Far EasTone Telecommunications Co., Ltd.

Financial Statements for the Six Months Ended June 30, 2004 and 2003
Together with Independent Auditors' Report

Readers are advised that the original version of these financial statements is in Chinese. If there is any conflict between these financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese-language financial statements shall prevail.

<u>English Translation of a Report Originally Issued in Chinese</u>

INDEPENDENT AUDITORS' REPORT

July 30, 2004

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 June 30, 2004 and 2003, and the related statements of income, changes in stockholders' equity and cash flows for the six months 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.

Except for the matter described in the next paragraph, we conducted our audits in accordance with the Regulations for Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

We were unable to obtain audited financial statements supporting the Company's investments in certain equity-accounted investee companies stated at NT$1,731,363 thousand as of June 30, 2004 and the Company's equity in the losses of those companies of NT$125,790 thousand, which were included in the net income for the six months then ended as described in Note 5 to the financial statements; nor were we able to satisfy ourselves as to the carrying value of the investments in the investee companies or the equity in their losses by other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain sufficient evidence regarding the investments in, and equity in the losses of, the investee companies as described in the preceding paragraph, the financial statements referred to in the first paragraph above present fairly, in all material respects, the financial position of the Company as of June 30, 2004 and 2003, and the results of its operations and its cash flows for the six months then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

BALANCE SHEETS
JUNE 30, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Except Par Value)

	2004		2003	
ASSETS	**Amount**	**%**	**Amount**	**%**
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 3)	$ 3,955,549	4	$ 5,441,523	9
Accounts and notes receivable—net of allowance for doubtful accounts of $886,755 in 2004 and $576,483 in 2003 (Notes 2)	3,870,131	4	3,792,730	6
Receivables from related parties (Notes 2 and 14)	675,401	1	171,787	-
Inventories—net (Notes 2 and 4)	519,105	1	366,803	1
Prepaid expenses (Notes 2 and 14)	1,886,710	2	1,794,287	3
Deferred income tax assets—current (Notes 2 and 13)	1,001,769	1	500,382	1
Other current assets	54,406	-	40,128	-
Total current assets	11,963,071	13	12,107,640	20
INVESTMENTS IN SHARES OF STOCK UNDER THE EQUITY METHOD (Notes 2, 5 and 14)	42,286,532	47	8,085,638	13
PROPERTIES (Notes 2, 6 and 14)				
Cost				
Land	852,980	1	952,284	2
Buildings and equipment	1,606,107	2	1,442,425	2
Operating equipment	49,504,970	55	46,871,304	76
Computer equipment	6,520,039	7	5,912,894	10
Office equipment	773,931	1	771,865	1
Leasehold improvements	1,371,567	1	1,687,235	3
Miscellaneous equipment	50,122	-	54,834	-
Total cost	60,679,716	67	57,692,841	94
Less—accumulated depreciation	27,998,417	31	20,847,119	34
	32,681,299	36	36,845,722	60
Construction in progress and advances related to acquisition of equipment	1,976,195	2	2,573,098	4
Net properties	34,657,494	38	39,418,820	64
OTHER ASSETS				
Refundable deposits (Note 14)	251,375	1	233,801	-
Deferred income tax assets—noncurrent (Notes 2 and 13)	974,310	1	1,717,274	3
Rental assets—net (Notes 2, 6 and 7)	191,942	-	-	-
Miscellaneous (Note 2)	97,080	-	198,331	-
Total other assets	1,514,707	2	2,149,406	3
TOTAL ASSETS	$ 90,421,804	100	$ 61,761,504	100

	2004		2003	
LIABILITIES AND STOCKHOLDERS' EQUITY	**Amount**	**%**	**Amount**	**%**
CURRENT LIABILITIES				
Notes payable	$ 37,362	-	$ 22,863	-
Accounts payable	574,325	1	269,400	-
Payables to related parties (Note 14)	231,660	-	480,288	1
Income tax payable (Notes 2 and 13)	-	-	31,880	-
Accrued expenses	3,071,243	4	2,279,100	4
Dividend payable (Note 9)	4,748,620	5	2,997,540	5
Payables related to acquisition of properties	1,177,796	1	1,424,598	2
Guarantee deposits received—current	1,261,582	2	-	-
Unearned revenues (Note 2)	2,084,491	2	2,217,178	4
Current portion of long-term liabilities (Notes 2, 6 and 8)	4,556,520	5	616,000	1
Other current liabilities (Notes 2 and 9)	342,002	-	229,716	-
Total current liabilities	18,085,601	20	10,568,563	17
LONG-TERM LIABILITIES—Net of current portion (Notes 6 and 8)				
Long-term bonds payable	9,000,000	10	10,632,025	17
Long-term debts payable	3,420,000	4	-	-
Total long-term liabilities	12,420,000	14	10,632,025	17
OTHER LIABILITIES				
Accrued pension cost (Note 2)	202,045	-	150,035	-
Guarantee deposits received—noncurrent	44,231	-	1,756,340	3
Total other liabilities	246,276	-	1,906,375	3
Total liabilities	30,751,877	34	23,106,963	37
STOCKHOLDERS' EQUITY				
Capital stocks—$10 par value				
Authorized—4,200,000 thousand shares in 2004 and 3,360,000 thousand shares in 2003				
Issued—3,391,871 thousand shares in 2004 and 2,305,800 thousand shares in 2003	33,918,714	37	23,058,000	37
Capital stocks to be issued—339,187 thousand shares in 2004 and 391,986 thousand shares in 2003	3,391,872	4	3,919,860	7
Capital surplus				
Paid-in capital in excess of par value	4,123,900	14	5,944,514	10
From business combination	8,482,381	-	-	-
From investments in shares of stock	-	-	29,086	-
Total capital surplus	12,606,281	14	5,973,600	10
Retained earnings				
Legal reserve	2,697,301	3	1,878,488	3
Unappropriated earnings	7,055,889	8	3,821,541	6
Total retained earnings	9,753,190	11	5,700,029	9
Cumulative translation adjustments	(130)	-	3,052	-
Total stockholders' equity	59,669,927	66	38,654,541	63
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 90,421,804	100	$ 61,761,504	100

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

(With Deloitte & Touche report dated July 30, 2004)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(In Thousands of New Taiwan Dollars, Except Amounts Per Share)

	2004		2003	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 14)				
Sales of cellular phone equipment and accessories	$ 1,436,415	7	$ 1,185,630	7
Less—sales returns and allowances	31,642	-	32,539	-
Net sales	1,404,773	7	1,153,091	7
Service revenues	18,261,912	93	16,567,244	93
Other	9,967	-	1,893	-
Total operating revenues	19,676,652	100	17,722,228	100
OPERATING COSTS (Notes 2, 11, 12 and 14)				
Cost of sales	1,476,016	8	1,200,789	7
Cost of services	8,109,627	41	7,688,180	43
Total operating costs	9,585,643	49	8,888,969	50
GROSS PROFIT	10,091,009	51	8,833,259	50
OPERATING EXPENSES (Notes 2, 11, 12 and 14)				
Marketing	2,945,842	15	2,992,894	17
General and administrative	1,841,524	9	1,788,131	10
Research and development	149,914	1	150,740	1
Total operating expenses	4,937,280	25	4,931,765	28
OPERATING INCOME	5,153,729	26	3,901,494	22
NONOPERATING INCOME AND GAINS				
Equity in investees' net gains (Notes 2 and 5)	2,200,261	11	-	-
Gain from sales of non-performance accounts receivable	88,351	1	-	-
Management service revenue (Note 14)	39,078	-	100,997	1
Interest	7,484	-	19,363	-
Other (Note 14)	60,382	-	12,287	-
Total nonoperating income	2,395,556	12	132,647	1
NONOPERATING EXPENSES AND LOSSES				
Interest (Notes 2, 6 and 16)	182,517	1	163,794	1
Loss on disposal of properties	8,546	-	26,160	-
Provision for losses on inventories	7,398	-	-	-
Equity in investees' net losses (Notes 2 and 5)	-	-	137,514	1
Other (Notes 7 and 12)	65,489	-	-	-
Total nonoperating expenses and losses	263,950	1	327,468	2

