost of telecommunications service	2,794,346	24%	Based on agreement	-	-	Accounts payable (276,073)	(52%)
	New Century InfoComm Tech Co., Ltd.	Same chairman	Telecommunications service revenues	(135,218)	(1%)	Based on agreement	-	-	Accounts receivable 6,843	-
	ARCOA Communication Co., Ltd.	Same parent company	Marketing expenses and cost of sales	194,308	5%	Based on agreement	-	-	Accounts payable and accrual expense (37,450)	(2%)
	KGEx.com Co., Ltd.	Subsidiary company	Telecommunications service revenues	(141,202)	(1%)	Based on agreement	-	-	Accounts receivable 19,508	1%
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue and sales	(727,404)	(11%)	Based on agreement	-	-	Accounts receivable 229,938	61%
	KG Telecommunications Co., Ltd.	Same parent company	Commission revenue and sales	(208,960)	(5%)	Based on agreement	-	-	Accounts receivable 37,450	10%
KGEx.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Cost of telecommunications service	238,039	23%	Based on agreement	-	-	Accounts payable (41,828)	(29%)
	KG Telecommunications Co., Ltd.	Parent company	Cost of telecommunications service	141,202	14%	Based on agreement	-	-	Accounts payable (19,508)	(13%)
	New Century InfoComm Tech Co., Ltd.	Same chairman of ultimate parent company	Cost of telecommunications service	$167,071	16%	Based on agreement	-	-	Accounts payable ($15,294)	(10%)
Far Eastern Tech-info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Service revenues	(115,510)	(69%)	Based on agreement	-	-	Accounts receivable 2,280	4%

Note: All interconnect revenues, costs and collection of international direct dial revenues between Far EasTone and NCIC were settled at net amounts and were included in payables to related parties.

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, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Year	Allowance for Bad Debts
					Amount	Action Taken		
Far EasTone Telecommunications	KG Telecommunications Co., Ltd.	Subsidiary	$ 604,1	(Note A)	$	-	$ 32,364	$ -
Co., Ltd.	ARCOA Communication Co., Ltd.	Subsidiary	112,7	13.28		-	-	-
KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	1,464,2	(Note B)		-	460,908	-
ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	Parent company	229,9	4.44		-	182	-

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

Note B: The turnover rate is unavailable as the receivables from related parties were mainly due to collection of telecommunications bills by Far EasTone.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH FAR EASTONE EXERCISES SIGNIFICANT INFLUENCE
YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investor Company	Investee Company	Location	Main Businesses and Products	Investment Amount		Balance as of December 31, 2006			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				December 31, 2006	December 31, 2005	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	Type I telecommunications services	$29,629,139	$29,629,139	1,332,997,916	100.00	$36,124,571	$5,568,497	$5,568,404	Notes A and B
	ARCOA Communication Co., Ltd.	Taiwan	Type II telecommunications services, manufacture and sale of communications products and office equipment	1,278,944	1,278,944	79,353,013	59.10	1,026,383	(245,260)	(144,937)	Notes A and B
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	1,066,500	1,066,500	106,650,000	42.66	395,686	(982,928)	(393,410)	Notes B and C
	Far Eastern Info Service (Holding) Ltd.	Bermuda	Investment	92,616	92,616	1,200	100.00	134,999	(9,169)	(9,169)	Notes A and B
	Far EasTron Holding Ltd.	Cayman Islands	Investment	150,000	150,000	4,486,988	100.00	100,542	(42,749)	(42,749)	Notes A and B
	E. World (Holdings) Ltd.	Cayman Islands	Investment	82,883	82,883	6,014,622	85.92	73,717	8,397	7,215	Notes A and B
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	26,790	(5,935)	(890)	Notes B and C
	Far EasTron Co., Ltd.	Taiwan	Internet service	1,000	1,000	100,000	0.67	642	(42,812)	(286)	Notes B and D
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	2,197,794	2,197,652	186,390,714	74.56	1,084,619	(192,174)		Notes B and D
	KGT International Holding Co., Ltd.	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	82,913	(7,897)		Notes B and D
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	20,998	250		Notes B and E
ARCOA Communication Co., Ltd.	Hi Information Co., Ltd.	Taiwan	Information service	53,065	53,065	4,975,000	33.17	6,026	11,250		Notes E and F
Far EasTron Holding Ltd.	Far EasTron Co., Ltd.	Taiwan	Internet service	US$4,532,000	US$4,532,000	14,900,000	99.33	US$ 3,063,000	(42,812)		Notes B and D
Far Eastern Info Service (Holding) Ltd.	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer service providing	US$2,500,000	US$2,500,000	-	100.00	US$3,641,000	(8,811)		Notes B and D
E. World (Holdings) Ltd.	Yuan Cing Co., Ltd.	Taiwan	Call center services	193,500	193,500	19,349,994	99.99	US$1,686,000	8,371		Notes B and D
KGT International Holding Co., Ltd.	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services	US$4,822,000	US$4,822,000	11,465,000	4.59	66,490	(192,174)		Notes B and D

Notes:
- A. Subsidiary.
- B. Calculation based on audited financial statements as of December 31, 2006.
- C. Equity-method investee of Far EasTone.
- D. Subsidiary of KG Telecom, E. World (Holdings), Far Eastern Info Service (Holding), or Far EasTron Holding.
- E. Equity-method investee of KG Telecom or ARCOA.
- F. Calculation was based on the most current financial statements.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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, 2006	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note A)	Carrying Value as of December 31, 2006 (Note A)	Accumulated Inward Remittance of Earnings as of December 31, 2006	Accumulated Investment in Mainland China as of December 31, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
					Outflow	Inflow								
Far Eastern Tech-info Ltd. (Shanghai)	Computer software, data processing and network information providing services	$81,488 (US$2,500,000)	Note B	$92,616	$ -	$ -	$92,616	100%	$(8,811)	$118,678 (US$3,641,000)	$ -	$92,616	$92,616	$16,285,340 (Note C)

Note A: Calculation based on audited financial statements as of December 31, 2006.
Note B: Far EasTone made the investment through a company registered in a third region.
Note C: Based on the limit stated in the Principles Governing the Review of Investment or Technical Corporation in Mainland China, which was issued by the ROC Investment Commission on March 1, 2004.
Note D: Please refer to Note 18 for significant transactions with the investee company.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
ELIMINATED SIGNIFICANT INTERCOMPANY TRANSACTIONS
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
	Year ended December 31, 2006						
0	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	1	Accounts and notes receivable from related parties	$604,162	Note D	1%
				Inventories	22,534	Note D	-
				Prepaid expenses	12,040	Note D	-
				Accounts and notes payable to related parties	1,464,120	Note D	2%
				Unearned revenues	8,867	Note D	-
				Telecommunications services revenue	2,794,346	Note D	4%
				Cost of telecommunications services	1,562,707	Note D	2%
				Marketing expenses	183,755	Note D	-
				Nonoperating income and gains	253,408	Note D	-
				Management service revenue	123,314	Note D	-
		ARCOA Communication Co., Ltd.	1	Accounts and notes receivable from related parties	112,718	Note D	-
				Accounts and notes payable to related parties	229,938	Note D	-
				Unearned revenues	173,342	Note D	-
				Sales of cellular phone equipment and accessories, net	62,791	Note D	-
				Telecommunications service revenue	7,565	Note D	-
				Cost of sales	262,341	Note D	-
				Other operating costs	2,718	Note D	-
				Marketing expenses	465,063	Note D	1%
				Nonoperating income and gains	1,438	Note D	-
		KGEx.com Co., Ltd.	1	Accounts and notes receivable from related parties	46,345	Note D	-
				Accounts and notes payable to related parties	18,161	Note D	-
				Telecommunications services revenue	238,039	Note D	-
				Cost of telecommunications services	4,104	Note D	-
				General and administrative expenses	728	Note D	-
				Management service revenue	7,500	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	1	Accounts and notes payable to related parties	2,280	Note D	-
				General and administrative expenses	115,510	Note D	-
		Far EasTron Co., Ltd.	1	Accounts and notes receivable from related parties	1,409	Note D	-
		Yuan Cing co., Ltd.	1	Accounts and notes receivable from related parties	1,961	Note D	-
				Accounts and notes payable to related parties	1,272	Note D	-
				Management service revenue	1,088	Note D	-
		Far Eastern Info Service (Holding) Ltd.	1	Accounts and notes receivable from related parties	1,136	Note D	-

