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Far EasTone Telecommunications Co., Ltd. 2008 Annual Report

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# Letter to Shareholders

#### To Our Shareholders,

As we all know, the world's economies have been significantly impacted by the current economic crisis. When the sub prime mortgage defaults first hinted that things were not quite what they seemed to be, few foresaw that was the tip of the iceberg that would subsequently worsen, resulting in today's weakened economies in the US, UK, Japan and even China – the indomitable financial powerhouse. No economy was spared, Taiwan included. Historically, this is the first time that the Taiwan economy suffered such great decline within such a short time frame. With no sight of an end to this crisis, we must be prepared to respond to this global situation in the best ways possible and brace ourselves for further challenges.

According to figures from NCC, the industry experienced an overall decline of 1.1 % in total revenue for fiscal 2008, out of which mobile communications declined by 0.5% and fixed, long distance and international calls declined by 2.4% consolidated. We are encouraged, however, by the growth of mobile users at 5%. This goes to show that no matter how bad the economy, communications cannot be substituted.

To this end, Far EasTone has responded by taking an aggressive stance in strengthening our competitiveness. We believe that perseverance and innovation must prevail. These are time-tested mantras we take seriously. In fiscal 2008, Far EasTone, along with KGT, Arcoa and other subsidiaries, achieved a consolidated total revenue of NT\$62.518 billion, consolidated service revenue of NT\$57.319 billion, service EBITDA margin of 46.2%, net income after tax of NT\$10.161 billion and EPS of NT\$3.09.

Besides the strong financial showing, accolades from both local and international organizations recognizing FarEasTone's achievements came in the form of awards such as "Trusted Brands" by Reader's Digest, "Best Corporate Governance in Taiwan" by FinanceAsia for 2 years running and first place in the telecommunications category in a public survey of Top 10 Services by Global Views Magazine. In addition, we are proud to be awarded the ISO20000 standard by the International Technology Services Marketing Association, a first for a telecommunications provider in Taiwan. This is testimonial of our commitment to achieve excellence and to challenge ourselves in order to bring the best value to our customers.

Our business strategy incorporates our dedication to corporate citizenship. In 2008, for the fourth consecutive year, Far EasTone joined hands with the Children Welfare League Foundation to raise funds for abandoned children through the stores, to support them in their daily living expenses and education. Far EasTone also participated in NCC's campaign to narrow the disparity between rural and urban Taiwanese and did so by donating computers to children living in rural areas and also undertaking the task of constructing telecommunications network in remote Nantou and Taitong. Far EasTone's commitment to the green movement also received recognition with Far EasTone being awarded "Green Procurement Enterprise in Taiwan".

### **Operating Performance and Results of 2008:**

#### **FEG** Telecom Sector multi-prong business strategy

- Market expansion through 4 business units mobile, enterprise, home and content & media.
- In addition to business units, other functional units such as finance & integrated services, business strategy & development, technical planning and human resources were repositioned for better support to achieve business expansion.
- Simultaneous works were also carried out for optimal office planning, network consolidation and brand unification so as to ensure the most effective and efficient use of our resources.
- Revamp of profit model to lead industry
- Besides revenue from voice communication, incremental data revenue and devices revenue were derived from bundling technical gadgets such as notebook and Nintendo with services, in keeping with our trend-setting reputation.
- To grow the broadband market for home use, the Company Photo Sharing Service and Digital Photo Frame were launched.

- For successfully providing convergent marketing services through both the computer and mobile phone, FETnet won a Silver in the "e-21 Golden Net" award organized by the Ministry of Economic Affairs, scoring a first for a telecommunications provider in Taiwan. This award also attests to the feasibility of operating beyond traditional access.
- Non-voice services hit a new high In 2008, Far EasTone's non-voice service revenue accounts for 37% of the total non-voice market revenue share, once again extending our leadership position. Far EasTone's non-voice service revenue represented 12.5% of the total service revenue, exceeding the 9%-10% industry average.

# Current State of Operation and Strategy Planning

Speed and synergy will be key components for success in this fiercely competitive industry and to achieve this, we aim to intensify our efforts on service convergence.

WiMAX commercial launch

- Trial run in Taichung will begin in the second half of the year.
- Commercial launch in the fourth quarter of the year.

#### Strategy in Saturated Telecom Industry

- Focus on what we are known for our promise of reliability, quality and value for money.
- Be the industry leader in terms of cost-efficiency and also a pioneer in time-to-market.
- Continuous investment in service quality and enhancement of brand equity.
- Be the industry leader in new product and service offerings.
- Core investments for the achievement of highest investment return
- Enhance network quality, optimize indoor communication quality and improve communication quality in areas with weak reception.
- Concentrate on the construction of the core 3G network and its transmission quality.
- Improve our broadband competitiveness to more than 65% self-owned transmission.
- Integrate Far EasTone's and NCIC's network infrastructure to achieve optimal synergy.
- Integrate all information on portals to achieve consistency and constructing an infotainment content
  aggregation platform. Provide customized devices for consumer, home, enterprise and in-car. Other
  features such as AGPS, news, paid tools and advertising solutions are also in the pipeline to meet the
  demands of our customers.

Recent financial news reports have been mostly negative. The crisis does not seem to have reached the end of its run and many believe that it will continue through 2009. Such difficult economic times ironically serve as a barometer for the health of an organization and a true test of its resilience.

Businesses today should adopt an approach of cautious risk management, open and clear lines of communication, close partnership with every member of the work force and taking this opportunity to re-access the viability of their current supply chain. The year 2009 should be a new era of telecommunications for Taiwan. Far EasTone is looking forward to greater synergy within the industry as well as expanding its scale of operation and enhancing its service quality.

Finally, we would like to sincerely thank all our shareholders and the society for your continued support. We wish you good health and all things well.

Douglas Hsu Chairman

Jan Nilsson Vice Chairman and President



Far EasTone Telecommunications Co.,Ltd. Annual Report 2008

# 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:

1997/01	Awarded two licenses from MOTC to provide GSM1800 services island-wide and GSM900 s	services	in the
	northern region of Taiwan		

- 1998/01 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
- 1999/03 Reached one million revenue-producing customers. Noted by Global Mobile Magazine for being the GSM system operator to do so in the shortest time
- 2000/02 Received "GSM in the Community Award" from GSM Association for disaster relief efforts after 921 earthquake
- 2000/05 Awarded by the Directorate of General Telecommunications (DGT) as the operator winning the best customer satisfaction for the second consecutive year
- 2000/07 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
- 2001/04 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)
- 2002/02 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
- 2002/03 The Company and IBM successfully launched the first GSM/GPRS CSP enabling Mobile e-Business
- 2002/06 Launched "Super i-style Mobile Internet Service"
- 2002/08 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
- 2003/03 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
- 2003/04 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
- 2004/01 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
- 2004/02 Launched FET Smart Club Card offering mobile services and exclusive value-added rewards plan
- 2004/04 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
- 2004/06 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+

- 2005/02 Obtained a 55.3 % stake in handset chain store Arcoa Co. Ltd.
- 2005/03 Awarded the certification of the international BS 7799 Information Security
- 2005/04 First domestic telecommunications operator to be certified as compliant with the international BS 7799 Information Security Management Systems standard
- 2005/05 Acquired its 3G mobile services subsidiary Yuan-Ze Telecommunications
- 2005/06 Launched "Mailgene Plus", the first push-email automated mail service in Taiwan
- 2005/07 Launched 3G multimedia services, becoming the first 3G WCMDA provider in Taiwan
- 2005/08 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
- 2006/01 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
- 2006/03 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-"
- 2006/04 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
- 2006/06 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
- 2006/08 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
- 2007/05 Acquired 51% of Q-ware Communications' (split from Q-ware Systems & Services Corp.) to expand the scope of the Company's wireless communication services
- 2007/06 Received the highest rating of "A+" in Securities and Futures Institute's "Information Disclosure Evaluation" for two consecutive years (2005 and 2006). Out of more than 1000 listed and OTC companies, only 15 received the "A+" rating in 2006
- 2007/07 Awarded by Finance Asia magazine as "Best Corporate Governance in Taiwan". The Company is the only telecommunication company in Taiwan to receive the award
- 2007/07 Received the WiMAX license for the southern district. The Company is the only telecommunication service provider among the "domestic telecommunication industry's big three" to have received the license
- 2007/08 Launched "FET Big Broadband" services. Through an IMS platform that integrated mobile, wired and wireless services, the service is the Company's foray in the consumer household market to offer subscribers with a new wireless lifestyle
- 2007/09 Received the highest rating in the SGS (Société Générale de Surveillance) Qualicert program for two consecutive years
- 2007/09 Launched "FET Beep Beep Go" NFC (Near Field Communication) services, becoming the first mobile service provider in the Asia-Pacific region to adopt GSMA Association's international SWP (Single Wire Protocol).
- 2007/10 Launched "FET GPS Info Go" along with "FET's G5" to provide integrated on-the-go information service with GPS navigation, mobile phone, mobile TV and multimedia entertainment features, venturing into the vehicle mobile application domain
- 2007/11 Launched "ogo"; Asia's first Personal Communicator to offer internet access at anytime and anywhere for users to enjoy msn, email and VoIP phone capabilities
- 2007/12 Issued 160,370 thousand Shares to exchange for 24.5% New Century InfoComm Tech Co., Ltd. common shares held by Sing Tel
- 2008/03 Reduced capital by returning NT\$7,745millions in cash to shareholders to enhance the return of shareholders' equity
- 2008/03 Established FEG Telecom Sector to provide mobile communication, broadband, media, and international services

2008/04 Named by the Reader's Digest as a Trusted Brand

- 2008/04 Awarded the "Corporate Social Responsibility top 50" by the Global Views Magazine
- 2008/08 Awarded the "Best Corporate Governance in Taiwan" award by Finance Asia again, the Company is the only Telecom Company to win this award for two consecutive years in Taiwan
- 2008/08 Awarded the 2008 "Excellence in Information Service Management Project of the Year Award" by the itSMA. The Company is the only Telecom Company to have achieved ISO 20000 IT Service Management certification in Taiwan
- 2008/11 Awarded the "e-21 Gold Web Award" by the MOEA Department of Commerce for FETnet successful integration in computer and mobile cross-platform media marketing
- 2008/11 Launched the "FET 070" to offer consumers a simple way to access the Internet and phone call at the same time
- 2008/12 Awarded 1st place among telecommunications companies in Global Views Magazine's Top 10 Service Companies in 2008
- 2008/12 Awarded "Green Procurement Enterprises" by the Taipei City Government with commitment to the green movement
- 2009/04 Received "2008 Green Procurement Excellent Enterprises" award by the Environmental Protection Administration Government of the Republic of China
- 2009/04 Far EasTone and China Mobile announce strategic cooperation agreement and share subscription agreement

#### 2-2. Status of Acquisitions

(1) Merger with KG Telecommunications Co., Ltd

A. KG Telecommunications Co., Ltd became 100% owned by the Company

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

The consideration of the whole transaction includes cash payment and shares exchange of the Company. The whole process of this transaction is complicated and time consuming. Therefore, a two-stage transaction is adopted to reduce the impact on former KGT customers. The first stage is to merge the former KGT with Yuan Ho, with Yuan Ho as the surviving company and assume all former KGT legal rights and obligations as well as maintain all former KGT business and operation.

After this first-stage merger, the Company diluted its ownership of Yuan Ho from 100% down to 40% and former KGT stockholders then hold 60% ownership of Yuan Ho. The first-stage merger was closed on January 1, 2004. On the closing day of the first-step merger, Yuan Ho also changed its name to KG Telecommunications Co., Ltd. (the " new KGT").

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

The exchange ratio of the first stage transaction between former KGT shares and new KGT shares (i.e. Yuan Ho shares) is: For one former KGT share, one will get NT\$6.72 cash and 0.46332 new KGT common 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.

B. Merger with KGT and the Company, KGT being the extinguished company

In order to have more effective utilization of the telecom network resources and to enhance the operation performance, the Company and KGT held the board meeting simultaneously on February 26, 2009 to approve simple merger by Article 19 of the Enterprise Merger and Acquisition Law. As the Company owned 100% of KGT shares, there is no merger consideration in this case. The closing date of the merger has been tentatively set on January 1, 2010. If the approval or permission of the relevant competent authorities could not be acquired before the tentative closing date, or if there is a need to change the closing date due to other circumstances, the Company has authorized its chairman to negotiate the matter with KGT.

(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 merger was May 2, 2005. Upon the merger, the company is the surviving company, while Yuan-Ze Telecommunications was the extinguished company.

		2007/5/51, Onit: Share, 70
Affiliated Company	Investment of t	he Company
	Share	%
KG Telecommunications Co., Ltd.	1,332,997,916	100.00
ARCOA communications Co., Ltd.	81,680,039	60.83
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.	157,714,020	41.18
Ding Ding Integrated Marketing Service Co., Ltd.	4,500,000	15.00
Far EasTron Holding Ltd.	4,486,988	100.00
Q-ware Communications Co., Ltd.	36,459,930	51.00
New Century InfoComm Tech Co., Ltd.	1,062,347,582	26.56
ADCast Interactive Marketing Co., Ltd.	18,351	0.40

2-3. Status of the Affiliated Company in the Recent Years until the Annual Report being Published : 2009/3/31: Unit: share: %

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 Company announced a strategic cooperation agreement and a share subscription agreement with China Mobile Limited ("China Mobile") after the Board Meeting resolution on April 29, 2009. Under the terms of the agreements, China Mobile will subscribe through a private placement no more than 444, 341, 020 common shares of the Company. Total consideration upper limit is approximately NT\$ 17.7736 billion, or equivalent to NT\$ 40 per share. If the volume weighted average price of the common shares of the Company for the 14 consecutive trading days prior to and including the date on which either the place's parent company or the Company sent the notice to the other party, pursuant to the relevant agreements, to notify the settlement date of the private placement, is beyond the range of NT\$35 (inclusive) to NT\$50 (inclusive), it is proposed that the Shareholders Meeting hereby authorizes the Board of Director may discuss in good faith to agree a new private placement price per share of the Company; provided that any upward or downward adjustment (if any) shall not be more than NT\$5 per share of the Company. However, if the difference between the new private placement price and the Reference Price of the new pricing date reaches 20% or more of the latter, a fairness opinion from an independent expert is required per the regulations. The private placement price will be no less than 70% of the Reference Price. The completion of this private placement is subject to the satisfaction and fulfillment of all the conditions precedent set out in the relevant transaction documents, including without limitation that it is permitted under the relevant laws and regulations and approvals from relevant competent authorities have been obtained. Upon completion of this private placement, both parties agree to establish strategic cooperation in the fields of joint procurement, voice and data roaming, value added services and future technology and research development...etc. Both parties also agree to, within the extent permitted by relevant applicable laws and/or after obtaining the approvals of relevant competent authorities, establish a joint venture to cooperate in the fields agreed by both parties. The strategic cooperation agreement will be effective from the completion date of the private placement.



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# 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
- The Company's Chairman, President and Managers responsible for Finance or Accounting who have Held a Post in the CPA Firm or its Affiliated within the latest year
- Shareholding Transferred or Pledged by Directors, Supervisors, Management, and Major Shareholders
- Top ten Shareholders being the Related Party as Defined in Statement of Financial Accounting Standards No. 6
- 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

Department	Name	Title	Job Description
President	Jan Nilsson	Vice Chairman & President	Responsible for developing and implementing the overall corporate strategy and directions of the company. Develop, maintain and supervise all operations and its organization.
Internal Audit	Jessica Sung	Chief Auditor	Responsible for assist the BOD and management team to identify the deficiency of the internal control system, to assess the effectiveness and efficiency of the operation, and to provide appropriate improvement suggestions to ensure the effectiveness of internal control system as well as for continuous improvement.
Human Resources	Patrick Wu	Vice President	Responsible for Human Resources Management, Human Resources Development and Compensation & Benefits Management, Employee Services, Employee Relations and Human Resources Information System with Payroll Administration.
	Benjamin Ho	Executive Vice President	Responsible for corporate strategy & development, brand & communications, corporate public relations, contents & media business, and related subsidiaries.
Corporate Strategy	Jennifer Liu	Vice President	Responsible for media marketing business.
& Development	Heidi Huang	Vice President	Responsible for contents marketing business. Responsible for the development and enabling of all new services
	Roger Chen	Vice President	and products.
	Robert Liu	Vice President	Responsible for corporate strategy & development projects.
	Philby Chen	Executive Vice President	Business Operation Division: responsible for consumer mobility services, including consumer marketing programs, channel strategies and activities, consumer call center services, and end-to-end business operation support functions for the Consumer Mobility Business Unit.
	Guang-Ruey	Vice President	Consumer Sales Dept .: responsible for developing and managing
Business Operation	<u>Chiang</u> Samuel Yuan	Vice President	channels and market as well as all merchandizing in branded stores. Consumer Marketing Dept.: responsible for planning and designing of all consumer mobility products and promotion programs to address the needs in the individual markets, including planning,
	Maggie Mei	Vice President	pricing, packaging, and promoting. Customer Service & Collection Dept.: responsible for managing call center inbound and outbound activities, including collection management and supporting to physical stores and dealers island wide.
	Herman Rao	Executive Vice President	Responsible for Mobile/ Broadband/ ISP Network planning, development and operation, technology strategy, planning and development.
	Howard Tsao	Vice President	Responsible for network monitoring and alarm handling, network emergency handling center, network change, security and performance management, core network operation and management.
Network & Technology	James Lee	Vice President	Responsible for access/transport/core network, network service planning/integration, engineering, implementation and operation support. E2E solution provider to BU and Business/technical operation support. Network Capex planning and management.
	Ta Fu	Vice President	Responsible for regional operations; to develop the operational direction, strategy and supervise the engineering, execution and
	S.C. Lee	Vice President	operations for mobile, fixed and data network. Responsible for voice services and internet services planning and management.
Information Technology	Eton Shu	Executive Vice President	Responsible for company information technology system strategic planning, development and operations. Providing IT services for store, customer care, billing, financial and decision analysis information to enhance business competence.
	Yvonne Li	Executive Vice President	Responsible for finance, accounting, investor relations, procurement, process control, general administration, legal, regulatory and contracts management.
Finance & Shared	David Tsai	Vice President	Responsible for loan and cash management, payment, investment, credit management, communicate with stock agency, MOPS, board meeting & shareholders' meeting related matters.
Services	Sharon Lin	Vice President	Responsible for financial reporting, budgeting & forecasting, cost benefit analysis review & post-tracking for capital expenditure and pricing, long term investment evaluation, subsidiary management, revenue assurance and process controlling.
	Jessica Chen	Vice President	Responsible for legal litigation, IP, regulatory, contract management, corporate security and the public affairs.
Home Wireless	Maxwell Cheng	Vice President	Responsible for business strategy planning, marketing, product development and management targeting Home market, Home product sales, channel management and business operation, home customer service.

# 2 Directors, Supervisors and Executive

# 2-1. Directors and Supervisors

#### 2009/4/18

					Shareholding :							:	Man		9/4/18 	
Title	Name	Election Date	Tenure (year)	First Election Date	Shareholding elected		Current Shareh	, in the second s		eld of	in the Na of Othe	me Major Education rs & Experience	Current Position with Other Company	degrees of	consangu other	s of within 2 inity to each
Chairman	Douglas Hsu, Representative of Yuang Ding Investment Co., Ltd.	2006/ 5/26	3	1997/ 4/11	Shares 1,320,197,849 *0			32.73	Shares 0: *0:	<u>%</u> 0: *0		% : 0: M.S., Economics, *0: Columbia University; USA Honorary Ph. D., Management Science, National Chiao Tung University President of Far Eastern Textile Ltd	Chairman of Far Eastern Textile Ltd. Chairman of Asia Cement Co., Ltd. Chairman of Far Eastern	Director	Hsu	Relation Brother in-law
President	Jan Nilsson, Representative of Yuang Ding Investment Co., Ltd.	2006/ 5/26	3	1997/ 4/11	1,320,197,849 *35,000					0 *0		0 Sr. Executive VP in *0 Satelindo Telecom Indonesia; M.S., Industrial and Maragement Engineering, Linkopir University, Sweden.	Tech Co., Ltd. President of Far EasTone Telecom, Vice Chairman of New Century InfoComm Tech Co., Ltd.	None	None	None
Managing Director	Champion Lee, Representative of Yuang Ding Investment Co., Ltd.	2006/ 5/26	3	1997/ 4/11	1,320,197,849 *73		1,066,657,614 *58			0 *0		0: MBA, Texas *0: A&M University, USA President of Yuang Ding Co., Ltd.	Director and Senior VP of Far Eastern Textile Ltd	None	None	None
Director	Peter Hsu, Representative of Yuang Ding Co., Ltd.	2006/ 5/26	3	2006/ 5/26	5,153,148 *0	0.13 *(			0: *80,795:	0 *0:		0: M.S., Operations *0: Management, Stanford University, USA Vice President of Din	Director of Far Eastern Textile Ltd; Senior Vice President of central procurement in Far Eastern Textile Ltd.	Director	Hsu	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: *184,466	0 *0.01		0: M.S., Computer *0: Science, Columbi	Vice Chairman and President of Far Eastern Textile Ltd; Vice Chairman of Oriental Union		Hsu	Brother- in-law Brother- in-law
Director	Toon Lim, Representative of Yue Ding Industry Co., Ltd.	2006/ 5/26	3	2003/ 5/23	1,037,115 *0					0: *0		0Postgraduate Diploma *0in Business Administration University of Singapon Chief Operating Officer, SingTel Grou	None	None	None	None
Director	Shiro Yamagishi Representative of NTT DoCoMo Inc.	2006/ 5/26	3	2004/ 6/30	190,040,265 *0		153,543,573 *0	4.71 *0		0 *0		0: MBA, University of *0: Maryland, USA MS, Mechanical Engineering, University of Tokyo, Japan Senior Manager, Global Professional Service Department, NTT Communications, Inc. (NTT Com)	Executive Director, Clobal Business	None	None	None
	Kurt Roland Hellström	2006/ 5/26	3	2005/ 5/20	0	0	0	0)	0:	0	0	0 B.S. in Physics and Economics, Stanford University M.A. and Ph.D. in Economics, University of California at Berkeley Academician, Academia Sinica, 1982 Kuwh-Tino Li Dimfesor	Member, Board of Directors, Hong Kong Science and Technology Parks Corporation		None	None

Independent: La Director Ju	awrence uen-Yee LAU	2006/ 5/26	3	Date 2005/ 5/20	Shares 0	% 0	Shares 0	% 0	Shares 0	% 0	Shares 0	0 Academician, 14th Session of Academia Sinica	Company President and Vice-Chancellor of the Chinese University of Hong		Name None	Relation None
			3		0	0	0	0	0	0	0	Session of Academia Sinica	Vice-Chancellor of the Chinese		None	None
Director Ju	uen-Yee LAU	5/26		5/20								Academia Sinica	the Chinese			
												Professor of	University of Hong	: · · · ·		
												Stanford	Kong			
							:						Independent			
												M. A., Economics,				
													Kong Life			
					-							California,	Insurance Co., Ltd.			
												Berkeley	Independent			
												Ph. D. Economics,	non-executive			
												University of	Director of China	E		
												California,	National Offshore			
												Berkeley	Oil Corp.(HK)			
Supervisor El	li Hong,	2006/	3	2000/	32,985,723	0.85	26,650,908	0.82	0	0	0	0 Vice President of	President of Far	None	None	None
Re	epresentative of	5/26		12/28	*0	*0	*0	*0	*0	*0	*0	*0 Citibank;	Eastern			
Fa	ar Eastern										- 1	B.S., Economics,	International Bank			
In	nternational											National Chung				
Le	easing Corp.											Hsing University		: :		
Supervisor M	forton Huang,	2006/	3	2006/	1,059,844			0.03		0			Counselor of the	None	None	None
Re	tepresentative	5/26		5/26	*0	*0	*0	*0	*0	*0	*0		Far Eastern Group			
of	f Asia												and Special Assistant of			
In	nvestment Corp.							- 1					Chairman, Far			
													Eastern textile Ltd.			
Independent Ch	'hen-en Ko	2006/	3	2005/	0	0	0	0	0	0	0		Director of GreTai	None	None	None
Supervisor		5/26		5/20									Securities Market			
													Independent			
											- 1		Director of E. Sun			
													Financial Holding			
											- 1		Co., Ltd . E. Sun			
											- 1		Bank and Chang			
											- 1		Type Industrial Co.,			
													Ltd.			
												Doctor of	1.10.			
												Accounting of				
											- 1	University of				
											1	Minnesota				

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

		1												2008/12/31
Condition	With work experience for	more than 5 years and the followin requirements	g professional qualification				Conform	n to Ind	lepende	nt (Not	e)			
Name	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	attorney, certified public accountant, or other professional or technical specialist who has passed a national examination and been	Having work experience in the area of commerce, law, finance, or accounting, or other wise necessary company business	1	2	<u>3</u>	4	5	<u>6</u>	7	<u>8</u>	<u>9</u>	<u>10</u>	Independent Director with other Company
Douglas Hsu			V		-	v	1	:	-	V	-	v		None
Jan Nilsson			V			V	V	V		V	V	V		None
Champion Lee			V			V	V	:		V	V	V	:	None
Peter Hsu		-	V		-	V	1	-	-	V		V	-	None
Johnny Shih			V			V	1	:		V		V	÷	None
Toon Lim		-	V	V	V	V	V	V	V	V	V	V		None
Shiro Yamagishi		:	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	1
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

	2008/12/31
Institutional Shareholders	Major Shareholders of the Institutional Shareholders
Yuang Ding Investment Co., Ltd.	Far Eastern Textile Ltd.(99.70%)  An Ho Garment Co., Ltd.(0.3%)
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%) \ Yu Ming Trading Co., Ltd.(0.01%)
NTT DoCoMo Inc.	Nippon Telegraph & Telephone Corporation(61.60%) \ The Master Trust Bank of Japan, Ltd.(Trust Account)(2.73%) \ Japan Trustee Services Bank, Ltd.(Trust Account)(2.72%) \ State Street Bank and Trust Company 505103(0.72%) \ Hero & Co.(0.70%) \ Japan Trustee Services Bank, Ltd.(Trust Account4)(0.49%) \ State Street Bank and Trust Company(0.47%) \ Trust & Custody Services Bank, Ltd.(Securities Investment Trust Account)(0.45%) \ JPMorgan Chase Bank 380055 (0.43%) \ Mellon Bank NA as Agent for its Client Mellon Omnibus US Pension(0.43%)
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 Investment Corp. (2.31%) \ Ding Yuan International Investment Corp.(1.30%)
Far Eastern International Leasing Corp.	Bai-Yang Investment Co., Ltd.(29.19%) \ Yuang Ding Investment Co., Ltd.(16.59%) \ Kai Yuan International Investment Corp.(16.53%) \ Yuan Ding Leasing Corp.(12.84%) \ Der Ching Investment Corp.(9.98%) \ Yue Yuan Investment Corp.(9.98%) \ Bai-Ding Investment Corp.(4.84%)
Asia Investment Corp.	Asia Cement Co., Ltd.(100%)

# 2-4. Institutional Shareholder Representatives for Major Shareholders of the Institutional Shareholders

Institutional Shareholders	2008/12/31 Major Shareholders of the Institutional Shareholders
Institutional Shareholders	Asia Cement Co., Ltd.(22.25%) \circle Oriental Institute of Technology(4.81%) \circle Far Eastern
	Medical Foundation(3.49%)
Far Eastern Textile Ltd.	University(2.74%) Cathay Life Insurance Co., Ltd.(2.08%) Chinatrust Commercial
rai Easterii Textife Etd.	Bank Trust in Asia Cement Co., Ltd. (1.52%) > Der-Ching Investment Corp. (1.45%) >
	Douglas Hsu(1.13%) \ Taiwan Post Co., Ltd.(1.10%)
	Far Eastern Textile Ltd.(24.05%) \circ Far Eastern Medical Foundation(5.30%) \circ Yu Yuan
	Investment Corp.(5.18%) \ Bai-Ding Investment Co., Ltd.(1.96%) \ Far Eastern
	Department Stores Co., Ltd. (1.82%) \ GDR-Asia Cement Co., Ltd. (1.62%) \ Yuan-Ze
Asia Cement Co., Ltd.	University(1.41%) • The Employee Retire Fund Committee of Far Eastern Textile Ltd.
	(1.13%) Yu Chang Investment Corp.(1.04%) SBC Trust in Norwich Union
	Insurance Retire Fund (0.97%)
	Asia Cement Co., Ltd.(99.97%) \ T.H. Chang(0.01%) \ R.H. Shao(0.01%) \ L.H.
Der-Ching Investment Corp.	Fang (0.01%)
Yuang Ding Investment Co., Ltd.	Far Eastern Textile Ltd.(99.70%) \ An Ho Garment Co., Ltd.(0.3%)
	Fu-Ming Transportation Co., Ltd.(99.90%) \ Johnny Shih(0.03%) \ T.C. Liu (0.03%) \
Fu-Da Transportation Co., Ltd.	K.Y. Lee(0.03%)
An Ho Garment Co., Ltd.	Far Eastern Textile Ltd.(100%)
All Ho Garinent Co., Etc.	U-Ming Marine Transport Corp.(76.00%) \ U-Ming Marine Transport (Singapore) Pte
Yue Tung Investment Co., Ltd.	Ltd. (24.00%)
Tou Fu Investment Corp.	Oriental Union Chemical Corp.(100%)
· · · · · · · · · · · · · · · · · · ·	Yuang Ding Investment Co., Ltd. (41.86%) Yue Ding Industry Co., Ltd(38.76%) Yue
Ta Juh Chemical Fibers Co., Ltd.	Li Investment Corp.(19.38%)
	Asia Cement Co., Ltd. (83.77%)   Far Eastern General Contractor Inc. (16.03%)  T.H.
Ya-Li Precast & Prestressed Concrete Industries Corp.	Chang $(0.03\%)$ × K.Y. Lee $(0.03\%)$ × R.H. Shao $(0.03\%)$ × H.G. Yang $(0.02\%)$ × Douglas
ra-Er riceast & ricsuessed concrete industries corp.	$Hsu(0.01\%) \times S.S. Hsu(0.01\%) \times S.F. Cheng(0.01\%) \times H.M. Yang(0.01\%)$
	Bai-Ding Investment Co., Ltd. (47%) Yuang Ding Investment Co., Ltd. (45.50%) Yue
Yu Ming Trading Co., Ltd.	Ding Industry Co., Ltd. (5%) \ Ding & Ding Management Consultants Co., Ltd (1%) \
Tu Wing Huding Co., Etu.	Yuang Ding Co., Ltd.(1%) Yuan Ding Leasing Corp. (0.5%)
	Far Eastern Textile Ltd. (37.13%) \ Asia Cement Co., Ltd. (35.50%) \ Der-Ching
Yuang Ding Co., Ltd.	Investment Corp.(14.50%) · Yuang Ding Investment Co., Ltd.(12.86%) · Yu Ming
rung bing co., bu	Trading Co., Ltd(0.01%)
Bai-Ding Investment Corp.	Far Eastern Department Stores Ltd.(66.66%) > Bai-Yang Investment Corp. (33.34%)
Ding Yuan International Investment Corp.	Far Eastern Textile Ltd.(100%)
Bai-Yang Investments Corp.	Far Eastern Department Stores Co., Ltd.(100%)
Kai Yuan International Investment Corp.	Far Eastern Textile Ltd. (100%)
	Yuang Ding Investment Co., Ltd. (46.20%) \ Asia Cement Co., Ltd. (43.60%) \ Far
Yuan Ding Leasing Co., Ltd.	Eastern Department Stores Co., Ltd. (9.20%) Yue Yuan Investment Corp. (1%)
	Asia Cement Co., Ltd. (36.42%) \ Yuang Ding Co., Ltd. (25.02%) \ Yuang Ding
Yue Yuan Investment Corp.	Investment Co., Ltd.(19.05%) \ U-Ming Marine Transport Corp.(17.66%) \ Yue-Tung
boundent corp.	Investment Co., Ltd.(1.84%) \ T.H. Chang(0.01%)
	1.1. Chang(0.01/0)

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

# 2-5. Executive Management

Title	Name	Effective Date	Curre Shareho	lding	Shares by Spou Mine Shares:	ıse & or	in Nar Oth	ne of ers	Major Education and Experience	Current Position with Other Company	or ( withi	Consan n 2nd I Each O	re Spous guinity Degree to ther Relation
Vice Chairman & President	Jan Nilsson	2002.9.1	<u>Shares</u> 138,950			<u>70</u> 0.00	<u>Shares</u> 0		Sr. Executive VP of Satelindo Telecom Indonesia; M.S., Industrial and Management Engineering, Linkoping University	KG Telecom Director of Far Eastern Electronic Toll Collection		None	
Executive VP, NT	Herman Rao	2008.2.1	62,682	0.00	0	0.00	0	0.00	Director of AT&T Wireless; Ph.D. of Computer Science, Arizona University	None	None	None	None
Executive VP, IT	Eton Shu	2004.5.1	0	0.00	0	0.00	0	0.00	VP of information technology of KG Telecom; MS, Computer Science and Information Engineering, National Taiwan University	Director of Far Eastern Info Service (Holding) Ltd. Director of Far Eastern Tech-info Ltd.(Shanghai) Director of ADCast Interactive Marketing Co., Ltd.		None	None
Executive VP, F&SS	Yvonne Li	2004.5.1	0			0.00			VP of 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 KGEx.com Co., Ltd. Supervisor of KGEx.com Co., Ltd. Chairman of Far Eastern Info Service (Holding) Ltd. Chairman of Far Eastern Tech-info Ltd.(Shanghai) Director of Q-ware Communications Co., Ltd. Supervisor of New Century InfoComm Tech Co., Ltd.		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	Interactive Marketing Co., Ltd.	None	None	None
Executive VP, BO	Philby Chen	2004.5.1	0	0.00	0	0.00	v		Accounting, Northern Arizona University	Department Stores Ltd. Chairman of ARCOA Communications Co., Ltd. Director of Yuan Cing Co., Ltd. Director of THI Consultants Inc. Director of Q-ware Communications Co., Ltd.		None	
VP, NT	S. C. Lee	2007.7.1	75,563	0.00		0.00			Sr. Project Manager of Siemens; Mechanical & Electrical Engineering Dept, National Taipei Institute of Technology	Co., Ltd.	None	None	None
VP, NT	Howard Tsao	2007.7.1	5	0.00	0	0.00	0	0.00	Manager, Industrial Technology Research Institute; B.S.E.E., Chung-Yuen University	None	None	None	None