(Continued)

	2004		2003	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX EXPENSE (BENEFIT)	$ 7,285,335	37	$ 3,706,673	21
INCOME TAX EXPENSE (BENEFIT) (Notes 2 and 13)	256,167	1	(105,773)	(1)
NET INCOME	$ 7,029,168	36	$ 3,812,446	22

	2004		2003	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
EARNINGS PER SHARE (Note 10)				
Primary	$2.15	$2.07	$1.37	$1.41
Diluted	$2.08	$2.00	$1.34	$1.38

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

(With Deloitte & Touche report dated July 30, 2004) (Concluded)

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(In Thousands of New Taiwan Dollars)

	Capital Stock Issued (Notes 2, 8 and 9)		Capital Stock to be Issued (Note 9)	Capital Surplus (Notes 2 and 9)				Retained Earnings (Note 9)			Cumulative Translation Adjustments (Note 2)	Total Stockholders' Equity
	Shares (thousands)	Amount		Paid-in capital in excess of par value	From business combination	From investments in shares of stock	Total	Legal reserve	Unappropriated earnings	Total		
BALANCE, JANUARY 1, 2004	2,697,786	$26,977,860	$ -	$5,944,514	$ -	$29,086	$5,973,600	$1,878,488	$8,197,228	$10,075,716	$3,052	$43,030,228
Conversion of overseas convertible bonds into common stock	562	5,622	-	10,997	-	-	10,997	-	-	-	-	16,619
Issuance of new stock and reissuance of treasury stock in exchange of investments in shares of stock	693,523	6,935,232	-	-	8,482,381	-	8,482,381	-	(821,733)	(821,733)	-	14,595,880
Effect of change in ownership percentage due to investees' issuance of capital stock for cash	-	-	-	-	-	(29,086)	(29,086)	-	-	-	-	(29,086)
Appropriation of 2003 earnings												
Legal reserve	-	-	-	-	-	-	-	818,813	(818,813)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	-	(147,387)	(147,387)	-	(147,387)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(73,693)	(73,693)	-	(73,693)
Cash dividend—14%	-	-	-	-	-	-	-	-	(4,748,620)	(4,748,620)	-	(4,748,620)
Stock dividend—4.6%	-	-	1,560,261	-	-	-	-	-	(1,560,261)	(1,560,261)	-	-
Capitalization of capital surplus—5.4%	-	-	1,831,611	(1,831,611)	-	-	(1,831,611)	-	-	-	-	-
Net income for the six months ended June 30, 2004	-	-	-	-	-	-	-	-	7,029,168	7,029,168	-	7,029,168
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	(3,182)	(3,182)
BALANCE, JUNE 30, 2004	3,391,871	$33,918,714	$3,391,872	$4,123,900	$8,482,381	$ -	$12,606,281	$2,697,301	$7,055,889	$ 9,753,190	($ 130)	$59,669,927
BALANCE, JANUARY 1, 2003	2,305,800	$23,058,000	$ -	$5,967,572	$ -	$29,086	$5,996,658	$1,097,646	$7,895,106	$ 8,992,752	$3,098	$38,050,508
Appropriation of 2002 earnings												
Legal reserve	-	-	-	-	-	-	-	780,842	(780,842)	-	-	-
Bonus to employees	-	-	-	-	-	-	-	-	(140,551)	(140,551)	-	(140,551)
Remuneration to directors and supervisors	-	-	-	-	-	-	-	-	(70,276)	(70,276)	-	(70,276)
Cash dividend—13%	-	-	-	-	-	-	-	-	(2,997,540)	(2,997,540)	-	(2,997,540)
Stock dividend—16.9%	-	-	3,896,802	-	-	-	-	-	(3,896,802)	(3,896,802)	-	-
Capitalization of capital surplus—0.1%	-	-	23,058	(23,058)	-	-	(23,058)	-	-	-	-	-
Net income for the six months ended June 30, 2003	-	-	-	-	-	-	-	-	3,812,446	3,812,446	-	3,812,446
Translation adjustments on investments in shares of stock	-	-	-	-	-	-	-	-	-	-	(46)	(46)
BALANCE, JUNE 30, 2003	2,305,800	$23,058,000	$3,919,860	$5,944,514	$ -	$29,086	$5,973,600	$1,878,488	$3,821,541	$ 5,700,029	$3,052	$38,654,541

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

(With Deloitte & Touche report dated July 30, 2004)

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.

STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2004 AND 2003
(In Thousands of New Taiwan Dollars)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 7,029,168	$ 3,812,446
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,628,492	3,496,501
Provision for doubtful accounts	378,845	181,365
Provision (reversal of allowance) for losses on inventories	7,398	(574)
Equity in investees' net losses (gains)	(2,200,261)	137,514
Loss on disposal of properties—net	8,546	26,160
Accrued pension cost	32,767	18,905
Deferred income taxes	230,549	(193,389)
Interest premium on convertible bonds	19,327	14,450
Unrealized exchange gains on overseas convertible bonds	(24,045)	(22,885)
Other	(4,096)	18,763
Changes in operating assets and liabilities		
Decrease (increase) in		
Accounts and notes receivable	(513,699)	(757,518)
Receivables from related parties	(486,227)	(148,125)
Inventories	274,597	289,785
Prepaid expenses	(217,718)	(30,541)
Other current assets	(11,122)	1,847
Increase (decrease) in		
Notes payable	6,692	(6,081)
Accounts payable	(468,881)	(319,945)
Payables to related parties	7,021	(179,941)
Income tax payable	(24,083)	(105,215)
Accrued expenses	436,116	(649,448)
Unearned revenues	224,803	166,868
Other current liabilities	98,694	31,106
Net cash provided by operating activities	8,432,883	5,782,048
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments in shares of stock	(516,788)	-
Acquisition of properties	(1,330,358)	(3,538,172)
Proceeds from sales of properties	78,928	16,035
Decrease (increase) in refundable deposits	(9,657)	139,478
Decrease (increase) in other assets	47,655	(100,776)
Net cash used in investing activities	(1,730,220)	(3,483,435)

(Continued)

	2004	2003
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term debts	($ 100,000)	$ -
Increase in long-term debts	3,420,000	-
Decrease in long-term liabilities	(5,205,307)	(4,177,839)
Proceeds from issuance of long-term bonds	-	5,472,460
Decrease in guarantee deposits received	(247,778)	(235,387)
Bonus paid to employees and directors	(147,387)	(154,666)
Repurchase of treasury stock	(3,334,798)	-
Net cash provided by (used in) financing activities	(5,615,270)	904,568
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,087,393	3,203,181
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	2,868,156	2,238,342
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 3,955,549	$ 5,441,523
SUPPLEMENTARY INFORMATION		
Interest paid (excluding capitalized interest)	$ 191,633	$ 192,232
Income tax paid	$ 50,396	$ 192,831
NONCASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	$ 4,556,520	$ 616,000
Reclassification of properties into rental assets	$ 192,908	$ -
Conversion of overseas convertible bonds into common stock and capital surplus	$ 16,619	$ -
ISSUANCE OF NEW STOCK AND REISSUANCE OF TREASURY STOCK IN EXCHANGE OF INVESTMENTS IN SHARES OF STOCK		
Common stock	$ 6,935,232	$ -
Capital surplus—paid-in capital in excess of par value	8,482,381	-
Repurchase of treasury stock	3,334,798	-
Decrease in unappropriated earnings	(821,733)	-
	$17,930,678	$ -
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	$ 699,378	$ 2,842,052
Decrease in payables related to acquisition of properties	630,980	695,580
Decrease in obligations under capital lease	-	540
Actual cash paid for acquisition of properties	$ 1,330,358	$ 3,538,172
PROCEEDS FROM DISPOSAL OF PROPERTIES		
Total amount of properties sold	$ 9,842	$ 17,393
Decrease (increase) in receivables from properties sold	116	(1,358)
Decrease in receivables from related parties	68,970	-
Actual cash received from disposal of properties	$ 78,928	$ 16,035

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

(With Deloitte & Touche report dated July 30, 2004) (Concluded)

1. GENERAL

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

Far Eastern Textile Co., Ltd. is the ultimate parent company of the Company. In October 2003, the other principal stockholder, the AT&T Wireless Group and its affiliates, transferred to Far Eastern Textile Co., Ltd. and its affiliate ("Far Eastern Group") all the Company's stock owned. Therefore, Far Eastern Group directly or indirectly owns 53.15% of the Company's shares as of June 30, 2004.