(Continued)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	$1,464,120	Note D	2%
				Inventories	20,907	Note D	-
				Prepaid Expenses	5,676	Note D	-
				Accounts and notes payable to related parties	604,162	Note D	1%
				Unearned Revenues	16,858	Note D	-
				Telecommunications services revenue	1,562,707	Note D	2%
				Cost of telecommunications services	2,827,393	Note D	4%
				Marketing expenses	290,821	Note D	-
				General and administrative expenses	50,667	Note D	-
				Research and development expenses	2,187	Note D	-
				Nonoperating income and gains	183,755	Note D	-
		ARCOA Communication Co., Ltd.	3	Accounts and notes receivable from related parties	42	Note D	-
				Accounts and notes payable to related parties	37,450	Note D	-
				Unearned revenue	1,442	Note D	-
				Sales of cellular phone equipment and accessories, net	9,103	Note D	-
				Cost of sales	74,237	Note D	-
				Other operating costs	1,071	Note D	-
				Marketing expenses	120,071	Note D	-
		KGEx.com Co., Ltd.	3	Accounts and notes receivable from related parties	22,565	Note D	-
				Accounts and notes payable to related parties	2,424	Note D	-
				Telecommunications service revenue	141,202	Note D	-
				Cost of telecommunications services	1,002	Note D	-
				General and administrative expenses	20,749	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	3	Accounts and notes payable to related parties	13,249	Note D	-
				General and administrative expenses	52,053	Note D	-
2	ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	229,938	Note D	-
				Inventories	173,342	Note D	-
				Accounts and notes payable to related parties	112,718	Note D	-
				Sales of cellular phone equipment and accessories, net	834,849	Note D	1%
				Other operating revenues	390,230	Note D	1%
				Cost of sales	604,338	Note D	1%
				Cost of telecommunications services	8,153	Note D	-
				Nonoperating income and gains	45,740	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	37,450	Note D	-
				Inventories	1,442	Note D	-
				Accounts and notes payable to related parties	42	Note D	-
				Sales of cellular phone equipment and accessories, net	127,470	Note D	-
				Other operating revenues	117,851	Note D	-
				Cost of sales	60,014	Note D	-
				Nonoperating income and gains	969	Note D	-

(Continued)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details			
				Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
3	KGEx.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	$18,161	Note D	-
				Accounts and notes payable to related parties	46,345	Note D	-
				Telecommunications service revenue	4,832	Note D	-
				Cost of telecommunications services	238,039	Note D	-
				General and administrative expenses	7,500	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	2,424	Note D	-
				Accounts and notes payable to related parties	22,565	Note D	-
				Cost of telecommunications services	141,202	Note D	-
				Telecommunications service revenue	21,751	Note D	-
		Far EasTron Co., Ltd.	3	Accounts and notes receivable from related parties	323	Note D	-
				Telecommunications service revenue	3,328	Note D	-
4	Far Eastern Tech-Info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	2,280	Note D	-
				Other operating revenues	115,510	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	13,249	Note D	-
				Other operating revenues	52,053	Note D	-
5	Far EasTron Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes payable to related parties	1,409	Note D	-
		KGEx.com Co., Ltd.	3	Accounts and notes payable to related parties	323	Note D	-
				Other operating costs	3,328	Note D	-
		Yuan Cing Co., Ltd.	3	General and administrative expenses	1,771	Note D	-
6	Yuan Cing Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	1,272	Note D	-
				Accounts and notes payable to related parties	1,961	Note D	-
				General and administrative expenses	1,088	Note D	-
		Far EasTron Co., Ltd.	3	Other operating revenues	1,771	Note D	-
7	Far Eastern Info Service (Holding) Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes payable to related parties	1,136	Note D	-
	<u>Year ended December 31, 2005</u>						
0	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	1	Accounts and notes receivable from related parties	611,732	Note D	1%
				Accounts and notes payable to related parties	503,615	Note D	1%
				Telecommunications services revenue	2,520,762	Note D	4%
				Cost of telecommunications services	1,206,382	Note D	2%
				Marketing expenses	155,371	Note D	-
				Nonoperating income and gains	290,712	Note D	-
				Management service revenue	125,489	Note D	-
				Accounts and notes receivable from related parties	8,488		
		ARCOA Communication Co., Ltd.	1	Refundable deposits	20	Note D	-
				Accounts and notes payable to related parties	168,308	Note D	-
				Sales of cellular phone equipment and accessories, net	99,517	Note D	-
				Cost of sales	19,845	Note D	-
				Marketing expenses	466,927	Note D	1%

(Continued)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details: Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
		KGEX.com Co., Ltd.	1	Accounts and notes receivable from related parties	$46,435	Note D	-
				Accounts and notes payable to related parties	477	Note D	-
				Telecommunications services revenue	177,702	Note D	-
				Cost of telecommunications services	1,446	Note D	-
				General and administrative expenses	185	Note D	-
				Management service revenue	7,500	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	1	Accounts and notes payable to related parties	4,459	Note D	-
				General and administrative expenses	148,268	Note D	-
		Far EasTron Co., Ltd.	1	Accounts and notes receivable from related parties	37,975	Note D	-
				Accounts and notes payable to related parties	163	Note D	-
		Yuan Cing co., Ltd.	1	Accounts and notes receivable from related parties	4,067	Note D	-
				Accounts and notes payable to related parties	23,070	Note D	-
		Far Eastern Info Service (Holding) Ltd.	1	Accounts and notes receivable from related parties	664	Note D	-
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	503,615	Note D	1%
				Accounts and notes payable to related parties	611,732	Note D	1%
				Telecommunications services revenue	1,206,382	Note D	2%
				Cost of telecommunications services	2,552,018	Note D	4%
				Marketing expenses	326,110	Note D	-
				General and administrative expenses	54,584	Note D	-
				Research and development expenses	4,251	Note D	-
				Nonoperating income and gains	155,371	Note D	-
		ARCOA Communication Co., Ltd.	3	Accounts and notes payable to related parties	65,467	Note D	-
				Sales of cellular phone equipment and accessories, net	37,678	Note D	-
				Cost of sales	7,149	Note D	-
				Marketing expenses	267,554	Note D	-
		KGEX.com Co., Ltd.	3	Accounts and notes receivable from related parties	28,045	Note D	-
				Accounts and notes payable to related parties	1,481	Note D	-
				Telecommunications services revenue	172,563	Note D	-
				General and administrative expenses	8,481	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	3	Accounts and notes payable to related parties	13,424	Note D	-
				General and administrative expenses	34,521	Note D	-
		Far EasTron Co., Ltd.	3	Accounts and notes receivable from related parties	10	Note D	-
				Accounts and notes payable to related parties	70	Note D	-
2	ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	168,308	Note D	-
				Accrual expense	8,488	Note D	-
				Guarantee deposits received	20	Note D	-
				Sales of cellular phone equipment and accessories, net	19,845	Note D	-
				Other revenues	466,927	Note D	1%
				Cost of sales	99,517	Note D	-

(Continued)

Number (Note A)	Company Name	Counter Party	Nature of Relationship (Note B)	Transaction Details: Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	$65,467	Note D	-
				Sales of cellular phone equipment and accessories, net	7,149	Note D	-
				Other revenues	267,554	Note D	-
				Cost of sales	37,678	Note D	-
3	KGEX.com Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	477	Note D	-
				Accounts and notes payable to related parties	46,435	Note D	-
				Telecommunications services revenue	1,446	Note D	-
				Other operating revenues	185	Note D	-
				Cost of telecommunications services	177,702	Note D	-
				General and administrative expenses	7,500	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	1,481	Note D	-
				Accounts and notes payable to related parties	28,045	Note D	-
				Cost of telecommunications services	172,563	Note D	-
				Other operating revenues	8,481	Note D	-
		Far EasTron Co., Ltd.	3	Other operating revenues	1,745	Note D	-
				Accounts and notes receivable from related parties	486	Note D	-
				Accounts and notes payable to related parties	584	Note D	-
		Yuan Cing Co., Ltd.	3	General and administrative expenses	584	Note D	-
4	Far Eastern Tech-Info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	4,459	Note D	-
				Other operating revenues	148,268	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	13,424	Note D	-
				Other operating revenues	34,521	Note D	-
5	Far EasTron Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	163	Note D	-
				Accounts and notes payable to related parties	37,975	Note D	-
		KG Telecommunications Co., Ltd.	3	Accounts and notes receivable from related parties	70	Note D	-
				Accounts and notes payable to related parties	10	Note D	-
		KGEx.com Co., Ltd.	3	Accounts and notes receivable from related parties	584	Note D	-
				Accounts and notes payable to related parties	486	Note D	-
				Other operating costs	1,745	Note D	-
		Yuan Cing Co., Ltd.	3	Accounts and notes payable to related parties	1,690	Note D	-
				General and administrative expenses	1,753	Note D	-
6	Yuan Cing Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes receivable from related parties	23,070	Note D	-
				Accounts and notes payable to related parties	4,067	Note D	-
		KGEx.com Co., Ltd.	3	Other operating revenues	584	Note D	-
		Far EasTron Co., Ltd.	3	Accounts and notes receivable from related parties	1,690	Note D	-
				Other operating revenues	1,753	Note D	-
7	Far Eastern Info Service (Holding) Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Accounts and notes payable to related parties	664	Note D	-

Note A: Significant transactions between parent company and its subsidiaries or among subsidiaries are numbered as follows:
1. "0" for Far EasTone Telecommunications Co., Ltd. ("Far EasTone").
2. Subsidiaries are numbered from "1."