Title	Name	Effective Date	Curro Shareho		by Sno	use &	Shares in Naı Oth	ne of	Major Education and Experience	Current Position with Other Company	or with	Consar in 2nd	re Spous iguinity Degree to ither
			Shares	%	Shares	%	Shares	%				Each C Name	Relation
VP, NT	James Lee	2007.7.1		0.00		0.00			Director of KG Telecom; B.S., Electrical Engineering, Feng Chia University	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
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	Co., Ltd.		None	None
VP, F&SS	Sharon Lin	2007.7.7	11,076	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. Supervisor of Q-ware Communications Co., Ltd. Director of ADCast Interactive Marketing Co., Ltd.		None	None
VP, CS&D	Jennifer Liu	2003.7.1	0	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	Roger Chen	2007.7.1	0	0.00	0	0.00	0	0.00	Director of KG Telecom; M.S., Mechanical Engineering, National Taiwan University	Director of iScreen Co., Ltd. Director of Far Eastern Info Service (Holding) Ltd. Director of Far Eastern Tech-info Ltd.(Shanghai) Director of ADCast Interactive Marketing Co., Ltd.	None	None	None
VP, BO	Guang Ruey Chiang	2003.7.1	158,669	0.00	0	0.00	0	0.00	Director of Long Cheng; M.S., Marketing, University of Kansas	Director and President of ARCOA Communications Co., Ltd.	None	None	None
VP, BO	Samuel Yuan	2003.7.1	0	0.00	0	0.00	0	0.00	Director of Alive Networks HK; B.S., Financial Analysis & Management Information	President of Yuan Cing Co., Ltd.	None	None	None
VP, BO	Maggie Mei	2006.1.1	57,419	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, HW	Maxwell Cheng	2003.8.1	235,018	0.01	0	0.00	0	0.00	Brand Manager of Nestle Taiwan Group;	Director of ARCOA Communications Co., Ltd. Director of Q-ware Communications Co., Ltd.	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	Jessica Sung	2007.9.1	0	0.00		0.00			MIS Manager of Janssen Cilag Taiwan, Johnson & Johnson; EMBA, National Taiwan University; CPA of California, USA	None		None	
Director, NT	Tony Wang	2003.3.1	0	0.00	0	0.00	0	0.00	Manager of Fareast Land ; M.S., Engineering, University of Texas at Austin	None	None	None	None

		E. 66	Curr	ent	Shares held	Shares hel	d 6 Maior Educ-tics'	Cumont De-Him '4			re Spouse 1guinity
Title	Name	Effective Date	Shareho	lding	by Spouse & Minor	in Name o Others	f Major Education and Experience	Current Position with Other Company	with		Degree to
			Shares			Shares %			Title	Name	Relation
Director, IT	Iris Su	2004.1.1	43,246	0.00	0 0.00	0 0.0	0 Manager of KG Telecom; M.S., Computer	None	None	None	None
							Information System, Arizona State University				
Director, IT	Leon Li	2004.1.1	0	0.00	0 0.00	0 0.0	0 Manager of KG Telecom; M.S., Computer Science,	None	None	None	None
							Monmouth University				
Director, IT	Hae-Shung Ju	2004.1.1	0	0.00	0 0.00	0 0.0	0 Senior consultant, NCR , M.S., Computer Science,	None	None	None	None
							East Texas State University				
Director, IT	Michelle Peng	2002.11.1	596	0.00	0 0.00	0 0.0	0 Software development	None	None	None	None
							Manager of Vondelon International Corp.;				
							Electronic data process in Ming-Chung college				
Director, IT	James Chen	2005.4.14	0	0.00	0 0.00	0.0	0 Engineering Supervisor of	None	None	None	None
							Fujitsu Corp.; Engineering Dept., Da				
D' IT	D L Cl	2007.0.1	0	0.00	0 0 00	0.0.0	Hwa University,	N	N		N
Director, IT	D.J. Chen	2007.9.1	0	0.00	0 0.00	0.0.0	0 General of Taiwan Mobil Communication;	None	None	None	None
							M.S., of Computer Science, California State				
D:	<b>D</b> 1		1.55 100	0.01			University				
Director, F&SS	Robert Chu	1999.11.1	1/5,488	0.01	0 0.00	0.0.0	0 Admin Manager of Honeywell Taiwan Ltd.;	None	None	None	None
							B.S., Finance and Taxation Fung Chia University				
Director, F&SS	Ann Chang	1997.8.4	13,352	0.00	0 0.00	0 0.0	0 Arthur Andersen CPA	None	None	None	None
							firm; M.S., Management				
							science, National				
Director, F&SS	Sharon Fan	2004.7.1	0	0.00	0 0.00	0 0.0	Chiao Tung University O Management Controller of	None	None	None	None
							Credit Loynnais Taipei; MBA, University of				
D:	411 T	2000 2 1	0	0.00	0 0 00	0.00	Washington				
Director, F&SS	Allan Lee	2008.3.1	0	0.00	0 0.00	0 0.0	0 Manager of Chung-Chie Property Management;	None	None	None	None
							M.S., Finance & Tax, Case Western Reserve				
D1		2005.10.21		0.00			University, US.				
Director, CS&D	Alison Kao	2005.10.24	0	0.00	0 0.00	0: 0.0	0 Spokesperson of Core Pacific City Living Mall;	None	None	None	None
							Public Affairs Manager & Spokesperson, Carrefour;				
							MBA, Long Island				
Director, CS&D	Emily Liu	2005.7.1	8,879	0.00	0 0.00	0.0	University, NY, USA 0: Account Manager of	None	None	None	None
	, i						Ogilvy & Mather Public Relation Taiwan;				
							M.S., Public Relations,				
Director, HW	Shing Chu	2008.4.1	0	0.00	0: 0.00	0: 0.0	Boston University 0 Sales Ass. Of Introl Co.,	None	None	None	None
,							Telecom				
							M.S., Unit of Southern California				
Director, ESM	Yvonne Pi	2008.9.1	44,000	0.00	0 0.00	0: 0.0	0: Team Leader of Citibank M.S., Department of	None	None	None	None
							Chinese Literature in				
Director, NT	Scott Chuang	2008.10.1	0	0.00	0 0.00	0: 0.0	Soochew University O Manager of Institute for	None	None	None	None
							Information Industry; Manager of Seednet;				
							M.S., Electrical				
							Engineering and Computer Science of North Carolina				
Director, NT	Vivian Chiang	2008.12.1	0	0.00	0.00	0.0.0	State University O Sales manager of MiTAC;	None	None	None	None
Difector, NT	vivian Chiang	2008.12.1	0	0.00	0.00	u 0.0	Engineer of ABS Telecom	None	None	None	None
							Inc.; M.S., Computer Science of		1		
							University of Texas of				
Director, IT	Jennifer Shen	2009.1.19	0	0.00	0 0.00	0 0.0	U.S. 0 Manager of Institute for	None	None	None	None
							Information Industry; Manager of NCIC;				
							M.S., Computer		1		
							Information Science of Oregon State University				
							-				
	1	1							1		

Title	Name	Date Minor Others Experience		Major Education and	Current Position with Other Company	Managers are Spous or Consanguinity within 2nd Degree to Each Other							
		1	Shares	%	Shares	%	Shares				Title	Name	Relation
Director, IT	James Perng	2009.1.19	0	0.00	0:	0.00	0:		Manager of Institute for Information Industry; Manager of Seednet; M.S., Computer Science of Syracuse University of New York	None	None	None	None
VP, CS&D	Robert Liu	2009.2.1	5,349	0.00	0	0.00	0		Manager of Citibank M.S., Industrial Engineering and Management, Chiao Tung University	None	None	None	None
VP, NT	Ta Fu	2009.3.17	258,731			0.00			VP, of NCIC; Manager of Nortel Network Co.,; M.S., Information Technology of Tamkang University	None	None		None
VP, CS&D	Heidi Huang	2009.3.30	0	0.00	0	0.00	0	0.00	Manager of Johnson & Johnson; Manager of L'oreal Taiwan; Manager of Motorla Corp.; MBA., Oklahoms City University	None	None	None	None

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

**Remuneration to Directors** 

	1			De	muneration t	o Directors									Pami	neration	o employ	000				2000/	12/31; N	
Title	Name	Compensation (A) Pension Fund (B			Remune from dis earni	Remuneration paid from distribution of earning s (C) (Note 2) (D)		Percent	+C+D) age of net fter tax (%)	allowa	Salary, bonus, special allowance (E) (Note 3) Pension Fund (F) (Note 4)						Number of held employee share subscription (H)		(A+B+C+E+D+F+G) Percentage of net income after tax (%)		Other remuneration from investment business			
		The Company	Consolidated	The Company	Consolidated	The Company	Consolidated	The Company	Consolidated	The Company	Consolidated	The Company	Consolidated	The Company	Consolidated	Cash	mpany Stock bonus	Cash	Stock bonus	The Company	Consolidated	The Company	Consolidated	except subsidiary
Chairman	Douglas Hsu, Representative of Yuang Ding Investment Co., Ltd.																							
Vice Chairman	Jan Nilsson, Representative of Yuang Ding Investment Co., Ltd.																							
Managing Director	Champion Lee, Representative of Yuang Ding Investment Co., Ltd.																							
	Peter Hsu, Representative of Yuang Ding Co., Ltd. Johnny Shih, Representative of Yuang Ding Co., Ltd. Toon Ltd.	0	0	0	0	86,229	86,236	5,108	5,108	0.90%	0.91%	13,089	13,089	3,825	3,825	0	0	0	0	0	0	1.07%	1.08%	Yes
Director	Representative of Yue bing Industry Co., Ltd. (Note 1) Shiro Yamagishi Representative of NTT DoCoMo Lawrence Juen-Yee																							
	Lawrence Juen-Yee LAU Kurt Roland HellstrÖm Note 1 : Yue I	Jing Jadu	etry Co. Li	d ra ann	cinted its m		ing from S	T. Bang t	Toop Lin	on Ion	0.2008													

Note 1: Yue Ding Industry Co., Ltd. re-appointed its representative from S.T. Peng to Toon Lim on Jan. 10, 2008. Note 2: The remuneration from 2008 distribution of earnings is subject to approval of 2009 Shareholders' Meeting and not actual payment amount yet. Note 3: Including salary, position compensation, bonus, transporting allowance, other allowance, accommodation allowance, business vehicle...etc, among which accommodation allowance is NTS1.696 thousand for house rental and business vehicle is NTS1.103 thousand for car rental. In addition, the compensation paid to the driver is NT\$833 thousand in total, but excluding in remuneration to

employees. Note 4: In Year 2008, the Company had no actual payment for pension fund. The figure shown in the table all belongs to pension fund contribution.

#### **Escalation for remuneration to Directors**

		Name of 1	Directors			
Escalation for remuneration paid to individual	Total of (A	A+B+C+D)	Total of (A+B	B+C+D+E+F+G) All companies in the consolidated statement : lawrence Juen-Yee LAU : Kurr Roland Hellar/On Yue Ding Industy Co., Ltd. Representative : Toon Lin NTT DoCoMo NTT DoCoMo Yuang Ding Co., Ltd. Representative : Shiro Yamagishi Putative : Peter Hsu, Johnny Shih Representative : Douglas Hsu, Jan Nilsson, Champion		
directors of the Company (NTD)	The Company	All companies in the consolidated statement	The Company			
Less than 2,000,000	Lawrence Juen-Yee LAU Kurt Roland HellstrÖm Yue Ding Industry Co., Ltd. Representative : Toon Lin	Kurt Roland HellstrÖm Yue Ding Industry Co., Ltd.	Yue Ding Industry Co., Ltd.	Kurt Roland HellstrÖm Yue Ding Industry Co., Ltd.		
2,000,000~5,000,000 (inclusive of 2,000,000)	None	None	None	None		
5,000,000~10,000,000 (inclusive of 5,000,000)	NTT DoCoMo Representative : Shiro Yamagishi	NTT DoCoMo Representative : Shiro Yamagishi	NTT DoCoMo Representative : Shiro Yamagishi			
10,000,000~15,000,000 (inclusive of 10,000,000)	Yuang Ding Co., Ltd. Representative : Peter Hsu, Johnny Shih			Representative :		
15,000,000~30,000,000 (inclusive of 15,000,000)		Representative : Douglas Hsu, Jan Nilsson, Champion	Douglas Hsu, Jan Nilsson, Champion	Representative :		
30,000,000~50,000,000 (inclusive of 30,000,000)	None	None	None	None		
50,000,000~100,000,000inclusive of 50,000,000)	None	None	None	None		
More than 100,000,000	None	None	None	None		
Total	9	9	9	9		

Note: The aforementioned remuneration paid to each seat of Director when allocating escalation is the average of total remuneration paid to the juristic Director.

#### 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
2007	0.91%	0.93%
2008	0.90%	0.91%

#### **Remuneration to Supervisors**

#### 2008/12/31; NT\$'000

Title	Name	Compens	ation (A)		nuneration Fund (B)	Remuner from dist earni	ors ration paid ribution of ngs (C) fote)		g allowance (D)	Percent	(A+B+C+D) Percentage of net come after tax (%)	
		The Company	Consolidated	The Company	Consolidated	The	Consolidated	The Compan y	Consolidated	The Company	Consolidated	business except subsidiary
Supervisor	Eli Hong, Representative of Far Eastern International Leasing Corp. Morton Huang, Representative of Asia investment Corp. Chen-en Ko	0	0	0	0	5,000	5,002	2,155	2,155	0.07%	0.07%	None

Note: The remuneration from 2008 distribution of earnings is subject to approval of 2009 Shareholders' Meeting and not actual payment amount yet.

#### **Escalation for remuneration to Supervisors**

		2008/12/
Escalation for remuneration paid to	N	ame of Supervisors
individual supervisors of the Company (NTD)	T	otal of (A+B+C+D)
individual supervisors of the Company (1911)	The Company	All companies in the consolidated statement
Less than 2,000,000	Chen-en Ko	Chen-en Ko
	Far Eastern International Leasing Corp.	Far Eastern International Leasing Corp.
2,000,000~5,000,000 (inclusive of 2,000,000)	Representative : Eli Hong	Representative : Eli Hong
0,000~5,000,000 (inclusive of 2,000,000)	Asia investment Corp.	Asia investment Corp.
	Representative : Morton Huang	Representative : Morton Huang
5,000,000~10,000,000 (inclusive of 5,000,000)	None	None
$10,\!000,\!000\!\sim\!15,\!000,\!000$ ( inclusive of 10,000,000 )	None	None
15,000,000~30,000,000 (inclusive of 15,000,000)	None	None
30,000,000~50,000,000 (inclusive of 30,000,000)	None	None
50,000,000~100,000,000 (inclusive of 50,000,000)	None	None
More than 100,000,000	None	None
Total	3	3

#### 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
2007	0.05%	0.06%
2008	0.07%	0.07%

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

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**

#### 2008/12/31; NT\$'000

		Sala	ry (A)		Fund (B) ate 4)	allow	and special ance (C) iote 5)	Bonus to	earn	s from dis ings (D) ote 6)	tribution of	Percentag	B+C+D) e of net income : tax (%)	-	held employee iption warrants	Other remuneration
Title	Name	The Company	Consolidated	The Company	Consolidated	The Company	Consolidated	Cash	ompany Stock dividend	Cash	Stock dividend	The Company	Consolidated	The Company	Consolidated	from investment business except subsidiary
Vice Chairman & President	Jan Nilsson															
Executive VP	Benjamin Ho															
Executive VP	Yvonne Li															
Executive VP	Philiby Chen															
Executive VP	Herman Rao					1										
Executive VP	Eton Shu	1														
VP	Howard Tsao															
VP	S.C. Lee															
VP	James Lee	3				÷										
VP	Guang Ruey Chiang															
VP	Samuel Yuan															
VP	Maxwell Cheng	1														
VP	Maggie Mei	\$75, 091	\$75,091	\$5,705	\$5,705	\$20,783	\$20,783	\$17,137	0	\$17,137	0	1.17%	1.18%	0	0	Yes
VP	Jessica Chen	i i	÷		÷	£	£			É.					1	1
VP	David Tsai														1	
VP	Sharon Lin	1														
VP	Jennifer Liu	1			÷	1				i.					1	
VP	Roger Chen															
VP	Patrick Wu															
Chief Auditor	Jessica Sung															
Executive VP	Jeffey Gee															
	(Note 1)															
VP	Peter Yen															
	(Note 2)															
VP	Stephen Tung															
Maria	(Note 3) 1 : Jeffey Gee resig	nad on Io-	1 2008													

Note 1 : Ieffy Gee resigned on Jan. 11, 2008.
 Note 2 : Ptert Yen resigned on Feb. 23, 2008.
 Note 3 : Stephen Tung resigned on August 31, 2008
Note 4 : In Year 2008, the Company had no actual payment for pension fund. The figure shown in the table all belongs to pension fund contribution.
Note 5 : Including bonus, special allowance, transporting allowance, other compensation, other allowance accommodation allowance should be under the state and the state which is NTS3,150
thousand for house rental and business vehicle is NTS3,214 businesh for ternal. In addition, the compensation paid to the driver is NTS3,31 busines in total, but excluding in remuneration to employees.
Note 6 : The remuneration from 2008 distribution of earnings is subject to approval of 2009 Shareholders' Meeting and not actual payment amount yet.

#### Escalation for remuneration to President and Vice Presidents

Escalation for remuneration to rresident and vice r		2008/12/31
Escalation for remuneration paid to presidents and Vice	Name of President and	Vice Presidents (Note)
Presidents of the Company (NTD)	The Company	All companies in the consolidated statement
Less than 2,000,000	Peter Yen	Peter Yen
2,000,000~5,000,000 (inclusive of 2,000,000)	Patrick Wu, Jessica Sung, S.C. Lee, James Lee, Sharon Lin, Samuel Yuan, Howard Tsao, Maggie Mei, Roger Chen, Jessica Chen, Stephen Tung, Jennifer Liu, David Tsai, Maxwell Cheng, Jeffey Gee,	Samuel Yuan, Howard Tsao, Maggie Mei, Roger Chen,
5,000,000~10,000,000 (inclusive of 5,000,000)	Guang Ruey Chiang, Eton Shu, Yvonne Li, Philiby Chen, Herman Rao	Guang Ruey Chiang, Eton Shu, Yvonne Li, Philiby Chen, Herman Rao
10,000,000~15,000,000 (inclusive of 10,000,000)	Benjamin Ho	Benjamin Ho
15,000,000~30,000,000 (inclusive of 15,000,000)	Jan Nilsson	Jan Nilsson
30,000,000~50,000,000 (inclusive of 30,000,000)	None	None
50,000,000~100,000,000 (inclusive of 50,000,000)	None	None
More than 100,000,000	None	None
Total	23	23

Note : Names of employees with the same position are in order of Chinese last name.

#### 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
2007	1.08%	1.10%
2008	1.17%	1.18%

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

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 items like bonuses and special allowance are 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.

# The comparison of the remuneration paid to Directors, Supervisors, President, and Vice Presidents for both the standalone and consolidated basis of the company in recent two years.

The percentage of net income paid to Directors, Supervisors, President, and Vice Presidents as the remuneration for both the standalone and consolidated basis of the company in recent two years have no significant changes. 2.14% of the net income has been paid to Directors, Supervisors, President, and Vice Presidents as the remuneration for the standalone basis in 2008, and 2.17% for the consolidated basis. These figures were 2.05% and 2.09% for both the standalone and consolidated basis of the company in 2007.

2008/12/31: Unit: NT\$'000

	Title	Name	Stock dividend	Cash dividend (Note 3)	Total	Percentage of Ne income after tax (%)
	Vive Chairman	Jan Nilsson				
	& President					
	Executive VP	Yvonne Li				
	Executive VP	Herman Rao				
	Executive VP	Philby Chen				
	Executive VP	Benjamin Ho				
	Executive VP	Eton Shu				
	VP	Howard Tsao				
	VP	S.C. Lee				
	VP	James Lee				
	VP	David Tsai				
	VP	Sharon Lin				
	VP	Jessica Chen				
	VP	Guang Ruey Chiang				
	VP	Samuel Yuan				
	VP	Maggie Mei			\$22,889	
	VP	Jennifer Liu				
	VP	Roger Chen				
	VP	Patrick Wu				
-	VP	Maxwell Cheng	0	¢22.000	¢ <b>22</b> 000	0.000/
Executive Officer	Chief Auditor	Jessica Sung	0	\$22,889	\$22,889	0.23%
	Director	James Chen				
	Director	Iris Su				
	Director	Leon Li				
	Director	Michelle Peng				
	Director	Hae-Shung Chu				
	Director	D.J. Chen				
	Director	Jennifer Shen (Note 1)				
	Director	James Perng (Note 2)				
	Director	Ann Chang				
	Director	Sharon Fan				
	Director	Allan Lee				
	Director	Robert Chu				
	Director	Tony Wang				
	Director	Scott Chung				
	Director	Vivian Chiang				
	Director	Emily Liu				
	Director	Alison Kao				
	Director	Yvonne Pi				
	Director	Shing Chu	í			

#### **Bonuses to Executive Management**

Note 1 : Jennifer Shen was promoted on Jan. 19, 2009 Note 2 : James Perng was promoted on Jan. 19, 2009.

Note 3 : The bonuses to employees from distribution of earnings of 2008 have not been approved by the Shareholders' Meeting, just proposed distribution.

### 2-7. Name, Position and Bonuses Amount, of Top Ten Recipients of Bonuses Share:

,				2008/12/31;	Unit: NT\$'0
		Bonuses Amount (Note 2)			
Name (Note 1)	Position	Cash Dividend	Stock dividend		
		Cash Dividend	Shares	Market Price	Amount
Jan Nilsson	Vice Chairman & President				
Benjamin Ho	Executive VP				
Eton Shu	Executive VP				
Yvonne Li	Executive VP				
Philby Chen	Executive VP	10 204	0	Not Applicable	0
Herman Rao	Executive VP	10,394	0	Not Applicable	0
Patrick Wu	VP				
Samuel Yuan	VP				
Guang Ruey Chiang	VP				
Maxwell Cheng	VP				

 Maxwell Cheng
 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 2008 have not been approved by the Shareholders' Meeting, just proposed

3. Corporate Governance Executive Status

#### 3-1. Executive Status of the Board of Director

Holding  $\underline{5}$  times (A) of the Board Meeting, and the attendance status of Board of Directors and Supervisors in the recent Year : 2008/12/31

	: .		:	Actual	Percentage of	2008/12/31
Title	Name	Times of Attendance (B)	Times of by Attendance by Proxy (C)	Percentage of Attendance (%) (B/A)	Attendance (%) (Proxy included) ((B+C)/A)	Remark
Chairman	Douglas Hsu, Representative of Yuang Ding Investment Co., Ltd.	5	0	100	100	
Vice Chairman & President	Jan Nilsson, Representative of Yuang Ding Investment Co., Ltd.	5	0	100	100	
Managing Director	Champion Lee, Representative of Yuang Ding Investment Co., Ltd.	5	0	100	100	
Director	Peter Hsu, Representative of Yuang Ding Co., Ltd.	5	0	100	100	
Director	Johnny Shih, Representative of Yuang Ding Co., Ltd.	2	3	40	100	
Director	Toon Lin, Representative of Yue Ding Industry Co., Ltd.	4	1	80	100	Yue Ding Industry Co., Ltd. re-appointed Toon Lin to replace S.T. Peng as its new representative on Jan. 10, 2008.
Director	Shiro Yamagishi, Representative of NTT DoCoMo Inc.	3	2	60	100	
Independent Director	Lawrence Juen-Yee LAU	3	2	60	100	
Independent Director	Kurt Roland Hellström	2	3	40	100	
Supervisor	Eli Hong, Representative of Far Eastern International Leasing Corp.	4	0	80	80	
Supervisor	Morton Huang, Representative of Asia investment Corp.	5	0	100	100	-
Independent Supervisor	Chen-en Ko	5	0	100	100	

#### Other matters of importance:

- 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
- If there is Directors' avoidance of motions in conflict of interest, should specify the Directors' names, contents of motions, causes for avoidance and voting: None
- 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 3<sup>rd</sup> term of the Board of Directors, 25<sup>th</sup> 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 4<sup>th</sup> term of Board of Directors, 6<sup>th</sup> 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.

#### 3-2. Executive Status of the Audit Committee or the Board Meeting of Supervisors: Holding 5 times (A) of the Board Meeting, and the attendance status of Supervisors in the recent Year :

Holding <u>5</u> umes (A) of the Board Meeting, and the attendance status of Supervisors in the recent rear . 2008/12/31

Title	Name	Times of Attendance (B)	Actual Percentage of Attendance (%) (B/A)	Remark
	Eli Hong, Representative of Far Eastern International Leasing Corp.	4	80	
	Morton Huang, Representative of Asia investment Corp.	5	100	
Independent Supervisor	Chen-en Ko	5	100	

Other matters of importance:

 Communications between supervisors and the Company's employees and shareholders: The Company has set up the supervisor's mailbox: supervisor@fareastone.com.tw, that employees and shareholders have adequate access to the supervisors for communications.

2. Communications among supervisors and the Company's Chief Auditor and CPA:

- A. Communications with Chief Auditor: Supervisors hold Supervisors Meeting each quarter and keep the meeting minutes. The Directors, President and the company's top managements are then notified of important discussions and resolutions. There were four Supervisors Meetings held on Apr.17, 2008, July 16, 2008, Oct.12, 2008 and Jan. 14, 2009, respectively. All Supervisors had attended each occasion and Chief Auditor also presented at the meetings to report on audit operations and major internal audit matters, including execution, reporting, and tracking of Supervisors instructions. In addition, Supervisors obtained audit reports at monthly basis which were submitted by Chief Auditor.
- B. Communications with the CPA: Supervisors hold Supervisors Examined Meeting and got the examined reports. There were two Supervisors Examined Meetings on Aug. 25, 2008 and Feb. 18, 2009 respectively. All Supervisors had attended each occasion and CFO, Chief Auditor and CPAs also presented at the meetings to discuss on related subjects, including execution, reporting and tracking of Supervisors intructions.

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

Item	Execution Status	Deviations from "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" and Its Reasons
(1) Ownership structure and shareholders' equity		
1-1 Handling of shareholder's suggestions or	The Company's spokesperson and the contracted	
disputes.	stock agency, Oriental Securities Co., Ltd. handles	
	shareholder's suggestions or inquiries. And the	
	Legal & Regulatory Department deals with disputes	
	or legal cases.	
1-2 Identifying major shareholders and/ or their	The Finance & Shared Services Division is	
ultimate controlling parties	responsible for collecting the updated information of major shareholders and/or their ultimate	Comply with the "Corporate Governance
	controlling parties. This information is disclosed	Best-Practice principles for TWSE/GTSM listed Companies".
	Governing Information Reporting by TWSE Listed	
	Companies.	
1-3 Risk control mechanism and firewalls	The Company and its affiliated companies are all	
established between the Company and its	independent entities in respect of their financial	
affiliated companies	and business operations. Operating procedures are	
	established for "Related Party Transactions	
	Regulation". Risk control mechanism and firewall	
	procedures have been properly established.	

<sup>3.</sup> If there is Supervisors' avoidance of motions in conflict of interest, should specify the Supervisors' names, contents of motions, causes for avoidance and voting: None

Item	Execution Status	Deviations from "Corporate Governance Best-Practice Principles for TWSE / GTSM Listed Companies" and Its Reasons
(2) Structure and duties of the board of directors		
2-1 Status of appointing independent directors	The Company has two independent directors, namely Lawrence Juen-Yee Lau and Kurt Roland HellstrÖm.	Comply with the "Corporate Governance Best-Practice principles for TWSE /GTSM
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 evaluation items such as appointment and CPA public expense.	listed Companies".
(3) Communication with interest-conflicting parties	In addition to having a Spokesperson, suggestions or disputes by stakeholders have adequate connect with the Company (via mail box: <u>IR@fareastone.com.tw</u> ), Supervisors (via supervisor's mail box : <u>supervisor@fareastone.com.tw</u> ), and contracted stock agency, <u>Oriental Securities</u> <u>Co.</u> ,	Comply with the "Corporate Governance Best-Practice principles for TWSE/GTSM listed Companies".
<ul> <li>(4) Information disclosure</li> <li>4-1 The Company website discloses financial, operational and corporate governance related information</li> </ul>	The Company's corporate website address is: <u>www.fareastone.com.tw</u> , in order to enhance the accuracy and timeliness of the material information disclosed.	
4-2 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 has set up English websit 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 TWSE /GTSM listed Companies".
<ul><li>(5) Establishment of nomination, compensation or any other functional committees</li></ul>	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 b included into the authority of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors. Meanwhile, it was resolved at the 4th term of the Board of Directors and scale value of the Securities and Exchange Act. The Company has not established the compensation committee yet, but the remuneration to the directors and supervisors or the compensation for Chairman and Vice Chairman all follow the Articles of Incorporation of Fareastore Telecommunications Co. Ltd.	The Company has not established the nomination committee yet, but the Company has elected two independent directors by adopting candidate nomination system according to the Article of the Company.

(6) If the company has set up the principles based on "Corporate Governance Best-Practice Principles for TWSE/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 TWSE/GTSM Listed Companies, as stated in the deviation of such implementation from the Corporate Governance Best-Practice Principles for TWSE /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.

(7) Other material information that helps to explain the implementation of corporate governance:

7-1 Training for board of Directors and Supervisors and Executive Management:

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

# Training for board of Directors and Supervisors

Title	Name	Stud	ly Date	Sponsoring Organization	Course Name	64 J J
1 nie	iname	From	То	Sponsoring Organization	Course Name	Study hours
		2005/2/24	2005/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for TWSE/GTSM listed Company	3
		2005/2/24	2005/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Chairman	Davida II-	2005/11/30	2005/11/30	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
Chairman	Douglas Hsu	2006/8/18	2006/8/18	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2007/9/28	2007/9/28	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2008/11/21	2008/11/21	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2005/2/24	2005/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for TWSE/GTSM listed Company	3
Vice		2005/2/24	2005/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Chairman &	Jan Nilsson	2006/8/18	2006/8/18	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
President		2007/9/28	2007/9/28	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2008/11/21	2008/11/21	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2005/2/24	2005/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for TWSE/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
Managing Director	Champion Lee	2006/8/18	2006/8/18	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2007/6/7	2007/6/7	Finical Supervisory Commission, Executive Yuan	The 4 <sup>th</sup> Corporate Government Seminar ir Taipei	6
		2007/9/28	2007/9/28	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2008/11/21	2008/11/21	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	Johnny Shih	2007/9/28	2007/9/28	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2008/11/21	2008/11/21	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2005/2/24	2005/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for TWSE/GTSM listed Company	3
		2005/11/30	2005/11/30	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
Director	Peter Hsu	2006/8/18	2006/8/18	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2007/9/28	2007/9/28	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2008/11/21	2008/11/21	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2005/2/24	2005/2/24	Underwriting Dept. of Grand Cathay Securities Corp.	Advanced Study of Securities Regulation for TWSE/GTSM listed Company	3
		2005/2/24	2005/2/24	Corporate Governance Association	Corporate Governance and Risk Management	3
Supervisor	Eli Hong	2006/8/18	2006/8/18	Taiwan Academy of Bankin and Finance	Board Operations and Corporate Government	3
		2007/9/28	2007/9/28		Board Operations and Corporate Government	3
		2008/11/21	2008/11/21	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3

Title Name	Study Date		Sponsoring Organization	Course Name		
	From	То			Study hours	
		2006/8/18	-		Board Operations and Corporate Government	-
Supervisor	Morton Huang	2007/9/28	2007/9/28	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
		2008/11/21	2008/11/21	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3

#### Training for Executive Management:

Title Name		Stud	y Date	Sponsoring Organization	Course Name	Study hours
The	Traine	From	То	Sponsoring Organization	Course Name	Study nours
Vice Chairman & President	Jan Nilsson	2008/11/21	2008/11/21	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
Executive	Yvonne Li	2008/11/21	2008/11/21	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3
VP	•	2009/3/26	2009/3/26	: Taiwan Stock Exchange	2009 Corporate Social Responsibility and Sustainable Development	3
Executive VP	Philiby Chen	2008/11/21	2008/11/21	Taiwan Academy of Banking and Finance	Board Operations and Corporate Government	3

#### 7-2. Company's Risk management Organization:



#### 7-2-1. Executive Management Team

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

#### 7-2-2. Corporate Securities Committee

- 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.

#### 7-2-3. 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.

#### 7-2-4. 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.

#### 7-2-5. 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 (CM / CS&C / Fraud Management);
  - d. Consumer Sales & Service (CM / Consumer Sales);
  - e. Human Resources (PO / HR);
  - f. General Security (F&SS / General Security);
  - g. Service Network Operation (N&T / 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.
- 7-3. Execution of policies to protect consumers or customers:

The Company has followed up the related policies.

#### 7-4. The company's purchase of liability insurance for directors and supervisors:

The Company has not purchased the liability insurance for Directors and Supervisors.

#### 7-5. 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)nondisclosure 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.