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

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

The Company had 3,454 and 2,149 employees as of June 30, 2004 and 2003, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Company uses reasonable estimates for allowance for doubtful accounts, allowance for losses on inventories, allowances for losses on properties not currently used in operations, depreciation and amortization, income taxes and pension cost. Because of the uncertainty of circumstances, however, estimates may differ from the actual outcome.

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

Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Allowance for Doubtful Accounts

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

Inventories

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

Investments in Shares of Stock

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

Stock dividends received are accounted for only as an increase in the number of shares held but are not recognized as investment income. The carrying amount of each share is recalculated on the basis of the total number of shares, including the received stock dividend.

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

Costs of investments sold are determined by the moving-weight-average method.

Properties and Rental Properties

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

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

Useful lives are estimated as follows:

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

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

Properties not Currently Used in Operations

Properties not currently used in operations (included in other assets—miscellaneous), such as telecommunications equipment, are stated at the lower of cost or net realizable value.

Revenue Recognition

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

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

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

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

Promotion Expenses

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

Pension Costs

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

Pension costs are recognized on the basis of actuarial calculations. Unrecognized net transition obligations and unrecognized pension gains or losses are amortized using the straight-line method over 15 years and the average remaining service of employees, respectively.

Convertible Bonds

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

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

Income Tax

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

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

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

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

Foreign Currency Transactions

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

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

a. Equity-method investments—as cumulative translation adjustments under stockholders' equity; and

b. Other assets and liabilities—as credits or charges to income.

Financial Derivatives

The notional amounts of interest rate swap agreements are not recognized in the financial statements as 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 form differences in interest rates, are accrued as interest income or interest expense of the hedged item.

Forward exchange contracts are entered into as hedges of foreign-currency commitments and are recorded in New Taiwan dollars as assets and/or liabilities using the spot rates on the starting dates. The premium or discount, which is the amount of the contract multiplied by the difference between the contracted forward rates and the spot rates on the starting dates, is deferred and then recognized as an adjustment to the commitment when the hedged transactions occur. 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 period.

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

Reclassifications

Certain accounts in the financial statements as of and for the six months ended June 30, 2003 have been reclassified to conform to the presentation of financial statements as of and for the six months ended June 30, 2004.

3. CASH AND CASH EQUIVALENTS

	June 30	
	2004	2003
Cash		
Cash on hand	$ 7,589	$ 6,977
Checking and demand deposits	1,428,148	728,424
Time deposits—interest of 1.00% to 1.23% in 2004 and 0.92% to 1.20% in 2003	772,341	2,744,273
	2,208,078	3,479,674
Cash equivalents		
Commercial paper purchased under agreements to resell—interest of 0.925% to 0.965% in 2004 and 0.950% to 1.125% in 2003	1,747,471	1,961,849
	$ 3,955,549	$ 5,441,523

4. INVENTORIES—NET

	June 30	
	2004	2003
Cellular phone units	$ 464,537	$ 292,162
SIM cards	49,540	77,897
Cellular phone accessories	25,818	4,871
	539,895	374,930
Less: Allowance for losses	20,790	8,127
	$ 519,105	$ 366,803

Inventory insurance as of June 30, 2004 amounted to about $827,315.

5. INVESTMENT IN SHARES OF STOCK

	June 30			
	2004		2003	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
Equity method				
KG Telecommunications Co., Ltd. ("KG Telecom")	$32,014,888	100.00	$ -	-
Yuan-Ze Telecommunications Co., Ltd.	9,749,738	100.00	8,077,120	80.71
Far Eastern Electronic Toll Collection Co., Ltd.	471,918	45.00	-	-
E. World (Holdings) Ltd.	49,988	85.92	8,518	19.00
	$42,286,532		$ 8,085,638	

On October 7, 2003, the Company signed a definitive merger agreement with KG Telecom. The merger agreement with KG Telecom provided for the transaction to occur in two steps (the "Combination"). To facilitate the combination with KG Telecom, the Company formed a new wholly owned subsidiary in September 2003 called Yuan Ho Telecommunications Co., Ltd. ("Yuan-Ho"), which also was a party to the merger agreement. In connection with the first step of the Combination, Yuan-Ho issued 526,431 thousand shares for total proceeds of NT$11,698,461.

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

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

The second step is for the Company to swap shares with KG Telecom. Then, the stockholders of KG Telecom will receive one share of the Company in exchange for each KG Telecom share owned. The share swap agreement was submitted to the special stockholders' meetings of the Company and KG Telecom on February 18, 2004. On April 29, 2004, stockholders of KG Telecom received an aggregate of 806,567 thousand shares in the amounts of $17,930,678 (Note 9). KG Telecom became a wholly owned subsidiary of the Company.

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

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

On December 22, 2003, the Company's Board of Directors approved the merger of the Company with Yuan-Ze, with the Company as the surviving company. The merger is expected to be completed in 2005.

The Taiwan Area National Freeway Bureau of the Ministry of Transportation and Communications (MOTC) has launched a project called "Privatized Establishment and Implementation of the Freeway Electronic Toll Collection Program". To participate in this project, the Company and third parties incorporated Far Eastern Electronic Toll Collection Co., Ltd. ("FETETC") on April 17, 2004. MOTC selected FETETC through public appraisal and signed the contract on April 27, 2004.

Originally, the investment in E. World (Holdings) is accounted for by the equity method since the combined equity interests of the Far Eastern Group in E. World (Holdings) allows the Company to exercise significant influence on its operating and financial policy decisions. The Company bought from the related parties amounting to $41,788 in June 2004, as a result, the ownership was increased from 19.00% to 85.92%. Since the ownership of E. World (Holdings) exceeds 50%, the amounts recognized as equity in the net income or net loss of E. World (Holdings) were then based on net income or net loss in the current period.

The carrying values of the investments in the shares of stock of Yuan-Ze and E. World (Holdings) as of June 30, 2003 are based on audited financial statements. Also, the carrying amounts pertaining to KG Telecom and Yuan-Ze as of June 30, 2004 are based on audited financial statements except those pertaining to certain of KG Telecom's equity-accounted investees.

The financial statements of certain equity-accounted investments of the Company and KG Telecom as of June 30, 2004 are unaudited. The portion related to the carrying amounts of the investments in KG Telecom as of June 30, 2004 that were not audited and the unaudited carrying amounts of the other equity-accounted investment of the Company that were included in the accompanying financial statements was $1,731,363 as of June 30, 2004. Also, the related unaudited equity in the results of their operations were loss of $125,790 for the six months ended June 30, 2004.