Note B: Related-party transactions are divided into three categories as follows:
1. Far EasTone to its subsidiaries.
2. Subsidiaries to its parent company, Far EasTone.
3. Among Far EasTone's subsidiaries.

Note C: For assets and liabilities, amount is shown as a percentage to the consolidated total assets as of December 31, 2006 and 2005; while revenues, costs and expenses are shown as a percentage to the consolidated total operating revenues for the years ended December 31, 2006 and 2005.

Note D: Payment terms varied depending on the related agreements.

Note E: Information show in the schedule is equivalent to the eliminated material intercompany transactions.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES
SEGMENT INFORMATION
YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	Years Ended December 31							
	2006				2005			
	Telecommunications Services	Sales	Adjustment and Eliminations	Combined	Telecommunications Services	Sales	Adjustment and Eliminations	Combined
Revenues generated from un-affiliates	$60,472,386	$6,754,578	$-	$67,226,964	$63,544,142	$8,368,029	$-	$71,912,171
Revenues generated from the Group (Note B)	-	-	-	-	-	-	-	-
Total revenues	$60,472,386	$6,754,578	$-	$67,226,964	$63,544,142	$8,368,029	$-	$71,912,171
Segment operating income (loss) (Note C)	$23,563,543	$(1,817,763)	$-	$21,745,780	$27,101,627	$(1,838,077)	$-	$25,263,550
Interest revenue				82,422				63,360
Other revenue				448,119				160,790
Equity in investees' net losses				(394,160)				(243,426)
Interest expense				(104,363)				(279,457)
Other expense				(481,318)				(370,788)
General and administrative expense (Note D)				(5,168,164)				(6,737,323)
Income before income tax				$16,128,316				$17,856,706
Identifiable assets (Note E)	$73,566,877	$1,505,003	$-	$75,071,880	$81,209,830	$2,182,857	$-	$83,392,687
Financial products				849,294				419,456
Long-term investment				626,637				920,907
Assets not identifiable to a specified segment				17,331,108				14,690,932
Total assets				$93,878,919				$99,423,982
Depreciation expense	$11,769,525	$30,842			$11,415,124	$24,622		
Amortization expense	$62,138	$48,875			$923,321	$42,850		
Capital expenditure	$5,403,105	$31,227			$5,490,776	$17,513		

Notes:
A. The Group is distinguished into telecommunications services business and sales business.
B. Represents sales between segments.
C. Represents revenue minus costs and operating expenses. Costs and operating expenses are related to revenue of segments except general and administrative expense.
D. Represents general and administrative expenses of the Group.
E. Represents tangible and intangible assets which can be separately allocated to each segment. However, those assets do not include:
  a. Assets not for use by any specific segment.
  b. Advances or loans to another segment.
  c. Mutual funds and long-term investments.

7.Impact of the financial distress occurred to the Company and affiliates in the recent years until the Annual Report being Published:

None

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

1. Financial Condition
2. Operating Performance
3. Cash Flow
4. Key Performance Indicator, KPI
5. Major Capital Expenditure and Sources of Capital Analysis
6. Investment Policies, Reasons for Profit/Loss, Plans for Improvement, and 2006 Investment Plan
7. Risk Management
8. Others

1. Financial Condition

Financial Condition Review and Analysis

Unit: NTD'000

Item \ Year	December 31, 2006	December 31, 2005	Variance Amount	Variance %
Current Assets	$ 9,363,567	$ 8,679,748	683,819	8
Investments in Shares of Stock	37,883,330	37,532,567	350,763	1
Fixed Assets	32,927,648	36,360,999	(3,433,351)	(9)
Intangible Assets	8,768,479	9,499,186	(730,707)	(8)
Other Assets	843,013	951,211	(108,198)	(11)
Total Assets	89,786,037	93,023,711	(3,237,674)	(3)
Current Liabilities	12,748,687	13,502,181	(753,494)	(6)
Long -term Liabilities	2,764,398	5,977,100	(3,212,702)	(54)
Other Liabilities	346,250	324,328	21,922	7
Total Liabilities	15,859,335	19,803,609	(3,944,274)	(20)
Capital Stocks	38,726,630	38,726,630	-	-
Capital Surplus	15,003,956	15,003,956	-	-
Retained Earnings	20,240,948	19,487,348	753,600	4
Other Shareholders' Equity Item	(44,832)	2,168	(47,000)	(2,168)
Total Shareholders' Equity	73,926,702	73,220,102	706,600	1

1-1 Analysis of variation plus and minus 20%

1. The decrease in long-term liabilities was due to repayment of the corporate bones during the term of the contract.
2. The decrease in stockholders' equity was due to the Company adopted the ROC Statements of Financial Accounting Standards No. 34-"Accounting for Financial Instruments" and No 36-"Disclosure and Presentation of Financial Instruments" to recognize unrealized loss on cash flow hedge.

1-2 Effect of change in financial condition: None

1-3 Future response actions: Not applicable

2. Operating Performances

Operating Performance Analysis

Unit: NTD '000; %

Item \ Year	2006 Subtotal	2006 Total	2005 Subtotal	2005 Total	Variance Amount	Variance (%)
Operating Revenue		$ 43,207,517		$ 43,149,676	$ 57,841	-
Operating Costs and Expenses		33,803,786		31,764,351	2,039,435	6
Operating Income		9,403,731		11,385,325	(1,981,594)	(17)
Non-Operating Income and Gains						
Equity in investor's net gains	$ 4,984,178		$ 4,524,170		460,008	10
Commission revenue	253,408		290,712		(37,304)	(13)
Management service revenue	131,902		139,709		(7,807)	(6)
Interest income	30,803		35,366		(4,563)	(13)
Other	150,356		58,730		91,626	156
Total non-Operating income and gain		5,550,647		5,048,687	501,960	10
Non-Operating Expenses and Losses						
Interest	93,081		176,102		(83,021)	(47)
Loss on disposal of properties, and prosperities not currently used in operations , net	250,046		2,402		247,644	10,310
Other	25,232		11,144		14,088	126
Total non-operating expenses and losses		368,359		189,648	178,711	94
Income Before Income Tax Expense		14,586,019		16,244,364	(1,658,345)	(10)
Income tax expense		1,429,794		1,526,962	(97,168)	(6)
Net Income		$ 13,156,225		$ 14,717,402	($ 1,561,177)	(11)

2-1 Analysis of variation

(1) The increase in operating costs and expenses is a result of the increase in depreciation of the establishment of 3rd-generation base stations in 2006 and in amortization of 3G concession. The increase in the relevant water and electricity expenses is a result of the increase in the number of base stations.

(2) The increase in investment income recognized under the equity method is a result of the increase in profit gained in 2005 due to the good operation of subsidiary, KG Telecommunications Co., Ltd.

(3) The decrease in commission income is a result of the decrease in the commission income collected for sale of mobile phone numbers of KT Telecommunications Co., Ltd. on a consignment basis in 2006.

(4) The increase in other income is a result of the increase in detail bill income in 2006 and in payable accounts overdue for two years translated into income.

(5) The decrease in interest expenses is a result of repayment of matured debentures and no new loans.

(6) The increase in net loss on disposal of fixed and idle assets is a result of the increase in loss caused by relocation of base stations resulting from integration of base stations and tear-down of stations under site protests in 2006.

(7) The increase in other loss is a result of the donation to the relevant non-profit enterprises in order to train high-tech telecommunication talents and feedback to society in 2006.

(8) The decrease in income tax is a result of the decrease in income before tax in 2006.

2-2 Estimated sale volume for following year and the grounds thereof, and the potential effect upon the Company's future business and the response actions: Please refer to the "**letter to shareholders**".

3. Cash Flow

3-1 2006 Cash Flow Analysis

Unit: NT$ '000

Cash and cash equivalents in the beginning of 2006 (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 equivalent	
				Investment Plan	Financing Plan
2,436,827	22,000,166	(21,370,936)	3,066,057	-	-

(1) Cash inflow from operating activities: primarily because the effect of the growth in 3rd-generation subscribers did not achieve what the Company expected in 2006, and the high commission and subsidy policy led to the decrease in gross profit; the limits of pre-paid cards sale channels also led to the decrease in the number of users of pre-paid cards and failure to transfer the users to the post-paid card users in whole, the cash inflow from operating activities decreased.

(2) Cash outflow from investing activities: primarily because there was no important re-investment and capital expenditure plans in 2006, the cash outflow was not materially different from that in the previous year.

(3) Cash outflow from financing activities: primarily because there was no long-term loan or debentures in 2006 but the repayment of loans pursuant to contracts, and there were more idle funds in 2005 enough to repay the higher-interest bank loan or debentures earlier, the cash outflow from financial activities decreased.