# 7-6. The personnel related to the Company's financial information that obtained the relevant licenses designated by the competent authorities

#### R.O.C. CPA: 1 person in the auditing department

U.S.A. CPA: 2 persons in the financial and accounting department and the auditing department

CFA: 1 person in the financial and accounting department

R.O.C. internal auditors: 2 persons in the financial and accounting department

BS7799 internal auditor: 2 persons in the financial and accounting department and the auditing department

Bond personnel's proficiency test held by Securities and Futures Institute: 1 person in the financial and accounting department

Stock personnel's proficiency test held by Securities and Futures Institute: 1 person in the financial and accounting department

#### (8) 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:

#### 8-1. 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 "Related Party Transaction Regulation" to conduct the risk management mechanism and establish appropriate firewalls.

#### 8-2. 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.

#### 8-3. Fulfille 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 audit manager and CPAs 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.

#### 8-4. 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. The Chief Auditor attended the Board of Directors Meeting regularly to carry out the internal control system and

risk management.

c. 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.

#### 8-5 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.

#### 8-6 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 TWSE 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.

#### (9) Internal Major Information Disclosure Procedure:

The Company has approved at the 3<sup>rd</sup> meeting of the 5<sup>th</sup> term Board of Directors on August 27, 2009 to formulate the "Procedures for Handling Internal Material Information." The Company also related educates parties as follows:

- a. At least once a year, the Procedures for handling internal material information of the Company shall be provided to directors and supervisors in the Board Meeting.
- b. The Procedures for handling internal material information of the Company shall be provided to the new managerial officers when they sign the declaration.
- c. Not only the Procedures for handling internal material information of the Company and but also the "Insider Trading" related information posted on TWSE website have been provided in the email to remind the managerial officers of shareholding transfer every month.
- d. In addition, the Company's managerial officers and employees have to sign to non-disclosure agreement when taking an office. And the Procedures for handling internal material information of the Company has been provided in Company inside website for all employees' reference on September 9, 2009.

#### 3-4. Execution of the social responsibilities in 2008

#### Environmental Awareness on the Increase - FET Leading the Green Way

FET recognized as a green procurement enterprise by the Taipei City Government

The effects of global warming are now being as knowledge all around the world. Protecting the environment is the responsibility of every one on the planet and a matter of great urgency. Taiwan was the first country in the world to formally legislate for green procurement. The Taipei City Department of Environmental Protection began encouraging private enterprises to support green procurement last year. 31 businesses took part in the program this year and purchased up to NTD\$323.58 Million green mark certified products, an increase of 43% from the previous year. The Company and its subsidiary NCIC accounted for 30% of all green products purchased. This put them in the lead among the 12 participating industries and made them some of the best green purchasing companies in Taipei City.

#### FET participates in the community through self and group education

FET 3-on-3 Basketball Tournament Promotes Healthy Entertainment for Youths

During the summer holidays, the Company invited students from junior high schools and up as well as people in the community who love sports, to meet up and play basketball. Nearly 500 teams registered for the tournament and around 2000 people took part in the competition. Through this healthy activity, the Company encouraged all the communities in Taiwan to embrace the positive values in society.

Show of compassion for students at the Taoyuan Juvenile Reformatory School

The Company employees and the Social Improvement Foundation joined together to provide volunteers at the Taoyuan Juvenile Reformatory School. There they joined the students in group activities in the hopes that contact with welfare groups and volunteers group will show the students that society still cares about them and give them the self-confidence to live a proper life. Funds were also raised to purchase winter clothing and other supplies for the students so they can feel a part of society again.

#### Actively support social welfare and set an example for the community

#### Participation in the "Salvage lives and lend a helping hand "Campaign

The economic recession and rising unemployment has led to many donors giving less or less often. This has made conditions more difficult to disadvantages families and it's the children in these families that become the most innocent victims. To help children in need, the Company and the Child Welfare League Foundation partnered to organize the "Rescuing Lives- Leave No Child Behind" campaign. The Company used its 600 plus company owned and franchisee outlets throughout Taiwan to encourage consumers to donate their spare change or by dialing 380 on their mobile phones. These, together with internal fundraising efforts at the Company, raised nearly NTD\$3 Million in donations that went directly towards helping abandoned children. Thanks to the donations, the children could be looked after, go to school and receive health care.

#### Participation in the Sichuan Earthquake Disaster Relief Campaign

Large advertisements were placed in newspapers calling up on the Company and KGT subscribers to donate through the 55135 dialing code. These small SMS donations were funneled to the Taiwan branch of the International Red Cross to help disaster victims rebuild their home. The Company subsidiary NCIC also set up the "007 Call Home" service staffed by customer service representatives around the clock to help the public contact friends and relatives in the disaster area. Thanks to the "Call Home" SMS mechanism people in Taiwan could breathe a little easier. The Company also provided the "Forward the Love" disaster relief fund-raising dinner special TV program with 120 dedicated phone lines to accept donations from the public.

### Using corporate knowledge to extend the reach of social services

#### FET Mobile Broadband Spans the Southern Cross-Island Highway with Love

To help students in remote mountainous regions overcome the barriers of distance, the Company provided a new computer and monitor to the Siaolidao campus of Wulu Elementary School located 1,068 meters above sea level. Apart from solving all kinds of engineering difficulties to install the necessary communications and infrastructure, the Company also subsidized the school's FET broadband access fees in the hopes that students in the mountains can enjoy the latest mobile broadband Internet access and be connected to the rest of the world.

#### Support government initiative to deliver services to remote regions

In support of the NCC's "Broadband in Every Village" campaign, the Company donated 100 computers to disadvantaged groups and schools in remote areas of eastern Taiwan. This reuse of resources would hopefully help bridging the divide between the cities and the countryside while also accelerating the exchange of information. Beneficiaries included the Taitung County's Tai-an Community Development Association (Binan Township), the Dajhu Community Development Association (Dawu Township), the Bunun Ecological Conservation and Hunting Culture Sustainable Development Association and the Taiwan Indigenous Art and Culture Promotion Association. The desktop computers donated to these four associations will help them develop as organizations and improve their ability to communicate with the world.

#### Participation in the CIER Second-Hand Computer Recycling Program

A total of 296 notebooks, desktop computers, printers and scanners were collected and refurbished by the Chung-Hua Institution for Economic Research, then donated to charitable or disadvantaged groups that needed them.

#### Protecting consumer rights through general service quality verification

To fulfill our commitment to consumer service, the Company has not only continued to launch innovative products and services, but in 2008 also launched a company-wide effect to systemize and standardize all work environments to ensure that consumer rights are protected through the delivery of high quality service by all the Company employees. With everyone onboard, this year the Company won awards and certifications in customer service, IT service and corporate governance. These included winning of the "Best Corporate Governance in Taiwan" award from the professional international media Finance Asia; the top telecommunications company for service quality in the 2008 Top 10 Service Companies awards from the Global Views Magazine; and also becoming the only telecom company to receive ISO 20000 IT service management certification in Taiwan.

Respects the employee human rights and carries out the labor safety and health policy

Please refer to the "Employee Relations" of CH5 - "Operational Highlights" for details.

#### 3-5. Internal Control System Execution Status

#### (1) The declaration of internal control system

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

Date: February 26, 2009

Based on the self-examination results of the internal control system for the period of January 1, 2008 to December 31, 2008, Far EasTone Telecommunications Co., Ltd. (the Company) therefore declares the following:

- I. The Company's board of directors and management understand their responsibilities of developing, implementing and maintaining the Company internal control system, and such a system has been established. The purpose of establishing the internal control system is to reasonably assure the following events:
  - 1. The efficiency of business operation (including earnings, operating performance, and safeguard of company assets)
  - 2. The reliability of the financial and related reports
  - 3. The compliance of the relevant laws/regulations
- II. Due to the innate limitation in designing a faultless internal control system, this system can only assure the reasonableness of the above three events have been fairly achieved. In addition, the effectiveness of internal control system could alter over time due to business environmental or situation changes. Since the Company internal control system has included self-examination capability, the Company will make immediate corrections when errors are detected.
- III. The evaluation of effectiveness of the internal control system design and implementation is made in accordance with "Guidelines for the Establishment of Internal Control Systems by Public Companies" (the Guidelines). The Guidelines are made to exam the following areas during the management and control process: (1) control environment, (2) risk management, (3) control activities, (4) information and communication, and (5) monitoring. Details of each examination 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 examination result indicated that the Company internal control system (including subsidiary governance) has effectively assured the following events have been reasonably achieved during the assessing period:
  - 1. The degree that effectiveness and efficiency of business operation achieved
  - 2. The reliability of the financial and related reports
  - 3. The compliance of the relevant laws/regulations and company policies
- 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 26, 2009.

Far EasTone Telecommunications Co., Ltd.

Douglas Hsu Chairman

Jan Nilsson Vice Chairman & President

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

### **3-6. In Recent Years until the Annual Report being Published, Violation of Internal Control Policies by Employees:** None

# 3-7. In Recent Years until the Annual Report being Published, Major Resolution of Shareholder's Meetings and Board Meetings

Date	Resolutions of the Board Meetings							
February 26, 2008	Matters to be Discussed							
	(1) Approval of the audited annual financial statements and consolidated financial statements of Year 2007.							
	(2) Approval of the amendment to "Rules Governing the Conduct of Board Meeting" of the Company.							
	(3) Approval of the dates and agenda of Year 2008 Annual Shareholders' Meeting.							
	(4) Approval of the Year 2008 business plan and financial budget.							
	(5) Approval of the first quarter financial forecast and consolidated financial forecast of Year 2008.							
April 22, 2008	Matters to be Ratified							
r ,	(1) Approved: To well catch the business opportunities from growth in web advertising market, as well as							
	integrate resources among the telecom sector, it is proposed that FETron, whose shares are held by FET							
	(0.67%) and FET's 100% subsidiary, FETron Holding (99.33%), is to be merged with ADCast, a subsidiary							
	of Seednet (52.8%) and the surviving company.							
	(2) Approval of the formulation of "Procedures for Handling Acquisition or Disposal of Assets" of the							
	Company's subsidiaries.							
	Matters to be Discussed							
	(1) Approval of the second quarter financial forecast and consolidated financial forecast of Year 2008.							
	(2) Approval of the dividend distribution of Year 2007.							
	(3) Approval of the proposed amendment of Level of Authority ("LOA") of the Company. Matters to be Discussed							
uly 23, 2008								
	<ol> <li>Approval of the record date of the ex-cash dividend of Y2007 as August 18, 2008 (Monday).</li> <li>Approval of the abarge of auditing CPA (Cartified Public Accountant)</li> </ol>							
August 27, 2008	(2) Approval of the change of auditing CPA (Certified Public Accountant). Matters to be Ratified							
August 27, 2008	(1) Approval of the establishment of "Procedures for Handling Acquisition or Disposal of Assets" of the							
	Company's subsidiary Qware Communications.							
	Matters to be Discussed							
	(1) Approval of the audited first half financial statements and consolidated financial statements of Y2008.							
	<ul> <li>(2) Approval of the third quarter financial forecast and consolidated financial forecast of Y2008.</li> </ul>							
	<ul> <li>(3) Approval of the donation of NT\$40 million to support the reconstruction of Sichuan province of China due to</li> </ul>							
	earthquake.							
October 30, 2008	Matters to be Ratified							
	(1) Approval of the status of formulating the "Procedures for Loaning Capital to Others" and "Procedures for							
	Making Endorsements and Guarantees" of the Company's subsidiaries.							
	Matters to be Discussed							
	(1) Approval of the fourth quarter financial forecast and consolidated financial forecast of Y2008.							
	(2) Approval of the major Capital Expenditure Budget for the first half of Y2009.							
	(3) Approval of renew the loan agreements with the banks.							
	(4) Approval of providing endorsements/guarantees to the Company's subsidiary, Q-Ware Communications Co.,							
	Ltd ("Q-Ware") due to its financing needs.							
	(5) Approval of the proposed amendment of Level of Authority ("LOA") of the Company.							
February 26, 2009	Matters to be Ratified							
-	(1) Approval of the donation of NT\$2,500,000 to Straits Exchange Foundation.							
	(2) Approval of the acquisition of 2,327,026 shares of the subsidiary Arcoa Co., Ltd.							
	Matters to be Discussed							
	(1) Approval of the audited annual financial statements and consolidated financial statements of Year 2008.							
	(2) Approval of the amendment to "Procedure for Making Endorsements and Guarantees" of the Company.							
	(3) Approval of the amendment to "Procedure for loaning capital to others" of the Company.							
	(4) Approval of the election of the fifth-term Board of Directors and Supevisors of the Company in Year 2009							
	Annual Shareholders' Meeting.							
	(5) Approval of the release of the non-competition restruction on directors in accordance with Article 209 of the							
	Company Act.							
	(6) Approval of the dates and agenda of Y2009 Annual Shareholder's Meeting.							
	(7) Approval of Year 2009 business plan and financial budget.							
	(8) Approval of the first quarter financial forecast and consolidated financial forecast of Year 2009.							
	(9) Approval of the execution of the Merger Agreement with KG Telecommunications Co., Ltd.							
	(10) Approval of the "Internal Control System" modification.							
	(11) Approval of the declaration of internal control system							
Resolutions of the Board Meetings								
--	---	--	--	--	--	--		
Matters to be Ratified								
(1) Ratify of the acquisition of 82,032,099 shares of the subsidiary New Century InfoComm Tech Co., Ltd.								
Matters to be Discussed								
(1) Approval the dividend distribution of Year 2008.								
(2) Approval the business report of Year 2008.								
(3) Approval the qualifications of independent directo	r candidates nominated.							
(4) Approval the second quarter financial forecast and	consolidated financial forecast of Year 2009.							
(5) Approval the assignment of new Chief Internal Au	ditor.							
(6) Approval the change of auditing CPA (Certified Pu	ablic Accountant).							
(7) Approval the issuance of common shares of the Co								
(8) Approval the strategic cooperation proposal with C	China Mobile.							
(9) Approval the amendment to Year 2009 Annual Sha	areholders' Meeting's agenda.							
Resolutions of Shareholders' Meeting	Execution							
<b>Resolutions in the Annual Shareholders' Meeting</b>								
of Year 2008								
Matters to be Reported								
1. Business report of Year 2007	• • •							
2. Financial report of Year 2007								
3. Review of the Year 2007 closing report by								
Supervisors								
4. The amendment to "Rules Governing the	- - - -							
Conduct of the Board Meeting"								
ç								
1. Approval of the Year 2007 closing report	August 18, 2008 was fixed to be the record date of ex							
	dividend, and cash dividend was released on Sep. 11,							
	2008.							
)								
Matters to be Discussed								
Matters to be Discussed 1. Approval of the release of the non-competition on	Resolution being complied with							
Matters to be Discussed 1. Approval of the release of the non-competition on directors in accordance with Article 209 of the	Resolution being complied with							
	Matters to be Ratified         (1) Ratify of the acquisition of 82,032,099 shares of th         Matters to be Discussed         (1) Approval the dividend distribution of Year 2008.         (2) Approval the business report of Year 2008.         (3) Approval the qualifications of independent director         (4) Approval the second quarter financial forecast and         (5) Approval the second quarter financial forecast and         (5) Approval the change of auditing CPA (Certified Pt         (7) Approval the strategic cooperation proposal with C         (8) Approval the strategic cooperation proposal with C         (9) Approval the amendment to Year 2009 Annual Share         Resolutions of Shareholders' Meeting         Resolutions in the Annual Shareholders' Meeting         of Year 2008         Matters to be Reported         1. Business report of Year 2007         2. Financial report of Year 2007         3. Review of the Year 2007 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 2007 closing report         2. Approval of the proposal regarding Year 2007         3. Approval of the proposal regarding Year 2007							

# 3-8. In Recent Years until the Annual Report being Published, Dissenting Comments on Major Board Resolutions from Directors and Supervisors: None

# 3-9. The Resigned Situation of the Officers (Including Chairman, President, Accounting Manager, And Internal Auditor Manager) being Relationship to Financial Report:

				2009/4/30
Tital	Name	Date of Assumed	Date of Relief	Reason of Relief
Chief Auditor	Jessica Sung	Sep. 1, 1997	May 1, 2009	To act position of Vice President of the Corporate Strategy & Development

4. Public Expenses of CPA

Accounting Firm	Name o		Audit Fee (NT\$'000)			•audit Fe	e		C Acc Pe	erti oui rio	ether the fied Public ntant's Audit l Covers an Fiscal Year	2008/12/31 Note
				System Design	Registration	Human Resource	Other (NT\$'000)	Total (NT\$'000)	Yes	No	Audit Period	
Deloitte & Touche	Benjamin Shih	Tony Chang	\$8,990	None	None	None	\$2,710	\$2,710	v		2008.01.01~ 2008.12.31	Non-audit Fee mainly including service fee for transfer pricing

- 4-1. 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
- 4-2. 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:

			2008/12/31
Date of change		July 2008	
Cause and explanation	The original CPA, Annie Lin, w and arrangement taking place ir		y Chang, because of the internal transfer
	Concerned party Circumstance	СРА	Appointer
Specify whether appointer or CPA terminates or rejects the appointment	Terminate the appointment voluntarily	$\checkmark$	
	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	
·			Accounting principles or practices
	V		Disclosure of Chancial statement
Disagreement with the publisher	Yes		Scope or steps of audit
Disagreement with the publisher			Others
	No		$\overline{\mathbf{v}}$
		Please specify i	t.
Other information to be disclosed (to be disclosed according to Item 5(1).4 of Article 10 of the Principles		No	

# 5-2. Regarding the succeeding CPA:

2. Regarding the succeeding Office	2008/12/31
Name of office	Deloitte & Touche
Name of CPA	CPA Tony Chang
Date of appointment	July 2008
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. Regarding the former CPA:

			2009/4/30
Date of change		May 2009	
Cause and evaluation	The original CPA, Benjamin S	Shih, was changed to CPA, A	Annie Lin, because of the internal
Cause and explanation	transfer and arrangement taking	ng place in Deloitte & Touch	ie.
	Concerned party	СРА	Amaintar
	Circumstance	CPA	Appointer
Specify whether appointer or CPA	Terminate the appointment	al	
terminates or rejects the appointment	voluntarily	v	
	Reject (refuse to accept) the		
	appointment		
The comments and causes for issue of the	2		
audit report other than retained opinion	5	No	
within the latest two years			

Date of change		May 2009
		Accounting principles or practices
	X.	Disclosure of Dancial statement
Disagreement with the publisher	Yes	Scope or steps of audit
		Others
	No	
		Please specify it.
Other information to be disclosed		
(to be disclosed according to Item 5(1).4		No
of Article 10 of the Principles		

# 5-4. Regarding the succeeding CPA:

	2009/4/30
Name of office	Deloitte & Touche
Name of CPA	CPA Annie Lin
Date of appointment	April 2009
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	Not applicable
respect to the financial statement	
Succeeding CPA's written opinion towards the disagreement with the former CPA	Not applicable

5-5. 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 Year:

None

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

2009/4/18

7-1. Shareholding	Variation:
-------------------	------------

		2008	(Note 7)	2009/4	
Title	Name	Shares Increased (Decreased)	Pledged Shares Increased (Decreased)	Shares Increased (Decreased)	Pledged Shares Increased (Decreased)
Chairman	Douglas Hsu,	(253,540,235)	(17,937,204)	0	0
	Representative of Yuang Ding Investment Co., Ltd. (Note 1)	*0	*0	*0	*0
Vice Chairman &	Jan Nilsson,	(253,540,235)	(17,937,204)	0	0
President	Representative of Yuang Ding Investment Co., Ltd. (Note 1)	*30,726	*0	*0	*0
Managing Director	Champion Lee,	(253,540,235)	(17,937,204)	0	0
	Representative of Yuang Ding Investment Co., Ltd. (Note 1)	*(15)	*0	*0	*0
Director	Peter Hsu,	(989,648)	0	0	0
	Representative of Yuang Ding Co., Ltd.	*0	*0	*0	*0
Director	Johnny Shih,	(989,648)	0	0	0
	Representative of Yuang Ding Co., Ltd.	*(55,863)	*0	*0	*0
Director	Toon Lim,	(199,175)	0	0	0
	Representative of Yue Ding Industry Co., Ltd.	*0	*0	*0	*0
Director	Shiro Yamagishi,	(36,496,692)	0	0	0
	Representative of NTT DoCoMo Inc.	*0	*0	*0	*0
Independent Director	Kurt Roland Hellström	0	0	0	0
Independent Director	Lawrence Juen-Yee Lau	0	0	0	0

		2008	(Note 7)	2009/4	/18
Title	Name	Shares Increased (Decreased)	Pledged Shares Increased (Decreased)	Shares Increased (Decreased)	Pledged Shares Increased (Decreased)
Supervisor	Eli Hong,	(6,334,815)	26,650,908	0	0
	Representative of Far	*0	*0	*0	*0
	Eastern International				
	Leasing Corp.				
Supervisor	Morton Huang,	(203,541)	0	0	0
	Representative of Asia	*0	*0	*0	*0
	investment Corp.				
Independent	Chen-en Ko	0	0	0	0
Supervisor					
Vice Chairman &	Jan Nilsson	30,726	0	0	0
President					
Executive VP	Herman Rao	(75,318)	(100,000)	0	0
Executive VP	Yvonne Li	0	0	0	0
Executive VP	Philby Chen	0	0	0	0
Executive VP	Benjamin Ho	0	0	0	0
Executive VP	Eton Shu	0	0	0	0
VP	Howard Tsao	(2)	0	0	0
VP	S.C. Lee	(17,962)	0	0	0
VP	James Lee	(161)	0	0	0
VP	David Tsai	0	0	0	0
VP	Sharon Lin	(2,633)	0	0	0
VP	Jessica Chen	0	0	0	0
VP	Maxwell Cheng	(64,863)	0	0	0
VP	Guang Ruey Chiang	(37,715)	0	0	0
VP	Samuel Yuan	0	0	0	0
VP	Maggie Mei	(38,403)	0	0	0
VP	Jennifer Liu	0	0	0	0
VP	Roger Chen	0	0	0	0
VP	Patrick Wu	0	0	0	0
Chief Auditor	Jessica Sung	0	0	0	0
Director	Tony Wang	0	0	0	0
Director	James Chen	0	0	0	0
Director	Iris Su	(10,280)	0	0	0
Director	Leon Li	0	0	0	0
Director	Michelle Peng	(142)	0	0	0
Director	Hae-Shung Ju	0	0	0	0
Director	D.J. Chen	0	0	0	0
Director	Robert Chu	(41,713)	0	0	0
Director	Ann Chang	(3,174)	(578)	0	0
Director	Sharon Fan	0	0	0	0
Director	Emily Liu	(2,111)	0	0	0
Director	Alison Kao	0	0	0	0
Director	Allan Lee	0	0	0	0
Director	Shing Chu	0	0	0	0
Director	Yvonne Pi	50,000	0	(6,000)	0
Director	Scott Chung	0	0	0	0
Director	Vivian Chiang	0	0	0	0
Director	Jennifer Shen(Note 2)	Not Applicable	Not Applicable	0	0
Director	James Perng(Note 3)	Not Applicable	Not Applicable	0	0
VP	Robert Liu(Note 4)	Not Applicable	Not Applicable	5,349	0
VP	Ta Fu(Note 5)	Not Applicable	Not Applicable	258,731	0
VP	Heidi Huang(Note 6)	Not Applicable	Not Applicable	0	0

Note 1: Who are the major shareholders that hold over 10% share.

Note 2: Jennifer Shen was promoted on Jan. 19, 2009.

Note 3: James Perng was promoted on Jan. 19, 2009.

Note 4: Robert Liu transferred from the Subsidiary on Feb.1, 2009.

Note 5: Ta Fu was on board on Mar. 17, 2009.

Note 6: Heidi Huang on board on Mar. 30, 2009.

Note 7: The decrease is mainly from the capital reduction of the Company in early of Year 2008. Based on the shareholders' register on March 17, 2008 which is the share exchange date of capital reduction, every thousand shares will reduce 192.04715 shares.

\*Number of shares held and shareholding percentage of the individual representative.

7-2. 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 the related party as define Financial Accounting Star	d in Statement of dards No. 6.	Remark
	Shares	%	Shares	%	Shares	%	Name	Relationship	
Yuang Ding Investment Co., Ltd.	1,066,657,614	32.73	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.	58	0.00	731	0.00	0	0.00	None	None	
Jan Nilsson, Representative of Yuang Ding Investment Co., Ltd.	138,950	0.00	0	0.00	0	0.00	None	None	
NTT DoCoMo Inc.	153,543,573	4.71	0	0.00	0	0.00	None	None	
Shiro Yamagishi, Representative of NTT DoCoMo Inc.	0	0.00	0	0.00	0	0.00	None	None	
Cathay Life Insurance Co., Ltd.	99,627,000	3.06	0	0.00	0	0.00	None	None	
JPMorgan Chase Bank N.A. Taipei Branch in custody for Capital World Growth and Income Fund Inc.	94,273,881	2.89	0	0.00	0	0.00	None	None	-
Yuan Tong Investment Co., Ltd.	91,088,031	2.80	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.	84,858,031	2.60	0	0.00	0	0.00	Yuang Ding Investment Co., Ltd. Yuan Tong Investment Co., Ltd. An Ho Garment Co., Ltd.	Same ultimate parent company Same ultimate parent company Same ultimate parent company	
InfoCom Holding Company Pto Ltd	81,310,309	2.50	0	0.00	0	0.00	None	None	
Company Pte Ltd. An Ho Garment Co., Ltd.	80,171,592	2.46	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	
China Development	55,722,000	1.71	0	0.00	0	0.00	None	None	
Industrial Bank National Financial Stabilization Fund Management Committee	51,049,000		0			0.00	None	None	

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

					2009/3/31 U	Init: 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.	81,680,039	60.83	0	0	81,680,039	60.83
Far Eastern I nf o 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	157,714,020	41.18	28,805,460	7.52	186,519,480	48.70
Ding Ding Integrated Marketing Service Co., Ltd.	4,500,000	15.00	18,000,000	60.00	22,500,000	75.00
Far Eastron (Holding) Ltd.	4,486,988	100.00	0	0	4,486,988	100.00
Q-Ware Communications Co., Ltd.	36,459,930	51.00	0	0	36,459,930	51.00
New Centry InfoComm Tech Co., Ltd.	1,062,347,582	26.56	223,336,574	5.58	1,285,684,156	32.14
ADCast Interactive Marketing Co., Ltd.	18,351	0.40	3,102,965	68.68	3,121,316	69.08



Far EasTone Telecommunications Co.,Ltd. Annual Report 2008

# **W** 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 Merge or Acquisition
- 7. Fund Utilization Plans and Status

# 1. Capital and Shares

# 1-1. History of Capitalization

	Par	Authorize	ed Capital	Shares O	utstanding	Remarks		
Year. Month	Value (NT\$)	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		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		Increasing from ECB conversion of NT\$303,516,000	None	(Note 13)
2007.12	10	4,200,000	42,000,000	4,033,033	40,330,334	Share swap of NT\$1,603,704,000	None	(Note 14)
2008.1	10	4,200,000	42,000,000	3,258,501	32,585,008	Capital reduction of NT\$7,745,326,000	None	(Note 15)

2009/4/18

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: 2004.5.18 MOEA 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 MOEA Ruling Ref. No. 09301207180

Note 12: 2005.3.4 MOEA Ruling Ref. No.09401035600

Note 13: 2005.5.3 MOEA Ruling Ref. No.09401077810

Note 14: 2008.1.14 MOEA Ruling Ref.No.09701002230

Note 15: 2008.1.22 MOEA Ruling Ref.No.09701015390

2009/4/18; Unit:'000 Shar					
Type of Stock	Authorized Capital			Note	
Type of Stock	Shares Outstanding	Un-issued	Total	Note	
Common Shares	3,258,501	941,499	4,200,000	Listed stock	

1-2. Information for Shelf Registration: Not Applicable.

# 1-3. Shareholder Structure

						2009/4/18
Shareholder Structure Quantity	Government Institutions	Financial Institutions	Other Institutional Shareholders	Individual Shareholders	Foreign Institutions and Individual Shareholders	Total
Numbers	6	26	168	17,150	449	17,799
Shares	97,512,855	306,637,786	1,635,676,325	120,384,976	1,098,288,868	3,258,500,810
%	2.99	9.41	50.20	3.69	33.71	100

# 1-4. Share Distribution-Common Stock

Level		Number of shareholders	Shares	%
1 -	999	5,341	1,864,699	0.06
1,000 -	5,000	8,104	18,527,265	0.57
5,001 -	10,000	1,805	14,321,903	0.44
10,001 -	15,000	530	6,682,872	0.20
15,001 -	20,000	446	8,133,568	0.25
20,001 -	30,000	361	9,019,971	0.28
30,001 -	50,000	349	14,091,856	0.43
50,001 -	100,000	292	20,999,954	0.64
100,001 -	200,000	184	26,649,867	0.82
200,001 -	400,000	86	24,886,723	0.76
400,001 -	600,000	52	25,351,432	0.78
600,001 -	800,000	32	22,620,155	0.69
800,001 -	1,000,000	26	23,967,017	0.74
1,000,001 and a	ibove	191	3,041,383,528	93.34
Total		17,799	3,258,500,810	100.00

This Company has not yet issued any preferred shares until April 18, 2009.

# 1-5. Top 10 Major Shareholders

		2009/4/18
Shares Major Shareholders	Shares	%
Yuang Ding Investment Co., Ltd.	1,066,657,614	32.73
NTT DoCoMo Inc.	153,543,573	4.71
Cathay Life Insurance Co., Ltd.	99,627,000	3.06
JPMorgan Chase Bank N.A. Taipei Branch in custody for Capital World Growth and Income Fund Inc.	94,273,881	2.89
Yuang Tung Investement Co., Ltd.	91,088,031	2.80
Kai Yuan International Investment Corp.	84,858,031	2.60
Infocom Holding Company Pte Ltd.	81,310,309	2.50
An Ho Garment Co., Ltd.	80,171,592	2.46
China Development Industrial Bank	55,722,000	1.71
National Financial Stabilization Fund Management Committee	51,049,000	1.57

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

					Unit: NT\$; shares
Item		Year	2007	2008	2009 (as of March 31)
C1	High		44.50	54.90	38.00
Share price (Note 1)	Low		35.30	29.25	31.20
(Note I)	Average		39.25	43.71	33.51
Net Value Before distribution			19.67	21.88	22.61
per share	After distribution (N	ote 2)	17.09	Not Applicable	Not Applicable
F	Weighted-average ou	itstanding shares	3,873,102,420	3,288,127,740	3,258,500,810
Earnings per	Earnings per share	Before adjustment	3.00	3.09	0.71
share		After adjustment(Note3)	3.00	3.09	0.71
	Cash dividend		(Note 7) 3.10	(Note 8) 2.80	Not Applicable
Dividend	Stock dividend	Retained earning	0	0	Not Applicable
per share	Stock alvidend	Capital surplus	0	0	Not Applicable
	Accumulated un-dist	ributed dividend	0	0	Not Applicable
Determinen	Price/Earning Ratio	Note 4)	13.08	14.15	Not Applicable
Return on	Price/Dividend Ratio	(Note 5)	12.66	15.61	Not Applicable
Investment	Cash dividend yield	Note 6)	7.90%	6.41%	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: Earnings per share after stock dividend is distributed. 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: The Cash dividend of year 2007 distribution NT\$3.1 per share is based on 3,258,500,810 shares after capital reduced in 2008.

Note 8: The Cash dividend of year 2008 has not been approved by the Shareholder's Meeting.

#### 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 29, 2009, the Board of Director resolved the proposed 2008 dividend distribution to be approved at 2009 Annual Shareholders' Meeting as following: 2008 earning of NT\$9,123,802,268 will be distributed as cash dividends of NT\$2.8 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) The Board of Director resolved on April 29, 2009, to use the profits from the 2008 financial year to pay bonuses to employees, directors, and supervisors as the following amount: Unit: NT\$'000

Amount	Bonuses for Employees	Bonuses for directors and Supervisors
Proposed Distribution	\$182,459	\$91,229
(2) Proposed percentage of em	ployee stock bonuses over retained earr	nings transferred to common stock: Not

Applicable. (3) Forecast EPS after distribution of the proposed bonuses to employees, directors and supervisors: The proposed

bonuses to employees, directors and supervisors were accrued as expenses in 2008, hence not applicable.

Unit: NT\$'000

# 1-9-3. Bonuses to employees, directors and supervisors for 2008 as approved at the Board Meeting on April 22, 2008 and Shareholders' Meeting on June 5, 2008 are as follows:

Item	Bonuses for Employees	Bonuses for directors and Supervisors
Proposed Distribution (A)	\$210,047	\$105,023
Actual Distribution (B)	\$210,047	\$105,023
Variance (B) - (A)	\$0	\$0

1-10. Share buy back by the Company: None.

2. Issuance of Corporate Bonds

#### **2-1.** Corporate Bonds:

The Company already repaid all of bonds payable by Dec. 19, 2008, and currently there is no any outstanding balance.

#### 2-2. Corporate Bonds to be due within one year upon publication of the financial statement: None

### 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

			2009/3/31		
Item		Date of Issuance	June 11, 2004		
Place of is	suance		Luxembourg Stock Exchange		
Total Price	e of Issuance		US\$132,190,000		
Unit Price	of Issuance		US\$13.219		
Total num	ber of units iss	sued	10,000,000		
Type of ur	nderlying secu	rities	Far EasTone Common Stock		
	f underlying se		15 shares		
Rights and	l obligations of	f subscribers	Same as common stock shareholders		
Trustee	Trustee		Not applicable		
Depositary	/ Bank		The Bank of New York (Luxembourg) S.A.		
Custodian	Bank		Far Eastern International Bank		
Number of	f outstanding s	hares	27,871,585		
	Related charg		Charges of GDR issuance shall be born by sellers; Charges incurred during holding period shall be born by the Company.		
Major tern	ns of Deposita dian Agreemer	ry Agreement	None		
		High	US\$26.040		
Maulaat	2008	Low	US\$14.280		
Market Price		Average	US\$21.044		
	2009 (as	High	US\$17.04		
per unit	of March	Low	US\$13.62		
	31, 2009)	Average	US\$14.759		

#### 5. Employee Stock Options

None

6. Share Issued for Merge or Acquisition

# 6-1. Completed Merger or Acquisition in the recent years until the Annual Report being published: 6-1-1. The evaluation opinion issued by the managing underwriter concerning any merger, acquisition, or issuance of new shares due to the share transfer from other companies in the most recent quarter The evaluation made by the Yuanta Securities Co., Ltd. underwriter for the fourth quarter of 2008 after the share swap with Infocom Holding Company Pte Ltd. and Singapore Telecom Taiwan Limited for New Century

InfoComm Tech Co., Ltd. ("NCIC").