6. PROPERTIES

a. Accumulated depreciation consisted of:

	June 30	
	2004	2003
Buildings and equipment	$ 279,661	$ 135,585
Operating equipment	22,872,775	17,155,976
Computer equipment	3,650,870	2,527,960
Office equipment	503,619	392,126
Leasehold improvements	651,825	594,269
Miscellaneous equipment	39,667	41,203
	$27,998,417	$20,847,119

Depreciation expenses for the six months ended June 30, 2004 and 2003 were $3,627,486 and $3,496,352, respectively.

Insurance coverage on property and rental assets amounted to $33,790,905 as of June 30, 2004.

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

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

c. Capitalized interest on properties was as follows:

	For the Six Months Ended June 30	
	2004	2003
Total interest expense	$ 211,042	$ 217,799
Less—interest capitalized—interest at 2.16% to 2.58% in 2004 and 3.02% to 3.91% in 2003	28,525	54,005
Interest expense—net of amounts capitalized	$ 182,517	$ 163,794

d. Properties amounting to $4,279,425 and $5,115,030 had been pledged or mortgaged as collaterals as of June 30, 2004 and 2003, respectively.

7. RENTAL ASSETS—NET

	June 30, 2004
Cost	
Land	$ 99,524
Buildings	94,672
	194,196
Less—accumulated depreciation	
Buildings	2,254
	$191,942

Depreciation expenses included in nonoperating expenses and losses—other for the six months ended June 30, 2004 was $966.

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

Period	Amount
July 2004 to June 2005	$ 13,046
July 2005 to June 2006	13,225
July 2006 to June 2007	13,516
July 2007 to June 2008	13,816
July 2008 to June 2009	14,125

8. LONG-TERM LIABILITIES

	June 30, 2004		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds	$ 3,865,520	$ -	$ 3,865,520
Interest premium—overseas unsecured convertible bonds	53,000	-	53,000
Domestic secured bonds	638,000	330,000	968,000
Domestic unsecured bonds—1st	-	4,200,000	4,200,000
Domestic unsecured bonds—2nd	-	1,470,000	1,470,000
Domestic unsecured bonds—3rd	-	3,000,000	3,000,000
	4,556,520	9,000,000	13,556,520
Long-term debts			
Unsecured bank loans	-	500,000	500,000
Secured bank loans	-	2,920,000	2,920,000
	-	3,420,000	3,420,000
	$ 4,556,520	$ 12,420,000	$ 16,976,520

	June 30, 2003		
	Due Within One Year	Due After One Year	Total
Bonds			
Overseas unsecured convertible bonds	$ -	$ 3,979,575	$ 3,979,575
Interest premium—overseas unsecured convertible bonds	-	14,450	14,450
Domestic secured bonds	616,000	968,000	1,584,000
Domestic unsecured bonds—1st	-	4,200,000	4,200,000
Domestic unsecured bonds—2nd	-	1,470,000	1,470,000
	$ 616,000	$ 10,632,025	$ 11,248,025

a. Overseas unsecured convertible bonds

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

1) The Company's redemption of the bonds upon maturity at 105.114% of their face value;

2) Redemption at the option of the bondholder at 102.015% of their face value on February 19, 2005;

3) The right of each bondholder to convert the bonds into shares or global depositary receipts between March 21, 2003 and January 20, 2008. The conversion price on June 30, 2004 was NT$30.73, subject to adjustment for shares change.

   As of June 30, 2004, convertible bonds amounting to US$500 thousand had been converted into 562 thousand shares of common stock.

4) Redemption at the Company's option, at a specific price under certain conditions, starting February 19, 2006.

b. Domestic secured bonds

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

c. Domestic unsecured bonds—1st

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

d. Domestic unsecured bonds—2nd

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

e. Domestic unsecured bonds—3rd

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

f. Unsecured bank loans

As of June 30, 2004, the Company had a $500,000 bank loan at an annual interest rate of 1.45%. The Company repaid this loan on July 2, 2004. The loan is guaranteed by a consortium of banks and the guarantee is effective until November 14, 2006.

g. Secured bank loans

The Company had a loan from a consortium of banks with interest rate of 1.944% as of June 30, 2004. The loan is guaranteed by a consortium of banks, and the guarantee is effective until February 4, 2007. Starting on August 4, 2004, the maximum amount that the Company can borrow will be decreased by 16% to 17% of the principal every six months.

As of June 30, 2004, the Company had unused long-term and short-term credit lines of about $2,392,000 and $14,200,000, respectively.

9. STOCKHOLDERS' EQUITY

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

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

Under the ROC Company Law, legal reserve should be appropriated until the accumulated reserve equals the Company's paid-in capital. This reserve can only be used to offset a deficit, or when the reserve reaches 50% of the Company's paid-in capital, up to 50% of the reserve can be distributed as stock dividend.

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

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

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

The appropriation and distribution of the 2003 and 2002 earnings were approved by the stockholders on June 30, 2004 and May 23, 2003, respectively.

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

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

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

The stockholders also approved the capitalization of unappropriated earnings of $1,560,261 and paid-in capital in excess of par value of $1,831,611 to issue additional shares amounting to $3,391,872 (included in capital stock—to be issued) on June 30, 2004. The aggregate par value of the Company's outstanding shares after the foregoing capitalization of unappropriated earnings and capital surplus increased to $37,310,586. The issuance of additional capital stock was approved by the Securities and Futures Bureau (SFB) and the board of directors set August 20, 2004 as the date when the stockholders of record will receive the additional shares.

As of June 30, 2004, the remuneration to directors and supervisors of $73,693 and cash dividend of $4,748,620 were unpaid and included in other current liabilities and dividend payable, respectively.

On April 12, 2004, the board of directors of the Company approved the stockholder's request to have the Company sell 150,000 thousand of their shares in the form of Global Depositary Receipts (GDRs) to foreign investors representing 10,000 thousand units of GDRs. One unit of GDR represents 15 shares of the Company's common stock.

The issuance of the GDRs was completed on June 17, 2004 and the GDRs were traded and listed on the Luxembourg Stock Exchange with a price of US$13.219.

On July 20, 2004, 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.

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

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

As of June 30, 2004, there are 4,492 thousand units of GDRs outstanding which represent 67,375 thousand shares of common stock or 1.99% of the Company's common stock issued.

10. EARNINGS PER SHARE

	For the Six Months Ended June 30			
	2004		2003	
	Before Tax	After Tax	Before Tax	After Tax
Primary EPS				
Net income	$ 2.15	$ 2.07	$ 1.37	$ 1.41
Pro forma EPS retroactively adjusted for stock dividend declared in 2004	$ 1.95	$ 1.88	$ 1.25	$ 1.28
Diluted EPS				
Net income	$ 2.08	$ 2.00	$ 1.34	$ 1.38
Pro forma EPS retroactively adjusted for stock dividend declared in 2004	$ 1.89	$ 1.82	$ 1.22	$ 1.25

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

	Amount (Numerator)		Capital Stock (Denominator) (in Thousand Shares)	Earnings Per Share (Dollars)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
For the six months ended June 30, 2004					
Primary EPS					
Net income	$ 7,285,335	$ 7,029,168	3,391,590	$2.15	$2.07
Effect of dilutive potential common stock					
Convertible bonds	20,272	19,559	128,748		
Diluted EPS					
Net income including the effect of dilutive potential common stock	$ 7,305,607	$ 7,048,727	3,520,338	$2.08	$2.00
For the six months ended June 30, 2003					
Primary EPS					
Net income	$ 3,706,673	$ 3,812,446	2,697,786	$1.37	$1.41
Effect of dilutive potential common stock					
Convertible bonds	10,328	10,624	72,869		
Diluted EPS					
Net income including the effect of dilutive potential common stock	$ 3,717,001	$ 3,823,070	2,770,655	$1.34	$1.38

For the six months ended June 30, 2003, EPS retroactively adjusted for the 2003 stock dividend declared in 2004 decreased from $1.65 to $1.41 (primary EPS) and from $1.62 to $1.38 (diluted EPS).