3-2 Correction actions against insufficient liquidity: not applicable

3-3 2007 Estimated Cash Flow Analysis

Unit: NT$ '000

Cash and cash equivalents in the beginning	Total cash flows from operating activities)	Total cash outflows	Balance of cash and cash equivalents	Remedies for negative balance of cash and cash equivalent	
				Investment Plan	Financing Plan
3,095,929	22,332,440	22,571,016	2,857,353	0	0

(1) Cash flows from operating activities: Due to market stability, no significant changes are expected in net cash provided by operating activities in 2007.

(2) Cash flows from investing activities: The net cash used in investing activities in 2007 is expected to increase due to capital expenditure on network expansion, integration of subsidiaries, and 3G network constructions.

(3) Cash flows from financing activities: No asset disposal plan or funding plan due to adequate cash to replay bank loan or corporate bond due within one year.

4. Key Performance Indicator，KPI

Unit: NT$

KPI	Definition	Goal in 2006	Achievement in 2006	KPI Achievement ratio
ARPU	Customer's average monthly revenue (Unit: NT$)	$826	$802	97%
EBITDA	Earning before interest, taxes, depreciation and amortization (Unit: $1,000)	$18,419,517	$18,123,050	98%

5. Major Capital Expenditure and Sources of Capital Analysis

5-1 Major Capital Expenditure and Sources of Capital Analysis

Unit: NT$ '000

Plan Item	Actual or Estimated Source of Capital	Actual or Estimated Fund Utilization Schedule	Total Capital Needed
Network Expansion: including 2G system expansion and upgrade, 3G system installation and expansion	working capital	2007	5,402,822

5-2 Expected Benefit: In the case of 2006, the total value-added services revenue is increased by 10% than that of 2005 (including 2G &3G).

6. Investment Policies, Reasons for Profit/Loss, Plans for Improvement, and 2007 Investment Plan

Unit: NT$'000

Explanation / Item	Amount*	Polices	Reasons for Profit/Loss	Plans for Improvement	2007 Investment Plans
KG Telecommunications Co., Ltd. (the "new KGT")	$36,124,571	Acquisition of KGT for the purpose of market share increase and enhance operational efficiency	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 2006.	None	No concrete investment plans at present
Far Eastern Electronic Toll Collection Co, Ltd.	$395,686	The Company announced on August 11, 2006 that it would donate all shares of Far Eastern Electronic Toll Collection Co., Ltd. to the Government without condition. However, because Far Eastern Electronic Toll Collection Co., Ltd. is participating in the 2nd-stage selection of the highway electronic toll collection project, the Government has not yet responded to the announcement for donation.	Since the services were not provided formally until February 2006, the business still makes a loss now.	None	No concrete investment plans at present
ARCOA Communications Co.,	$1,026,383	Strategic investment for	Under loss due to the aggressive competition in	Scheduled to exploit the	No concrete investment

Ltd.		vertical integration of mobile business and telecommunication service	the market and channels for sale of handsets	existing equipments and resources of parent company and subsidiaries to integrate and develop the logistic business and outsourcing direct sale of mobile phones	plans at present
Far Eastern Info Service (Holding) Ltd.	$134,999	Resource integration and efficiency improvement for the purposes of offering competitive information service and moreover lowering group operational cost	The profit gained by the reinvested company, Far Eastern Tech-Info (Shanghai) Ltd., was good in 2006. The loss of Holding is a result of the recognition of the reinvested company's payable tax in 2005 as the expenses in 2006. The reinvested company recognized the payable tax as the adjustment in the previous period pursuant to the local laws and, therefore, the income in 2006 was not affected.	None	No concrete investment plans at present
E.World (Holdings) Ltd.	$73,717	Diversified investment strategies to provide the group with logistic service	The invested company Yuan Cing Co., Ltd. made good profit in 2006.	None	No concrete investment plans at present
Far EasTron Holding Ltd.	$100,542	Incorporating off-shore holding companies to invoice in the international digital contents industry	Far Eastron Co., Ltd. is the only reinvestment company, which is still under net loss due to starting period reaching.	Scheduled to be integrated into the reinvested digital contents industry holding company	No concrete investment plans at present
Far EasTron Co.,Ltd.	$642	Provide peripheral services of digital contents	Incorporated in September 2005, and still under a loss now.	The on-line shopping business is starting to grow.	No concrete investment plan present
Ding Ding Integrated Marketing Service Co., Ltd.	$26,790	For future business development	Because it is still under development of business, it still makes a loss due to high operating expenses.	Its operation is economic scale. The operating loss is expecting to be improved.	No concrete investment plans at present

* Note: Carrying Value as of December 31, 2006.

7 Risk Management

7-1 Impact of Interest Rate and Exchange Rate Fluctuation and Inflation on the Company in the Recent Year

7-1-1 Interest Rate Analyses

Interest rate fluctuation is closely linked with liabilities on floating interest rate. According to the Company's 2006 financial structure, corporate bonds with fixed interest rate and floating interest rate are roughly the same. The company adopted interest rate swap to hedge interest rate risk. Losses on the swap contracts in 2006 and Q1 2007 were NT$38,827 thousand and NT$10,301 thousand respectively. The losses were booked as add-on interest expense.

7-1-2 Exchange Rate Analyses

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 2006 and Q1 2007 are as follows:

Unit: NT$'000

Item \ Year	2006	2007 (as of March 31)
Foreign Exchange Gains (Losses) (A)	1,283	1
Operating Revenue (B)	43,207,517	10,854,366
% of operating revenue (A)/(B)	0.003	0.00
Operating Income (C)	9,403,731	2,251,516
% of Operating Income (A)/(C)	0.01	0.00

As shown in the above table the foreign exchange gains/losses account for a small percentage of operating revenue (0.003% in 2006 and 0.00% in Q1 2007) and operating income (0.01% in 2006 and 0.00% in Q1 2007).

B. Countermeasures for exchange rate fluctuation

The Company used financial instruments like spot and forward to hedge foreign exchange rate risks according to foreign currency position and exchange rate movement.

7-1-3 Inflation Analyses

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

7-2 Policies for High Risk or High Leveraged Investments, Lending, Endorsement, Derivative Financial Instruments, and Related for Gains or Losses in the Recent Year

1. **High risks or high leveraged investment:** This Company did not engage in high-risk and high-leverage investment in 2006.
2. **Loan to other:** According to "Procedure for loaning to others" of the Company, the Company's board of directors had approved to provide financial support to FETC within the amount of $50,000 thousand for its use of participating in the second round bidding for "Private Participation in the Electronic Toll Collection BOT Project" on December 27, 2006. FETC had obtained the entire funding from the company on February 9, 2007.
3. **Endorsements and guarantees provided:** In the Company 2nd Meeting of the fourth term Board of Directors dated on May 26, 2006, a discussion proposal to provide endorsements / guarantees to FETC for its bank facility application is duly approved with under wealth condition: "before Dec. 31, 2006 end and within $500,000 thousand the chairman is authorized to approve". For efficiency needs, on July 11, 2006, the Company's Chairman has approved to provide $154,000 thousand guarantee/ endorsements and the proposal has been ratified in the 3rd Meeting of the fourth tern Board of Directors dated on Aug. 22, 2006. As of April 30, 2007, the balance of guarantee was $99,000 thousand.
4. **Derivative financial instruments:** The Company's derivative transactions in 2006 were for purposes non-trading on April 30, 2007. The interest rate swap contract was signed in order to prevent the risk of fluctuation of interest rate for the liability accruing based on floating interest rate. This Company's hedging strategies are to avoid the most cash flow risk. Therefore, the purpose of the derivative transactions is for hedging and no substantial earning/ loss exists.

7-3 R&D Plans and Estimated Expenses in the Recent Year

The Company's telecommunications R&D program is focused on key technologies. The Company to establish a technology development team to serve as the foundation of future the Company technologies integrates to the resources of the Far Eastern group. This approach allows for the Far Eastern group to combine their resources and effort in order to achieve the best progress. The results will be fully utilized by the Company to create business value.

This year's R&D focus is still on two axes: (1) Evaluation and optimization of new systems to meet the demand of 3G network operations. (2) Examination of advanced technologies for use in future network models and services. Listed below are the topic areas covered by the Company R&D program:

A. Advanced Technologies R&D

This effort is primarily aimed at future the Company operational requirements and telecommunications technology. Government and academic research effort are combined to boost the Company's R&D output, creating new value-added services as well as new technologies to ensure communications quality and system reliability. Future R&D into new technologies include:

(1) Mobile Data Platform Integration: To expand data services that originally supported only mobile phones into an integrated service for different types of front-end equipment and applications. This is intended to enable customers' access to the Company network and our wide range of services no matter where they are or what equipment they may be using. So far the complete phases of the project offer users the ability to connect using their PC at home or their mobile phone to access the customized portal of mobile internet platform when in a car or outside. A range of customized services is also available to the user in different environments including online shops, personal websites, blogs and online games.