# **Date of registration completed for the share transfer from other companies:** January 14, 2008

#### Influence on the Company's business for the share transfer from other companies:

For early positioning to face the coming of the age of digital convergence, Far EasTone Telecommunications, New Century InfoComm Tech (Sparq), and Digital United (Seednet) have formally formed the FEG Telecom sector after Far EasTone Telecommunications acquired 24.51% of NCIC shares. The telecom sector will, under the synergy of resource integration within the group, not only offer consumers comprehensive solutions, such as mobile, broadband, media, and international services, but also effectively enhance its sales revenue. In the future, the Company will accelerate the pace of integration for 2G, 3G, HSPA, Wi-Fi and WiMAX communications and connect them to the fixed line network. The Company has already released the "FET Broadband Saving Plan" in Q3 combining Internet access with low-rate phone calls in the hope that the plan

will boost future revenues. And the Company will focus on the integration and promotion of products, hopefully to offer more useful and convenient digital communication services to consumers. Therefore, the synergy generated from resource integration provides a positive effect on the Company's business.

Influence on the Company's finance for the share transfer from other companies:

After Far EasTone Telecommunications acquired NCIC shares, the business cooperation between these two parties facilitates Far EasTone's expansion of operation scale and enhances Far EasTone's competitiveness in the market. Currently, the two companies are focusing on the integration and promotion of products and resources. According to the injection of the Company resources, NCIC core business is also continuing to develop and operating profits should grow in the future.

#### Influence on the Company's shareholders for the share transfer from other companies:

The issuance of new shares due to share transfer from other companies will increase the number of the Company's outstanding common shares. However, after the completion of the share transfer, it is expected that, through the re-integration of business resources, the alliance will enhance the market competitiveness of the two companies. Comprehensive services will be offered to satisfy customer needs for one-stop shopping. The business scale will also be expanded, which will subsequently bring continual growth in operating revenue and profitability. Therefore, it is foreseen that Far EasTone's profitability will be improved and operating costs will be reduced under circumstances that the effectiveness from cooperation gradually emerges and resources are well utilized. Overall, Far EasTone's shares swap has no significant negative impact on its EPS and ROE. Furthermore, under consideration of integration effectiveness between the two companies, resources from the two parties will be better utilized to generate the synergy, which will make positive contribution to shareholders' equity and EPS.

#### Will the expected effectiveness of the share transfer come out?

After Far EasTone Telecommunications acquired NCIC shares, the share swap will, through the integration of products and marketing channels between the two companies, improve Far EasTone's market competitiveness, effectively integrate business resources, reduce operating costs, follow industry trend and enhance international competitiveness. There shall be a positive contribution to the Company's finance, business and shareholders' equity through the resource integration after the share swap and the expected effectiveness of the share swap will gradually emerge.

January 9, 2009

6-1-2. If the progress or effect of the implementation is not as good as expected, please explain specifically how the situation is likely to affect shareholders' equity, and propose the corrective action: Not Applicable.

		2009/4/30; Unit: Except EPS is NT dollar; others are NT\$'000
	Company name	KG Telecommunications Co., Ltd.
Company Address		38F, No 207 Tun-Hwa South Road, Section 2, Taipei
Chairman		Douglas Hsu
Paid-in Capita	ો	13,329,979
Major Business Item		Type I Telecommunications Business, Wholesale of Telecom Instruments, Retail Sale of Telecom Instruments
Major Produc	t	Telecommunication products and services
	Total Assets	35,210,053
	Total Liabilities	2,734,613
	Total Shareholders' Equity	32,475,440
Recent Year	Operating Revenue	13,679,313
Financial Data	Gross Profit	3,412,424
Dum	Operating Income	1,392,661
	Net Income	1,013,276
	EPS	0.76

# 6-2. Information from Shares Issued for Merge or Acquisition Approved by the Board Meeting in the recent years until the Annual Report being Published:

# 6-3. Impact from Shares Issued for Merge or Acquisition Approved by the Board Meeting in the recent years until the Annual Report being Published:

The Company has obtained approval to merge with KG Telecommunications Co., Ltd. by the resolution of 19th Board Meeting of fourth term of the Company dated February 26, 2009. For the shareholders' equity, it will generate the synergy through the merger and will enhance the operational efficiency, particularly in the areas of operating expenses savings, including reducing the cost of operating circuits, network-building and maintain expenses, the cost of advertising public relations, customer service and billing processing costs, as well as other related costs of personnel. Moreover, it will raise the profitability of the company. Finally, it will generate the positive effect on shareholders' equity.

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.



Far EasTone Telecommunications Co.,Ltd. Annual Report 2008

# **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 receivables 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;
- F301010 Department store Industry;
  - 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	2007	1	2008	
Item	Amount	%	Amount	%
Mobile Service Revenue	43,025,462	93	47,904,182	93
Sales of Cellular Phones and Accessories	3,027,385	7	3,230,915	6
Others	119,125	0	206,382	1
Total	46,171,972	100	51,341,479	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 postpaid and prepaid services according to the payment methods; and telecommunication lease circuit revenue which relates to domestic circuit lease line services.
- (2) Type II Telecommunication Services: Integrated Internet services, mobile location 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

Facing the integration of fixed network and mobile services of the telecommunication market, the Company has committed many resources to the development of value-added broadband services; digital products and media integrated services, and established IMS platform to integrate mobile, wire and wireless services for consumers, enterprises and home user who enjoying communications, information, entertainment, business services. New services the Company under development include:

♦ GPS and AGPS positioning services: Apart from launching onboard navigation services, the Company is continuing to leverage AGPS positioning technology for mobile phones and integrating it with network applications to offer pedestrian navigation, positioning, entertainment and hospitality related information.

- Mobile Commerce: By combining the strengths of interactive mobile networks and the Internet, the Company is partnering with banks and credit card issuing companies for contact less payment available at virtual and physical channels.
- HSPA expansion: except for further development along with state-of-the-art technology and continuously coverage expansion, the Company is offering diversified data service gadgets and friendly user interface with customization.
- Multimedia content services and applications: develop further on multimedia contents, as financial news, portals to integrated music, network videos and movie on demand, network communication tools, online gaming area, e-Book downloads, Internet payment tools and user generated contents, for the availability over PC, television, vehicles, large outdoor screens or any integrated devices to consumers.
- Value-added broadband services & digital family applications: Based on the existing HSPA 3.5G network as well as the WiMAX trial set up supported by M-Taiwan project, the Company is developing a range of video, gaming, commercial, lifestyle information and wireless Internet application services designed for home use. Development efforts are continuing on the experimental net TV project and expanding it to include all kinds of wireless digital home appliances to provide subscribers with interactive media, on-demand, streaming and lifestyle information services. These will allow consumers to enjoy a larger and more interesting range of digital services in a shared family environment through a user-friendly interface.
- Internet and mobile advertising business: The Company is actively working to build an Internet and mobile advertising sales platform in response to the trend of digital convergence. The marketing reach of the Internet and interactive mobile networks will be combined with the network-spanning properties of interactive voice codes and WAP push. Digital content and media integration services will be used to define market niches and provide advertising clients with more precisely targeted advertising services.
- Integrated services via IMS development: Continue development on phase 3 of the IP Multimedia System's (IMS) integrated network service. For businesses users, the Company is developing the IP Centrex and unified communications service that will offer integrated enterprise IP applications such as VoIP and online video conferencing.

#### 1-2. Industry Overviews

#### 1-2-1. Industry status and development

For mobile service communications aspects, due to deregulation and loosened government policies, telecommunications industry business environment is also moving towards liberalization and greater competition. The service providers (including PHS) have reached their peak at a total 25,410 thousand subscribers by the end of 2008, translating to a market penetration of over 110%. Due to differences in operators' service, promotion offering, or desire for new mobile handsets through subsidy program, many subscribers apply for more than one number. However, it is expected that another wave of growth for the domestic telecommunication industry due to maturity of applications for mobile and fixed networks, streaming services and convergence in recent years.



#### Mobile SIM Card Growth in Taiwan

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

A. Non-voice services - source of revenue growth

Since 2000, the average mobile phone voice usage remained flat or slight growth, while ARPU continued to drop. The main reason is the continuously tariff cut due to market competition. Under such circumstances,

bringing new non-voice services is becoming the key strategy for operators to increase revenue. Apart from the existing services that centered on voice services, every telecommunication service provider has been aggressively promoting 3G services that emphasized fast and diversified multimedia applications in the hopes of raising the ARPU by stimulating the demands for various mobile value-added services following the launch of 3G services.

#### B. 3G - the next market focus, Wireless - the power of growth

With various domestic telecommunication service providers launching 3G services one after the other, the total number of 3G mobile phone service subscribers has reached 11.92 million by the end of December 2008. Market penetration has also grown from 6.4% during January 2006 to the current 47%. Following the expansion of 3G/3.5G (HSPDA) network coverage and the gradual prevalence of 3G/3.5G mobile phones and USB network data cards, it is inevitable that 3G will continue to develop and offer new services. Traditional value-added services that have suffered from slow growth due to transfer speed limitations will finally gain new room for growth. In addition to expanding the subscriber base, the next logical step for the domestic mobile communication service market to take would be the development of more diverse multimedia services that will cater to subscribers' needs better in order to generate more revenue. The rapid growth of WLAN (Wireless Local Area Network) will facilitate the process of consumer behavioral change as its large bandwidth can stimulate the needs for fast data access at any location and 3G mobile phone services. This will in turn lead to boisterous development of applications such as video phones, MMS (multimedia messaging services), mobile multimedia streaming services, mobile offices and so forth.

Since broadband Internet access technology became available in 1999, the number of broadband subscribers has grown rapidly every year by ISP aggressive promotion. Up to 2005, it has grown to 4.13 million subscribers with an annual growth rate of 16%. The broadband market has become gradually saturated, while subscriber numbers are continuing growing, but the growth rate has slowed down. The total number of subscribers is expected to reach 4.78 million by the end of 2008, an increase of just 140,000 subscribers or 3% compared to 2007.

For wireless network, it is expected the government will invest a lot of resources to promote M-Taiwan project and focus on WiMAX technology. The MIC estimated that the global WiMAX industry business should reach US25 Billion dollars within 5 years, while Topology projected that there will be 30 million WiMAX subscribers around the world in Year 2011. The government encouraged the industries to develop WiMAX in hardware, commercial operation and application services. The National Communications Commission (NCC) released six WiMAX licenses for northern and southern Taiwan in July, 2007. The high cost of rolling out base stations and a lack of clear market demand however means there is still full uncertainty about when WiMAX services will go on air.

WiMAX's high speed, high capacity, secure transmission and wide coverage make it become one of the most important wireless communication technologies. The WiMAX market is still on the first development stage and the business model may be changed in the future. Many local companies have therefore started thinking about how the WiMAX market may evolve. Generally speaking, the next focus of WiMAX development should be on "application services that exploit the traits of WiMAX". This will also determine the success or failure of WiMAX itself.

#### 1-2-2. Industry Value Chain:

# **Telecommunications Industry Value Chain**



(Including agents, distributors, retail stores of operators)

#### 1-2-3. Development Trends of Products and Services

A. 3G now widespread and 4G wireless broadband access (WiMAX or LTE) now in development Widespread 3G base station coverage as well as the increasing demand for mobile Internet access means that 3.5G has become increasingly popular. This isbecause 3.5G can be used anywhere while also offering better mobility, security and connection speeds than 3G. It has therefore grown more rapidly than voice services. In 2008, the number of wireless data card subscribers grew at a rate of 135%, and while this year the financial tsunami and economic recession will have an effect, the growth rate for wireless data cards is expected to reach 50% in 2009 as well. The Company is also stepping up the development of related value-added services so subscribers may not only access the Internet but also enjoy the convenience of services tailored to their needs. Wireless broadband access systems (4G) are now the main scheme that many countries are working hard to

Item	1G-Analog	2G-GSM	3G-WCDMA	4G
Privacy and Security	Poor	Good	Better	Better
Enhanced Function	No	Many	Many	Many
Power Requirement	General	General	Minimum	Minimum
Quality of Signal	Better	Good	Best	Best
Reliability of Communication	Poor	General	Better	Better
Number of Base Station	General	Fewest	Most	Same as 3G
Construction Cost	Low	General	High	Lower

Comparison of the 1st, 2nd, 3rd and 4th Generation Mobile Phone Service

B. Service Personalization

develop.

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), photo sharing, playing games 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. The Company will leverage its network, which is equipped with mobile communications, mobile commerce, and various mobile content and entertainment services to encourage handset manufacturers to accelerate their research and development 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 mobile services will be the road to success for the future development of the telecommunications industry.

The Company has also secured the network license for wireless broadband access in southern Taiwan. To meet the demand for large mobile bandwidths, the Company is now working quickly to set up MIMO (Multiple-Input, Multiple-Output) and OFDMA (Orthogonal Frequency-Division Multiple Access) wireless broadband networks.

#### 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 segments. 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.

The Company shattered the preconception that a fixed line is required for Internet access and became the first telecommunications company to offer 3.5G broadband wireless Internet access at home. Compared to the fixed line Internet services now on the market, Big Broadband can not only be shared wirelessly between multiple people but can also be bundled with cheap local call services. This successfully differentiated the Company products from competitors on the market.

As for the WiMAX market, WiMAX operators are now planning to commercially launch service by the end of the year. As WiMAX's initial coverage will be limited and there are still lots of doubts about WiMAX's actual transmission rates, it's difficult for WiMAX to compete with 3.5G in the wireless Internet access market. Intel's

strong support and the release of notebook with built-in WiMAX chips however suggest that WiMAX may still be worth watching in the future.

# 1-3. Technology Development Overviews

# Major R&D Expense in Recent Years

2009/3/31;	Unit: NT\$'000
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Year	2008	2009 Q1
R&D Expense	149,026	24,094
Total Operating Revenue	51,341,479	12,894,797
R&D Expense as percentage of Total Operating Revenue (%)	0.29	0.19

**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	Name of value-added service	Content of value-added service
	M_Taiwan Project	This project is a major 3-year infrastructure project proposed by the Industrial Development Bureau of the Ministry of Economic Affairs. It aims to turn Taiwan into an island for mobile application services and promote the development of domestic communication manufacturing industries. The Company's project blue print and scope of operation can be divided into two major phases; the first phase is centered on the freeways of northern Taiwan and completed its acceptance trials at the end of 2006. The second phase will set up WiMAX network trial operation in Taichung City and plan the wireless broadband application services.
	"FET Beep 'N' Go" NFC mobile phone services	The Company became the first telecommunications company in Taiwan to join the global "Pay-buy mobile" program set up by the GSMA association. Through the program, the Company and major telecom providers around the world set up a global standard for a "Credit Card/Cash Card with SIM functionality" and NFC wireless technology. The "FET Beep 'N' Go" service combines the functions of a SIM card, credit card, access card, membership card and discount voucher all onto one 3G SIM card. Agreements were also signed with leading companies in Taiwan to expand the service's reach. In February 2008, the Company and the Taishin Bank invited 200 consumers to take part in a consumer trial that used the latest NFC technology to provide consumers with a new, convenient way of life that will work all around the world. The Company also partnered with the Yuan Ze University to give students the chance to use the NFC short-range wireless communications for more advanced and convenient services.
	FET Multi-function PND Unit	The world's first 'FET's G5' combines 'FET GPS Info Go', which offers navigation, mobile phone, mobile, TV, multimedia entertainment service and provides the most up-to-date traffic report, richest travel guide and practical road information in one gadget. The multi-function PND units supplied by the Company in 2008 were the dmedia G5 and Mio Moov 380.
2008	FET Big Broadband	The Company's exclusive FET Big Broadband Plan uses the IMS network service platform as the basis for integrating wireless Internet access and telephony. It is able to support wireless Internet connection sharing, unlimited Wifly Internet access throughout Taiwan and cheap call rates. In the future, mobile value-added services will be integrated into the Company's IMS Platform to offer customers a better quality of service.
	3.5G Wireless Broadband Internet Access	After becoming the first domestic telecommunication service provider to offer true 3.5G HSPA (High Speed Packet Access) service with a maximum upload speed of 3.6Mbps in 2006. In 2008, support was continued for different user 3.5G wireless data cards while also releasing a Mobile Internet Device with built-in 3.5G data card that is portable and can connect wirelessly to the Internet in any where and at any time.
	FET Mobile Storage	This service allows the Company customers to back up the important data on their mobile phones at any time and in any place. The service can also be accessed through the computer to edit data such as contact lists, calendars, to-do lists and notes with ease.
	FET Photo Sharing Service	Wi-Fi technology for digital picture frames is integrated with mobile communications service so consumers can use the photo sharing service to simply click and drag photos on their computers or on popular online photo albums and share them wirelessly with friends and family through the computer, Internet or mobile phone MMS.
	FET Gaming Platform	This service provides customers with a complete gaming service platform and a wide variety of games that can be subscribed to via the computer (WEB) or mobile phone (WAP). The platform helps to boost subscribers' repeat visit rate and game download rate, resulting in higher revenues.
	FET Mail 3.0	The user can use smart phones or PDA mobile phones to connect with the Company via GPRS. Using a simple and intuitive interface, the user can easily receive company mail through Microsoft Outlook and Lotus Notes or personal mail through Yahoo Mail, Google Mail or Seednet E-mail.

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

# 1-4-1. Short-term plans

- A. Marketing Strategy
  - a. Analyze different customer attributes to perform market segregation. For different target customer groups, corresponding promotions and marketing strategies will be implemented to best suit their needs. This should help the Company to secure a substantial lead in terms of new customers ahead of other competitors to expand market share.
  - b. Aggressively pursue planning and development of new products and added values; keep up with current efforts in developing new distribution channels, service locations and delivery methods to consolidate the Company's status in the market.
  - c. Tariff will be designed according to subscriber needs to secure quality and high loyalty customer with competitive pricing strategies in the market and different needs for different customers taken into consideration.
  - d. Strive to establish brands and business that are trustworthy to the customers; the Company has completed CRM (Customer Relation Management) and host various customer appreciation events regularly to maintain customer loyalty and minimize customer loss.
  - e. WiMAX will provide home users with an alternative of 3.5G for high-speed wireless Internet access, highlighting the Company's spirit of service innovation.
- B. Direction for Product Development
  - Continuously improve network quality to reduce congestion and dropped- call rate and offer world-class sound quality and high speed telecommunications service.
  - b. Continue to promote integrated multimedia services such as mobile video service, mobile search engine to offer customers a wider range of service choices and make mobile phone become a more personalized communication tool.
  - c. Develop innovative multimedia services, such as mobile advertising and outdoor digital billboards, to offer clients with more media options other than television, print and Internet advertising.
  - d. Expand value-added broadband services to provide digital home applications such as "digital photo frame", "070 budget calls" and "multimedia VoIP". These data services will hopefully create new business opportunities outside of voice services.
  - e. Continue to develop integrated enterprise application services to provide businesses with flexible voice and data integration solutions.
  - f. Complete rollout and optimization of WiMAX network to offer faster and more reliable network performance.
- C. Operational Scale
  - a. Strengthen 3G mobile communication services to provide customers with faster and higher quality voice and data services.
  - b. Tailor promotional plans and marketing strategies to each customer segment and expand the Company's market share.
  - c. Continue to release rates and value-added services that meet the needs of customers in order to establish a customer base that is high quality and loyal.
  - d. Actively work to develop new sales channels and more extensive distribution networks in order to establish the Company's market presence.
  - e. Continue to develop and market products for enterprise customers. Also develop the advertising business and provide integrated value-added services.
  - f. Receive SGS service certification for three straight years in order to become the first Asian telecommunications company to achieve this certification in an effort to provide customers with more speedy, comprehensive and high quality sales and after-sales service.
  - g. Successfully launch WiMAX wireless Internet access services by the end of 2009 and realize fast and steady customer growth next year.

#### 1-4-2. Long-term plans

- A. Marketing Strategy
  - a. With various loyalty programs and activities targeting different market segments, the Company expects to reduce customer churn.
  - b. The Company continuously launch new product and educate customers on new technology development to increase the economic value of its product. In order to further meet customer needs, the Company regularly

evaluates its existing sales channels and develops new sales channels. Successfully provide customers with a diversified sales channel, comprehensive services and extensive channel coverage.

- c. Continuously provide innovative and integrated home services, establish the Company's leadership in Home market through proper market education and communication.
- B. Direction for Product Development
  - a. Simultaneously with the trend of world's technologies and product development, the Company is dedicated to network quality improvement and developing innovative services and products based on local customer needs.
  - b. Develop applications based on "digital home" concept and combine them with home wireless broadband Internet access products to offer a complete home service solution.
- C. Operation scale
  - a. With the boundaries between fixed network, mobile network, internet and digital media gradually blurring, the Company shall merge services of fixed network, mobile phone and internet access through the formation of strategic alliances and integration of internal resources to stay abreast with the trend of digital convergence.
  - b. The Company shall also strengthen its human resources by enlarging its reserves of talent in the field of telecommunication to facilitate the expansion of operations.
  - c. Draw on the telecommunications group's internal resources to continue increasing the share of the home market.

#### 2. Markets and Sales Overview

### 2-1. Market Analysis

#### 2-1-1. Main Products and Service Areas

In 2008, the Company will continue to expand the number of retails to provide consumers with a diversified sales channel, comprehensive services and extensive channel coverage. Apart from complete coverage via direct owned outlets, the Company will also set up strategic channels with 3C, IT, game and ISP vendors. The Company currently boasts an integrated network consisting of nearly 700 direct owned, franchisee stores, distributor owned or Arcoa outlets. In terms of coverage, the Company branded stores and Arcoa stores when combined have the highest coverage of the industry. The total number of subscribers between the Company and KGT was 6.13 million at the end of December 2008. As 3G network and voice products mature, the Company is planning to offer more diversified and high value-added mobile data services to meet customer demand.

#### 2-1-2. Market Share

Telecommunications companies are all running advertising campaigns, mobile phone subsidies and flexible rate plans to attract the consumer's attention. With the launching of 3G mobile phone services, new operators entering the market and increasing market saturation, the current market shares are as follow: CHT at 35%, TWM at 25%, FET at 24%, APTG Telecom and Vibo at 10%, and PHS at 6%. In the future, changes in market share will be determined by each operator's ability to deliver complete value-added services to their customers. The service revenues for the top three operators are generally stable. While CHT is under serious challenge telecommunication privatization, its share of telecommunications service revenue has remained stable at 38.9%. The consolidated revenues for TWM Group was around 30.9%, while the Company and KGT's consolidated telecommunications service revenues were at 30.2%. As for the home broadband market (including ADSL, fiber-optic and cable modems), CHT has 87% of the broadband market share while Far Eastern Group and TaiwanMobile Group each accounts for around 6.5%.

#### 2-1-3. Future Market Demands and Potential

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. The Company 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

Not only that, the Company has demonstrated its insistence on quality and passion towards services by completing SGS (Société Générale Surveillance)'s Qualicert program in 2006 to become the first telecommunication service provider and customer service center in Asia and Taiwan region to receive such honor. The Company managed to receive SGS' recognition for quality service for three consecutive years by receiving the same certification in 2008.

#### B. Brand Image

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 and "Hala boss services" and "Big Broadband" had received recognition of consumers from all ages. The Company was still committed to the development of new products, home services, wireless on net, video, other add value services. Guided by its shared values of being "innovative, responsive, and trustworthy", the Company will continue offering superior service to the customers.

#### C. Communication quality

In January 1998, the Company became the world's telecommunication service provider to fully adopt the GSM900/1800 dual band technology system and Taiwan's first company to offer EFR Hi-Fi stereo sound quality across the entire island. Being an active contributor to the development of telecommunication technologies in Taiwan, the Company was also the first mobile communication service provider of the entire island to launch WCDMA network for 3G videophones in 2005 with the intention to improve network communication quality and introduce advance services to consumers in Taiwan. In 2006, the Company took the lead in offering HSPA technology (Taiwan's fastest network data speed at 3.6Mbps) and commenced the new generation for 3.5G mobile communications. The Company has insisted on adopting world class standards regarding demands for its network planning, system coverage rate, call blocking rate and drop rates to ensure optimum communication quality. In order to cater to customers' needs for quality network communication, the Company has collaborated with six leading mobile communication service providers in Asia to form the "Asia-Pacific Mobile Alliance" to promote better international roaming quality and corporate customer services.

With networks becoming increasingly IP-based, the Company is also working to improve the voice quality of VoIP services. Apart from increasing the bandwidth of the network backbone, the Company has also purchased carrier-grade IP multimedia subsystems (IMS) to ensure the reliability of voice and data transmissions. Research and development into new services that can operate over different access networks are also be accelerated as well.

#### D. Marketing channel

Vertical integration of direct-owned channels now include the Company branded outlets (direct-owned stores, concept stores, paradigm stores, franchise stores), the Company dealerships and ARCOA store covering nearly 700 stores around Taiwan. The Company's complete franchisee management system and sales system have also become a benchmark for the telecommunications industry. The Company will also continue to expand the number of sales channels to provide consumers with a diversified sales channel, comprehensive services and extensive channel coverage. Apart from the expansion of direct-owned channels, during 2008 the Company developed strategic channels for 3C, IT and gaming to strengthen the integration of marketing channels. In the future, the Company will aim to attract younger users and continue to maintain our leadership in value-added services. To this end, the Company will continue to set up stores with product experience zones in response to the trend towards digital convergence. Existing expansion into non-conventional telecommunications channels such as 3C, IT, gaming and the Internet will all play an important rule in the marketing of value-added data services.

#### E. Seizing the Trend

Telecommunication service is developed toward 'convergence'. In early 1999 the Company launched mobile service converged with Internet access. In 2002 the Company continues to offer wireless Internet service over GPRS network and MMS. In 2005, it headed further to high-speed transmission data service, new products and new add-value services over 3G.

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

A. Advantages

(1) Dual-band system offers superior communication quality

With GSM900 and GSM1800 licenses, the Company offers superior quality by the frequencies complementation in penetration capability and transmission reach, automatic frequency switch during a call and can maximize the capacity in the limited bandwidth of the two frequencies to reduce congestion. In addition, the Company has also received the license to provide WiMAX services in the southern region in 2007. We hope to offer consumers larger bandwidth and faster transfer speed to improve overall cost effectiveness.

(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.

(5) Synergies from the integration of Far Eastern Group Resources

Provide customers with telecommunications services that integrate over 40 products such as voice, data, broadband and multimedia in order to encourage the integration of mobile and fixed networks. Also provide a wide variety of value-added services to stimulate competition on existing market plans and service quality. This will hopefully inject new blood into the increasingly saturated Taiwanese telecommunications market and contribute to the development of the overall economy in a positive way.

- B. Disadvantages
  - (1) After the implementation of Mobile Number Portability, competition on SIM card sales intensifies 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.

(3) Lowering of telecommunications rates will reduce overall revenues

Due to the inherent constraints on cable-laying, CHT currently still monopolize in Home broadband services and their prices also tend to serve as a benchmark for the competitors in the industry. This means that when CHT decides to reduce the broadband service rates, other ISPs must follow as well. While this does help to increase the number of broadband subscribers, a gradual and annual decrease in subscriber ARPU is inevitable. Since every ISP has different costs and expenses, forcing them all to follow the same pricing strategy leads to a certain level of unfair competition. This will not be beneficial to consumers' rights in the long term either.

#### (4) Time required for WiMAX application services to become widespread

Although WiMAX does offer a technical advantage now, it is a still possibly replaced with other latest technology. In other words, if existing service providers don't see a killer application that will only run on WiMAX, there is only little incentive for them to spend heavily on rolling out base stations. WiMAX may in fact cannibalize their existing ADSL business or harm their 3G investments instead. Other peripheral factors that must be considered is the public opposition to base stations due to electromagnetic radiation concerns that will make any roll-out slower

than what operators planned. This along with the completeness of the relevant government legislation as well as the technical support forthcoming from major international players such as Intel will all put the commissioning of WiMAX services in an unknown situation.

- C. 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 to customer
  - e. Create differential products and services in order to avoid Red Sea strategy that leads to a price war.
  - f. Develop more precise customer segmentation, analyze the usage behaviors and needs of the target markets and create new business application service models based on new technology (e.g. WiMAX).

#### 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
WiMAX Service	WiMAX system offer mobility, wideband telecom network of IP

#### 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

						20	008/12/31; Un	it: NT\$'000, %
Year	2007				2008			
Item	Company		% of Total Operating Cost		Company	Amount	% of Total Operating Cost	
1	Chunghwa Telecom	3,132,726	13.01	None	Chunghwa Telecom	3,477,549	13.63	None

#### 2-4-2. Major Customers

2008/12/31; Unit: NT\$'000, %

$\langle \rangle$	Year		2007				2008		
It	tem	Company		Operating	Relations with the Company	Company	Amount	% of Total Operating Revenue	with the
	1	Chunghwa Telecom	6,649,560	14.40	None	Chunghwa Telecom	6,909,796	13.46	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

					2008/12	2/31; Unit: SIN	I card; piece	; NT\$'000
Quantity Year		2007				2008	3	
	Imports		Exp	orts	Impor	ts	Ex	ports
Item	Quantity	Amounts	Quantity	Amounts	Quantity	Amounts	Quantity	Amounts
Service revenue	*4,672,974	43,144,587	0	0	*5,131,282	48,110,564	0	0
Handset and Accessory Sales	1,257,520	3,027,385	0	0	960,841	3,230,915	0	0
Total	Not Applicable	46,171,972	0	0	Not Applicable	51,341,479	0	0

\*Total number of subscriber at the end of the year

#### 3. Employee Information in the Recently 2 Years

				2009/3/31
Ŋ	Year		2008	2009/3/31
	Manager and above	325	367	388
	Technical staff	833	1,013	1,117
Number of Employees	Customer care staff	987	966	907
	General staff	1,265	1,433	1,448
	Total	3,410	3,779	3,860
Average Age		33.45	34.15	34.66
Average Years of Service		5.01	5.12	5.25
	Ph. D	0.09	0.05	0.01
Breakdown of Educational	Master	10.37	11.89	12.50
Level (%)	College	80.51	80.56	80.10
	High School	9.03	7.50	7.39
	Below High School	0	0	0

#### **4 Environmental Protection Expenditure**

There was any loss or penalty due to environmental pollution in recent years until the annual report being published: 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, employee's consolations 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. 902 training courses were conducted for 40,182 employees and total expense around NT\$5,403 thousand in 2008.

#### 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 Bank of Taiwan 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. (4) The Company provides consultation services available through a contracted professional consultation firm to solve various issues employees may encounter such as family, marriage, coping with pressure, interpersonal relationship and etc. to maintain their physical/mental well-being as a measure to ensure work safety, quality and productivity.
- 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: None.