11. PENSION PLAN

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

Net pension cost of the Company were as follows:

	For the Six Months Ended June 30	
	2004	2003
Actuarial net pension cost	$ 53,683	$ 33,830
Less—included in properties	1,669	1,328
Included in receivables from related parties	512	469
Included in reduction of operating costs and expenses	22,521	-
Net pension cost (included in operating costs and expenses)	$ 28,981	$ 32,033

The Company's contributions to the Fund were $20,786 and $15,363 for the six months ended June 30, 2004 and 2003, respectively. Fund balances were $173,255 and $135,526 as of June 30, 2004 and 2003, respectively.

12. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Six Months Ended June 30, 2004				
	Operating Costs	Operating Expenses	Non operating Expenses And Losses	Included in Reduction of Operating Costs and Expenses	Total
Employee expenses					
Salaries	$ 135,649	$ 680,178	$ -	$ 573,690	$ 1,389,517
Insurance	8,173	37,628	-	37,190	82,991
Pension	5,611	23,370	-	22,521	51,502
Miscellaneous	4,776	48,953	-	29,405	83,134
Depreciation	2,991,101	636,385	966	-	3,628,452
Amortization	-	40	-	-	40
	$ 3,145,310	$ 1,426,554	$ 966	$ 662,806	$ 5,235,636

	For the Six Months Ended June 30, 2003				
	Operating Costs	Operating Expenses	Non operating Expenses And Losses	Included in Reduction of Operating Costs and Expenses	Total
Employee expenses					
Salaries	$ 126,783	$ 655,513	$ -	$ -	$ 782,296
Insurance	8,472	47,126	-	-	55,598
Pension	1,991	30,042	-	-	32,033
Miscellaneous	5,662	52,398	-	-	58,060
Depreciation	2,931,695	564,657	-	-	3,496,352
Amortization	-	149	-	-	149
	$ 3,074,603	$ 1,349,885	$ -	$ -	$ 4,424,488

Since 2004, the Company provides management services to equity-accounted investees (Note 14). The employee expenses were charged based on the agreed terms and included in the reduction of operating costs and expenses.

13. INCOME TAX

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

	June 30	
	2004	**2003**
Income tax expense computed at statutory tax rate (25%)	$ 1,821,334	$ 926,668
Add (deduct) tax effects of:		
Permanent differences	(555,084)	(994)
Temporary differences	100,844	(96,236)
Tax-exempt income	(1,162,963)	(646,962)
Unappropriated earnings tax	123,949	17,460
Investment tax credits	(328,080)	(166,668)
Income tax expense—current	$ -	$ 33,268

The balances of income tax payable as of June 30, 2003 were net of the creditable income taxes of $1,388.

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

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

b. Income tax expense (benefit) consisted of:

	June 30	
	2004	**2003**
Income tax expense—current	$ -	$ 33,268
Income tax benefit (expense)—deferred	230,549	(143,389)
Prior year's adjustment	25,572	3,622
Income tax expense on income subjected to a separate rate of 20%	46	726
Income tax expense (benefit)	$ 256,167	($ 105,773)

c. Deferred income taxes assets (liabilities) as of June 30, 2004 and 2003 consisted of:

	June 30	
	2004	**2003**
Current		
Provision for doubtful accounts	$ 676,040	$ 499,944
Investment tax credits	583,637	-
Unrealized foreign exchange gain—net	(7,548)	(3,958)
Provision for losses on inventories	5,197	2,032
Employee welfare expense	-	2,250
Other	-	114
	1,257,326	500,382
Less: Valuation allowance	255,557	-
	$ 1,001,769	$ 500,382
Noncurrent		
Depreciation resulting from the differences in estimated service lives of properties	$ 467,227	$ 391,569
Investment tax credits	422,582	1,194,776
Accrued pension cost	51,210	37,662
Accrued interest premium	13,394	3,612
Provision for losses on properties not currently used in operations	10,937	-
Cumulative equity in the net loss of investees	8,960	89,399
Other	-	256
	$ 974,310	$ 1,717,274

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

d. Integrated income tax information:

	June 30	
	2004	**2003**
Balance of imputation credit account (ICA)	$ 55,939	$ 203,762

The estimated ratio of the Company's ICA balance on the dividend distribution date in 2004 to the balance of the undistributed earnings as of December 31, 2003 was 0.76%. The ratio of the ICA balance of the Company, on the dividend distribution date in 2003 to the balance of the undistributed earnings as of December 31, 2002 was 2.58%.

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

The unused investment tax credits as of June 30, 2004 are summarized as follows:

Statutes	Items	Total Investment Tax Credits	Unused Investment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of automated equipment or technology	$ 267,455	$ 149,060	2005
		141,604	30,031	2006
		54,946	54,946	2007
		2,941	2,941	2008
Statute for Upgrading Industries	Research and development expenditures	699,533	583,637	2004
		587,938	43,592	2005
		304,206	39,661	2006
		28,866	28,866	2007
		38,545	38,545	2008
Statute for Upgrading Industries	Personnel training expenditures	19,629	19,629	2005
		12,038	12,038	2006
		3,273	3,273	2007
		$ 2,160,974	$ 1,006,219	

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

14. SIGNIFICANT RELATED PARTY TRANSACTIONS

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

Related Party	Nature of Relationship
Yuan Ding Co. (YDC)	Same chairman
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman
Far Eastern International Leasing Corp. (FEILC)	Supervisor of the Company
Far Eastern Textile Ltd. (FETL)	Ultimate parent company
AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder and a related party until October 2003
AT&T Corp. (AT&T)	Parent company of AWS and a related party until October 2003
Far Eastern Telecom Engineering Corp. (FETEC)	Investee of YDC
KG Telecommunications Co., Ltd. (KG Telecom)	Subsidiary and a related party since January 2004
Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze)	Subsidiary
Far Eastern Technology Developmental Foundation (FETTDF)	The Company's donation to the foundation's capital over onethird
Far Eastern Resource Development Co., Ltd. (FETRD)	Same chairman
Far Eastern Department Stores Co., Ltd. (FETDS)	Same chairman
Asia Cement Co., Ltd. (ACC)	Same chairman
U-Ming Marine Transport Corp. (UMMT)	Same chairman
Far Eastern Investment Holding Ltd. (Bermuda) (FETIH)	Same major stockholder
Oriental Industrial Holding Pte. Ltd. (Singapore) (OIHP)	Subsidiary of ACC
FEDS Development Ltd. (BVI) (FEDSD)	Subsidiary of FETDS
Yue-Tung Investment Corp. (YTI)	Subsidiary of UMMT

(Continued)

Related Party	Nature of Relationship
Far Eastern Technology Network Information Limited Company (Shanghai) (FETI)	Same major stockholder
E. World (Holdings) Ltd. (E. World)	Subsidiary
Yuan Ding Investment Co., Ltd.	Same chairman
Far Eastern International Bank	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
E. World Ltd. (Taiwan)	Same chairman
Oriental Institute of Technology	Same chairman
Oriental Securities Co., Ltd.	Same ultimate parent company
Ding Ding Hotel Co., Ltd.	Same chairman
Liquid Air Far East Co., Ltd.	Its chairman is the relative of the Company's chairman
Far Eastern Apparel Co., Ltd.	Same major stockholder
Yuan Ding Leasing Corp.	Same major stockholder
Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee
KGEx.com	Subsidiary of KG Telecom and a related party since January 2004
KGT International Holdings	Subsidiary of KG Telecom and a related party since January 2004
KG Satellite	Subsidiary of KG Telecom and a related party since January 2004
Taipei Metro Properties Management	Same major stockholder
Yue Ding Industry Co., Ltd.	Director of the Company
Yue-Li Investment Corporation	Director of the Company
Far Eastern Y.Z. Hsu Science and Technology Memorial Foundation	Director of the Company
Asia Investment Corporation	Supervisor of the Company
Bai Yang Investment Co., Ltd.	Its chairman is the relative of the Company's chairman
Ding Yuan International Investment Co., Ltd.	Same ultimate parent company
Kai Yuan International Investment Co., Ltd.	Same ultimate parent company
An Ho Garment Co., Ltd.	Same ultimate parent company
Yuan Tong Investment Co., Ld.	Same ultimate parent company