(2) Research and Development in to Electronic Toll Collection and Associated Support Systems: Research into electronic toll collection associated systems and the Intelligent Transport system (ITS) applications completed the prototype stage at the end of the 2006. Changes in government policies however have impacted on the schedule for further research and development. At this point the setting of further objectives and future research direction will depend on the government's eventual policy.

(3) Research into Interactive Digital Video Broadcasting: The Company will collaborate with existing wireless

broadcasters to develop a two-way interactive platform in order to determine a viable commercial model. This will facilitate the development of a new integrated wireless radio and telecommunications business area that will provide users with an easier-to-use portable lifestyle information service.

(4) Research into Broadband Related Systems and Services Projects: The Company is currently conducting research into integrating wireless broadband networking with the Company network. This involved analyzing the rules and studying the strategies for the integration of voice, data and WiMAX modes with dual networks. The Company not only completed phase 1 of the R&D project in 2006 but also won the contract for the phase 2 as expected. With Taipei County's Baciao City and Jhonghe City as the main axis, the Company will develop a "Taipei County Twin Cities Mobile Broadband Network". This will combine wireless networking and mobile communications for subscribers in Taipei County to provide full-scale mobile lifestyle services.

(5) Research into Remote Health Care and Assisted GPS (AGPS) Personal on location security and store location search Applications: The Company will integrate the medical operations and technical R&D capability of the Far Eastern Group to carry out research and development into network infrastructure, user terminal equipment and service platforms. These include the service platform architecture, industry survey, situation analysis, payment mechanism (including rate plans and technology), potential business partners and service application process.

In addition, preliminary research into next-generation mobile communications networks and related technologies will be conducted. The goal is to examine the Company's strategic direction and assess the risks associated with Beyond 3G mobile communications technology. Analysis and research of existing potential competing technologies will be conducted as well, so the technical issues with the rollout of next generation networks can be identified, and examined. And solutions to technological bottlenecks can be developed.

B. FET Internal Development Plan

This part involves the expansion of FET's existing value-added services and development of related applications (multimedia services such as data, commerce and entertainment), together with the extending of services into other related industries. Future development trends will be assessed as well, thus promoting the development and application of new services. The goal is become a leading provider for the full spectrum of services such as digital communications, information, entertainment and commercial services. These missions are currently the responsibility of the Business Development Division's product development team, the terminal device evaluation and validation team, technology evaluation and support team along with the Company Telecommunications Laboratory.

The Company expects a high rate of growth in 3G network coverage and digital services. In response, the Company will continue moving towards becoming a provider of mobile multimedia and broadband wireless communications network services, thus maintaining its market leadership in mobile data services. Apart from continuing to promote new types of 3G services, it will seek to develop interoperability with international mobile communications standards. The new generation of WCDMA network systems based n HSDPA/HSUPA technology will be used to build faster broadband networks. IP Multimedia Subsystem (IMS) architecture based IP networks will host the development of services such as Voice over IP (VoIP), Mobile Presence Service, Push to Talk (PoC).

The Company plans to begin testing the HSDPA/HSUPA functions in the middle of 2006, with the IMS system to be completed before the end of the year to provide services such as VoIP, PoC and Mobile Presence. The maturity of the system provider's products and mobile phones will directly affect the quality of service.

C. Technology Exchange

The Company's tradition of excellence continues with the organizing of the Unlimited Communications Conference and publishing of the "FET Journal". Through these technology exchanges the Company can maintain its position as a technology leader. International exchange activities will also be held this year (Japan, China) together with Yuan Ze University, the Oriental Institute of Technology and New Century InfoComm Tech, so contact can be developed with international academic units (such as the Beijing University of Posts and Telecommunications); the Company will also participate in international telecommunications organizations or associations (GSMA, WiMAX Forum, GCF, OMA......) and attend international symposiums. These will establish the Company's reputation in the international telecommunications industry, prepare us for the globalization of the communications market in the future and secure the company a position of influence.

D. Participation in Major Government Technology Programs and Economic Development Projects

When the Company began operations, this was also when the National Science and Technology Program for Telecommunications (NTP) Office was established and began promoting the first phase of technology R&D. Based on a memorandum of understanding signed between the two parties, we have cooperated closely over the past five years on various R&D projects and achieved the expected goals. In 2007 the Company went on to take part in the Industrial Development Bureau of Ministry of Economic Affairs' M-Taiwan Phase II project. With Taipei County's Banciao City and Jhonghe City as the main axis, this project will see the creation of the "Taipei County Twin Cities Mobile Broadband Network" incorporating 3G/WiFi/WiMAX (World Interoperability for Microwave Access) communication technologies. This will provide the area with full-scale mobile lifestyle services. As a 2-year major construction project, phased roll-out of local network infrastructure will get under way in 2008. This project will also integrate the IMS (IP Multimedia Subsystem) in order to provide a greater range of communications and value-added multimedia services. At the same time, the mobile network and Wimax network will be integrated using the Company experimental network. This will establish an Interoperability Test Lab in the Taipei Digital Communications Park, providing associated companies with the best testing platform and experimental capability. These will assist the government in achieving its important mission of stimulating upgrades to the communications industry.

E. The projected R&D funding for 2006 is estimated at around NT$369,131,000.

7-4 Material Changes of Policies and Regulations in Taiwan and Foreign Countries and Impact on the Company in the Recent Year

(1) The National Communications Commission was established on March 1, 2006. According to the Communications Act, within two years of the NCC's establishment the government is required to complete all necessary revisions to national communications and broadcasting related laws (including the Telecommunications Act) so that they conform to the spirit of the Communications act. Accordingly the supervisory agency at the central government level for mobile communications has now changed from the Ministry of Transportation and the Directorate-General of Telecommunications to the NCC. As for the regulation of Taiwan's communications/broadcasting resources and the provision of industry guidance/incentives, these will still be handled in accordance with the law by the Executive Yuan's subordinate units.

The company will continue to work more closely with the NCC and pay close attention to developments in the division of responsibility between the NCC and Executive Yuan agencies. The Company will also track further industry policy and regulatory developments in order to formulate the relevant planning and responses.

(2) In response to the global trends in wireless broadband technologies and developments in the communications industry, the Ministry of Transportation has been reviewing proposals from the public and the relevant government departments. It agreed to permit Wimax businesses and this was approved by the Executive Yuan and officially announced on February 13, 2007. The NCC is then responsible for the formulation of the regulatory and licensing regime. The Wimax business as announced by the Executive Yuan takes the form of a two-stage licensing format in order to take into account the needs of communications industry development, consumer rights and development of telecommunications services. Northern Taiwan and southern Taiwan are each expected to have 3 licenses made available at the end of June 2007, resulting in a total of 6 regional licenses. These licenses will be valid for 6 years and may only be renewed once. Licenses from phase 1 may also be combined and be used to apply for a Taiwan-wide license. After June 2009 depending on the level of consolidation at least 1 more Taiwan-wide license will be made available and be valid for 10 years.

On November 7, 2005 and December 5, 2006 the company was granted by the Ministry of Economic Affairs' Industrial Development Bureau review committee to receive subsidies amounting to NT$247.2 million and NT$404.972 million respectively for undertaking two phases of the "FET M-Taiwan Project". As the business opportunities offered by Wimax technology provides synergies with the existing 3G business, the company is currently actively considering applying for a Wimax license with the supervisory agency. This will enable us to continue the development of Wimax technology in a manner that is in the public interest, satisfies market demand and promotes free market competition. Consumers will have a range of services to choose from and enjoy better quality communications services, creating a win-win outcome for consumers, the general public, the telecommunications industry and the telecommunications equipment industry.

(3) Article 26, Paragraph 1 of the Communications Act stated that "Price controls over Type 1 telecommunication businesses shall take the form of limits on price increases". In paragraph 3 of the same article, article 5 of Regulations Governing Delegation of Authority for the Price Regulation of Type 1 Telecommunications Businesses stated that: "The adjustment coefficient X is to be set by the Directorate-General of Telecommunications and announced at regular intervals". On December 21, 2006 the NCC approved and announced the value of the adjustment coefficients for communications businesses. In this announcement, the NCC directed that 3 service items in 2G must drop the rates – these being fixed to mobile , pre-paid services and the highest per-minute rate of post-paid services. Starting from April 1, 2007 there will be 3 consecutive years of rate decreases amounting to 4.88% each year. However, 2G mobile operators may provide detailed market data during the applicable period of the X coefficient value to the NCC for consideration.