# 6. Major Contracts

Contro -+ T	Count Dt	Torma of the Country t	Desertetter	2009/4/3
Contract Type	Counter Party	Terms of the Contract	Description	Restriction Clause
		Dec.5,1996~present July.1,2006	BTS facilities, software and installation 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
	Ericsson Taiwan Ltd.	Apr.1, 2008~Mar, 31,2009	Maintenance Service Contract of 2008	None
	Enesson Taiwan Etq.	Feb.29, 2008	Addendum No. 2 of Master Contract for Service Acquisition of UMTS System Phase III for Y2008 3G & 3.5G Network Expansion and 2G Consolidation	None
		Feb.29, 2008	Addendum No. 2 of Master Contract for Equipment and Software Acquisition of UMTS System Phase III for Y2008 3G & 3.5G Network Expansion and 2G Consolidation	None
	Sharp Corporation	Oct.9,2002~present	Mobile phones	None
Procurement	Motorola Electronics	Sep.26,2007~Apr.30,2009	WiMax facilities and installation	None
Tocurement	Taiwan Ltd.	Aug.1,2008~Dec.31,2009	WiMax facilities and installation	None
	Nortel Network Taiwan Co., Ltd.	Sep.10,2007~ Sep.10,2008	WiMax facilities and installation	None
	Alcatel-Lucent Taiwan	Jan.1,2009~ Jan.1,2010	WiMax facilities and installation	None
		May 1,2007~ May ,2009	HSDPA phase 1.5 facilities and installation	None
		Apr.1,2008~ Mar.31,2009	Maintenance Service Contract of 2008	None
	Nokia Siemens Networks Taiwan Co., Ltd.	Apr.1,2008~ Apr.1,2009	Letter of Agreement For Y2008 3G 3.5G Network Service Acquisition	None
		Apr.1,2008~ Mar.31,2010	Letter of Agreement For Y2008 3G 3.5G Network Equipment and Software Acquisition	None
	Gemalto Pte. Ltd.,	Apr.11,2008	Contract Amendment for NFC Commercial Project Contract	None
	Stark Technology Inc.	Feb.2,2009~ Feb.2,2010	FETnet Portal DCM(FatWire) upgrade	None
	Yu-Wei Co., Ltd.	Oct.1,2008	3G MCPA facilities and installation	None
Distribution	Arcoa Co., Ltd.	July.1,2005~Jun.30,2007 (Note 1)	Promotion and distribution of mobile services	None
	Tecom Co., Ltd.	July.1,2005~Jun.30,2007 (Closed on Oct.1,2008)	Promotion and distribution of mobile services	None
	Systex Corporation Ltd.	June.1, 2005~May 31, 2007 (Note 1) Apr.1, 2005~Mar.31, 2007	Promotion and distribution of mobile services Promotion and distribution of mobile	None
	Synnex Corporation Ltd.	(Note 1) Apr.1,2007~Mar.31,2007	ervices Promotion and distribution of mobile	None
	AURORA Telecom	(Note 1) May 1,2006~Apr.30,2008	services Promotion and distribution of mobile	None
	Tsann Kuen Taiwan DFASHION linternational	(Note 1) Apr.1,2007~Mar.31,2008	services Promotion and distribution of mobile	None
	Inc.	(Note 1)	services	None
	Xander International Ltd.,	Mar.1, 2008~Feb.28,2009 (Note 1)	Promotion and sales for prepaid recharge card	None
	OK Convenience Store (Taiwan) Ltd.	Jan.1, 2008~Dec.31,2008 (Note 1)	Promotion and sales for prepaid recharge card	None
	1			

Contract Type	Counter Party	Terms of the Contract	Description	Restriction Clauses
	President Chain Store Corp	Jan.1, 2008~Dec.31, 2008 (Note 1)	Promotion and sales for prepaid recharge card	None
	Hi-Life International Co., Ltd.	Jan.1, 2008~Dec.31, 2008 (Note 1)	Promotion and sales for prepaid recharge card	None
	Taiwan Familymart Corporation Ltd.	Jan.1, 2008~Dec.31, 2008 (Note 1)	Promotion and sales for prepaid recharge card	None
	Network Communications International Corporation	Apr.1,2008~Mar.31,2010	Agency contract	None
	Chung Hwa Telecommunications	July 1, 2005 ~ June 30, 2006 negotiating for extension (Note 2)	Network Interconnection	None
	Taiwan Fixed-Line Network	July 1, 2005 ~ June 30, 2006 negotiating for extension (Note 2)	Network Interconnection	None
	Network Communications International Corporation	July 1, 2007 ~ June 30, 2008	Network Interconnection	None
Network	Asia Pacific Broadband Telecom	Sep.1, 2005 ~ Aug.31, 2006 negotiating for extension (Note 2)	Network Interconnection	None
nterconnection	Taiwan Mobile	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
	Asia Pacific Broadband Wireless	July 7, 2003 ~ July 6, 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 Telecom	Sep.29, 2005~Sep.28, 2006 negotiating for extension (Note 2)	Network Interconnection	None
Warehousing and	Arcoa Co., Ltd.	Mar.1, 2009~Feb. 28, 2011	Warehousing and transportation services	None
ransportation services	Hsin Chu Transportation	Sep.1, 2008~Aug.31, 2009	Warehousing and transportation services	None
Technology service and licensing	NTT DoCoMo Inc.	Oct.26, 2004~present	Technology license for upgrade of DoJa 2.5 version	None
Agreement for	National Communications Commission	Dec.22, 2006~March.31, 2008	The experimental plan of the Digital Video Broadcasting – handheld playing	None
government's project	Industrial Development Bureau of the Ministry of Economic Affairs	Oct.2, 2006~April 30, 2009	Development and promotion of the Wireless project of ''M-Taiwan''	None
Shareholders' Agreement	FET President Chain Store Corporate	Feb.14, 2007	The Company 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	The Company will subscribe the capital call shares of Q-Ware Communications Co., Ltd.	None
Share Swap Agreement	FET InfoCom Holding Company Pte Ltd. Singapore Telecom Taiwan Limited	Aug.24, 2007	According to Paragraph 6, Article 156 of Company Act, the Company will issue160,370,370 shares in total to exchange for 980,315,483 of Sparq's common shares after capital reduction from Infocom Holding Company Pte Ltd. and Singapore Telecom Taiwan Limited., the share swap ratio for issuing new shares in exchange for Sparq shares held by SingTel is 1: 6.11282174. After share swap the Company will acquire around 24.51% of Sparq's total issued shares, and Infocom Holding Company Pte Ltd. and Singapore Telecom Taiwan Limited will acquire around 3.97% of the Company's total issued shares.	

Contract Type	Counter Party	Terms of the Contract	Description	Restriction Clauses
Amendment of Share Swap Agreement	FET InfoCom Holding Company Pte Ltd. Singapore Telecom Taiwan Limited	Nov. 9, 2007	There specify the clauses for "Earn Out" and "Income Tax Credit Utilized", subject to the governmental approvals and to the extent permitted by applicable laws. Due to the change of circumstance, both parties have reached an agreement to confirm that the aforementioned provisions shall no longer be applicable.	
	NTT DoCoMo, Inc. StarHub Mobile FET Group (FET and KGT) Hutchison (Hong Kong)	Feb.13, 2006	Asia Pacific Strategic Consortium for Telecommunication Providers	None
	All Conexus Members	Mar. 3,2007	Related Confidential Agreement of Conexus members	None
Strategic Consortium	China Mobile	April 29, 2009	Both parties will establish strategic cooperation in the fields of joint purchase, voice and data roamming, value added services and future technology and research developmentetc. Both parties also agree to, within the extent permitted by relevant applicable laws and/or after obtaining the approvals of relevant competent authorities, establish a joint venture to cooperate in the fields agreed by both parties. The strategic cooperation agreement will be effective from the completion date of the private placement.	None
Share Subscription Agreement	China Mobile	April 29, 2009	The Company will issue not more than 444,341,020 new private placement common shares which will be subscribed by the China Mobile Limited's indirect 100% subsidiary in Taiwan. The private placement price is NT\$40 per share. If the volume weighted average price of the common shares of the Company for the 14 consecutive trading days prior to and including the date on which either the place's parent company or the Company sent the notice to the other party, pursuant to the relevant agreements, to notify the settlement date of the private placement, has been beyond the range of NT\$35 (inclusive) to NT\$50 (inclusive), it is proposed that the Shareholders Meeting hereby authorizes the Board of Director may discuss in good faith to agree a new private placement price per share of the Company, provided that any upward or downward adjustment (if any) shall not be more than NT\$55 per share of the Company. However, if the difference between the new private placement price will be no less than 70% of the Reference Price. The completion of this private placement is subject to the satisfaction and fulfilment of all the conditions precedent set out in the relevant transaction documents, including without limitation that it is permitted under the relevant laws and regulations and approvals from relevant competent authorities have been obtained.	None

Contract Type	Counter Party	Terms of the Contract	Description	Restriction Clauses
	YuanTa Financial Holdings Co., Ltd. NCIC		Telecom services	None
Merger	KG Telecommunications Co,.Ltd	Feb. 27, 2009	Contract for merger with KG Telecommunications Co, Ltd	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 expired, 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.



Far EasTone Telecommunications Co.,Ltd. Annual Report 2008

# **W** Financial Information

- 1. Condensed Financial Statement for the Recent 5 Years
- 2. Financial Analysis for the Recent 5 Years
- 3. 2008 Supervisors' Report
- 4. 2008 Independent Auditors' Report, Financial Statements and Notes
- 5. 2008 Independent Auditors' Report, Consolidated Financial Statements and Notes
- 6. 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

2009/3/31; Unit: NT\$' 000

Year Item		2009/3/31; Unit: N15' 000 Financial Information In Recent Years (Note 1)						
		2009 Q1	2008	2007	2006	2005	2004	
Current Assets		10,096,399	7,872,426	10,594,966	9,363,567	8,679,748	10,829,712	
Fund and Investments		40,130,598	0,130,598 39,857,195 43		37,883,330	37,532,567	44,030,365	
Properties		28,336,039	29,412,868	29,794,143	32,927,648	36,360,999	32,616,540	
Intangible a	assets	7,124,388	7,307,065	8,037,772	8,768,479	9,499,186	-	
Other Assets		959,572 910,795 608,036 843		843,013	951,211	1,391,283		
Total Assets		86,646,996	85,360,349	92,377,695	89,786,037	93,023,711	88,867,900	
Current	Before Distribution	11,997,179	13,160,080	12,384,336	12,748,687	13,502,181	10,173,647	
Liabilities	After Distribution	(Note 2)	(Note 2)	22,800,759	25,107,815	25,904,806	22,170,799	
Long-term Liabilities		-	4,180	8,360	2,764,398	5,977,100	8,714,250	
Other Liabilities		978,728	899,887	650,999	346,250	324,328	267,937	
Total	Before Distribution	12,975,907	14,064,147	13,043,695	15,859,335	19,803,609	19,155,834	
Liabilities	After Distribution	(Note 2)	(Note 2)	23,460,118	28,218,463	32,206,234	31,152,986	
Capital Stocks		32,585,008	32,585,008	40,330,334	38,726,630	38,726,630	38,423,115	
Capital Surplus		19,487,349	19,487,349	19,487,270	15,003,956	15,003,956	14,506,182	
Retained	Before Distribution	21,546,851	19,245,585	19,501,261	20,240,948	19,487,348	16,767,098	
Earnings	After Distribution	(Note 2)	(Note 2)	9,084,838	7,881,820	7,084,723	4,769,946	
Unrealized loss on financial product		18,075	(50,204) 3,309 (4		(49,792)	-	-	
Cumulative Translation Adjustment		33,806	28,464	11,826	4,960	2,168	15,671	
Unrecognized net loss on pension		-	-	-	-	-	-	
Total	Before Distribution	73,671,089	71,296,202	79,334,000	73,926,702	73,220,102	69,712,066	
Shareholder Equity	rs' After Distribution	(Note 2)	(Note 2)	68,917,577	61,567,574	60,817,477	57,714,914	
Mate 1. The	financial Statements for th	<i>.</i>	f 2000 have had	. 1.04	ara harra haan ar	1.4 1		

Note 1: The financial Statements for the first quarter of 2009 have been reviewed. Others have been audited. Note 2: The appropriation of 2008 earning has not been approved by the shareholders' Meeting.

#### 1-2 Condensed Income Statement

Year Financial Information In Recent 5 Years (Note) 2009 Q1 2004 2008 2007 2006 2005 Item 43,149,676 12,894,797 51,341,479 46,171,972 43,207,517 40,229,481 **Operating Revenues** 25,832,546 19,747,593 20,534,347 6,358,436 22,096,267 21,256,728 Gross Profit Operating Income 3,221,332 12,971,124 10,274,570 9,403,731 11,385,325 11,046,594 58,345 437,071 3,873,681 5,550,647 5,048,687 4,228,055 Non-Operating Income and gain 200,378 280,373 457,307 368,359 189,648 722,020 Non-Operating Expense and loss Income before Income Tax from 3,079,299 13,127,822 13,690,944 14,586,019 16,244,364 14,552,629 **Operating Business** Net Income from Operating 2,301,266 10,160,747 11,619,441 13,156,225 14,717,402 14,043,076 Business Net Income from Discontinued Business Abnormal net income ----Accumulated number from accounting policy changes 10,160,747 11,619,441 13,156,225 14,717,402 14,043,076 2,301,266 Net Income Basic Earning per Share in NT\$ 0.71 3.09 3.00 3.40 3.80 3.75

2009/3/31; Unit: Except EPS is NT dollar; others are NT\$'000

Note: The financial Statements for the first quarter of 2009 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:

#### 1-3-1 Accounting principle for bonuses to employees and remunerations to directors and supervisors:

In March 2007, the Accounting Research and Development Foundation (ARDF) issued Interpretation No. 2007-052 that requires companies to recognize bonuses to employees and remunerations to directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses and remunerations were previously recorded as appropriations from earnings. This accounting change resulted in a decrease of \$205,266 thousand in net income and a decrease of NT\$0.06 in basic earnings per share after income tax for the year ended December 31, 2008.

#### 1-3-2 Accounting principle for properties and retirement asset:

In November 2008, the ARDF issued Interpretation No. 2008-340 that required the Company to estimate and to capitalize the costs of dismantling and removing properties and restoring the cellular site on which they are located and to record the costs as properties and accrued asset retirement cost. This accounting change resulted in an increase in properties of NT\$86,543 thousand as of December 31, 2008; however, the adoption had no significant influence in the current year's income.

Year	Audit Firm	Auditors' Name	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
2007	Deloitte and Touche Co.	Annie Lin, Benjamin Shih	Unqualified opinion
2008	Deloitte and Touche Co.	Benjamin Shih, Tony C. Chung	Unqualified opinion

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

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. The auditor Annie Lin was replaced with Tony Chung in 2008.

# 2 Financial Analysis for the Recent 5 Years

# 2-1 Financial Ratio Analysis

Year			Financial Analysis In Recent 5 Years (Note)						
Item			2009 Q1	2008	2007	2006	2005	2004	
F:	Debt to Asset	Ratio	14.98	16.48	14.12	17.66	21.29	21.56	
Financial Structure	Long-term Funds to Fixed Assets Ratio		259.99	242.41	266.30	232.91	217.81	240.45	
Liquidity Analysis	Current Ratio	e (%)	84.16	59.82	85.55	73.45	64.38	106.45	
	Quick Ratio (	(%)	75.96	52.51	78.99	65.73	56.01	87.97	
	Times Interes	t Earned (times)	1,888.98	1,573.57	498.04	157.70	93.24	44.17	
	Accounts Receivable Turnover (times)		8.28	8.51	8.51	8.63	9.08	9.10	
	Average Coll	ection Days (days)	44.08	42.91	42.91	42.30	40.19	40.13	
Operating	Inventory Turnover (times)		7.82	8.9	8.67	6.77	6.73	4.96	
Performance	Accounts Payable Turnover (times)		12.48	14.37	14.83	13.37	12.73	10.83	
	Inventory Turnover Days (times)		46.67	41.03	42.09	53.94	54.26	73.91	
	Fixed Assets	Turnover (times)	1.82	1.75	1.55	1.31	1.19	1.23	
	Total Assets	Furnover (times)	0.60	0.60	0.50	0.48	0.46	0.45	
	Return on As	sets (%)	10.71	11.44	12.78	14.47	16.33	17.84	
	Return on Eq	uity (%)	12.70	13.49	15.16	17.88	20.59	24.91	
Profitability Analysis	To Capital	Operating Income	39.54	39.81	25.48	24.28	29.40	28.75	
	ratio	Income before Tax	37.80	40.29	33.95	37.66	41.95	37.87	
	Net Income Ratio (%)		17.85	19.79	25.17	30.45	34.11	34.91	
	Basic EPS in	NT\$	0.71	3.09	3.00	3.40	3.80	3.75	
	Diluted EPS	in NT\$	0.70	3.09	3.00	3.40	3.80	3.61	
	Earning Per S	Share in NT\$	0.71	3.09	3.00	3.40	3.80	3.75	
Cash flow	Cash Flow Ratio (%)		43.61	173.56	175.88	172.57	181.69	179.94	
	Cash Flow Equivalent Ratio (%)		132.24	138.29	119.71	117.36	112.16	88.41	
	Cash Reinves	tment Ratio (%)	4.07	10.25	7.73	8.50	11.35	12.3	
Leverage	Operating Le	verage (times)	1.88	1.83	2.05	2.18	1.89	1.89	
Ratio	Financial Leverage (times)		1.00	1.00	1.00	1.01	1.02	1.03	

Note: The financial Statements for the first quarter of 2009 have been reviewed. Others have been audited.

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

(1) Current Ratio : The current ratio decrease was due to the decrease in the RP of current assets in 2008.

- (2) Quick Ratio : The quick ratio decrease was due to the decrease in the RP of current assets in 2008.
- (3) Times Interest Earned : The times interest earned increase was due to the decrease in interest expense in 2008.
- (4) Total Assets Turnover : The total assets turnover increase was due to the increase in operating revenues and the decrease in total assets resulting from the decrease of RP and long-term investments.
- (5) To Capital ratio : To capital ration decrease because the 774,532 thousand shares capital reduction was approved by the Board of Directors and the Shareholders' Meeting in 2007 and NT\$7,745,326 thousand was returned in cash to shareholders in 2008.

(6) Net Income Ratio: The net income ratio decrease was due to the decrease of gain from the long-term investments.

(7) Cash Reinvestment Ratio : The cash reinvestment ratio increase was due to the increase in operating cash flow and decrease in cash dividends.

#### 2-2 Financial Ratio Analysis for Consolidated Reports:

Year Financial Analysis In Recent 5 Years (Note) Item 2005 2004 2009 Q1 2008 2007 2006 Debt to Asset Ratio 16.78 18.37 16.70 20.33 25.35 35.87 Financial Long-term Funds to Fixed Assets 130.72 Structure 171.20 159.08 164.50 142.10 131.01 Ratio Current Ratio (%) 147.19 118.27 137.71 112.23 80.95 81.51 Liquidity Ouick Ratio (%) 136.90 108.11 128.61 101.20 68.44 71.69 Analysis Times Interest Earned (times) 461.62 588.88 351.02 155.54 64.90 24.62 Accounts Receivable Turnover 8.54 8.58 8.59 8.45 8.87 10.86 (times) Average Collection Days (days) 42.74 42.56 42.47 43.18 41.15 33.60 Inventory Turnover (times) 6.39 6.89 7.02 5.60 7.51 5.91 Operating Accounts Payable Turnover (times) Performance 11.09 11.94 11.57 11.06 12.51 13.79 Inventory Turnover Days 54.14 53.00 52.00 65.19 48.59 61.80 Fixed Assets Turnover (times) 1.37 1.38 1.31 1.23 1.17 1.02 Total Assets Turnover (times) 0.66 0.71 0.66 0.72 0.72 0.60 Return on Assets (%) 10.22 10.85 12.03 13.55 14.28 15.98 Return on Equity (%) 12.38 13.13 14.72 17.47 20.36 24.91 To Captial Operating Income 37.88 44.01 37.32 42.81 47.84 47.81 ratio Profitability Income before Tax 37.09 40.89 36.11 41.65 46.11 42.17 Analysis Net Income Ratio (%) 15.26 16.03 1784 1936 20 37 21.43 Basic EPS in NT\$ 0.71 3.09 3.00 3.40 3.80 3.75 Diluted EPS in NT\$ 0.70 3.09 3.00 3.40 3.80 3.61 Earning Per Share in NT\$ 0.71 3.09 3.00 3.40 3.80 3.75 Cash Flow Ratio (%) 45.38 153.62 164.85 164.32 158.34 126.33 Cash flow Cash Flow Equivalent Ratio (%) 148.22 161.51 174.23 156.64 167.90 131.17 Cash Reinvestment Ratio (%) 4.21 9.20 9.09 10.91 14.58 22.05 Leverage Operating Leverage (times) 2.12 2.28 2.06 2.001.93 1.91 Ratio Financial Leverage (times) 1.00 1.00 1.00 1.01 1.02 1.04

Note: The financial Statements for the first quarter of 2009 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) Accounts Payable Turnover = Costs of Good Sold / Average Accounts Payable

(5) Inventory Turnover Days = 365 / Inventory Turnover

(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)

2009/3/31

3 2008 Supervisors' Report

April 29, 2009

The Board of Directors have prepared and submitted to us the Company's 2008 Business Reports, the Proposal for Profit Distribution, and the Financial Statements (included the consolidated Financial Reports) audited by the CPAs of Deloitte & Touche Co. The above reports, proposal, and financial statements have been further examined as being correct and accurate by the undersigned Supervisors of Far EasTone Telecommunications Co., Ltd. According to Article 219 of the Company Law, we hereby submit this report.

То

FET 2009 Shareholders' Meeting

# Supervisors

Chen-en Ko



Eli Hong



Morton Huang


# **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, 2008 and 2007, and the related statements of income, changes in stockholders' equity, and cash  $\Box$ ows for the years then ended. These  $\Box$ nancial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these  $\Box$ nancial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certi ed 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 analytical statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall astatement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the  $\Box$ nancial statements referred to above present fairly, in all material respects, the  $\Box$ nancial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash  $\Box$ ows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also audited the consolidated  $\Box$ nancial statements of the Company and subsidiaries as of and for the years ended December 31, 2008 and 2007 and have issued a modi  $\Box$ ed unquali  $\Box$ ed opinion thereon in our report dated February 18, 2009.

Deloitte 8 Touche

February 18, 2009

### Notice to Readers

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

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. BALANCE SHEETS DECEMBER 31, 2008 AND 2007

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

	2008	2007		
ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	\$ 504,561	-	\$ 3,614,660	4
Accounts and notes receivable, net (Notes 2 and 5)	4,892,726	6	4,606,696	5
Receivables from related parties, net (Notes 2 and 23)	868,018	1	908,949	1
Inventories, net (Notes 2 and 6)	451,304	-	305,359	-
Prepaid expenses	510,144	1	507,612	1
Deferred income tax assets - current (Notes 2 and 18)	564,882	1	497,413	-
Restricted assets - current (Note 2)	72,446	-	113,259	-
Other current assets	8,345	<u> </u>	41,018	
Total current assets	7,872,426	9	10,594,966	11
LONG-TERM INVESTMENTS				
Equity-method investments (Notes 2 and 7)	39,857,195	47	43,342,778	47
PROPERTIES (Notes 2, 8 and 23)				
Cost				
Land	852,980	1	847,138	1
Buildings and equipment	1,702,916	2	1,665,947	2
Operating equipment	68,210,280	80	64,124,983	69
Computer equipment	10,740,442	13	9,769,808	10
Office equipment	828,579	1	826,170	1
Leasehold improvements	1,514,714	2	1,497,895	2
Miscellaneous equipment	309,379		228,068	-
Total cost	84,159,290	99	78,960,009	85
Less: Accumulated depreciation	59,362,204	70	52,801,756	57
	24,797,086	29	26,158,253	28
Construction-in-progress and prepayments for equipment	4,615,782	5	3,635,890	4
Net properties	29,412,868	34	29,794,143	32
INTANGIBLE ASSETS				
3G concession, net (Notes 1, 2 and 9)	7,307,065	9	8,037,772	9
OTHER ASSETS				
Rental assets, net (Notes 2 and 10)	183,248	-	195,965	-
Refundable deposits (Note 23)	281,340	-	261,990	1
Deferred income tax assets - noncurrent (Notes 2 and 18)	446,207	1	148,890	-
Other	<u> </u>	<u> </u>	1,191	-
Total other assets	910,795	1	608,036	1

TOTAL

<u>\$ 85,360,349</u> <u>100</u> <u>\$ 92,377,695</u> <u>100</u>

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. BALANCE SHEETS DECEMBER 31, 2008 AND 2007

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

_	2008		2007	
LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term bank loans (Note 11)	\$ 1,150,000	1	s -	
Commercial paper payable (Note 12)	350,000	-	φ -	
Notes payable	45,409	-	39,048	
Accounts payable	1,890,300	2	1,576,516	
Payables to related parties (Note 23)	1,302,187	2	1,242,860	
Income tax payable (Notes 2 and 18)	2,157,733	3	1,153,125	
Accrued expenses (Note 13)	2,867,041	3	2,699,520	
Hedging derivative financial liabilities - current (Notes 2 and 22)	_,,	-	21,601	
Payables for acquisition of properties	1,859,201	2	1,524,549	
Guarantee deposits received - current	568,608	1	646,851	
Unearned revenues (Note 2)	758,027	1	580,155	
Current portion of long-term bonds payable (Note 14)	-	-	2,670,000	
Lease payable - current (Notes 2, 15 and 23)	4,180	-	19,880	
Other current liabilities (Note 17)	207,394	<u> </u>	210,231	
Total current liabilities	12 1 (0.090	15	12 204 226	1
	13,160,080	15	12,384,336	1
ONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Lease payable - noncurrent (Notes 2, 15 and 23)	4,180		8,360	
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 16)	346,328	-	314,804	
Guarantee deposits received - noncurrent	79,724	-	68,970	
Deferred revenue (Note 2)	397,944	1	267,225	
Other	75,891	<u> </u>		
Total other liabilities	899,887	1	650,999	
Total liabilities	14,064,147	16	13,043,695	1
TOCVIIOLDEDS' FOURTY				
STOCKHOLDERS' EQUITY Capital stock - NT\$10.00 par value; authorized - 4,200,000				
thousand shares				
Issued and outstanding - 3,258,501 thousand shares in				
2008 and 4.033.033 thousand shares in 2007	22 595 009	20	40 220 224	4
	32,585,008	38	40,330,334	4
Capital surplus	10.064.702	12	10.064.702	1
Additional paid-in capital - share issuance in excess of par value From business combination	10,964,702	13 10	10,964,702	1
	8,482,381		8,482,381	
From long-term equity-method investments	40,266	<u> </u>	40,187	
Total capital surplus	19,487,349	23	19,487,270	2
Retained earnings				
Legal reserve	8,050,917	10	6,888,973	
Special reserve	-	-	44,832	
Unappropriated earnings	11,194,668	13	12,567,456	1
Total retained earnings	19,245,585	23	19,501,261	2
Other adjustments				
Cumulative translation adjustments	28,464	-	11,826	
Unrealized gains (losses) on financial instruments	(50,204)		3,309	
Total other adjustments	(21,740)		15,135	
Total stockholders' equity	71,296,202	84	79,334,000	8
Total stockholders equity				
TOTAL	\$ 85,360,349	100	\$ 92,377,695	10

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008		2007	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 23)				
Sales of cellular phone equipment and accessories, net	\$ 3,230,915	6	\$ 3,027,385	7
Telecommunications service revenues	. , ,	93		, 93
Other	47,904,182 206,382	95	43,025,462 119,125	93
	200,382	1	119,125	
Total operating revenues	51,341,479	100	46,171,972	100
OPERATING COSTS (Notes 2, 20 and 23)				
Cost of sales	3,668,036	7	3,667,094	8
Cost of telecommunications services	21,840,897	43	20,408,611	44
Total operating costs	25,508,933	50	24,075,705	52
GROSS PROFIT	25,832,546	50	22,096,267	48
OPERATING EXPENSES (Notes 2, 20 and 23)				
Marketing	9,210,674	18	8,343,787	18
General and administrative	3,501,722	7	3,204,209	7
Research and development	149,026		273,701	1
Total operating expenses	12,861,422	25	11,821,697	26
OPERATING INCOME	12,971,124	25	10,274,570	22
NONOPERATING INCOME AND GAINS				
Equity in investees' net gains (Notes 2 and 7)	88,449		3,353,048	7
Government grant (Note 2)	74,217	_	21,583	,
Management services revenue (Note 23)	70,391	_	125,778	1
Commission (Note 23)	44,590	-	152,606	1
Interest (Note 23)	35,665	-	72,805	_
Reversal of loss on decline in value of inventories (Note 2)	14,208	-		-
Rent	14,857	-	14,909	-
Gain from sale of nonperforming accounts receivable (Note 19)	-	-	26,979	-
Other (Note 23)	94,694	1	105,973	-
Total nonoperating income and gains	437,071	1	3,873,681	9

(Continued)

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

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

		2008		2007		
	1	Amount	%	Amo	unt	%
NONOPERATING EXPENSES AND LOSSES						
Loss on disposal of properties, net (Note 2)	\$	209,209	-	\$ 4	02,412	1
Impairment loss (Notes 2 and 7)		20,000	-		6,549	-
Interest (Notes 2, 8 and 23)		8,348	-		27,545	-
Loss on decline in value of inventories (Note 2)		-	-		17,551	-
Other (Notes 2 and 20)		42,816			3,250	
Total nonoperating expenses and losses		280,373	<u> </u>	4	<u>57,307</u>	1
INCOME BEFORE INCOME TAX		13,127,822	26	13,6	90,944	30
INCOME TAX (Notes 2 and 18)		2,967,075	6	2,0	71,503	5
NET INCOME	\$	<u>10,160,747</u>	20	<u>\$ 11,6</u>	<u>19,441</u>	25
		2008			2007	
	Incon Befor Income	re After	· Income Tax	Income Before Income Tax		Income Fax
EARNINGS PER SHARE (Note 19)						
Basic	\$	3.99 \$	3.09	<u>\$ 3.5</u>	<u>3</u>	3.00
Diluted	<u>\$</u>	<u>3.99</u> \$	3.09	\$ 3.5	<u>3 \$</u>	3.00

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

(Concluded)

#### FAR EASTONE TELECOMMUNICATIONS CO., LTD. STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars, Except Amounts Per Share)

Other Adjustments Unrealized Gains (Losses) on Translation Financial Adjustments Instruments (Notes 2 and (Notes 2 and 17) 17) Capital Surplus (Notes 2 and 17) Capital Stock Issued and Outstanding (Notes 7 and 17) Paid-in Capital in Excess of Par Value Retained Earnings (Notes 2, 3 and 17) From Business Combination Total ockholde Equity Legal Reserve Special Unappropriated Reserve Earnings Shares (Thousands) Amount BALANCE, JANUARY 1, 2007 3,872,663 \$38,726,630 \$6,510,964 \$8 482 381 \$10.611 \$5.573.350 S-\$14 667 598 \$4 960 \$(49,792) \$73,926,702 Appropriation of the 2006 earnings 1,315,623 (1,315,623) Legal reserve Special reserve 44,832 (44,832) \_ (235,915) (235,915) Bonus to employees -Remuneration to directors and supervisors Cash dividends - NT\$3.1 per share (117,958) (117,958) (12,005,255) (12,005,255) Net income in 2007 11,619,441 11,619,441 -Adjustment arising from changes in percentage of ownership in investees 29,576 29,576 Changes in subsidiary's unrealized loss on available-for-sale financial 19,684 19,684 Changes in unrealized loss on cash flow hedge 33,417 33,417 -Translation adjustments on long-term equity-method investments -6.866 6.866 Issuance of common stock to acquire an equity-method investment - NCIC 160,370 1,603,704 4,453,738 6,057,442 BALANCE, DECEMBER 31, 2007 4,033,033 40,330,334 10,964,702 8,482,381 40,187 6,888,973 44,832 12,567,456 11,826 3,309 79,334,000 Capital reduction - NT\$1.9204715 per share ( 774,532 ) (7,745,326) (7,745,326) Appropriation of the 2007 earnings Legal reserve 1,161,944 (1,161,944) Special reserve - (44,832) 44,832 -Bonus to employees Remuneration to directors and supervisors Cash dividends - NT\$3.1 per share (210,047) (210,047) -(105.023) (105.023) (10,101,353) (10,101,353) 10,160,747 10,160,747 Net income in 2008 ---Adjustments to change in equity-method investees' stockholders' equity 79 -79 Changes in subsidiary's unrealized loss on available-for-sale financial assets (69,714) (69,714) --Changes in unrealized loss on cash flow hedge -16.201 16.201 Translation adjustments on long-term equity-method investments 16,638 16,638 \_\_\_\_ BALANCE, DECEMBER 31, 2008 
 BALANCE, DECEMBER 31, 2008
 3.258.501
 \$32,585.008
 \$10.964,702

 The accompanying notes are an integral part of the financial statements.
\$8,482,381 <u>\$40,266</u> <u>\$8,050,917</u> <u>\$</u>-<u>\$11,194,668</u> <u>\$ 28,464</u> <u>\$ (50,204)</u> \$71,296,202

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# FAR EASTONE TELECOMMUNICATIONS CO., LTD. STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

2008 2007 CASH FLOWS FROM OPERATING ACTIVITIES Net income \$ 10,160,747 11,619,441 \$ Depreciation and amortization 7,285,685 7,494,797 Amortization of 3G concession 730,707 730,707 Allowance for doubtful accounts 511,800 335,746 Provision (reversal of provision) for loss on decline in value of inventories (14, 208)17,551 Equity in investees' net gains (88,449) (3,353,048) Cash dividends from equity-method investees 3,505,651 5,011,672 Loss on disposal of properties, net 209,209 402,412 20,000 Provision for impairment loss 6,549 Accrued pension cost 31,524 26,725 Deferred income taxes (370,186) 337,990 Net changes in operating assets and liabilities Accounts and notes receivable (797,830) (1,139,362) Receivables from related parties 40,931 (95,475) 152,868 Inventories (131,737) Prepaid expenses (1,355) 224 Other current assets 32,791 10,667 Notes payable 6,361 4.319 313,784 (20,823) Accounts payable 59,327 Payables to related parties (562,338) Income tax payable 1,004,608 430,540 Accrued expenses 167,521 523,927 Unearned revenues 177,872 (134,553) Other current liabilities (13, 989)(19, 201)Net cash provided by operating activities 22,840,764 21,781,335 CASH FLOWS FROM INVESTING ACTIVITIES (1,006,495) Acquisition of equity-method investments (4,616) (4,995,238) Acquisition of properties (6,712,453) Proceeds of the disposal of properties 12,762 9,844 Increase in refundable deposits (19,350) (2,854) Decrease (increase) in restricted assets 40,813 (113,259) Decrease in other assets 1,113 Net cash used in investing activities (6,682,844) (6,106,889) CASH FLOWS FROM FINANCING ACTIVITIES Increase in short-term bank loans 1,150,000 Increase in commercial paper payable 350,000 (2,960,000) Repayments of long-term liabilities (2,670,000) Decrease in guarantee deposits received (67,489) (103,812)

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# FAR EASTONE TELECOMMUNICATIONS CO., LTD. STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

	2008	2007
Increase in deferred revenue	\$ 130,719	\$ 267,225
Cash dividends paid	(10,101,353)	\$ 207,223 (12,005,255)
Bonus paid to employees and remuneration paid to directors and supervisors	(10,101,333) (314,570)	(12,005,233) (353,873)
		(555,875)
Capital reduction	(7,745,326)	
Net cash used in financing activities	(19,268,019)	(15,155,715)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,110,099)	518,731
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,614,660	3,095,929
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 504,561	\$ 3,614,660
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 57,871	\$ 135,138
Less: Interest capitalized	44,347	45,880
Interest paid, net of capitalized interest	\$ 13,524	\$ 89,258
Income tax paid	<u>\$ 2,332,653</u>	<u>\$ 1,302,973</u>
NONCASH INVESTING AND FINANCING ACTIVITIES		
Issuance of common stock to acquire an equity-method investment	\$ -	\$ 6,057,442
Current portion of long-term liabilities	\$ 4,180	\$ 2,711,481
Declaration of remuneration to directors and supervision	\$ 500	
Reclassification of rental assets into properties	\$ 10,692	
CASH PAID FOR ACQUISITION OF PROPERTIES		
Increase in properties	\$ 7,113,768	\$ 4,767,588
Decrease (increase) in payables for acquisition of properties	(334,652)	207,770
Decrease in lease payable	19,880	19,880
Increase in other current liabilities	(10,652)	-
Increase in other liabilities - other	(75,891)	
Cash paid for acquisition of properties	\$ 6,712,453	\$ 4,995,238
PROCEEDS OF DISPOSAL OF PROPERTIES		
Total amount of sold properties	\$ 12,880	\$ 6,174
Decrease (increase) in receivables from properties sold	(118)	3,553
Decrease in receivables from related parties		117
Cash received from the disposal of properties	<u>\$ 12,762</u>	<u>\$ 9,844</u>

(Continued)

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

# SUPPLEMENTARY INFORMATION ON A SUBSIDIARY ACQUISITION:

In July 2007, the Company bought 51% of Q-ware 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	\$ 496,860
Accounts and notes receivable, net	6,212
Prepaid expenses	3,811
Other current assets	2,601
Properties, net	617,161
Advances for acquisition of equipment	7,174
Refundable deposits	12,498
Accounts payable	(5,457)
Accrued expenses	(15,103)
Unearned revenues	(2,670)
Other current liabilities	(263,066)
Other liabilities	(13,864)
	846,157
Percentage of ownership acquired	51.00%
	431,540
Goodwill	64,315
Cash payment due to merger	\$ 495,855

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD.

NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2008 AND 2007 (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, 2008, Far Eastern Textile Co., Ltd. ("Far Eastern Textile") and its affiliates directly and indirectly owned 40.59% 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 1% 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 annual license fee of 1% of leased circuit service revenues.

The Company merged with Yuan-Ze Telecommunications Co., Ltd. ("Yuan-Ze Telecom") on May 2, 2005. 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.

On July 26, 2007, the National Communications Commission (NCC) awarded the Company a license to have operations in worldwide interoperability for microwave access (WiMAX) in southern region of Taiwan. On August 30, 2007, the Company paid a guarantee deposit of \$40,000 thousand and a minimum advance payment of \$210,000 thousand for the license fee through a guarantee provided by a bank. On October 1, 2007, the Company got the NCC's permission to start preparations for the construction of WiMAX networks.

The Company had 3,779 and 3,410 employees as of December 31, 2008 and 2007, 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, asset retirement obligation, product warranty reserve, income taxes, pension cost and, bonus to employees and remuneration to directors and supervisors. 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 cash and 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. All other assets such as properties and intangible assets are classified as noncurrent. Current labilities are obligations held for trading and those 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 access 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 recharge call services are recognized as income based upon customer usage.

The revenues from and cost 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.

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 a review of the collectibility of accounts receivable. The Company assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

#### **Promotion Expenses**

Commissions and cellular phone equipment subsidy costs 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.

#### **Government Grant**

When received, the government grant is included in the restricted assets and in deferred revenue at the same time. The restricted asset is recognized as cash or cash equivalent when the Company uses the grant under the terms of the related agreement. The deferred revenue is recognized as follows: (1) if the grant is related to depreciable assets, it should be recognized as revenue over the asset economic lives in proportion to the depreciation expenses for these assets; or (2) if the grant is related to income, the grant amount should be deducted from the related expense when the revenue is realized.

#### **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 acquisition cost is allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. 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 subjected 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 is credited to capital surplus. If the subscription results in a decrease in the Company'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.

#### **Properties and Rental Assets**

Properties and rental assets are stated at cost less accumulated depreciation. 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 period 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.

Since November 2008, the Company estimates and capitalizes the costs of dismantling, removing properties and restoring the cellular site on which they are located and to record these costs as properties and accrued asset retirement cost.

#### 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 investments) exceeds their recoverable amount, and this impairment loss should be charged to current income. For investees which the Company has significant influence but with no control, the carrying amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing. For investees which the Company has control, the recoverable amount is assessed under the consideration of taking the consolidated financial statement as a whole. 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.

To test for impairment, goodwill should be allocated to each of the cash-generating units that are expected to benefit from the synergies of the combinations. A cash-generating unit should be tested for impairment at least annually by comparing the carrying amount of the unit with its recoverable amount. If the carrying amount exceeds the recoverable amount of the unit, the impairment loss is allocated to reduce the carrying amount of the unit in the following order: (a) reduce the carrying amount of any goodwill allocated to the unit; and (b) reduce the carrying amounts of other assets of the unit proportionally. A reversal of an impairment loss on goodwill is disallowed.

#### **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, which is included in other current liabilities.

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.

#### 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 investments are accounted for as a reduction of current year's income tax expense.

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

Income taxes (10%) on unappropriated 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

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;
- b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Company. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

The above prevailing exchange rates are based on the average of bid and ask rates of principal correspondent banks.

#### **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 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 Company uses interest rate swaps to hedge cash flow risk from interest rate fluctuations of liabilities.

#### Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2007 have been reclassified to be consistent with the presentation of the financial statements as of and for the year ended December 31, 2008.

# 3. CHANGE IN ACCOUNTING PRINCIPLE

In March 2007, the Accounting Research and Development Foundation (ARDF) issued Interpretation No. 2007-052 that requires companies to recognize bonuses to employees and remunerations to directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses and remunerations were previously recorded as appropriations from earnings. This accounting change resulted in a decrease of \$205,266 thousand in net income and a decrease of NT\$0.06 in basic earnings per share after income tax for the year ended December 31, 2008.

# 4. CASH AND CASH EQUIVALENTS

	December 31			31
		2008		2007
Cash				
Cash on hand	\$	2,766	\$	2,731
Demand deposits		493,956		753,003
Checking deposits		7,839		10,457
		504,561		766,191
Cash equivalents				
Commercial paper purchased under resell agreements - interest of				
1.91%-2.00%		-		911,579
Bonds purchased under resell agreements - interest of 1.88%-1.90%				1,936,890
				2,848,469
	\$	504,561	\$	3,614,660

As of December 31, 2008 and 2007, foreign demand deposits were as follows:

	 December 31			
	2008	2007		
Belgium (US\$616 thousand in 2008 and US\$311 thousand in 2007)	\$ 20,205 \$	10,086		

# 5. ACCOUNTS AND NOTES RECEIVABLE, NET

		December 31			
		2008		2007	
Accounts and notes receivable Less: Allowance for doubtful accounts	\$	5,596,442 (703,716)	\$	5,272,338 (665,642)	
	<u>\$</u>	4,892,726	\$	4,606,696	

The change in allowance for doubtful accounts was as follows:

	 December 31		
	2008	2007	
Beginning balance	\$ 665,642 \$	809,203	
Deduct: Bad debts written off	(683,329)	(659,970)	
Add: Collection after write-off	209,603	180,663	
Accrual of bad debt expenses	 511,800	335,746	
	 703,716 \$	665,642	

# 6. INVENTORIES

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	December 31		
	2008	2007	
Cellular phone equipment	\$ 357,195 \$	241,183	
SIM cards and prepaid cards	30,416	33,510	
Cellular phone accessories	25,742	28,459	
Others	 64,830	43,294	
	478,183	346,446	
Less: Allowance for losses	26,879	41,087	

# 7. EQUITY-METHOD INVESTMENTS

		Decer	nber	· 31		
	 20	08		2007		
		% of	% of		% of	
	Carrying	Owner-		Carrying	Owner-	
	Value	ship		Value	ship	
ommon stocks with no quoted market prices						
KG Telecommunications Co., Ltd.	\$ 32,475,440	100.00	\$	35,027,145	100.00	
New Century InfoComm Tech Co., Ltd.	5,490,024	24.51		6,062,000	24.51	
ARCOA Communication Co., Ltd.	1,039,987	59.78		999,769	59.10	
Far Eastern Electronic Toll Collection Co., Ltd.	408,729	41.18		644,856	41.18	
Q-ware Communications Co., Ltd.	190,370	51.00		352,102	51.00	
Far Eastern Info Service (Holding) Ltd.	153,851	100.00		138,977	100.00	
E. World (Holdings) Ltd.	67,305	85.92		61,082	85.92	
Far EasTron Holding Ltd.	25,575	100.00		39,314	100.00	
Ding Ding Integrated Marketing Services Co.,						
Ltd.	5,744	15.00		17,300	15.00	
ADCast Interactive Marketing Co., Ltd.	170	0.40		-		
Far EasTron Co., Ltd.	-	_		233	0.6	

#### 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. On January 1, 2004, 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 the Ministry of Economics Affairs (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. New Century InfoComm Tech Co., Ltd. (NCIC)

The Company issued 100,637,444 and 59,732,926 common shares to exchange for 615,178,755 and 365,136,728, respectively, of NCIC's common shares after NCIC's capital reduction from Infocom Holding Company Pte Ltd. and SingTel Taiwan Limited on December 31, 2007 (the record date of the share swap). The ratio for this share swap was 1:6.11282174. The share swap was approved by the Financial Supervisory Commission under the Executive Yuan on December 26, 2007 and registered with the MOEA on January 14, 2008. After the share swap, the Company acquired about 24.51% of NCIC's issued shares.

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. As of December 31, the Company owned 59.78% ( 80, 276 thousand

shares) of ARCOA's common stock.

d. Far Eastern Electronic Toll Collection Co., Ltd. (FETC)

On February 26, 2004, Far Eastern Electronic Toll Collection Co. 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 the related negotiations and signed the project contract.

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 the TANFB was flawed and in violation of the principles of equality and promotion of public interest and stripped FETC of its "best qualified candidate" status. In response to the verdict, the TANFB announced a second bidding for the ETC project. On April 14, 2007, the TANFB announced that FETC was again the best qualified candidate. FETC then completed the ETC project negotiations and on August 22, 2007, signed the project contract with a term of 18 years and 4 months with the TANFB.

e. Q-ware Communications Co., Ltd. ("Q-ware Com.")

On February 14, 2007, the board of directors of the Company approved a cooperation plan with Q-ware System Inc. ("Q-ware") to operate WiFly and other businesses agreed upon by both the Company and Q-ware. After obtaining the authorities' approval of this agreement, the Company, as a specific person, subscribed for 36,460 thousand newly issued shares (NT\$13.60 per share) of Q-ware Com. for \$495,855 thousand on July 2, 2007. On July 3, 2007, Q-ware spun off its WiFly business, with a net worth of \$349,301 thousand, to Q-ware Com. and received 34,930 thousand new shares of Q-ware Com. for this spin-off. After the completion of this spin-off, the Company owned approximately 51% of Q-ware Com.'s common stock and thus became its parent company.

f. Far EasTron Co., Ltd. ("Far EasTron") and ADCast Interactive Marketing Co., Ltd. ("ADCast")

To enhance the Company's market share of Internet advertisements and integrate the Company's resources, the stockholders of Far EasTron resolved on April 21, 2008 for Far EasTron to have a share swap with ADCast Interactive Marketing Co., Ltd. ("ADCast"), a subsidiary of New Century InfoComm Tech Co., Ltd., with ADCast as the survivor entity. After ADCast's capital reduction, Far EasTron's stockholders will receive 1 share of ADCast for every 4.8526 shares of Far EasTron. However, in their special meeting on August 29, 2008, Far EasTron's stockholders revised the share swap ratio to 5.4490:1. In addition, Far EasTron's board of directors resolved to have September 3, 2008 as the merger date. The share swap was completed on September 30, 2008 after the related registration with the Taipei City Government. After the share swap, the Company and Far EasTron Holding owned 0.40% and 60.52% of ADCast's common stock, respectively.

g. Equity in investees' net gains or losses

Equity in investees' net gains (losses) consisted of:

	Years Ended December 31								
_		20	08			20	07		
		Gain (Loss) the Investee		uity in Net ain (Loss)		Gain (Loss) the Investee		quity in Net ain (Loss)	
KG Telecommunications Co., Ltd.	\$	1,013,276	\$	1,013,206	\$	3,895,307	\$	3,895,207	
New Century InfoComm Tech Co., Ltd.		(2,800,811)		(567,440)		(235,630)		-	
ARCOA Communication Co., Ltd.		61,190		35,600		(44,883)		(27,259)	

		Years Ended	l December 31		
	20	08	20	007	
	Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	Net Gain (Loss) of the Investee	Equity in Net Gain (Loss)	
Far Eastern Electronic Toll Collection					
Co., Ltd.	(594,577)	(236,127)	(717,513)	(291,046)	
Q-ware Communications Co., Ltd.	(277,906)	(141,732)	(281,868)	(143,753)	
Far Eastern Info Service (Holding) Ltd.	4,730	4,730	(3,319)	(3,319)	
E. World (Holdings) Ltd.	6,626	5,693	(6,606)	(5,676)	
Far EasTron Holding Ltd.	(13,862)	(13,862)	(61,207)	(61,207)	
Ding Ding Integrated Marketing Services					
Co., Ltd.	(91,562)	(11,556)	(55,304)	(9,490)	
ADCast Interactive Marketing Co., Ltd.	(3,320)	9	-	-	
Far EasTron Co., Ltd.	(10,846)	(72)	(61,358)	(409)	
		<u>\$ 88,449</u>		\$ 3,353,048	

Since the combined equity interests of the Far Eastern Group in Ding Ding Integrated Marketing Service Co., Ltd. ("DDIM"), Far EasTron Co., Ltd. ("Far EasTron") and ADCast Interactive Marketing Co., Ltd. ("ADCast") allow the Company to exercise significant influence on these investees' operating and financial policy decisions, the investments in DDIM, Far EasTron and ADCast are accounted for by the equity method even though the Company's equity in DDIM, Far EasTron and ADCast are only 15%, 0.67% and 0.40%, respectively.

Except for the financial statements of Far EasTron as of and for the year ended December 31, 2008, the financial statements as of and for the years ended December 31, 2008 and 2007 that were used as basis for calculating the carrying values of and related equity in net gains or losses of the foregoing equity-method investments had all been audited. The Company believes that, had the financial statement of Far EasTron been audited, any adjustments would have had no material effect on the Company's financial statements.

#### h. Changes in the difference between investment cost and the investee's net assets

For the years ended December 31, 2008 and 2007, the changes in the difference between investment cost and the Company's equity in its investees' net assets were as follows :

		Years Ended December 31								
		2008				20	007			
	G	oodwill	A	mortizable Assets		Goodwill	А	mortizable Assets		
Beginning balance Increase	\$	313,594	\$	(924,029)	\$	255,828 64,315	\$	(924,029)		
Decrease Ending balance	s	<u>24,717</u> 288.877	\$	(808.673)	\$	<u>6,549</u> 313,594	\$	- (924.029)		

#### i. Consolidation

The consolidated financial statements as of December 31, 2008 and 2007 include the accounts of the Company and its direct and indirect subsidiaries and entities in which the Company has controlling interests, as required by the revised ROC SFAS 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.

# 8. PROPERTIES

a. Changes in properties consisted of:

				Year En	ded I	December .	31.	2008		
					Mo	vement				
		nning ance	A	ddition		ale or sposal	R	leclassifi- cation	Ending Balance	
Cost										
Land	\$	847,138	\$	-	\$	-	\$	5,842	\$ 852,9	980
Buildings and equipment	1,	665,947		-		181		37,150	1,702,9	16
Operating equipment	64,	124,983		98,018		792,187		4,779,466	68,210,2	280
Computer equipment	9,	769,808		-		43,371		1,014,005	10,740,4	42
Office equipment		826,170		-		1,741		4,150	828,5	579
Leasehold improvements	1,	497,895		-		28,311		45,130	1,514,7	14
Miscellaneous equipment		228,068		86,543		5,232			309,3	79
	\$ 78,	960,009	\$	184,561	\$	871,023	\$	5,885,743	\$ 84,159,2	290
Accumulated depreciation										
Buildings and equipment	\$	556,056	\$	54,052	\$	114	\$	613	\$ 610,6	507
Operating equipment	42,	697,199		5,893,960		656,908		-	47,934,2	51
Computer equipment	7,	590,669		1,162,994		43,371		-	8,710,2	.92
Office equipment		706,935		27,693		1,698		-	732,9	930
Leasehold improvements	1,	136,638		114,822		16,488		-	1,234,9	72
Miscellaneous equipment		114,259		30,125		5,232		_	139,1	52
	\$ 52,	801,756	\$	7,283,646	\$	723,811	\$	613	\$ 59,362,2	204
	26,	158,253					_		24,797,0	)86
Construction-in-progress and										
prepayments for equipment	\$ 3,	635,890	\$	6,929,207	\$	74,877	\$	(5,874,438)	\$ 4,615,7	82
	\$ 29	794,143							\$ 29,412,8	868

	Year Ended December 31, 2007 Movement									
		ginning alance	Ad	dition		ale or isposal	Reclass	ification		Ending Balance
Cost						- P				
Land	\$	847,138	\$	-	\$	-	\$	-	\$	847,138
Buildings and equipment		1,647,956		2,532		-		15,459		1,665,947
Operating equipment	6	1,172,350		-		759,499	3,	712,132		64,124,983
Computer equipment		8,902,253		1,396		15,966		882,125		9,769,808
Office equipment		757,878		-		31,905		100,197		826,170
Leasehold improvements		1,514,262		-		60,559		44,192		1,497,895
Miscellaneous equipment		255,937		-		29,188		1,319		228,068
	\$ 7	5,097,774	\$	3,928	\$	897,117	\$4,	755,424	\$	78,960,009

		Year Er	nded	December	31, 2007	
			Μ	ovement		
	Beginning			Sale or		Ending
	Balance	Addition	1	Disposal	Reclassification	Balance
Accumulated depreciation				-		
Buildings and equipment	\$491,151	\$64,905	\$	-	\$ -	\$556,056
Operating equipment	37,073,499	6,106,971		483,271	-	42,697,199
Computer equipment	6,508,415	1,098,053		15,799	-	7,590,669
Office equipment	686,266	52,574		31,905	-	706,935
Leasehold improvements	1,035,271	138,160		36,793	-	1,136,638
Miscellaneous equipment	90,103	31,844		7,688	-	114,259
	45,884,705	\$7,492,507	\$	575,456	\$	52,801,756
	29,213,069					26,158,253
Construction-in-progress and prepayments						
for equipment	\$ 3,714,579	<u>\$4,763,660</u>	\$	86,925	<u>\$(4,755,424</u> )	\$ 3,635,890
	<u>\$32,927,648</u>					<u>\$29,794,143</u>
						(Concluded)

In November 2008, the ARDF issued Interpretation No. 2008-340 that required the Company to estimate and to capitalize the costs of dismantling and removing properties and restoring the cellular site on which they are located and to record the costs as properties and accrued asset retirement cost. This accounting change resulted in an increase in properties of NT\$86,543 thousand as of December 31, 2008; however, the adoption had no significant influence in the current year's income.

b. Capitalized interest on properties was as follows:

	Years Ended December 31				
		2008		2007	
Total interest expense	\$	52,695	\$	73,425	
Less: Interest capitalized (included in construction-in-progress and prepayments for equipment)		44,347		45,880	
Interest expense, net of amounts capitalized	<u>\$</u>	8,348	<u>\$</u>	27,545	
Interest rate capitalized	1.56	5%-2.39%	1.56	5%-2.29%	

# 9. 3G CONCESSION, NET

	Years Ended	Years Ended December 31			
	2008	200			
Cost	\$ 10,169,000	<u>\$ 10,169</u>			
Accumulated amortization					
Beginning balance	2,131,228	1,400			
Amortization	730,707	730			
Ending balance	2,861,935	2,131			
Intangible assets, net	\$ 7,307,065	\$ 8,03			

# 10. RENTAL ASSETS, NET

\_

	 Year	Year Ended December 31, 2008 Buildings and						
<u>Cost</u>	Land	Equipment	Total					
Beginning balance	\$ 105,366	\$ 100,136	\$ 205,502					
Reclassification	 (5,842)	(5,463)	(11,305					
Ending balance	 99,524	94,673	194,197					
Accumulated depreciation								
Beginning balance	-	9,537	9,537					
Depreciation	-	2,025	2,025					
Reclassification	 	(613)	(613					
Ending balance	 -	10,949	10,949					
Rental assets, net	\$ 99,524	<u>\$ 83,724</u>	\$ 183,248					

		Year Ended December 31, 2007								
		Bui	ldings and							
	Land	i Eo	luipment	Total						
Cost	<u>\$ 10</u>	<u>)5,366 </u> \$	100,136 \$	205,502						
Accumulated depreciation										
Beginning balance		-	7,493	7,493						
Depreciation		-	2,044	2,044						
Ending balance			9,537	9,537						
Rental assets, net	\$ 10	05,366 \$	90,599 \$	195,965						

Rental assets are offices 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
2009	\$	11,050
2010		11,212
2011		8,381
2012		2,271
2013		379

# 11. SHORT-TERM BANK LOANS

	Decemb	er 31
	2008	2007
Unsecured bank loans - interest of 1.95%-2.20%	<u>\$ 1,150,000</u>	<u> </u>

# 12. COMMERCIAL PAPER PAYABLE

The Company issued the commercial paper with discounted rate at 1.838% and was fully repaid on January 16, 2009.

# 13. ACCRUED EXPENSES

	 December 31		
	2008		2007
Commission	\$ 1,240,667	\$	1,395,045
Bonus	523,314		436,296
Bonus to employees and remuneration to directors and supervisors	273,688		-
Advertisement	146,608		104,145
Utilities	92,372		101,100
Maintenance fee	71,061		80,859
Billing processing fee	67,758		41,441
Other	 451,573		540,634
	\$ 2,867,041	\$	2,699,52

# 14. BONDS PAYABLE

	December 31, 2007			
	Due Within One Year	n Due After One Year		Total
Bonds payable				
Domestic unsecured bonds - 2nd	\$ 1,470.	.000 \$	- \$	1,470,000
Domestic unsecured bonds - 3rd	1,200.	.000		1,200,000
	<u>\$ 2,670</u>	0 <u>,000</u> <u>\$</u>	<u> </u>	2,670,000

### a. Domestic unsecured bonds - 2nd

These are five-year unsecured domestic bonds issued at par value from March 28, 2003 to April 3, 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 already repaid all of the bonds payable by April 3, 2008.

#### b. 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 all of the bonds payable by December 18, 2008.

# 15. LEASE PAYABLE

	December 31		
	2008	2007	
Total future lease payments	\$ 9,685	\$ 30,891	
Less: Imputed interest expense	1,325	2,651	
	8,360	28,240	
Less: Current portion of lease payable	4,180	19,880	
	<b>^</b> (10)		
Lease payable - noncurrent	<u>\$ 4,18</u>	<u>\$ 8,360</u>	

The contracts of capital lease were summarized as follows:

			Renta Years I Decem	
Lessor	Properties	Payment Terms	2008	2007
Far Eastern International Leasing Corp.	Computer equipment	July 2004 - June 2009 \$15,414 thousand annually	\$15,414	\$15,414
Far Eastern International Leasing Corp.	Computer equipment	March 2006 - February 2011 \$5,063 thousand annually	5,063	5,063
			\$20,477	<u>\$20,477</u>

#### 16. PENSION PLAN

- a. The pension plan under the Labor Pension Act (LPA) is a defined contribution plan. Based on the LPA, rate of monthly contributions by the Company to the employees' individual pension fund accounts starting on July 1, 2005 is at 6% of monthly wages and salaries. The pension cost under the defined contribution plan amounted to \$114,843 thousand and \$134,253 thousand for the years ended December 31, 2008 and 2007, respectively.
- b. The Company has 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.

The Company (including KG Telecom, KGEx.com Co., Ltd., 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 Bank of Taiwan (the Central Trust of China merged with the Bank of Taiwan in July 2007, with the Bank of Taiwan as the survivor entity).

c. Information about the defined benefit pension plan was as follows:

# 1) Net pension cost consisted of:

	<u>y</u>	Years Ended December 31		
		2008		2007
Service cost	\$	31,253	\$	30,579
Interest cost		34,609		28,567
Expected return on plan assets		(13,849)		(11,405)
Amortization of net transition obligation		911		911
Amortization of unrecognized pension loss		12,762		11,209
Net pension cost	<u>\$</u>	65,686	<u>\$</u>	59,861

2) Reconciliation of the funded status of the plan and accrued pension cost was as follows:

	December 31		
	2008	2007	
Benefit obligation			
Vested benefit obligation	\$ 5,605	\$ 6,016	
Non-vested benefit obligation	612,900	606,646	
Accumulated benefit obligation	618,505	612,662	
Additional benefits based on projected and future salaries	633,737	543,716	
Projected benefit obligation	1,252,242	1,156,378	
Fair value of plan assets	(493,002)	(444,996	
Funded status	759,240	711,382	
Unrecognized net transition asset (obligation)	883	(28	
Unrecognized prior service cost	27,891	-	
Unrecognized pension loss	(441,686)	(396,550	
Accrued pension cost	<u>\$ 346,328</u>	<u>\$ 314,804</u>	
Vested benefit	<u>\$ 7,752</u>	<u>\$ 7,465</u>	

#### 3) Actuarial assumptions were as follows:

	Decembe	December 31		
	2008	2007		
Discount rate used in determining present value	2.75%	3.00%		
Rate of future salary increase	3.50%	3.50%		
Expected rate of return on plan assets	2.75%	3.00%		

# 17. STOCKHOLDERS' EQUITY

# a. Capital surplus

Under government regulations, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares and that arising from business combination) may be capitalized, which however is limited to a certain percentage of the Company's paid-in capital. Also, the capital surplus from long-term investments may not be used for any purpose.

#### 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 plans to improve financial structure.

The bonus to employees of NT\$182,459 thousand and the remuneration to directors and supervisors of NT\$91,229 thousand, which representing 2% and 1% of net income (net of the bonus to employees and remuneration to directors and supervisors) less 10% legal reserve and special reserve, respectively, was recognized for the year ended December 31, 2008. The amounts were estimated based on past experiences. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of the stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the stockholders' meeting.

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.

Legal reserve shall be appropriated until it has reached the Company's paid-in capital. This reserve may be used to offset a deficit. When the legal reserve has reached 50% of the Company's paid-in capital, up to 50% thereof may be transferred to paid-in capital.

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, 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 2007 and 2006 earnings were approved by the stockholders on June 5, 2008 and June 12, 2007, respectively.

	 Appropriation and Distribution		Dividend Per Share (Dollars)				
	2007		2006		2007		2006
Legal reserve	\$ 1,161,944	\$	1,315,623				
Special reserve	(44,832)		44,832				
Bonus to employees - cash	210,047		235,915				
Remuneration to directors and supervisors	105,023		117,958				
Cash dividend	10,101,353		12,005,255	\$	3.10	\$	3.10

There was no difference in the appropriation and distribution of the 2007 and 2006 earnings proposed by the board of directors on April 22, 2008 and April 19, 2007, respectively. Had the above bonus to employees and directors been charged to net income in 2007 and 2006, the basic earnings per share for 2007 and 2006 (after tax), based on the weighted-average number of outstanding shares would have decreased from NT\$3.00 to NT\$2.92 and from NT\$3.40 to NT\$3.31, respectively.

As of December 31, 2008 directors and supervisors' remuneration of \$500 thousand of the Company had been included in other current liabilities.

Information on the bonus to employees, and remuneration to directors and supervisors can be accessed through the Market Observation Post System website of the Taiwan Stock Exchange Corporation's website.

c. Global depositary receipts

The Company's Global Depositary Receipts (GDRs) as of December 31, 2008 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
Net decrease due to capital increase or capital reduction	3)	(362)	(5,426)
Reissued within authorized units	4)	21,723	325,838
GDRs transferred to common stock		(29,455)	(441,832)
Outstanding GDRs issued		2,071	31,053

- 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, 2008, 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 represent 4,448 thousands common shares. Furthermore, in 2008, the Company cancelled 658 thousand units of GDRs as a result of its capital reduction. These GDRs represent 9,874 thousands 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 re-issuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of December 31, 2008, the Company had reissued 21,723 thousand units of GDR, representing 325,838 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 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.
- d. Capital reduction

To enhance the return of stockholders' equities, the Company's board of directors proposed on April 30, 2007 to reduce capital by returning \$7,745,326 thousand in cash to stockholders and decreasing common stock by

774,532 thousand shares. The capital reduction was approved by the stockholders' meeting on June 12, 2007. The capital reduction ratio was 19.204715% and the cash return per share was around NT\$1.9204715. Paid-in capital after the capital reduction was \$32,585,008 thousand. The Company's board of directors resolved January 15, 2008 as the record date of the capital reduction. On January 22, 2008, this capital reduction was registered with the MOEA. The authority also approved March 17, 2008 as the share exchange date of the capital reduction. The foregoing payable amounts due to the capital reduction were fully paid on March 28, 2008.

# e. Cumulative translation adjustments

Cumulative translation adjustments for the years ended December 31, 2008 and 2007 were summarized as follows:

		Years Ended December	
		2008	2007
Difference due to translation of foreign-currency financial statements			
Beginning balance	\$	11,826 \$	4,960
Recorded as adjustment under stockholders' equity		16,638	6,866
	\$	28,464 \$	11,826
	<u></u>	20,101 9	11,020

# f. Unrealized gains and losses on financial instruments

Unrealized gains and losses on financial instruments for the years ended December 31, 2008 and 2007 were summarized as follows:

Year ended December 31, 2008	Recognized from Equity- Unrealized Gain method (Loss) on Cash Investments Flow Hedge Total
Beginning balance Recorded as adjustments to stockholders' equity Recognized as profit or loss	\$ 19,510 \$ (16,201) \$ 3,309 (69,714) 3,209 (66,505) 
Ending balance	<u>\$ (50,204)</u> <u>\$ - \$ (50,204</u> )
Year ended December 31, 2007	
Beginning balance Recorded as adjustments to stockholders' equity Recognized as profit or loss	\$ (174) \$ (49,618) \$ (49,792) 19,684 (8,183) 11,501 41,600 41,600
Ending balance	<u>\$ 19,510</u> <u>\$ (16,201</u> ) <u>\$ 3,309</u>

# **18. INCOME TAX**

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

	Years Ended December			
		2008		2007
Income tax expense computed at statutory tax (25%)	\$	3,281,956	\$	3,422,736
Add (deduct) tax effects of:				
Permanent differences				
Tax-exempt income		-		(443,752
Equity in investees' net gains		(253,284)		(855,813
Other		64,734		(15,134
Temporary differences		370,186		(337,990

	Years Ended	December 31
	2008	2007
Investment tax credits used	(160,000)	(76,000)
Unappropriated earnings tax (10%)	8,591	-
Income tax payable - current	3,312,183	1,694,047
Income tax expense on income subjected to a separate rate of 20%	4,530	13,068
Prior year's adjustment	20,548	26,398
Income tax expense - current	<u>\$ 3,337,261</u>	<u>\$ 1,733,5</u>

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.

# b. Income tax expense consisted of:

		Years Ended	December 31
		2008	2007
Income tax expense - current Income tax expense - deferred	\$	3,337,261 \$	5 1,733,513
Temporary differences		(370,186)	337,990
	<u>\$</u>	2,967,075	<u>\$ 2,071,503</u>

# c. Changes in income tax payable were as follows:

	Ye	ears Ended De 2008	<u>cember 31</u> 2007
Beginning balance	s	1,153,125 \$	722,585
Income tax expense - current Income tax paid		3,337,261 2,332,653)	1,733,513 (1,302,973)
Ending balance	<u>\$</u>	2,157,733	<u> </u>

# d. Deferred income taxes assets were as follows:

		Decer	nber	31
		2008		2007
Current				
Deferred income tax assets				
Allowance for doubtful accounts	\$	542,142	\$	469,31
Provision for loss on decline in value of inventories		6,720		10,27
Investment tax credits		-		26,84
Unrealized loss on financial instruments		-		5,40
Other		16,020		12,42
		564,882		524,25
Less: Valuation allowance				26,84
	<u>\$</u>	564,882	<u>\$</u>	497,41
Noncurrent				
Deferred income tax assets				
Equity in investees' net losses	\$	615,100	\$	25,72
Accrued pension cost		89,754		88,22
Depreciation resulting from the differences in estimated service				
lives of properties		34,792		34,93
Unrealized loss on investments in shares of stock		1,637		
		741,283		148,89
Less: Valuation allowance		295,076		
	\$	446,207	\$	148,89

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

e. Integrated income tax information was as follows:

	 December 31	
	2008	2007
Balance of imputation credit account (ICA)	\$ 264,186 \$	201,975

The estimated ratio of the ICA balance as of December 31, 2008 to unappropriated earnings as of such date was 2.36%. When the dividends from the unappropriated earnings as of December 31, 2007 were distributed in 2008, the actual ratio used was 25.53%.

Based on the Income Tax Law, the imputation tax credits distributed to each stockholder are based on the ICA balance as of the date of dividend distribution. Thus, the estimated creditable ratio for the 2007 earnings appropriation may be adjusted when the imputation credits are distributed. While the distribution ratio for the 2006 earnings appropriation had been determined, the actual ratio was disclosed.

f. The status of income tax returns is as follows:

Income tax returns through 2004 of the Company had been examined by the tax authorities. However, the Company disagreed with the tax authorities' assessment of its 2000 to 2004 returns. Thus, the Company filed appeals for the reexamination of its 2000 to 2004 returns. Nevertheless, the Company accrued the related tax.

# 19. FACTORING OF NONPERFORMING ACCOUNTS RECEIVABLE

The Company wrote off certain overdue/nonperforming accounts receivables. Under agreements signed in March 2007, the Company factored these receivables, i.e., sold them without recourse, to an asset management company. Thus, the Company was no longer responsible for collecting these receivables.