In addition to Note 9, the significant transactions with the above parties are summarized as follows:

		2004		2003	
		Amount	%	Amount	%
During the six months period					
Operating revenue	a.				
KG Telecom	b.	$ 439,319	2	$ -	-
NCIC	c.	361,398	2	302,986	2
Other	u.	51,191	-	126	-
		$ 851,908	4	$ 303,112	2

(Continued)

		2004		2003	
		Amount	%	Amount	%
Operating costs and expenses					
Service cost					
KG Telecom	b.	$ 402,627	5	$ -	-
FETEC	d.	12,799	-	14,101	-
NCIC	c.	661	-	14,857	-
Other	u.	1,373	-	-	-
		$ 417,460	5	$ 28,958	-
Rental					
FEILC	e.	$ 26,485	4	$ 63,131	9
FETRD	f.	25,390	4	-	-
NCIC	g.	23,360	3	-	-
FETL	h.	2,485	-	27,665	4
Other	u.	4,733	1	4,570	1
		$ 82,453	12	$ 95,366	14
Management service fee					
AWS	i.	$ -	-	$ 24,000	100
Research and development expenses					
FETTDF	j.	$ 6,926	70	$ 7,967	60
Service fee					
FETI	k.	$ 62,805	59	$ 6,175	6
Handset subsidies					
KG Telecom	l.	$ 4,024	-	$ -	-
Nonoperating income and gains					
Management service revenue					
KG Telecom	m.	$ 31,367	80	$ -	-
Yuan-Ze	n.	7,711	20	100,997	100
		$ 39,078	100	$ 100,997	100
Commissions (included in nonoperating income and gains—other)					
KG Telecom	l.	$ 18,818	31	$ -	-
Gain on disposal of properties (as a reduction of loss on disposal of properties)					
NCIC	o.	$ 811	-	$ -	-
Acquisition of investments in shares of stock					
FETIH	p.	$ 12,531	-	$ -	-
OIHP	p.	12,531	-	-	-
YTI	p.	12,531	-	-	-
FEDSD	p.	4,195	-	-	-
		$ 41,788	-	$ -	-

(Continued)

		2004		2003	
		Amount	%	Amount	%
Acquisition of properties					
NCIC	q.	$ 76,602	11	$ -	-
FETEC	r.	18,569	3	34,597	1
FEILC	e.	-	-	1,532,506	54
		$ 95,171	14	$ 1,567,103	55
At end of period					
Receivables from related parties					
KG Telecom	b. and m.	$ 422,613	63	$ -	-
Yuan-Ze	n.	208,894	31	137,000	80
NCIC	c. and o.	15,490	2	14,469	8
AWS	i.	-	-	14,307	8
Other	u.	28,404	4	6,011	4
		$ 675,401	100	$ 171,787	100
Prepaid expenses					
NCIC	g.	$ 6,190	1	$ -	-
FETL	h.	726	-	711	-
YDC	s.	423	-	1,688	-
FEILC	e.	407	-	1,732	-
Other	u.	2,967	-	1,898	-
		$ 10,713	1	$ 6,029	-
Refundable deposits					
FEILC	e.	$ 6,390	3	$ 6,839	3
NCIC	g.	1,779	1	-	-
YDC	s.	908	-	908	-
Other	u.	12	-	244	-
		$ 9,089	4	$ 7,991	3
Payables to related parties					
FETEC	d. and r.	$ 36,482	16	$ 337,664	70
NCIC	c. and q.	107,260	46	104,915	22
KG Telecom	l.	53,158	23	-	-
AT&T	t.	-	-	15,014	3
Other	u.	34,760	15	22,695	5
		$ 231,660	100	$ 480,288	100

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

a. Operating revenues (such as service revenues, leased circuit service revenues and revenues from sales of cellular phone equipments and accessories) from related parties are based on normal service rates, selling prices and collection terms.

b. The transactions between the Company and KG Telecom consisted of the interconnection activities for KG Telecom's use of the Company's network and via versa. The interconnection fee received from KG Telecom for its use of the Company's network are included in service revenue. The interconnection fee paid by the Company on its use of KG Telecom's network and billing processing costs pertaining to the interconnection service are included in service cost.

c. The transactions between the Company and NCIC consisted of sales of cellular phone units and accessories and interconnection activities for NCIC's use of the Company's network. The interconnection fees paid by the Company on its use of NCIC's fixed-line network and billing processing costs pertaining to the interconnection services provided by NCIC to the Company are included in service cost. The international direct dialing revenue collected by the Company for NCIC was treated as a reduction of service revenue and was included in payables to related parties.

d. The Company signed a contract with FETEC for the restoration and maintenance of network facilities, and paid the maintenance fee based on the service FETEC provided.

e. Under operating lease agreements, the Company leased from FEILC the following: (a) its office spaces in Neihu, Tainan and Kaohsiung under a contract with a term from February 2000 to June 2005; (b) the land and mobile switch centers located in Neihu, Taichung and Xinzhu from November 1999 to June 2005; and (c) vehicles.

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

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

The lease contract on the office spaces in Neihu expired in April 2003. The board of directors approved the purchase of the land and buildings in Neihu for use as the Company's headquarters on February 26, 2003. The purchase amounting to $1,532,382 (without sales tax) was determined based on the appraisal report from real estate brokers. The title to the land and buildings was transferred to the Company by the end of April 2003.

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

g. The Company leased from NCIC the telecommunications network and office spaces in Neihu under contracts with term from September 2003 to September 2008.

h. The company leased from FETL several parcels of the land and building spaces under contracts with term from July 1997 to November 2014. The properties are located in Yuantung Street in Chungli and other locations in Taiwan.

i. The Company signed a service agreement with AWS in January 1997 for AWS to provide consulting services on the construction of a wireless network and business operations. The service charges were based on the actual expenses incurred by the AWS consultants and are net of any withholding taxes paid by the Company.

j. FETTDF researches telecommunications technology and training for the Company.

k. The Company signed a service agreement with FETI in 2003. The service charges were based on the services provided by FETI as agreed on with the Company. The advances to FETI were treated as receivables from related parties, and were collected at various times based on the cash balances of FETI.

l. 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.

m. The Company provides management services and gives advances to KG Telecom for its daily operating expenditures.

n. The Company provides management services and gives advances to Yuan-Ze for its daily operating expenditures during its development stage.

o. The advances for the construction and joint use of telecommunications network and backbone network facilities between the Company and NCIC and receivables from sales of properties to NCIC were included in receivables from related parties. The proceeds are $8,011 thousand and the gains on disposal of properties are $811 thousand.

p. The Company bought 4,685 thousand shares in the amount of $41,788 thousand representing ownership of 66.92% of E. World from FETIH, OIHP, FEDSD and YTI (Note 5).