In recent years the company has strived to increase operating efficiency, upgrade the technology and decrease service costs in order to provide promotions and discounts to the customers. These efforts helped the rationalization of telecommunications fees, improve the nation and telecommunications industry's competitiveness as well as protect consumer rights. Since the NCC's calculation method for determining the price controls is not entirely clear, no complete policy impact analysis was conducted and the impact of new technologies such as IP telephony was not taken into account, to safeguard the future development of the telecommunications industry and protect consumer rights the Company filed an appeal with the NCC on January 25, 2007. The submission included the relevant supporting materials and recommended that the NCC initiate a review of fees and costs immediately. The review should include a complete market impact analysis and the use of a reasonable calculation methodology in order to confirm that the benefits of the price controls outweigh the costs before they are implemented. Only by allowing telecommunications rates to be decided through competition in the market and living up to the spirit of telecommunications liberalization can consumer rights be protected.

7-5 Technology Development and Impact on the Company in the Recent Year

The development of WLAN and 3G technologies 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.

The building of metropolitan WLAN (Wireless Local Area Network) is now proceeding rapidly ahead. In concert with the rise of mobile business applications, the advanced Wimax technology is also beginning to make a difference. With the growing maturity and standardization of VoIP applications, operators whose business model relies on the use traditional telephony circuits to provide basic voice services will experience serious upheavals. Current trends in the development of communications technology suggest that the boundaries between Telecom and Datacom will become blurred. This means that how to quickly develop and offer different kinds of value added applications, integrate dissimilar networks, expand wireless broadband service coverage and optimize network performance will all become key issues in future the Company development.

3G mobile communications technology emphasize applications with high mobility and coverage, while WLAN/WiMAX technology currently offers Hotspot/Nomadic based stationary wireless Internet services. This means the two are in serving different market segments, and can even be mutually complementary. Based on this development, the Company is emphasizing the integrated utilization of its advantages in operating GSM/GPRS and 3G with its experience in providing Internet services. In response to market demands, it will gradually incorporate WLAN/WiMAX in order to supplement the Company's services in mobile communications. This will create an integrated service that is both diverse and capable of meeting different requirements for service and bandwidth.

7-6 Changes of Corporate Image and Impact on the Company's Crisis Management in the Recent Year: None.

7-7 Expected Benefits and Risks from Mergers in the Recent Year:

In order to further integrate telecommunications businesses and pursue higher operating efficiency, the Company has merged its subsidiary Yuan-Ze Telecommunications in 2005. The potential risk from merger includes negative impact on profitability due to amortization of 3G license fee and depreciation of 3G equipment. 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.

7-8 Expected Benefits and Risks from Plant Expansion in the Recent Year: not applicable.

7-9 Risks from Concentration in Supply and Sales in the Recent Year:

The Company's major supplier and customer in 2006 was Chunghwa Telecommunications, which accounts for 12.29% of the total amount of supply and 15.40% of the total amount of sales. Therefore there are no situations of concentration in supply and sales.

7-10 Impact and Risks from Changes in Directors, Supervisors and Shareholders with Greater than 10% Shareholding or Their Selling of a Large Number of Shares in the Recent Year: None.

7-11 Impact and Risks from Change of Ownership in the Recent Year: None.

7-12 Major Lawsuits and Disputes in the Recent Year until the Annual Report being Published:

A. Litigations, non-litigations or administrative actions in Recent Years that may result in major impacts on shareholders' equity or stock price of the Company are disclosed as follows:

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

From December 2001 to March 2004, when Chunghwa Telecommunciations (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 Soon Corn 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. The Company lost in 1st instance, and filed an appeal on May 16, 2005. The appeal is now pending examination in Taiwan High Court under the case (94)Chung-Shang-Tze No. 253.

(2) Breach of trust by employees

During the 2004 yearend 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 to make profit. The Company has requested investigation from Taipei District Prosecutors Office at the end of November 2004. Criminal Section: The Prosecutors' Bureau of the Taipei District Court completed their investigations and indicted six people involved in the case (Lin Chi-ru, Cheng Mi-ling, Lin Shao-hua, Chen Shu-ping, Hu Ch-huang and Wang Shou-hsin). This case is pending examination in 1st instance and on record as Taipei District Court 2006 Su No. 84. Civil Section: This case is pending examination by the Shihlin District Court and on record as Shihlin District Court 2005 Su No.644.

(3) Far EasTone Telecommunications vs. Panasonic Taiwan Co., Ltd "I-style" logo infringed trademark rights

The company discovered in December 2004 that Panasonic Taiwan Co., Ltd. and Matsushita Electric (Taiwan) Co., Ltd. used a logo substantially identical or confusingly similar to "I-style", a logo owned by the company, in their television commercials and product advertisements and by doing so allegedly infringed the company's trademark rights. After the negotiations between the company and the defendants, the defendants merely agreed to stop using the aforementioned logo and to modify their commercials and product advertisements, but objected to the company damage compensation claims. The company hence filed an lawsuit in Taiwan Banciao District Court in August 2005 claiming a compensation of NTD16,164,000 by the defendants. In February 2006, the court ruled against the company in this case. As a result, the company appealed the case to Taiwan High Court, but the court dismissed the company appeal on April 25, 2007.

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:

From December 2001 to March 2004, when Chunghwa Telecommunciations (hereinafter referred to as CHT) and KGT were in an interconnection agreement, without permission of KGT, CHT transferred the traffic of low-tier wireless service (CT2) from SoonCom Telecom and Hsin-Guo Telecom to the network of KGT, and KGT could not collect airtime charge for the traffic. Therefore KGT claimed a NT$66,660,287 payment plus interest from CHT. The Company lost in 1st instance, and filed an appeal on May 16, 2005. The appeal is now pending examination in Taiwan High Court under the case (94)Chung-Shang-Tze No. 253.

7-13 Other Major Risks: None

8. Other

None

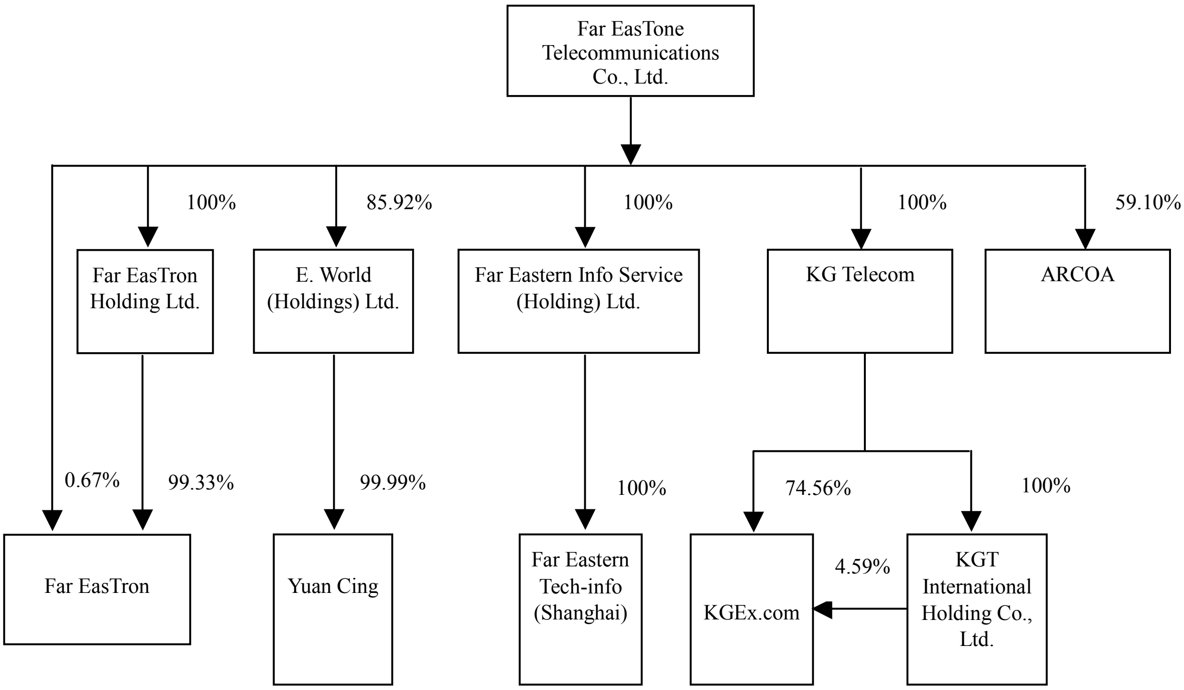
VIII Special Notes

1. Affiliates Information
2. Private Placement Securities
3. The Company's Shares Held or Disposed by Subsidiaries
4. Other Supplementary Information
5. Material Event Impact on Shareholders' Equity or Share Price

1. Affiliates

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 Thousands of New Taiwan Dollars, Unless Stated Otherwise.