Related information for the year ended December 31, 2007 was as follows:

	Counter Party			Amount of Factored Accounts Receivable	Proceeds of the Factoring of Accounts Receivable
	Year ended December 31, 2007				
	Hui Cheng First Asset Management Co., Ltd.			<u>\$ 1,158,871</u>	<u>\$ 26,979</u>
0.	EMPLOYEE, DEPRECIATION AND AN	MORTIZATION	EXPENSES		
		Year I	Ended December 31,	2008	
	Operating	Operating	Nonoperating	As Reductions of Operating Costs or	

	C	perating Costs		Operating Expenses		Expenses and Losses		Costs or Expenses		Total
Employee expenses										
Salaries	\$	445,398	\$	1,620,941	\$	-	\$	562,717	\$	2,629,056
Pension		46,678		84,245		-		49,606		180,529
Meal		8,854		46,100		-		15,982		70,936
Employee benefit		-		51,329		-		-		51,329
Insurance		25,990		116,359		-		44,809		187,158
Miscellaneous		3,793		30,257				17,218		51,268
	<u>\$</u>	530,713	<u>\$</u>	1,949,231	<u>\$</u>		\$	690,332	<u>\$</u>	3,170,276
Depreciation Amortization	<u>\$</u>	<u>6,384,578</u>	<u>\$</u>	<u>899,068</u> 14	<u>\$</u> \$	2,025	<u>\$</u>		<u>\$</u> \$	7,285,671 14

				Year E	nde	d December 31,	200	7		
Employee expenses	0	perating Costs		Operating Expenses	ľ	Nonoperating Expenses and Losses		s Reductions f Operating Costs or Expenses		Total
Salaries	S	222.047	s	1 094 214	\$		\$	0(0.027	\$	2 275 109
Pension	2	222,947 31,078	Э	1,084,214 89,292	\$	-	Э	968,037 73,744	Э	2,275,198 194,114
Meal		5,696		34,824		-		26,610		67,130
Employee benefit		5,090		46,174		-		20,010		46,174
Insurance		16,853		85,115		_		71,499		173,467
Miscellaneous		2,594		28,889	_			21,026		52,509
	<u>\$</u>	279,168	<u>\$</u>	1,368,508	<u>\$</u>		<u>\$</u>	1,160,916	<u>\$</u>	2,808,592
Depreciation Amortization	<u>\$</u>	6,492,777	<u>\$</u>	<u> </u>	<u>\$</u>	2,044	<u>\$</u> \$	<u> </u>	<u>\$</u>	<u>7,494,551</u> 246

The Company provided management services to certain equity-method investees (Note 23). The employee expenses were charged on the basis of agreed-upon terms and recorded as reductions of operating costs or expenses.

To enhance their competency, the Company, New Century InfoComm Tech Co., Ltd. and Digital United Inc. made a strategic business alliance to integrate the resources of their marketing departments and operating management departments and to support each other's human resources. The related employee revenues and expenses were charged and paid on the basis of agreed-upon terms and recorded as nonoperating income and operating cost or expense.

# 21. EARNINGS PER SHARE (EPS)

	A	mount (Num	erat	or)	· _	Earnings F Share (NT	
Year ended December 31, 2008			N	Net Income	Common Stock (Denominator) (in Thousand Shares)	In	Net come
Basic EPS Net income Effect of dilutive potential common	\$	13,127,822	\$	10,160,747	3,288,127	<u>\$3.99</u>	<u>\$3.09</u>
stock Bonus to employees	_				4,892		
Diluted EPS Net income including the effect of potential dilutive common stock	<u>\$</u>	13,127,822	<u>\$</u>	10,160,747	3,293,019	<u>\$3.99</u>	<u>\$3.09</u>
Year ended December 31, 2007							
Basic EPS Net income	<u>\$</u>	13,690,944	<u>\$</u>	11,619,441	3,873,102	<u>\$3.53</u>	<u>\$3.00</u>

The ARDF issued Interpretation No. 2007-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If the Company may settle the bonus to employees by cash or shares,

the Company should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares needs to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

# 22. FINANCIAL INSTRUMENTS

a. Fair value information

		oer 31			
	20	08	20	)7	
	Carrying	Fair	Carrying	Fair	
	Value	Value	Value	Value	
Assets					
Equity-method investments	\$39,857,195	\$39,857,195	\$43,342,778	\$43,342,778	
Refundable deposits	281,340	281,196	261,990	260,821	
Liabilities					
Hedging derivative financial liabilities - current	-	-	21,601	21,601	
Bonds payable	-	-	2,670,000	2,670,000	
Lease payable (including current portion)	8,360	8,360	28,240	28,240	
Guarantee deposits received (including current portion)	648,332	648,332	715,821	715,821	

- b. Methods and assumptions used for estimating the fair values of financial instruments were as follows:
  - Cash and cash equivalents, accounts and notes receivable, receivables from related parties, restricted assets, short-term bank loans, commercial paper payable, notes payable, accounts payable, 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 values of derivative instruments. Otherwise, the fair values are evaluated by the Company using the same estimates and assumptions used by other market participants (e.g., banks or derivative sellers). These estimations and assumptions are available to the Company.

The Company uses the long-term interest rate quotations of Reuters (or Bloomberg) to calculate the fair value of each interest rate swap based on the net cash flow.

- 3) The fair values of equity-method investments with no quoted market prices will be measured by net worth of investees or their respective carrying values.
- 4) Fair values of bonds payable, lease payable, 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:

			_		De	cember 31			
			_	Quoted Pr	ice	E	stin	nated Pr	ice
				2008	2007	200	)8	2	007
Liabilities									
Hedging derivative financial liabilities	ourront					<u>_</u>		<u>,</u>	
Hedging derivative financial fiabilities	- current		\$	5 - \$		- \$		- \$	21,60
				Decer	nber 3	1			
		20	008			20	007		
	Fina	ncial Assets		Financial Liabilities	Fina	ncial Assets		Financ Liabilit	
Risk of interest rate change									
Fair value risk	\$	281,340	\$	2,156,692	\$	3,110,459	\$	74	4,061

# 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.

Fair values of mutual funds and domestic quoted stocks held by KG Telecom and fair values of mutual funds held by ARCOA are determined at their quoted prices in an active market; thus, market price fluctuations would result in changes in the fair values of these investments. However, since KG Telecom and ARCOA periodically evaluate the performance of these investments, market risk is expected to be immaterial.

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 loss 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 possessed equity-method investments with no quoted prices in an active market; thus, it might face liquidity risks.

KG Telecom invested in domestic quoted stocks and 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 partial 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:

		Designated Hedging Instruments							Expected	
	Financial		Notio	nal Amount		Fai	ir Value	Expected	Year for Realization	
Hedged Items	Instruments Designated		De	cember 31		Dec	ember 31	1	of Gains or Losses	
			2008	2007		2008	2007			
Bonds with floating interest rate	Interest rate swap - the Company	\$		- \$2,670,000	\$	-	\$ (21,601)	2003-2008	2003-2008	

# 23. RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Company
Far Eastern Textile Ltd.	Ultimate parent company
KG Telecommunications Co., Ltd. (KG Telecom)	Subsidiary
ARCOA Communication Co., Ltd. (ARCOA)	Subsidiary
Q-ware Communications Co., Ltd. (Q-ware)	Became subsidiary since July 2007
E. World (Holdings) Ltd.	Subsidiary
Far Eastern Info Service (Holding) Ltd. (Bermuda)	Subsidiary
Far EasTron Holding Ltd.	Subsidiary
KGEx.com Co., Ltd. (KGEx)	Subsidiary of KG Telecom
KGT International Holding Co., Ltd.	Subsidiary of KG Telecom (dissolved in May 27, 2008)
Yuan Cing Co., Ltd.	Subsidiary of E. World (Holdings) Ltd.
Far Eastern Tech-info Ltd. (Shanghai) (FETI)	Subsidiary of FEIS
ADCast Interactive Marketing Co., Ltd. (ADCast)	Subsidiary of NCIC (became subsidiary since September 2008)
Far EasTron Co., Ltd.	Subsidiary of Far EasTron Holding Ltd. (merged with ADCast and dissolved since September 2008)
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman (became equity-method investee since December 31, 2007)
Far Eastern Electronic Toll Collection Co., Ltd. (FETC)	Equity-method investee
Ding Ding Integrated Marketing Service Co., Ltd. (DDIM)	Equity-method investee
iScreen Corporation	Equity-method investee of KG Telecom
Digital United Inc. (DU)	Subsidiary of NCIC (became related party since December 31, 2007)
Information Security Service Digital United, Inc.	Subsidiary of Digital United Inc. (became related party since December 31, 2007)
NTT DoCoMo Inc.	Director
Far Eastern International Leasing Corp. (FEILC)	Supervisor
Far Eastern Apparel Co., Ltd.	Same ultimate parent company

(Continued)

#### **Related Party**

Far Cheng Human Resources Consultant Corp. (FCHRC) Far Eastern Resource Development Co., Ltd. (FETRD) Yuan Ding Co. Far Eastern Department Stores Co., Ltd. Asia Cement Co., Ltd. Oriental Union Chemical Corporation Far Eastern Geant Company Ltd. Far Eastern Memorial Hospital Oriental Institute of Technology Yuan-Ze University Far Eastern Construction Co., Ltd. Yuang Tong Investment Corporation Kai Yuan International Investment Corp. An-Ho Garment Corp. Fu Kwok Garment Manufacturing Co. Yuan Ding Investment Corporation Far Eastern Polychem Industries Ltd Ding Yuan International Investment Ltd. Far Eastern Polytex (Holding) Ltd. Far Eastern Investment (Holding) Ltd. Far Eastern General Contractor Inc. Oriental Resources Development Limited (Former Taiwan Recycling Corp.) Yuan Faun Ltd. Far Eastern Apparel (Holding) Ltd. Oriental Textile (Holding) Ltd. Pacific Petrochemical (Holding) Ltd. PET Far Eastern (Holding) Ltd. F.E.D.P. (Holding) Ltd. Pet Far Eastern (M) Sdn Bhd. FETG Investment Antilles N.V. Ming Ding Corp. Far Eastern Spinning Weaving and Dyeing (Suzhou) Limited Far Eastern Industries (Wuxi) Oriental Industries (Suzhou) Ltd. Far Eastern Industries (Jiu Jiang) Ltd. Oriental Petrochemical (Shanghai) Ltd. Far Eastern Industries (Shanghai) Ltd. Far Eastern Industries (Suzhou) Ltd. Far Eastern Apparel (Suzhou) Ltd. Waldorf Service B.V. Shanghai Far Eastern Petrochemical Logistic Ltd. Shanghai Far Eastern IT Company Wu Han Far Eastern New Material Ltd. (former Wu Han Far Eastern Industrial Trading Ltd.) Far Eastern (China) Investment Limited Sino Belgium (Holding) Limited. Sino Belguim (Suzhou) Limited Fashionline Saigon Ltd. Suzhou An He Appared Ltd.

Relationship with the Company

Same ultimate parent company Same ultimate parent company Same chairman Same ultimate parent company Same ultimate parent company

Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company

Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company

Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company Same ultimate parent company

(Concluded)

			2008		-	2007	
			Amount	%		Amount	
During the year							
Operating revenue	1)						
KG Telecom	2)	\$	3,007,573	6	\$	2,828,152	
NCIC	3)		773,982	2		461,167	
ARCOA	4)		245,153	-		142,695	
KGEx	5)		208,035	-		268,304	
NTT DoCoMo Inc.	6)		114,572	-		76,962	
Other	21)		2,734	-		3,396	
		<u>\$</u>	4,352,049	8	\$	3,780,676	
Operating costs and expenses							
Cost of telecommunications							
service							
KG Telecom	2)	\$	1,658,786	8	\$	1,831,295	
NCIC	3)		102,144	1		28,764	
ARCOA	4)		57,345	-		46,636	
Other	21)		46,777			22,426	
		<u>s</u>	1,865,052	9	\$	1,929,121	
Purchase							
ARCOA	4)	S	1,583,993	13	\$	1,071,211	
ARCOA	4)	<u> </u>		42	2		
Rental							
FETRD	7)	\$	45,266		\$	45,399	
NCIC	8)		40,357	1		36,680	
FEILC	9)		40,324	1		36,897	
Other	21)		18,801	1		26,202	
		<u>\$</u>	144,748	5	\$	145,178	
Service fee							
FETI	10)	\$	146,383	57	\$	133,724	
FCHRC	11)		51,865	20		49,474	
Other	21)	. <u> </u>	4,042	2		3,356	
		<u>\$</u>	202,290	79	\$	186,554	
Marketing expense							
ARCOA	4)	\$	588,370	6	\$	562,727	
KG Telecom	12)		192,714	2		207,308	
DDIM	13)		128,396	2		96,194	
Other	21)		20,981	-		312	
		<u>\$</u>	930,461	10	\$	866,541	
Donation expense							

# b. In addition to those disclosed in other notes, the significant transactions with the above parties are summarized as follows:

			2008			2007		
			Amount	%		Amount	%	
Nonoperating income and gains								
Management services revenue								
KG Telecom	15)	\$	63,124	90	\$	121,573	97	
NCIC	15)		3,475	5		-	-	
DU	15)		1,336	2		-	-	
Other	21)		2,456	3		4,205	3	
		<u>\$</u>	70,391	100	<u>\$</u>	125,778	100	
Commission								
KG Telecom	12)	<u>\$</u>	44,590	100	\$	152,606	100	
Guarantee services revenue								
KG Telecom	16)	\$	1,348	2	\$	546	1	
KGEx	16)		114	-		50	-	
FETC	17)					285		
		\$	1,462	2	\$	881	1	
Other revenue								
Q-ware	18)	\$	11,212	12	¢			
ARCOA	4)	\$	3,861	4	э	3,780	4	
ARCOA	4)			4			4	
		<u>\$</u>	15,073	16	\$	3,780	4	
Nonoperating expenses and losses								
Guarantee services expenses								
	16)	<u>\$</u>	2.242	27	<u>\$</u>	736		
KG Telecom								
KG Telecom Acquisition of properties								
	19)	\$	45,620	1	\$	-	-	
Acquisition of properties	19) 19)	\$	45,620 3,003	1	\$	- 16,658	-	
Acquisition of properties NCIC	,	\$			\$		- -	
Acquisition of properties NCIC KG Telecom	19)	\$ 	3,003		\$ <u>\$</u>	16,658	- - 	
Acquisition of properties NCIC KG Telecom Other	19)		3,003 23,318			16,658 <u>115</u>	- - 	
Acquisition of properties NCIC KG Telecom	19)		3,003 23,318	- 1		16,658 <u>115</u>		
Acquisition of properties NCIC KG Telecom Other Disposal of properties	19) 21)	<u></u>	3,003 23,318 71,941	- 1	<u>\$</u>	16,658 <u>115</u> <u>16,773</u>		
Acquisition of properties NCIC KG Telecom Other Disposal of properties KG Telecom At end of year	19) 21)	<u></u>	3,003 23,318 71,941	- 1	<u>\$</u>	16,658 <u>115</u> <u>16,773</u>		
Acquisition of properties NCIC KG Telecom Other Disposal of properties KG Telecom <u>At end of year</u> Receivables from related parties	19) 21)	<u></u>	3,003 23,318 71,941	- 1	<u>\$</u>	16,658 <u>115</u> <u>16,773</u>		
Acquisition of properties NCIC KG Telecom Other Disposal of properties KG Telecom At end of year Receivables from related parties Accounts and notes receivable	19) 21) 20)	<u>s</u>	3,003 23,318 71,941	-  	<u>\$</u>	16,658 115 16,773 210		
Acquisition of properties NCIC KG Telecom Other Disposal of properties KG Telecom At end of year Receivables from related parties Accounts and notes receivable KG Telecom	19) 21) 20) 2)	<u></u>	3,003 23,318 71,941 	 	<u>\$</u>	16,658 <u>115</u> <u>16,773</u> <u>210</u> 329,351	36	
Acquisition of properties NCIC KG Telecom Other Disposal of properties KG Telecom At end of year Receivables from related parties Accounts and notes receivable KG Telecom ARCOA	19) 21) 20) 2) 4)	<u>s</u>	3,003 23,318 71,941 398,046 174,080	  46 20	<u>\$</u>	16,658 <u>115</u> <u>16,773</u> <u>210</u> 329,351 166,627	36 18	
Acquisition of properties NCIC KG Telecom Other Disposal of properties KG Telecom At end of year Receivables from related parties Accounts and notes receivable KG Telecom	19) 21) 20) 2)	<u>s</u>	3,003 23,318 71,941 	 	<u>\$</u>	16,658 <u>115</u> <u>16,773</u> <u>210</u> 329,351		
		2008		2007				
--	----------------------	-----------------	------------	-----------------	----			
Other receivables       15)         NCIC       15)         KG Telecom       12), 15) and 16)         DU       15)         Other       21)         Refundable deposits       13)         DDIM       13)         Other       21)         Payables to related parties       21)         KG Telecom       2), 12), 15) and 16)         NCIC       3), 8) and 19)         ARCOA       4)         DDIM       13)         FETI       10)         Other       21)         Lease payable (including current portion)       9)	 Amount	%	 Amount	%				
Other receivables								
NCIC	15)	\$ 83,506	10	\$ 2,385				
KG Telecom	12), 15) and 16)	62,329	7	319,671	3			
DU	15)	29,467	3	-				
Other	21)	 35,848	4	 39,827				
		 211,150	24	 361,883	4			
		\$ 868,018	100	\$ 908,949	10			
Refundable deposits								
DDIM	13)	\$ 32,500	11	\$ 31,915	12			
Other	21)	 10,355	4	 8,647				
		\$ 42,855	15	\$ 40,562	1			
Payables to related parties								
KG Telecom	2), 12), 15) and 16)	\$ 841,906	65	\$ 789,247	6			
NCIC	3), 8) and 19)	184,160	14	84,571				
ARCOA	4)	142,182	11	266,558	2			
DDIM	13)	58,309	4	46,465				
FETI	10)	16,797	1	25,233				
Other	21)	 58,833	5	 30,786				
		\$ 1,302,187	100	\$ 1,242,860	10			
		0.0.00						
FEILC	9)	\$ 8,360	100	\$ 28,240	10			

Financing to related parties was as follows:

Related Party	Highest Balance Held During the Year	Ending Balance	Rate (%)	Interest	Collateral
Year ended December 31, 2007					
FETC	<u>\$50,000</u>	<u>\$</u>	6.685-6.915	<u>\$2,081</u>	<u>\$ -</u>

Descriptions of transactions with related parties were as follows:

- Operating revenues (such as service revenues, revenues from sales of cellular phone equipment, accessories and leased-circuit revenue) from related parties were based on normal service rates, selling prices and collection terms.
- 2) 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 telecommunications service revenues. 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.
- 3) The transactions between the Company and NCIC consisted of 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 telecommunications service revenues.

- 4) The revenues from the sales of cellular phone equipment and accessories to ARCOA were recognized as operating revenues. The Company 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 were settled at net amounts. The Company's purchases of cellular phone units and accessories from ARCOA were recorded as purchase and payables to related parties. The Company's sales of prepaid cards and SIM cards of mobile virtual network operator services to ARCOA were recorded as telecommunications service revenues. The logistics service expenses of handset and SIM cards paid by the Company to ARCOA were recorded as cost of telecommunications services. The billing processing services provided by the Company for ARCOA's mobile virtual network services were recorded as nonoperating income and gains.
- 5) 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 receivables 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 revenues and were settled at net amounts.
- 6) The Company provided international roaming services to the customers of NTT DoCoMo Inc. The service revenues were treated as telecommunications service revenues.
- 7) The Company leased 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.
- The Company leased from NCIC the office space in Neihu, telecommunications network and backbone network facilities under operating lease contracts.
- 9) 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. Some of these contracts will be automatically renewed unless either the Company or FEILC informs the other party of contract nonrenew.

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

	PurchasePrice
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 15).

10) The Company signed with FETI a service agreement, under which the Company paid FETI for its service provided to the Company. Advances to FETI, which were to be settled at net amounts against the fee paid, were recorded as a reduction of payables to related parties.

- The Company has contracts with FCHRC for manpower dispatching services, under which the Company paid service charges for FCHRC's providing the Company with temporary or specific personnel demands.
- 12) The Company and KG Telecom 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 payables to related parties.
- 13) 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 payables to related parties. The Company had given DDIM monthly refundable deposits, which were calculated at a fixed percentage of the unused reward points.
- 14) The Company made a donation to Yuan-Ze University for further integration and development of telecommunications business and personnel.
- 15) The Company provided management services and advances to KG Telecom, NCIC and DU for its daily operating expenditures.
- 16) Under the NCC's policy effective April 1, 2007, the Company had provided performance guarantees amounting to \$450,000 thousand to KG Telecom and \$45,000 thousand to KGEx for prepaid cards and international direct dialing calling cards already bought by customers. KG Telecom had also provided the Company a similar guarantee amounting to \$850,000 thousand. The guarantee service revenues and expenses were charged and paid on the basis of actual appropriation amounts multiplied at the agreed rate.
- 17) The Company provided FETC with \$154,000 thousand as endorsement for its bank loans, with charges to FETC based on the agreed rate.
- 18) The Company provided call center service for Q-ware's clients and charged service fee.
- 19) The Company bought from KG Telecom and NCIC operating equipment.
- 20) The Company had sold properties to KG Telecom. The properties were sold at net book value and the proceeds amounted to \$210 thousand.
- 21) 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.

c. Compensation of directors, supervisors and management personnel:

	<u>Vears Ended Decemb</u> 2008 \$ 95,874 \$ 91,229 17,137 	nber 31		
		2008		2007
Salary and bonus	\$	95,874	\$	105,082
Remuneration paid from distribution of earnings		91,229	*	105,023
Bonus paid from distribution of earnings		17,137		20,722
Operation allowance of directors		7,264		7,588
	_\$	211,504	\$	238,415

The compensation of directors, supervisors and management personnel for the years ended December 31, 2008 and 2007 included the estimated and actual bonuses appropriated from the 2008 and 2007 earnings, for which were approved by stockholders in their annual meetings held in 2009 and 2008, respectively. Related details are shown in the Company's 2008 and 2007 annual reports.

# 24. COMMITMENTS AS OF DECEMBER 31, 2008

In addition to those disclosed in Note 23, the Company had the following significant commitments:

- a. The Company was under contracts to acquire properties and cellular phone equipment for \$1,259,185 thousand and \$69,920 thousand, respectively.
- b. The Company's outstanding letters of credit amounted to US\$1,398 thousand (equivalent to \$45,854 thousand).
- c. Payments for the rentals of land, buildings and cell sites for future years are summarized as follows:

Year	Amount
2009	\$ 2,042,578
2010	2,121,957
2011	2,204,441
2012	2,290,153
2013	2,379,219

#### 25. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

- a. Important transactions and b. information on the Company's investees.
  - 1) Financing provided: None
  - 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
  - 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
  - Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Schedule D
  - Receivables from related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Schedule E

- Names, locations, and related information of investees on which the Company exercises significant influence: Schedule F
- 10) Derivative financial instruments of investees: None
- c. Investment in Mainland China:
  - 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 23
  - 3) Endorsements, guarantees or collateral directly or indirectly provided to the investees: None
  - 4) Financings directly or indirectly provided to the investees: None
  - 5) Other transactions that significantly impacted current year's profit or loss or financial position: None

# 26. 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 was as follows:

		Years Ended	Dec	ember 31	
	 20	08		20	07
	Amount Percentage of Operating Revenue (%)			Amount	Percentage of Operating Revenue (%)
Company A	\$ 6,909,796	13	\$	6,649,560	14

# SCHEDULE A

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES ENDORSEMENT/GUARANTEE PROVIDED YEAR ENDED DECEMBER 31, 2008 (In Thousands of New Taiwan Dollars)

	Counter		arty	Limits on					Maximum Total	
No.	Endorser/ Guarantor	Name	Nature of Relationship	Guarantee Amount Provided to	Maximum Balance for the	Ending Balance (Note B)	Amount of Endorsement/ Guarantee Collateralized by Properties	Endorsement/ Guarantee to Net Equity per Financial	Endorsement/ Guarantee Allowed to Be Provided by the Endorser/ Guarantor (Note A)	
	Telecommunications Co., Ltd.	Telecommunications Co., Ltd. KGEx.com.Co.	Subsidiary Subsidiary of KG Telecom			\$450,000 45,000		0.63% 0.06%	\$71,296,202 71,296,202	
	Telecommunications		Parent Company	16,237,720	850,000	850,000	-	2.62%	32,475,440	

Note A: The maximum total endorsement/guarantee amount were equals the Company's and KG Telecom's net worth, while the limit of endorsement/guarantee amount for each counter-party should not exceed 50% of the Company's and KG Telecom's net worth. Note B: The maximum balance for the year and the ending balance shown above were the amounts allowed, not the actual appropriations.

# SCHEDULE B

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES MARKETABLE SECURITIES HELD DECEMBER 31, 2008

# (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

		Relationship			December			
Holding Company Name	Type and Issuer/Name of Securities	with the Holding Company	Financial Statement Account	Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value	Note
	0. 1							
Telecommunications	Stocks KG Telecommunications Co., Ltd.	Equity-method investee	Equity-method investments	1,332,997,916	\$32,475,440	100.00	\$32,475,440	Notes A and C
Aame ar EasTone elecommunications o., Ltd. G elecommunications o., Ltd.		Equity-method investee	Equity-method investments	980,315,483	5,490,024	24.51	5,490,024	Notes A and 0
		Equity-method investee	Equity-method investments	80,276,314	1,039,987	59.78	1,039,987	Notes A and 0
	Far Eastern Electronic Toll Collection Co., Ltd.	Equity-method investee	Equity-method investments	157,714,020	408,729	41.18	408,729	Notes A and
3 ecommunications ., Ltd.		Equity-method investee	Equity-method investments	36,459,930	190,370	51.00	190,370	Notes A and
	Far Eastern Info Service (Holding) Ltd.	Equity-method investee	Equity-method investments	1,200	153,851	100.00	153,851	Notes A and
	E. World (Holdings) Ltd.	Equity-method investee	Equity-method investments	6,014,622	67,305	85.92	67,305	Notes A and
, , , , , , , , , , , , , , , , , , ,	Far EasTron Holding Ltd.	Equity-method investee	Equity-method investments	4,486,988	25,575	100.00	25,575	Notes A and
	Ding Ding Integrated Marketing Services Co., Ltd.	Equity-method investee	Equity-method investments	4,500,000	5,744	15.00	5,744	Notes A and
	ADCast Interactive Marketing Co., Ltd.	Equity-method investee	Equity-method investments	18,351	170	0.40	170	Notes A and 0
V.C.	Stools							
elecommunications	Stocks KGEx.com Co., Ltd.	Equity-method investee	Equity-method investments	198,136,425	890,885	79.25	890,885	Notes A and
	iScreen Corporation	Equity-method investee	Equity-method investments	4,000,000	28,765	40.00	28,765	Notes A and
	ADCast Interactive Marketing Co., Ltd.	Equity-method investee	Equity-method investments	368,519	3,414	8.16	3,414	Notes A and
	TCC	-	Available-for-sale financial assets - current	200,000	5,390	-	5,390	Note E
	ACC	-	Available-for-sale financial assets - current	3,449,000	98,124			Note E
	GREATWALL	-	Available-for-sale financial assets - current	270,369				Note E
	FPC	-	Available-for-sale financial assets - current	100,000				Note E
	TYG	-	Available-for-sale financial assets - current	350,000				Note E
	OUCC		Available-for-sale financial assets - current	500,000				Note E
	CSC	-	Available-for-sale financial assets - current	207,500				Note E
	CSRC	-	Available-for-sale financial assets - current	130,000				Note E
	DELTA		Available-for-sale financial assets - current	100,000				Note E Note E
	ACER		Available-for-sale financial assets - current	100,000 70,000	4,260 5,404			Note E
	FOXLINK		Available-for-sale financial assets - current Available-for-sale financial	120,000				Note E
	EVERLIGHT		assets - current Available-for-sale financial	120,000				Note E
	AUO		assets - current Available-for-sale financial	300,000				Note E
	CHT		assets - current Available-for-sale financial	181,500				Note E
	НТС		assets - current Available-for-sale financial	18,000	5,886			Note E
	U-MING		assets - current Available-for-sale financial	1,047,000				Note E
	CMT	-	assets - current Available-for-sale financial	100,000				Note E
			assets - current	,500	2,000		2,000	

(Continued)

		Relationship			December	-		
Holding Company Name	Type and Issuer/Name of Securities	with the Holding Company	Financial Statement Account	Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or Net Asset Value	Note
	Yuanta Group	-	Available-for-sale financial	400,000	5,880		5,880	Note E
	FFHC	-	assets - current Available-for-sale financial assets - current	150,000	2,588	-	2,588	Note E
	UNIMICRON	-	Available-for-sale financial assets - current	280,000	3,808	-	3,808	Note E
	CHINESEGAMER	-	Available-for-sale financial assets - current	50,000	4,725	-	4,725	Note E
	SZS	-	Available-for-sale financial assets - current	45,000	3,690			Note E
	Alpha	-	Available-for-sale financial assets - current	100,000	1,895			Note E
	INNOLUX	-	Available-for-sale financial assets - current	200,000	4,850			Note E
	UMT	-	Available-for-sale financial assets - current	50,000	4,025			Note E
	PT TECH.	-	Available-for-sale financial assets - current	70,000	3,913			Note E
	GET	-	Available-for-sale financial assets - current	75,000	7,200			Note E
	PAHSCO	-	Available-for-sale financial assets - current	180,000	5,778			Note E
	CyberLink	-	Available-for-sale financial assets - current	25,000	2,913			Note E
	SONIX	-	Available-for-sale financial assets - current	200,000	6,880			Note E
	S.W.	-	Available-for-sale financial assets - current	100,000	3,480			Note E
	HWACOM		Available-for-sale financial assets - current	60,000	1,233			Note E
	MOTECH	-	Available-for-sale financial assets - current	90,000	6,966			Note E
	TSMT		Available-for-sale financial assets - current	160,000	3,560			Note E
	LITE-ON IT	-	Available-for-sale financial assets - current	600,750	1,311			Note E
	N.P.C	-	Available-for-sale financial assets - current	19,000	7,930			Note E
	PVI		Available-for-sale financial assets - current	130,000	1,898			Note E
	GIANT	-	Available-for-sale financial assets - current	52,500	3,827	-	3,827	Note E
	Open-ended mutual funds Deutsche Far Eastern DWS Taiwan Bond Security Investment Trust Fund (Former Far Eastern Alliance Taiwan Bond Security Investment	-	Available-for-sale financial assets - current	73,960,494.25	824,268	-	824,268	Note B
	Trust Fund) JPM (Taiwan) European Bond	-	Available-for-sale financial	20,000,000.00	196,462	-	196,462	Note B
	Fund Deutsche Far Eastern DWS Taiwan Thematic Fund	-	assets - current Available-for-sale financial assets - current	10,000,000.00	77,200	-	77,200	Note B
	<u>Private funds</u> Fuh Hwa Value Added Strategy Fund	-	Financial assets carried at cost - noncurrent	14,866,204.20	150,000	-	150,000	Note C
RCOA ommunication Co.,	Stocks THI consultants	-	Financial assets carried at cost	1,213,594	13,729	18.32	13,729	Note C
d.	Chunghwa Int'l Communication Network Co.,	-	<ul> <li>noncurrent</li> <li>Financial assets carried at cost</li> <li>noncurrent</li> </ul>	2,086,854	6,714	4.12	6,714	Note C
	Ltd. VIBO Telecom Inc.	-	Financial assets carried at cost	840,000	8,400	0.04	8,400	Note C
	Web Point Co., Ltd.	-	<ul> <li>noncurrent</li> <li>Financial assets carried at cost</li> <li>noncurrent</li> </ul>	160,627	1,618	0.63	1,618	Note C
	<u>Open-ended mutual funds</u> Yuanta Wan Tai Bond Fund	-	Available-for-sale financial	2,096,201.70	30,246	-	30,246	Note B
	ING Taiwan Bond Fund	-	assets - current Available-for-sale financial	1,946,497.28	30,293	-	30,293	Note B

(Continued)

		Relationship			December	31, 2008			
Holding Company Name	Type and Issuer/Name of Securities	Financial Statement Account	Shares	Carrying	Percentage of Ownership (%)	Market Value or Net Asset Value	Note		
	PCA Well Pool Fund	z	Available-for-sale financial assets - current	6,969,144.50	90,187	-	90,187	Note B	
	Prudential Financial Bond Fund	-	Available-for-sale financial assets - current	5,969,159.60	90,049	-	90,049	Note B	
	UPAMC Great China Fund	:	Available-for-sale financial assets - current	5,667,328.00	90,311	-	90,311	Note B	
	Bonds Ta Chong Bank Financial Bonds 93 Series-I	-	Bonds carried at amortized cost - current	3,000,000.00	3,000	-	3,000	Note C	
Far Eastern Info Service Holding) Ltd.	Far Eastern Tech-info Ltd.	Equity-method investee	Equity-method investments	-	US\$4,078,000	100.00	US\$4,078,000	Notes A and (	
Far EasTron Holding .td.	Stocks ADCast Interactive Marketing Co., Ltd.	Equity-method investee	Equity-method investments	2,734,446	US\$772,000	60.52	US\$772,000	Notes A and	
E. World (Holdings) Ltd.	0	Equity-method investee	Equity-method investments	19,349,994	US\$2,112,000	99.99	US\$2,112,000	Notes A and (	

 Note A:
 The calculation was based on audited financial statements as of December 31, 2008.

 Note B:
 The market values of open-ended mutual funds were calculated at their net asset values as of December 31, 2008.

 Note C:
 The financial assets carried at cost, bonds carried at amortized cost and equity-method investments without quoted prices were measured by net worth of investees or their respective carrying values.

 Note D:
 The carrying value of available-for-sale financial assets - current was equal to market values as of December 31, 2008.