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

r. The Company has contracts with FETEC for the construction of telecommunications network and backbone network facilities.

s. The Company leased certain floors at The Mall for the period September 1999 to December 2005 from YDC.

t. The Company signed an agreement with AT&T Corp. in June 1997 to use AT&T's trademark for marketing, advertising and promotion purposes in the ROC. The trademark fee is US$1,000 thousand if the Company has negative net cash flow from operations before payment of the trademark fee and after deduction of capital expenditure. Otherwise, the fee is 1% of the net service revenues from wireless and internet businesses, up to US$4,500 thousand. This agreement expired in June 2002.

u. The accounts of other related parties were less than 5% of the total of respective accounts.

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

15. COMMITMENTS AS OF JUNE 30, 2004

a. The Company has outstanding contracts to acquire properties for $1,025,666.

b. The Company's outstanding letters of credit amounted to ￥655,552 thousand (equivalent to $203,614) and US$68 thousand (equivalent to $2,296).

c. The rental of land, buildings and cell sites for the next five years are summarized as follows:

Period	Amount
July 1, 2004 to June 30, 2005	$ 1,266,566
July 1, 2005 to June 30, 2006	1,315,269
July 1, 2006 to June 30, 2007	1,365,860
July 1, 2007 to June 30, 2008	1,418,415
July 1, 2008 to June 30, 2009	1,473,009

16. ADDITIONAL DISCLOSURES

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

a. Financing provided: None

b. Endorsement/guarantee provided: None

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

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

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

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

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

h. Receivables from related parties amounting to at least NT$100 million or 20% of the paid-in capital: Schedule D

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

j. Derivative financial instruments

The Company used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rate for the six months ended June 30, 2004 and 2003. All these transactions were for nontrading purposes.

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

1) Open contracts and credit risk

	June 30, 2004				
Type of Transaction	Notional Amount	Fixed Rate	Market Rate	Settlement Date	Maturity Date
Interest rate swap	$ 2,670,000	1.25%-1.95%	2.04%-3.41%	Every 6 months	March 28, 2008 to December 19, 2008

Type of Transaction	June 30, 2003 Notional Amount	Fixed Rate	Market Rate	Settlement Date	Maturity Date
Interest rate swap	$ 1,470,000	1.25%	2.60%	Every 6 months	March 28, 2008- April 3, 2008

The related gains and losses (recorded as reductions of interest expenses) on these swap contracts for the six months ended June 30, 2004 and 2003 were $19,271 and $4,988, respectively.

There was no outstanding forward contract as of June 30, 2004 and 2003.

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

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

2) Market risk

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

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

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

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

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

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

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

	June 30							
	2004				2003			
	Carrying Value		Fair Value		Carrying Value		Fair Value	
Financial assets								
Cash and cash equivalents	$	3,995,549	$	3,995,549	$	5,441,523	$	5,441,523
Accounts and notes receivable—net		3,870,131		3,870,131		3,792,730		3,792,730
Receivables from related parties		675,401		675,401		171,787		171,787
Investments in shares of stock under the equity method		42,286,532		42,286,532		8,085,638		8,085,638
Refundable deposits		251,375		250,259		233,801		232,294
Financial liabilities								
Notes payable	$	37,362	$	37,362	$	22,863	$	22,863
Accounts payable		574,325		574,325		269,400		269,400
Payables to related parties		231,660		231,660		480,288		480,288
Dividend payable		4,748,620		4,748,620		2,997,540		2,997,540
Payables related to acquisition of properties		1,177,796		1,177,796		1,424,598		1,424,598
Long-term liabilities (including current portion)		16,976,520		17,232,507		11,248,025		11,636,320
Guarantee deposits received		1,305,813		1,305,813		1,756,340		1,756,340
Derivative financial instruments								
Interest rate swap		-		65,612		-		130,475

a) The carrying values of cash and cash equivalents, accounts and notes receivable, receivables from related parties, notes payable, accounts payable, payables to related parties, dividend payable and payables related to acquisition of properties—carrying value reported in the balance sheets because of the short maturity of these instruments.

b) The fair values of investments in shares of stock—the equity in the investees’ net assets.

c) Long-term liabilities—market prices or, if market prices are unavailable, upon present value of expected cash outflows, which is discounted at the interest rates for bank loans or corporate bonds with similar maturity dates.

d) Refundable deposits and guarantee deposits received—present values of future payments or receipts.

e) Fair values of derivative financial instruments—quoted market prices obtained from foreign banks.

KG Telecom used certain derivative financial instruments to hedge overall fluctuations on interest rates and exchange rate for the six months ended June 30, 2004. All these transactions are for nontrading purposes.

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

1) Open contracts and credit risk

	June 30, 2004				
Type of Transaction	**Notional Amount**	**Fixed Rate**	**Market Rate**	**Settlement Date**	**Maturity Date**
Interest rate swap	$ 1,300,000	3.38%-6.33%	0.981%- 0.965%	Every 3 months	July 12, 2004 to May 20, 2005

	June 30, 2003			
Type of Transaction	**Notional Amount**	**Carrying Value**	**Fair Value**	**Credit Risk**
Cross currency swap	US$ 50,799 thousand	$ -	($ 11,201)	$ -

The related losses of KG Telecom on these swap contracts for the six months ended June 30, 2004 was $44,997.

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

2) Market risk

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

KG Telecom entered into cross currency swap contracts to hedge its exposure to exchange rate and interest rate fluctuations on bank loans dominated in foreign currency. Therefore, the market risk is not material.

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

The interest rate swap contracts are settled at net amounts, and the expected cash demand is not significant. Due to the simultaneous cash inflow and outflow generated from cross currency swap contracts, the aggregated outcome of net cash flow is expected to be insignificant. Thus, no additional material cash is required.

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

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

C. Investment in Mainland China: None.

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

MARKETABLE SECURITIES HELD
JUNE 30, 2004
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Company Name	Type and Name of Securities	Relationship with the Company	Financial Statement Account	June 30, 2004				Note
				Shares	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Far EasTone Telecommunications Co., Ltd.	Stocks							
	KG Telecommuincations Co., Ltd.	Equity-method investee.	Investments in shares of stock	1,332,997,916.00	$ 32,014,888	100.00	$ 32,014,888	Note A
	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee	Investments in shares of stock	1,037,000,000.00	9,749,738	100.00	9,749,738	Note A
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Investments in shares of stock	54,000,000.00	471,918	45.00	471,918	Note B
	E. World (Holdings) Ltd.	Equity-method investee.	Investments in shares of stock	6,014,622.00	49,988	85.92	49,988	Note B
E. World (Holdings) Ltd.	Stocks							
	E. World Ltd.	Equity-method investee	Investments in shares of stock	19,349,994.00	US$ 552,000	99.99	US$ 552,000	Note B
	Ideaculture Limited (Cayman)	-	Investments in shares of stock	1,195,141.00	US$ 431,000	17.96	US$ 143,000	Note D
KG Telecommunications Co., Ltd.	Stocks							
	KGEx.com	Equity-method investee	Investments in shares of stock	175,931,000.00	906,733	50.27	906,733	Note B
	KGT International Holdings	Equity-method investee	Investments in shares of stock	50,000.00	146,330	100.00	146,330	Note B
	KG Satellite	Equity-method investee	Investments in shares of stock	9,950,000.00	84,073	66.33	84,073	Note B
	iScreen	Equity-method investee	Investments in shares of stock	4,000,000.00	72,321	40.00	72,321	Note B
	YesMobile	-	Investments in shares of stock	100,000.00	3,000	0.50	3,000	Note B
KGT International Holdings	Stocks							
	KGEx.com	Equity-method investee	Investments in shares of stock	15,548,000.00	US$ 3,898,000	4.40	US$ 3,898,000	Note B
KGEx.com	Beneficiary certificate-open ended mutual funds							
	Untied Bond Fund	-	Short-term investments	2,770,105.03	35,000	-	35,000	Note C
	Sheng Hua 1699 Bond Fund	-	Short-term investments	720,290.45	8,565	-	8,640	Note C
KG Satellite	Beneficiary certificate-open ended mutual funds							
	Phoenix	-	Short-term investments	1,399,492.00	20,225	-	20,393	Note C
	PCA Bond Fund	-	Short-term investments	217,068.70	3,241	-	3,267	Note C
	Central Diamond Bond Fund	-	Short-term investments	7,995,521.37	88,061	-	88,738	Note C

Notes: A. Calculation was based on audited financial statements as of June 30, 2004.