Company	Date of Incorporation	Address	Common Stock Issued	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.	$ 38,726,630	Wireless telecommunications service, leased circuit service, ISR and internet services and sale of cellular phone quipments and accessories.
KG Telecommunications Co., Ltd.	September 25, 2003	28th Floor, 207 Tun-Hwa S. Rd., Sec. 2, Taipei City, Taiwan, R.O.C.	13,329,979	2G wireless telecommunications service, leased circuit service and sale of cellular phone quipments and accessories.
Far Eastern Info Service (Holding) Ltd. (British Bermuda Islands)	July 17, 2002	Clarendon House 2, Church Street Hamilton HM 11, Bermuda	US$ 12,000	International investments
E. World (Holdings) Ltd. (British Cayman Islands)	April 7, 2000	4th Floor, One Capital Place, P.O. Box 847, Grand Cayman, Cayman Islands	US$ 7,000,000	International investments
KGT International Holding Co., Ltd. (British Virgin Islands)	January 6, 2000	P. O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands.	US$ 50,000	International investments
KGEx.com Co., Ltd.	August 9, 2000	11th Floor, No. 113, Sec. 2, Jhongshan N. Rd., Taipei, Taiwan, R.O.C.	2,500,000	Type II telecommunications service
Far Eastern Tech-info Ltd. (Shanghai)	November 18, 2002	3rd Floor, Building No. 23, Pudong Software District, No.	RMB 20,675,000	Computer software, data processing and internet

		498, Guoshoujing Rd., Jhangjiang High Tech District, Pudong Sin Section, Shanghai, P.R.C.		content providing services
Yuan Cing Co., Ltd.	August 5, 2000	28th Floor, No. 207, Section 2, Tun-Hwa S. Rd., Taipei, Taiwan, R.O.C.	193,500	Customer service
ARCOA Communication Co., Ltd.	May 4, 1981	36th Floor, 207 Tun-Hwa S. Rd., Sec. 2, Taipei, Taiwan, R.O.C.	1,342,800	Type II telecommunications service, sale of cellular phone units and other telecommunications equipments or accessories and provides related maintenance services.
Far EasTron Holding Ltd. (British Cayman Islands)	August 30, 2005	Marguee Place, Suite 300, 430 West Bay Road, P.O. Box 30691 SMB, Grand Cayman, Cayman Islands, British West Indies.	US$ 4,486,988	International investments
Far EasTron Co., Ltd.	August 12, 2005	28th Floor, 207 Tun-Hwa S. Rd., Sec. 2, Taipei, Taiwan, R.O.C.	150,000	Internet content providing services

3. Companies presumed to have a relationship of control and subordination with Far EasTone under Article 369-3 of the R.O.C. Company Law: None.

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

   Far EasTone and its subsidiaries and affiliates provide wireless telecommunications service, International Simple Resale (ISR) service, leased circuit service, internet service, sale of cellular phone equipments and accessories, international investments, computer software, customer service and internet content providing services.

   The mutual dealings and division of work among such affiliates:

   a. Transactions between Far EasTone and KG Telecom consist of the interconnection and roaming activities for KG Telecom's use of Far EasTone's network and vice versa. Far EasTone also collects bills for KG Telecom.

   b. Far EasTone and KG Telecom collect the international direct dialing revenue for KGEx.com through call-by-call selection service and route the traffic through KGEx.com's telecommunication facilities.

   c. Far EasTone and KG Telecom purchase from/sale to ARCOA cellular phone equipments and accessories, and pay to ARCOA handset subsidies and commissions due to its promotion of Far EasTone and KG Telecom's SIM card numbers.

   d. ARCOA and KGEx.com provide mobile virtual network operator services through Far EasTone's telecimmunications facilities.

   e. Far Eastern Tech-info Ltd. (Shanghai) provides data processing and related consulting services to Far EasTone and KG Telecom.

5. Directors, supervisors, and general manager of Far EasTone and affiliates:

2006/12/31 Unit: Number of Shares; %

Company	Title	Name of Representative	Registered Shares Owned	
			Shares	% of Owner-ship
Far EasTone Telecommunications Co.,Ltd.	Chairman	Yuan Ding Investment Co., Ltd. Douglas Hsu	1,320,197,849	34.09
	Managing Director	Yuan Ding Investment Co., Ltd. Champion Lee	1,320,197,849	34.09
	Managing Director	Yuan Ding Co. Peter Hsu	5,153,148	0.13
	Director	Yuan Ding Investment Co., Ltd. Jan Nilsson	1,320,197,849	34.09
	Director	Yuan Ding Co. Johnny J. Shih	5,153,148	0.13
	Director	Yue Ding Industry Co., Ltd. S.T. Peng	1,037,115	0.03
	Director	NTT DoCoMo Inc. Yuji Yamamoto	190,040,265	4.91
	Independent Director	Kurt Roland Hellström	-	-
	Independent Director	Lawrence Juen-Yee Lau	-	-
	Supervisor	Far Eastern International Leasing Co., Ltd. Eli Hong	32,985,723	0.85
	Supervisor	Asia Investment Corporation Morton Huang	1,059,844	0.03
	Independent Supervisor	Chen-en Ko	-	-
	President	Jan Nilsson	96,000	-
KG Telecommunications Co., Ltd.	Chairman	Far EasTone Telecommunications Co., Ltd. Douglas Hsu	1,332,997,916	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Jan Nilsson	1,332,997,916	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Champion Lee	1,332,997,916	100.00
	Supervisor	Far EasTone Telecommunications Co., Ltd. Charles Wang	1,332,997,916	100.00
	President	Jan Nilsson	-	-
Far Eastern Info Service (Holding) Ltd. (British Bermuda Islands)	Chairman	Far EasTone Telecommunications Co., Ltd. Champion Lee	1,200	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Philby Chen	1,200	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Yvonne Li	1,200	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Eli Hong	1,200	100.00
	Director	Far EasTone Telecommunications Co., Ltd. Jay Shy	1,200	100.00
E. World (Holdings) Ltd. (British Cayman Islands)	Chairman	Far EasTone Telecommunications Co., Ltd. Douglas Hsu	6,014,622	85.92
	Director	Far EasTone Telecommunications Co., Ltd. Laurence Yang (Note)	6,014,622	85.92
	Director	Far EasTone Telecommunications Co., Ltd. Champion Lee	6,014,622	85.92
	Director	Far EasTone Telecommunications Co., Ltd. Jordan M. Roderick	6,014,622	85.92
	Director	Far EasTone Telecommunications Co., Ltd. Joseph O'Konek	6,014,622	85.92
KGT International Holding Co., Ltd. (British Virgin Islands)	Chairman	KG Telecommunications Co., Ltd. Leslie Koo Proxy: Yvonne Li	50,000	100.00

(Continued)

Company	Title	Name of Representative	Registered Shares Owned: Shares	Registered Shares Owned: % of Ownership
KGEx.com Co., Ltd.	Chairman	KG Telecommunications Co., Ltd. Champion Lee	186,390,714	74.56
	Director	KG Telecommunications Co., Ltd. Jay Shy	186,390,714	74.56
	Director	KG Telecommunications Co., Ltd. Jan Nilsson	186,390,714	74.56
	Director	KG Telecommunications Co., Ltd. Jessica Chen	186,390,714	74.56
	Director	Cathay Life Insurance Co., Ltd. Jenho Chang	12,500,000	5.00
	Supervisor	KG Telecommunications Co., Ltd. Yvonne Li	186,390,714	74.56
	President	Jay Shy	-	-
Far Eastern Tech-info Ltd. (Shanghai)	Chairman	Far Eastern Info Service (Holding) Ltd. Champion Lee	-	100.00
	Director	Far Eastern Info Service (Holding) Ltd. Yvonne Li	-	100.00
	Director	Far Eastern Info Service (Holding) Ltd. Philby Chen	-	100.00
	Director	Far Eastern Info Service (Holding) Ltd. Jay Shy	-	100.00
	Director	Far Eastern Info Service (Holding) Ltd. Eli Hong	-	100.00
Yuan Cing Co., Ltd.	Chairman	E. World (Holdings) Ltd. Jan Nilsson	19,349,994	99.99
	Director	E. World (Holdings) Ltd. Phiby Chen	19,349,994	99.99
	Director	E. World (Holdings) Ltd. Jessica Chen	19,349,994	99.99
	Supervisor	E. World (Holdings) Ltd. Yvonne Li	19,349,994	99.99
ARCOA Communication Co., Ltd.	Chairman	Far EasTone Telecommunications Co., Ltd. Philby Chen	79,353,013	59.10
	Director	Wan-Shih-Shin Co., Ltd. Gary Lin	98,325	0.07
	Director	Far EasTone Telecommunications Co., Ltd. C. S. Tu	79,353,013	59.10
	Director	Far EasTone Telecommunications Co., Ltd. Jay Shy	79,353,013	59.10
	Director	Far EasTone Telecommunications Co., Ltd. Guang-Ruey Chiang	79,353,013	59.10
	Director	Far EasTone Telecommunications Co., Ltd. Jessica Chen	79,353,013	59.10
	Director	Taiwan Incubator SME Development Co. Chen-Chia Lee	1,122,979	0.84
	Supervisor	Far EasTone Telecommunications Co., Ltd. Francies Chen	79,353,013	59.10
	Supervisor	Far EasTone Telecommunications Co., Ltd. David Tsai	79,353,013	59.10
	Supervisor	Far EasTone Telecommunications Co., Ltd. Sharon Lin	79,353,013	59.10
Far EasTron Co., Ltd.	Chairman	Far EasTone Telecommunications Co., Ltd. Jan Nilsson	100,000	0.67
	Director	Far EasTone Telecommunications Co., Ltd. Jay Shy	100,000	0.67
	Director	Far EasTone Telecommunications Co., Ltd. Jessica Chen	100,000	0.67
	Supervisor	Far EasTone Telecommunications Co., Ltd. Yvonne Li	100,000	0.67
	President	Jay Shy	-	-
Far EasTron Holding Ltd. (British Cayman Islands)	Chairman	Far EasTone Telecommunications Co., Ltd. Jan Nilsson	4,486,988	100.00

Note: Yuan Ding Investment Co., Ltd. has not yet appointed another individual to replace Laurence Yang who passed away on April 7, 2005.