B. Calculation was based on unaudited financial statements as of June 30, 2004.

C. Open-ended mutual funds was calculated by net asset value of mutual funds as of June 30, 2004.

D. Calculation was based on the most current audited financial statements.

SCHEDULE B

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
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Account	Related Party	Nature of Relationship	Beginning Balance		Aquired		Disposed				The Change due to Equity Method	Ending Balance	
					Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs	Gain or Loss		Share/Units	Amount
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Equity-method investee	Original stockholders of KG Telecom	-	526,430,771.00	$ 11,698,382	806,567,145 (Note D)	$ 17,930,678 (Note D)	-	$ -	$ -	$ -	$ 2,385,828 (Note B)	1,332,997,916.00	$ 32,014,888
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Issuance of stock by cash	-	6,500,000.00	65,000	47,500,000	475,000	-	-	-	-	(68,082) (Note C)	54,000,000.00	471,918
KG Telecommunications Co., Ltd. (Note A)	Fuhwa Bond Fund	Short-term investments	-	-	8,276,487.41	101,313	-	-	8,276,487.41	101,752	101,313	439	-	-	-
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	28,193,838.32	335,263	-	-	28,193,838.32	336,616	335,263	1,353	-	-	-
	Sheng Hua 5599 Bond Fund	Short-term investments	-	-	27,259,695.01	292,862	-	-	27,259,695.01	293,494	292,862	632	-	-	-
	Entrust Kirin Bond Fund	Short-term investments	-	-	24,112,994.10	255,463	-	-	24,112,994.10	256,642	255,463	1,179	-	-	-
	Phoenix	Short-term investments	-	-	52,414,671.20	756,895	-	-	52,414,671.20	759,803	756,895	2,908	-	-	-
	PCA Bond Fund	Short-term investments	-	-	17,673,057.10	263,885	-	-	17,673,057.10	264,260	263,885	375	-	-	-
	President Home Run Bond Fund	Short-term investments	-	-	9,818,196.30	132,159	-	-	9,818,196.30	132,351	132,159	192	-	-	-
	United Bond Fund	Short-term investments	-	-	11,773,049.24	147,593	-	-	11,773,049.24	147,687	147,593	94	-	-	-
	Truswell Bond Fund	Short-term investments	-	-	16,337,600.20	200,000	-	-	16,337,600.20	200,714	200,000	714	-	-	-
	Invesco GP Aggressive Income Fund	Short-term investments	-	-	10,510,341.13	115,223	-	-	10,510,341.13	115,490	115,223	267	-	-	-
	Grand Cathay Bond Fund	Short-term investments	-	-	13,666,157.20	170,000	-	-	13,666,157.20	170,069	170,000	69	-	-	-
	TA Chong Bond Fund	Short-term investments	-	-	12,012,974.00	150,000	-	-	12,012,974.00	150,067	150,000	67	-	-	-
	TA Chong Gallop Bond Fund	Short-term investments	-	-	19,154,886.40	200,000	-	-	19,154,886.40	200,090	200,000	90	-	-	-
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	421,785.10	6,740	6,255,473.50	100,000	6,677,258.60	106,865	106,740	125	-	-	-
	Fuh-Hwa Bond Fund	Short-term investments	-	-	12,150,254.50	154,518	-	-	12,150,254.50	155,336	154,518	818	-	-	-
KGEx.Com (Note A)	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	10,178,000.94	121,022	-	-	9,457,710.49	113,000	112,457	543	-	720,290.45	8,565

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

Note B: Including investment gain of $2,388,902 and cumulative translation adjustments of ($3,074) under equity method.

Note C: Investment loss under equity method.

Note D: Acquisition from the Combination with KG Telecom (Note 9).

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
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Amounts in Thousands of New Taiwan Dollars)

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
KG Telecommunications Co., Ltd.	Subsidiary	Service revenue	($ 439,319)	(2%)	30 days	-	-	Accounts receivable (Note A) $82,431	12%
		Cost of services	402,627	5%	30 days	-	-	Accounts payable (Note A) $ -	-
New Century InfoComm Tech Co., Ltd.	Same chairman	Service revenue	(361,398)	(2%)	30 days	-	-	Accounts receivable (Note B) $ 5,792	1%
								Accounts payable (Note B) ($16,942)	(7%)

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

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

SCHEDULE D

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
JUNE 30, 2004
(Amounts in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance (Note)	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Equity-method investee	$422,613	(Note)	$ -	-	$115,485	$ -
	Yuan-Ze Telecommunications Co., Ltd.	Equity-method investee	208,894	(Note)	-	-	-	-

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
FOR THE SIX MONTHS ENDED JUNE 30, 2004
(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2004			Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Note
				June 30, 2004	December 31, 2003	Shares	Percentage of Ownership (%)	Carrying Value			
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	Wireless telecommunications services and the wholesale/ retail sale of telecom equipment	$ 29,629,139	$ 11,698,461	1,332,997,916	100.00	$ 32,014,888	$ 2,388,902	$ 2,388,902	Notes A and B
	Yuan-Ze Telecommunications Co., Ltd.	Taiwan	Wireless telecommunications services and the wholesale/retail sale of telecom equipment	10,370,000	10,370,000	1,037,000,000	100.00	9,749,738	(118,525)	(120,349)	Notes A and B
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	Electronic toll collection service	540,000	65,000	54,000,000	45.00	471,918	(73,924)	(68,082)	Notes C and D
	E. World (Holdings) Ltd.	British Cayman Islands	Investment	82,883	41,095	6,014,622	85.92	49,988	(202)	(210)	Notes A and E
E. World (Holdings) Ltd.	E. World Ltd.	Taiwan	Sale of cellular phone equipments and accessories	193,500	193,500	19,349,994	99.99	US$ 552,000	(30)		Notes D and F
KG Telecommunications Co., Ltd. (Note H)	KGEx.com	Taiwan	Type II telecommunications service	1,759,310	1,759,310	175,931,000	50.27	906,733	(99,693)		Notes D and F
	KGT International Holdings	British Virgin Islands	Investment	93,976	93,976	50,000	100.00	146,330	(18,532)		Notes D and F
	KG Satellite (KGS)	Taiwan	TYPE I telecommunications services	99,500	99,500	9,950,000	66.33	84,073	(2,959)		Notes D and F
	iScreen	Taiwan	Information service	100,000	100,000	4,000,000	40.00	72,321	(8,001)		Notes D and G
KGT International Holdings (Note H)	KGEx.com	Taiwan	Type II telecommunications service	US$4,687,000	US$4,687,000	15,548,000	4.40	US$3,898,000	(99,693)		Notes D and F

Notes: A. Subsidiary.
B. Calculation was based on audited financial statements as of June 30, 2004.
C. Equity-method was investee of the Company.
D. Calculation was based on unaudited financial statements as of June 30, 2004.
E. The equity in net gain (loss) was used to be recognized in the succeeding year because the audited financial statements of the investee were not timely available. However, the equity in net gain (loss) has been recognized at the same period since the percentage of ownership exceeded 50%. Calculations was based on audited financial statements in 2003 and unaudited ones for the period ended June 30, 2004.
F. Subsidiary.
G. Equity-method investee of KG Telecom.
H. The original investment amounts were equal to those of KG Telecom's account balances as of December 31, 2003 due to the Combination with KG Telecom in 2004.