6. Operation overview of Far EasTone and affiliates in 2006:

Unit: In Thousands of New Taiwan Dollars, Unless Stated Otherwise.

Company	Common Stock Issued	Total Assets	Total Liabilities	Total Stockholders' Equity	Total Operating Revenue	Operating Income (Loss)	Net Income (Loss)	Basic Earnings Per Share (NT$)
Far EasTone Telecommunications Co., Ltd.	$ 38,726,630	$ 89,786,037	$ 15,859,335	$ 73,926,702	$ 43,207,517	$ 9,403,731	$ 13,156,225	$ 3.40
KG Telecommunications Co., Ltd.	13,329,979	40,980,544	4,855,973	36,124,571	24,940,975	7,101,448	5,568,497	4.18
E. World (Holdings) Ltd. (British Cayman Islands)	US$ 7,000,000	US$ 2,400,408	US$ 2,150	US$ 2,398,258	-	-	US$ 258,128	US$ 0.04
Far Eastern Info Service (Holding) Ltd. (British Bermuda Islands)	US$ 12,000	US$ 3,648,798	US$ 37,019	US$ 3,611,779	-	-	US$ (281,878)	US$ (23.49)
KGT International Holding Co., Ltd. (British Virgin Islands)	US$ 50,000	US$ 2,538,436	US$ 2,148	US$ 2,536,288	-	-	US$ (242,739)	US$ (4.85)
KGEx.com Co., Ltd.	2,500,000	1,896,743	446,889	1,449,854	1,015,753	(174,158)	(192,174)	(0.77)
Yuan Cing Co., Ltd.	193,500	61,441	6,480	54,961	23,976	8,453	8,371	0.43
Far Eastern Tech-info Ltd. (Shanghai)	RMB20,675,000	RMB38,837,247	RMB10,415,124	RMB28,422,123	RMB41,268,137	RMB2,064,698	RMB(2,158,956)	N/A
ARCOA Communication Co., Ltd.	1,342,800	1,894,449	550,216	1,344,233	4,380,724	(276,486)	(245,260)	(1.83)
Far EasTron Holding Ltd. (British Cayman Islands)	US$ 4,486,988	US$ 3,084,870	US$ 2,160	US$ 3,082,710	-	-	US$(1,314,197)	US$ (0.29)
Far EasTron Co., Ltd.	150,000	106,342	10,027	96,315	1,959	(43,796)	(42,812)	(2.85)

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

February 6, 2007

We hereby declare that the consolidated financial statements of affiliated enterprises as of and for the year ended 2006 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 consol dated 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 2006 dated February 6, 2007 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, 2006 ("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 2006 Affiliation Report and the Criteria and the Notes for the year ended December 31, 2006.

February 6, 2007

(2) Declaration for the Affiliation Report of the Company

DECLARATION FOR THE AFFILIATION REPORT OF

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

February 6, 2007

We hereby declare that the Affiliation Report of 2006 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, 2006.

Very truly yours,

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

By

DOUGLAS HSU

Chairman

A. The relationship between the subordinate company and the parent company: Schedule A.

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

C. Property transactions between the subordinate company and the parent company: None.

D. Financing between the subordinate company and the parent company: None.

E. Asset leasing between the subordinate company and the parent company: Schedule B.

F. Endorsements and guarantees between the subordinate company and the parent company: None.

SCHEDULE A

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

THE RELATIONSHIP BETWEEN THE SUBORDINATE COMPANY AND THE PARENT COMPANY
DECEMBER 31, 2006
(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.	Indirect control over the management of the personnel, financial or business operation of Far EasTone	1,320,197,849	34.09	122,800,000	Chairman Managing Director Director	Douglas Hsu Champion Lee Jan Nilsson
Far Eastern Textile Co., Ltd.	Indirect control over the management of the personnel, financial or business operation of Far EasTone	-	-	-	-	-
Yuan Tong Investment Co., Ltd.	Indirect control over the management of the personnel, financial or business operation of Far EasTone	117,150,440	3.02	30,300,000	-	-
An Ho Garment Co., Ltd.	Indirect control over the management of the personnel, financial or business operation of Far EasTone	108,833,700	2.81	37,850,000	-	-
Kai Yuan International Investment Co., Ltd.	Indirect control over the management of the personnel, financial or business operation of Far EasTone	112,657,603	2.91	94,800,000	-	-

SCHEDULE B

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

ASSET LEASING BETWEEN THE SUBORDINATE COMPANY AND THE PARENT COMPANY
FOR THE YEAR ENDED DECEMBER 31, 2006
(Unit: NT$'000)

Transaction	Target Asset		Period	Type	Rental Terms	Payment Method	Comparison with Ordinary Leasing Price Level	Rental for This Period	Other Special Stipulations
	Name	Location Lease							
Far Eastern Textile Co., Ltd.									
Leasing	BTS1522	No. 180, Tu-Ti-Kung-Pu, Wen-Shan Li, Hsin-Pu Town, Hsin-Chu County	1997.07.15-2012.07.14	Operating	Same as normal leasing	Bank remittance annually	Same	$ 237	None
Leasing	BTS5341	No. 3, King-Chen 6th Rd., Kuan-Ying, Industrial Area, Kuan-Yin Township, Tao-Yuan County	2004.11.15-2014.11.14	Operating	Same as normal leasing	Bank remittance monthly	Same	194	None
Leasing	Nei-Li MSC	No. 759, Yuan-Tung Section, Nei-Li Township, Tao-Yuan Country	2002.05.01-2007.04.30	Operating	Same as normal leasing	Bank remittance monthly	Same	2,565	None
Leasing	BTS1588	No. 2, Alley 266, Desing Rd., Hu-Kuo, Hsin-Chu County	2000.11.15-2015.11.14	Operating	Same as normal leasing	Bank remittance monthly	Same	190	None
Leasing	BTS1355	No. 252, Jhongshan Rd., Sec. 1, Guanyin Township, Taoyuan Country	2002.06.15-2006.06.14	Operating	Same as normal leasing	Bank remittance annually	Same	131	None
Leasing	BTS1722	No. 100, Yushih Section, Jiaosi Township, Yilan Country	2003.04.15-2006.02.15	Operating	Same as normal leasing	Bank remittance annually	Same	36	None
Leasing	BTS1200	No. 1 and 3, Lane 81, Yuandong Rd., Jhongli City, Taoyuan Country	2002.11.15-2007.11.14	Operating	Same as normal leasing	Bank remittance annually	Same	335	None
								$ 3,688	

2. Private Placement Securities in Recent Years until the Annual Report being Published

None.

3. The Company's Shares Held or Disposed by Subsidiaries in Recent Years until the Annual Report being Published

None

4. Other Supplementary Information

None

5. Material Event Impact on Shareholders' Equity or Share Price in Recent Years until the Annual Report being Published

5-1. The term of office of 3rd term directors and supervisors expired and the general shareholders' meeting reelected in 2006. The Company still maintains two seats independent directors and one independent supervisor, while no major impact seen on shareholders' equity and share price.

5-2. The original intention behind the Company's investment into FETC was to create the first intelligent transportation system in Taiwan and to maximize national economic efficiency. Nevertheless, since the foundation of the FETC, it has been under political attack and suffered from untruthful media accusation. The company was, therefore, affected by increasing operating risks and negative corporate reputation. Consequently, on August 11, 2006, the Company announced a proposal to withdraw from FETC by unconditionally donating its FETC shareholding to the Government, so that the Government will be able to plan the future for ETC operation on a brand new basis and further enhance domestic transportation efficiency and national competitiveness. The Company's board of directors approved this proposal on August 22, 2006. The donation will be made depending on the Government's response.