 Note E:
 The calculation of domestic publicly traded stocks was based on the closing price at the end of December 31, 2008.

# SCHEDULE C

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL YEAR ENDED DECEMBER 31, 2008 (In Thousands of New Taiwan Dollars)

					Beginning I	Balance	Acquisi	tion		Disposa	d		Ending Ba	Ending Balance	
Company Name	Marketable Securities	Account	: :	Nature of Relationship	Share/Units	Amount	Share/Units	Amount	Share/Units	Price	Costs	Gain or (Loss)	Share/Units	Amount	
Communication Co., Ltd.	Pca Well Pool Fund Yuanta Wan Tai Bond Fund	Available-for-sale financial assets - current Available-for-sale financial assets - current	-	-	11,840,116.17 8,486,961.50		17,943,657.00 10,511,710.10								
Telecommunications Co., Ltd.		Available-for-sale financial assets - current Available-for-sale financial assets - current	-	-	-	9,158	1,350,000 10,000,000.00	108,749		- 110,570	- 112,462		100,000		

# SCHEDULE D

# 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, 2008 (In Thousands of New Taiwan Dollars)

Purchaser (Seller) of	Related Party	Nature of	Transaction Details					normal nsaction	Notes/Ac Receivable or		
Goods	Keated Fairy	Relationship	Purchase (Sale)	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Bala	nce	% to Tota
Far EasTone Telecommunications	KG Telecommunications	Subsidiary	Telecommunications service revenues	\$(3,007,573)	(6%)	Based on agreement	-	-	Accounts receivable	\$398,046	69
Co., Ltd.			Cost of telecommunications	1,658,786	8%	Based on agreement	-	-	Accounts payable	(139,326)	(6%
	ARCOA Communication Co., Ltd.	Subsidiary	services Sales of cellular phone equipment and accessories and telecommunications	(245,153)		Based on agreement	-	-	Accounts receivable	174,080	39
			service revenue Cost of telecommunications services, marketing	2,229,708	6%	Based on agreement	-	-	Accounts payable and accrued expense	(142,182)	(3%
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	expenses and cost of sales Telecommunications service revenues	(208,305)		Based on agreement	-	-	Accounts receivable	40,953	19
	New Century InfoComm Tech Co., Ltd.	Equity-method investee	Telecommunications service revenues	(773,982)	(2%)	Based on agreement	-	-	Accounts receivable (N	ote) -	
			Cost of telecommunication services	102,144	-	Based on agreement	-	-	Accounts payable (Note	e)(134,600)	(6%
	NTT DoCoMo Inc.	Director	Telecommunications service revenues	(114,572)		Based on agreement	-	-	Accounts receivable	25,810	
	Ding Ding Integrated Marketing Co., Ltd.	investee	Marketing fee	128,396		Based on agreement	-		Accrued expense	(58,309)	29
	Far Eastern Tech-Info Ltd. (Shanghai)	Subsidiary of Far Eastern Info Service (Holding) Ltd.	Service fee	146,383	57%	Based on agreement	-	-	Accrued expense	(16,797)	(1%
Co., Ltd. (KG	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications service revenues	(1,658,786)	(13%)	Based on agreement	-	-	Accounts receivable	139,326	109
Telecom)			Cost of telecommunications	3,007,573	33%	Based on agreement	-	-	Accounts payable	(398,046)	(44%
	ARCOA Communication Co., Ltd.		services Cost of telecommunications services, marketing expenses and cost of sales	533,013	5%	Based on agreement	-	-	Accounts payable and accrued expense	(33,450)	(2%
ARCOA	Far EasTone	Parent company	Commission revenue,	(2,229,708)	(38%)	Based on agreement	•		Accounts receivable	142,182	679
Communication Co., Ltd.	Telecommunications Co., Ltd.		sales of cellular phone equipment and accessories and service revenues								
	- - - - - - - - - - - - 		Purchase and cost of telecommunications services	245,153	5%	Based on agreement	-	-	Accounts payable	(174,080)	(41%
	KG Telecommunications Co. Ltd.	Same parent company	Commission revenue and sales of cellular phone equipment and accessories	(533,013)	(9%)	Based on agreement	-	-	Accounts receivable	33,450	169
KGEx.com Co., Ltd.	Far EasTone Telecommunications Co.,	Ultimate parent company	Cost of telecommunications	208,035	18%	Based on agreement	-	-	Accounts payable	(40,953)	(21%
	Ltd. New Century InfoComm Tech Co., Ltd.	Equity-method investee	services Telecommunications service revenues	(277,667)	(27%)	Based on agreement			Accounts receivable	37,317	18%
Far Eastern	Far EasTone	Ultimate parent	Service revenue	(146,383)	(84%)	Based on agreement	-	•	Accounts receivable	16,797	629
Tech-Info Ltd. (Shanghai)	Telecommunications Co., Ltd.	company									

# 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, 2008

(In Thousands of New Taiwan Dollars)

						Overdue	Amounts	Allowance
Company Name	Related Party	Nature of Relationship		Turnover Rate	Amount	Action Taken	Received in Subsequent Period	
Far EasTone	KG	Subsidiary	\$460,375	(Note A)	\$-	-	\$270,734	\$-
Telecommunications	Telecommunications							
Co., Ltd.	Co., Ltd.							
	ARCOA	Subsidiary	178,036	9.60	-	-	130,063	-
	Communication							
	Co., Ltd.							
KG	Far EasTone	Parent	841,906	(Note B)	-	-	648,164	-
Telecommunications	Telecommunications	company						
Co., Ltd.	Co., Ltd.							
(KG Telecom)								
ARCOA	Far EasTone	Parent	142,182	10.91			98,290	
Communication	Telecommunications	company	, -				,	
Co., Ltd.	Co., Ltd.							

Note A: The turnover rate was unavailable as the receivables from related parties were mainly due to the advances made for KG Telecom's daily operating expenditures.

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

# 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, 2008

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

(In Thousands of New	Taiwan Dollars,	Unless S	Stated Otherwise)								
		1		Investme	nt Amount	Balance as	s of Decembe	er 31, 2008	Net Gain		
L	Least Comment		Main Businesses and				Percentage		(Loss) of	Equity in	Nete
Investor Company	Investee Company	Location	Products		December 31,		of	Carrying	the	Net Gain (Loss)	Note
				2008	2007		Ownership (%)	Value	Investee	(LOSS)	
							()				
Far EasTone Telecommunications	KG	Taiwan	Type I	\$29,629,139	\$29,629,139	1,332,997,916	100.00	\$32,475,440	\$1,013,276	\$1,013,206	Notes A and
Co., Ltd.	Telecommunications	1	telecommunications								
	Co., Ltd.		services								
	New Century	Taiwan	Type I, II	6,062,000	6,062,000	980,315,483	24.51	5,490,024	(2,800,811)	(567,440)	Notes B and
	InfoComm Tech Co.,	1	telecommunications								
	Ltd.	1	services								
	ARCOA	Taiwan	Type II	1,283,560	1,278,944	80,276,314	59.78	1,039,987	61,190	35,600	Notes A and
	Communication Co.,		telecommunications								
	Ltd.		services, sales of								
	-	÷	communications products								
			and office equipment								
		Taiwan	Electronic toll collection	1,577,140	1,577,140	157,714,020	41.18	408,729	(594,577)	(236,127)	Notes B and
	Toll Collection Co.,		service								
	Ltd.	1	E	1			8				
	Q-ware	Taiwan	Type II	495,855	495,855	36,459,930	51.00	190,370	(277,906)	(141,732)	Notes A and
	Communications Co.,		telecommunications								
	Ltd.	÷	services				÷				
	Far Eastern Info	Bermuda	Investment	92,616	92,616	1,200	100.00	153,851	4,730	4,730	Notes A and
	Service (Holding) Ltd.										
	E. World (Holdings)	1.1	Investment	82,883	82,883	6,014,622	85.92	67,305	6,626	5,693	Notes A and
	Ltd.	Islands									
	Far EasTron Holding	Cayman	Investment	150,000	150,000	4,486,988	100.00	25,575	(13,862)	(13,862)	Notes A and
	Ltd.	Islands									
	Ding Ding Integrated	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	5,744	(91,562)	(11,556)	Notes B and
	Marketing Service Co.,						8				
	Ltd.	1					-				
	ADCast Interactive	Taiwan	Internet advertisements	1,000	-	18,351	0.40	170	(3,320)	9	Notes B and
	Marketing Co., Ltd.		and marketing								
	(Note G)	÷					÷				
	1	Taiwan	Internet service		1,000	-	-		(10,846)	(72)	Notes D and
	(Note G)										
G Telecommunications Co.,	KGEx.com Co., Ltd.	Taiwan	Type II	2,355,649	2,197,794	198,136,425	79.25	890,885	(135,428)		Notes B and
.td.	(Note H)		telecommunications	2,000,010	2,197,794	190,190,429	17.25	070,005	(155,120)		riotes is und
			services								
	KGT International	British	Investment	÷ .	93,976	÷ .	Ξ.		(4,596)		Notes D and
	Holding Co., Ltd. (Note		÷	÷	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		8		(4,570)		riotes is und
	H)	Islands									
	iScreen Corporation	Taiwan	Information service	100,000	100,000	4,000,000	40.00	28,765	5,362		Notes B and
	ADCast Interactive	1 C C	Internet advertisements	3,652		368,519	÷				Notes B and
	Marketing Co., Ltd.		and marketing	3,032		508,519	8.10	3,414	(3,320)		Notes B and
ar Eastern Info Service	Far Eastern Tech-info	Shanghai	Computer data providing	US\$2,500,000	US\$2,500,000	-	100.00	US\$4,078,000	282		Notes B and
Holding) Ltd.	Ltd. (Shanghai)	1	service								
ar EasTron Holding Ltd.	ADCast Interactive	Taiwan	Internet advertisements	US\$4,532,000		2,734,446	60.52	US\$772,000	(3,320)		Notes B and
-	Marketing Co., Ltd.		and marketing	E							
	(Note G)	1	, in the second s				1				
	Far EasTron Co., Ltd.	Taiwan	Internet service		US\$4,532,000				(10,846)		Notes D and
	(Note G)						ļ.,		(		
·	New Cost Cost 1	m, i.e.									
E. World (Holdings) Ltd.	Yuan Cing Co., Ltd.	Taiwan	Call center services	193,500	193,500	19,349,994	99.99	US\$2,112,000	7,252		Notes B and
GT International Holding Co.,	KGEx.com Co., Ltd.	Taiwan	Type II	-	US\$4,822,000	-	-	-	(135,428)		Notes B and
.td. (Note H)		1	telecommunications	-			1				
			services								

Note A: Subsidiary.

Note B: The calculation was based on audited financial statements as of December 31, 2008.

 Note C:
 Equity-method investee of the Company.

 Note D:
 The calculation was based on unaudited financial statements as of December 31, 2008.

 Note:
 E:
 Subsidiary of KG Telecom, E:
 World (Holdings), Far Eastern Info Service (Holding) or Far EasTron Holding.

 Note:
 F:
 Equity-method investee of KG Telecom.

Note G: Far EasTron was disolved on September 3, 2008 upon its merger with ADCast. Thus, Far EasTron's common shares owned by the Company and Far EasTron Holding were swapped into ADCast's common shares. Note H: KGTI was dissolved on May 27, 2008 and completed its liquidation on August 21, 2008. KGTI's holding of the common shares of KGEx.com was distributed to KG Telecom after the liquidation.

# SCHEDULE G

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND INVESTEES INVESTMENT IN MAINLAND CHINA YEAR ENDED DECEMBER 31, 2008 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in	Investment Type (e.g., Direct or Indirect)	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2008	Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2008	% Ownership	Investment Gain (Loss) (Note A)	as of December 31, 2008	Inward Remittance	Accumulated Investment in Mainland China as of December	hv	Upper Limit on Investment
Far Eastern Tech-info Ltd. (Shanghai)	Computer software, data processing and network information providing services	\$82,000 (US\$2,500,000)		\$92,616	\$ - \$	-	\$92,616	100%		\$133,758 (US\$4,078,000)		\$92,616	\$92,616	\$42,777,721 (Note C)

 Note A:
 The calculation was based on audited financial statements as of December 31, 2008.

 Note B:
 The Company made the investment through a company registered in a third region.

 Note C:
 Based on the limit, which is 60% of the Company's net worth, as stated in the Principles Governing the Review of Investment or Technical Corporation in Mainland China, which was issued on August 29, 2008 by the Investment Commission of the MOEA, ROC.

 Note D:
 Please refer to Note 23 for significant transactions with the investee company.

#### 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, 2008 and 2007, 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

Touche Deloitte 8

February 18, 2009

#### 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, 2008 AND 2007

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

ASSETS	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2, 5 and 30)	\$ 7,235,872	8	\$ 10,278,313	10
Available-for-sale financial assets - current (Notes 2, 6 and 30)	1,745,767	2	1,621,420	2
Bonds carried at amortized cost - current (Notes 2 and 7)	3,000	-	3,000	
Accounts and notes receivable, net (Notes 2 and 8)	6,181,007	7	6,506,901	7
Receivables from related parties, net (Notes 2 and 29)	216,348	-	32,693	
Inventories, net (Notes 2 and 9)	852,667	1	670,840	1
Prepaid expenses	695,889	1	705,983	1
Deferred income tax assets - current (Notes 2 and 24)	738,618	1	757,683	1
Restricted assets (Note 2)	72,446	-	113,259	
Pledged certificates of deposits - current (Note 31)	20,000	-	39,036	
Other current assets (Note 30)	260,579	1	110,159	
Total current assets	18,022,193	21	20,839,287	22
LONG-TERM INVESTMENTS				
Equity-method investments (Notes 2 and 10)	5,933,262	7	6,750,690	7
Financial assets carried at cost - noncurrent (Notes 2 and 11)	180,461		292,061	
Total long-term investments	6,113,723	7	7,042,751	
PROPERTIES (Notes 2, 12 and 31)				
Cost				
Land	1,473,588	2	1,467,746	2
Buildings and equipment	2,935,661	3	2,888,046	3
Operating equipment	106,184,956	120	102,139,535	106
Computer equipment	15,899,999	18	14,960,798	15
Office equipment	998,804	1	1,001,385	
Leasehold improvements	1,736,987	2	1,709,137	2
Miscellaneous equipment	607,591	1	497,949	
Total cost	129,837,586	147	124,664,596	129
Less: Accumulated depreciation	89,289,662	101	79,671,538	82
	40,547,924	46	44,993,058	47
Construction-in-progress and prepayments for equipment	4,880,523	5	3,935,609	
Net properties	45,428,447	51	48,928,667	51
NTANGIBLE ASSETS				
Goodwill, net (Notes 2 and 13)	10,571,909	12	10,596,625	11
3G concession, net (Notes 1, 2 and 14)	7,307,065	8	8,037,772	
Total intangible assets	17,878,974	20	18,634,397	19
OTHER ASSETS				
Rental assets, net (Notes 2 and 15)	212,797		225,766	
Idle properties, net (Note 2)	296,328	-	312,815	
Refundable deposits (Note 29)	409,363	1	412,077	1
Deferred charges, net (Note 2)	110,808	-	119,483	
Other (Notes 22 and 31)	25,933		25,339	
Total other assets	1,055,229	1	1,095,480	1

TOTAL

<u>\$ 88,498,566</u>

100

<u>\$ 96,540,582</u> <u>100</u>

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars, Except Par Value)

	2008		2007	
LIABILITIES AND STOCKHOLDERS' EQUITY	Amount	%	Amount	%
CURRENT LIABILITIES				
Short-term bank loans (Notes 16 and 31)	\$ 1,689,450	2	\$ 269,215	-
Commercial paper payable (Note 17)	379,964	1	-	-
Hedging derivative financial liabilities - current (Notes 2 and 28)	-	-	21,601	-
Notes payable	83,824	-	84,865	-
Accounts payable	2,675,010	3	2,720,938	3
Payables to related parties (Note 29)	343,147	-	201,983	-
Income tax payable (Notes 2 and 24)	2,173,306	3	1,565,019	2
Accrued expenses (Note 18)	3,500,251	4	3,635,137	4
Payables for acquisition of properties	1,988,287	2	1,722,988	2
Guarantee deposits received - current	713,367	1	837,648	1
Unearned revenues (Note 2)	1,154,126	1	999,361	1
Current portion of long-term bonds payable (Note 19)	-,	-	2,670,000	3
Current portion of long-term bank loans (Notes 20 and 31)	238,095		38,095	-
Lease payable - current (Notes 2, 21 and 29)	8,394	_	40,314	
Other current liabilities (Notes 23 and 30)	291,290	-	325,851	
Other current nationales (Notes 25 and 50)	291,290		525,851	
Total current liabilities	15,238,511	17	15,133,015	16
LONG-TERM LIABILITIES, NET OF CURRENT PORTION				
Long-term bank loans (Notes 20 and 31)	19,048	-	57,143	-
Lease payable - noncurrent (Notes 2, 21 and 29)	8,360		16,754	
Total long-term liabilities	27,408		73,897	
OTHER LIABILITIES				
	346,328		314,804	1
Accrued pension costs (Notes 2 and 22)		-		1
Guarantee deposits received - noncurrent	118,487	-	112,043	-
Deferred income tax liabilities - noncurrent (Notes 2 and 24)	31,445	-	224,442	-
Deferred revenue (Note 2)	397,944	1	267,225	-
Other	97,140			
Total other liabilities	991,344	1	918,514	1
Total liabilities	16,257,263	18	16,125,426	17
FAR EASTONE'S EQUITY				
Capital stocks - NT\$10.00 par value; authorized - 4,200,000 thousand shares				
Issued and outstanding - 3,258,501 thousand shares in 2008 and				
4,033,033 thousand shares in 2007	32,585,008	37	40,330,334	42
Capital surplus				
Additional paid-in capital - share issuance in excess of par value	10,964,702	12	10,964,702	11
From business combination	8,482,381	10	8,482,381	9
From long-term equity-method investments	40,266	-	40,187	
Total capital surplus	19,487,349	22	19,487,270	20
Retained earnings	17,107,577		17,407,270	
Legal reserve	8,050,917	9	6,888,973	7
	8,050,917	,	· · ·	-
Special reserve	11 104 ((0		44,832	
Unappropriated earnings	11,194,668	<u>13</u>	12,567,456	
Total retained earnings	19,245,585	22	19,501,261	20
Other adjustments				
Cumulative translation adjustments	28,464	-	11,826	-
Unrealized gains (losses) on financial instruments	(50,204)		3,309	
Total other adjustments	(21,740)		15,135	
Total controlling interest of Far EasTone	71,296,202	81	79,334,000	82
MINORITY INTEREST	945,101	1	1,081,156	1
	72,241,303	82	80,415,156	83
Total stockholders' equity	/2,241,505			

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME

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

_	2008		2007	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 29)				
Sales of cellular phone equipment and accessories, net	\$ 5,198,917	8	\$ 5,517,101	9
Telecommunications service revenues	56,955,864	91	58,242,827	91
Other	363,129	1	276,818	
Total operating revenues	62,517,910	100	64,036,746	_100
OPERATING COSTS (Notes 2, 26, 29 and 31)				
Cost of sales	5,720,732	9	6,316,967	10
Cost of telecommunications services	27,233,385	44	27,017,579	42
Other	264,817		214,471	
Total operating costs	33,218,934	53	33,549,017	52
GROSS PROFIT	29,298,976	47	30,487,729	48
OPERATING EXPENSES (Notes 2, 26 and 29)				
Marketing	10,044,411	16	10,059,673	16
General and administrative	4,759,751	8	5,085,405	8
Research and development	154,007		290,176	
Total operating expenses	14,958,169	24	15,435,254	24
OPERATING INCOME	14,340,807	23	15,052,475	24
NONOPERATING INCOME AND GAINS				
Interest (Note 29)	179,558	1	185,939	1
Government grant (Note 2)	74,217	-	21,583	-
Advertising income	26,969	-	21,386	-
Rent	25,326	-	20,384	
Reversal of loss on decline in value of inventories (Note 2)	21,920	-	-	-
Gain from sale of nonperforming accounts receivable (Note 25)	-	-	56,264	-
Gain from sale of financial assets, net (Note 2)	-	-	44,519	
Other (Note 29)	169,360		182,395	
Total nonoperating income and gains	497,350	1	532,470	1

(Continued)

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2008 AND 2007

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

		2008		2007
	An	ount %	Amo	ount %
NONOPERATING EXPENSES AND LOSSES				
Equity in investees' net losses (Notes 2 and 10)	\$ 81	2,892 2	\$ 295	5,000 1
Loss on disposal of properties, net (Note 2)	40	7,782 1	629	9,519 1
Loss from sale of financial assets, net (Note 2)	14	6,194 -		
Impairment loss (Note 2)	3	5,017 -	24	-,425 -
Interest (Notes 2 and 12)	2	2,664 -	41	,606 -
Other (Note 26)	8	9,966	31	.454
Total nonoperating expenses and losses	1,51	4,515 3	1,022	2,004 2
COMBINED INCOME BEFORE INCOME TAX	13,32	3,642 21	14,562	2,941 23
INCOME TAX (Notes 2 and 24)	3,30	1,821 5	3,140	0 <u>,606</u> <u>5</u>
COMBINED NET INCOME	<u>\$ 10,02</u>	<u>1,821 16</u>	<u>\$ 11,422</u>	<u>2,33518</u>
ATTRIBUTABLE TO:				
Controlling interest	\$ 10,16	0,747 16	\$ 11,619	9,441 18
Minority interest	(13	8,926)	(197	<u>,106</u> ) <u> </u>
	<u>\$ 10,02</u>	<u>1,82116</u>	<u>\$ 11,422</u>	<u>.335 18</u>
	2	008	20	)07
	Before	After Income	Before	After Income
	Income Tax	Tax	Income Tax	Tax
EARNINGS PER SHARE (Note 27)				
Basic	<u>\$ 3.99</u>	<u>\$ 3.09</u>	<u>\$ 3.53</u>	<u>\$ 3.00</u>
Diluted	\$ 3.99	\$ 3.09	\$ 3.53	\$ 3.00

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

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY YEARS ENDED DECEMBER 31, 2008 AND 2007

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	<b>a</b>		Capital Additional	Surplus (Notes	2 and 23)	-			Other Adjus	stments Unrealized			
	andOu	Stock Issued tstanding 10 and 23)	Paid-in Capital - Share		From	Retained Ea	arnings (No	tes 2, 4 and	Cumulative	Gains (Losses)on Financial			
	Shares (Thousands)	Amount	Issuance in Excess of Par Value	From Business Combination	Long-term Equity-method Investments	Legal Reserve	Special Reserve	Unappropriated Earnings	Translation Adjustments (Notes 2 and 23)	Instruments (Notes 2 and 23)	Controlling Interest of Far Eas Tone	Minority Interest	Total Stockholders Equity
ALANCE, ANUARY 1, 2007	3,872,663	\$38,726,630	\$6,510,964	\$8,482,381	\$10,611	\$5,573,350	s -	\$14,667,598	\$4,960	\$(49,792)	\$73,926,702	\$863,267	\$74,789,96
cquisition of Q-ware om. in July 2007	-	-		-	-	-	-		-	-	-	414,617	414,61
ppropriation of the 006 earnings													
egal reserve pecial reserve			-			1,315,623	44,832	(1,315,623) (44,832)	-		-	-	
onus to employees emuneration to irectors and	-	-		-	-	-	-	(235,915)	-	-	(235,915)	-	(235,91
ipervisors ash dividend - T\$3.1 per share	-	-	-	-	-	-	-	(117,958) (12,005,255)	-	-	(117,958) (12,005,255)	-	(117,95
Combined net income								11,619,441			11,619,441	(197,106)	11,422,33
djustment arising	-		-		-	-	-	11,019,441		-	11,019,441	(197,100)	11,422,5
rom changes in ercentage of wnership in investees	-	-	-	-	29,576	-	-	-	-	-	29,576	-	29,57
hanges in subsidiary's nrealized loss on vailable-for-sale nancial assets		-			-		-	-	-	19,684	19,684	445	20,1
Changes in unrealized oss on cash flow hedge	-	-		-	-	-	-	-	-	33,417	33,417		33,4
ranslation adjustments n long-term quity-method													
suance of common ock to acquire an	-	-	-	-	-	-	-	-	6,866	-	6,866	(67)	6,7
quity-method westment - NCIC	160,370	1,603,704	4,453,738								6,057,442		<u>6,057,4</u>
ALANCE, DECEMBER 31, 2007	4,033,033	40,330,334	10,964,702	8,482,381	40,187	6,888,973	44,832	12,567,456	11,826	3,309	79,334,000	1,081,156	80,415,1
Acquisition of GEx.com's capital tock in 2008	-	-	-	-	-	-	-	-	-	-	-	(1,414)	(1,41
Ioldings of Far asTron's capital stock wapped into ADCast's apital stock	-	-		-	-	-	-	-	-		-	13,538	13,5:
equisition of IRCOA's capital stock 1 2008	-	-		-	-	-	-	-	-	-	-	(9,333)	(9,33
apital reduction - IT\$1.9204715 per hare	(774,532)	(7,745,326)		-	-	-	-	-	-	-	(7,745,326)	-	(7,745,32
Appropriation of the 007 earnings .egal reserve	_		-			1,161,944	-	(1,161,944)				_	
pecial reserve	-	-	-	-	-		(44,832)	44,832		-	-	-	
emuneration to irectors and	-	-	-	-	-	-	-	(210,047)	-	-	(210,047)	-	(210,04
apervisors ash dividend - IT\$3.1 per share	-	-	-	-	-	-	-	(105,023) (10,101,353)	-	-	(105,023) (10,101,353)	-	(105,02
ombined net income 2008	-	-	-	-	-	-	-	10,160,747		-	10,160,747	(138,926)	10,021,8
djustments to change a equity-method avestees' stockholders' quity	-	-		-	79	-		-	-	-	79		
hanges in subsidiary's prealized loss on vailable-for-sale nancial assets	-	-		-	-	-		-	-	(69,714)	(69,714)	(6)	(69,72
hanges in unrealized oss on cash flow hedge			-			-	-			16,201	16,201	-	16,20
ranslation adjustment n long-term quity-method westments									16 640			0/	
									16,638		16,638	86	16,7
BALANCE, DECEMBER 31, 2008	<u>3,258,501</u>	\$32,585,008 of the consolidated fir	\$10,964,702	<u>\$8,482,381</u>	<u>\$40,266</u>	<u>\$8,050,917</u>	<u>s</u>	<u>\$11,194,668</u>	<u>\$ 28,464</u>	<u>\$(50,204)</u>	<u>\$71,296,202</u>	<u>\$945,101</u>	<u>\$72,241,3</u>

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	 2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Combined net income	\$ 10,021,821	\$ 11,422,335
Depreciation and amortization	10,911,688	11,276,779
Amortization of 3G concession	730,707	730,707
Allowance for doubtful accounts	678,231	419,589
Provision (reversal of provision) for loss on decline in value of inventories	(21,920)	3,225
Loss (gain) from sale of financial assets, net	146,194	(42,006)
Equity in investees' net losses	812,892	295,000
Provision for impairment loss	35,017	24,425
Loss on disposal of properties, net	407,782	629,519
Accrued pension cost	31,524	20,841
Deferred income taxes	(179,332)	652,081
Net changes in operating assets and liabilities		
Financial assets held for trading	-	146,512
Accounts and notes receivable	(339,341)	(824,401
Receivables from related parties	(170,482)	28,957
Inventories	(159,907)	298,548
Prepaid expenses	13,561	67,003
Other current assets	(150,911)	(9,069
Notes payable	(3,715)	(46,827
Accounts payable	(53,893)	(148,813
Payables to related parties	141,164	74,954
Income tax payable	608,287	(269,313)
Accrued expenses	(152,807)	555,127
Unearned revenues	153,900	(85,334
Other current liabilities	 (50,530)	 (272,369
Net cash provided by operating activities	 23,409,930	 24,947,470
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(3,820,954)	(2,523,962
Proceeds of the disposal of available-for-sale financial assets	3,500,411	1,680,289
Acquisition of equity-method investments	-	(510,640
Proceeds of the disposal of equity-method investments	-	4,939
Acquisition of financial assets carried at cost	-	(150,000)
Proceeds of the disposal of financial assets carried at cost	87,509	17,378
Acquisition of properties	(7,470,417)	(5,785,911)
Proceeds of the disposal of properties	29,505	35,831
Decrease in refundable deposits	3,616	5,268
Decrease in pledged certificates of deposits	19,971	7,475
Increase in deferred charges	(14,781)	(18,363)
Decrease (increase) in restricted assets	40,813	(113,259)
Decrease (increase) in other assets	 (222)	 574

(Continued)

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in short-term bank loans	\$ 1,420,233	5 \$ 140,259
Increase in commercial paper payable	379,964	
Proceeds of long-term bank loans	200,000	
Repayment of bonds payable	(2,670,000	
Repayment of long-term bank loans	(38,095	, , , , ,
Decrease in guarantee deposits received	(118,008	
Increase in deferred revenue	130,71	
Bonus paid to employees and remuneration paid to directors and supervisors	(314,570	
Cash dividends paid	(10,101,353	, , , ,
Capital reduction	(7,745,320	
Decrease in minority interest	(9,674	
Cash payment due to merger		- (495,855)
Net cash used in financing activities	(18,866,108	<u>3) (15,674,148)</u>
FFECT OF EXCHANGE RATE CHANGES	16,64	<u> </u>
IET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(3,064,086	5) 1,929,807
ASH AND CASH EQUIVALENTS ARISING FROM MERGER	21,64	5 496,860
ASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	10,278,31	3 7,851,646
ASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 7,235,872</u>	<u>\$ 10,278,313</u>
UPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 73,810	) \$ 149,207
Less: Interest capitalized	44,34	
Interest paid, net of capitalized interest	\$ 29,46	
Income tax paid	\$ 3,034,172	
ONCASH INVESTING AND FINANCING ACTIVITIES		
Issuance of common stock to acquire an equity-method investment	\$	- \$ 6,057,442
Current portion of long-term liabilities	\$ 246,489	
Reclassification of properties into rental assets and idle properties	\$	- \$ 20,867
Reclassification of rental assets into properties	\$ 10,692	2 \$ -
Reclassification of idle properties into rental assets	\$	- \$ 24,684
Reclassification of deferred charges into properties		- \$ 2,853
Reclassification of properties into deferred charges	\$ 38,702	
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# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

		2008		2007
CASH PAID FOR ACQUISITION OF PROPERTIES				
Increase in properties	\$	7,806,176	\$	5,519,092
Decrease (increase) in payables for acquisition of properties		(265,299)		226,369
Decrease in lease payables		40,314		40,450
Increase in other current liabilities		(13,634)		-
Increase in other liabilities - other		(97,140)		-
Cash paid for acquisition of properties	<u>\$</u>	7,470,417	<u>\$</u>	5,785,911
PROCEEDS OF THE DISPOSAL OF PROPERTIES				
Total amount of sold properties	\$	42,575	\$	30,936
Decrease in receivables from properties sold		103		9,503
Increase in receivables from related parties		(13,173)		(4,608)
Cash received from the disposal of properties	<u>\$</u>	29,505	\$	35,831

# SUPPLEMENTARY INFORMATION ON SUBSIDIARIES ACQUIRED:

a. In the year ended December 31, 2008, Far EasTone and Far EasTron Holding Ltd. swapped their holdings of Far EasTron's common shares for ADCast Interactive Marketing Co., Ltd.'s ("ADCast") common shares. KG Telecom also bought ADCast's common shares by cash. As a result, the group acquired about 69.08% of ADCast's common stock; the fair value of ADCast's total assets and total liabilities at the time of acquisition was as follows:

Cash and cash equivalents Accounts and notes receivable, net Prepaid expenses Dther current assets Properties, net Goodwill Refundable deposits Deferred charges, net Dther assets Notes payable Accounts payable Accounts payable Accrued expenses Jnearned revenues Dther current liabilities Guarantee deposits received	\$ 22,434 32,673 2,306 4,054 1,725 3,417
Accounts and notes receivable, net Prepaid expenses Other current assets Properties, net Goodwill Refundable deposits Deferred charges, net Other assets Notes payable Accounts payable Accounts payable Accounts payable Accounts payable Accounts payable Accounts payable Accounts payable Duearned revenues Other current liabilities	\$ 32,673 2,306 4,054 1,725
Prepaid expenses Other current assets Properties, net Goodwill Refundable deposits Deferred charges, net Other assets Notes payable Accounts payable Accounts payable Accrued expenses Jnearned revenues Other current liabilities	2,306 4,054 1,725
Other current assets Properties, net Goodwill Refundable deposits Deferred charges, net Other assets Notes payable Accounts payable Accounts payable Accrued expenses Jnearned revenues Other current liabilities	4,054 1,725
Properties, net Goodwill Refundable deposits Deferred charges, net Dther assets Notes payable Accounts payable Accounts payable Accrued expenses Jnearned revenues Dther current liabilities	1,725
Goodwill Refundable deposits Deferred charges, net Dther assets Notes payable Accounts payable Accrued expenses Jnearned revenues Dther current liabilities	-
Refundable deposits Deferred charges, net Dther assets Notes payable Accounts payable Accrued expenses Jnearned revenues Dther current liabilities	3 417
Deferred charges, net Other assets Notes payable Accounts payable Accrued expenses Jnearned revenues Other current liabilities	5,117
Other assets Notes payable Accounts payable Accrued expenses Jnearned revenues Other current liabilities	907
Notes payable Accounts payable Accrued expenses Jnearned revenues Other current liabilities	30
Accounts payable Accrued expenses Jnearned revenues Other current liabilities	1,307
Accrued expenses Jnearned revenues Other current liabilities	(2,674)
Jnearned revenues Dther current liabilities	(8,228)
Other current liabilities	(12,038)
	(865)
Juarantee deposits received	(1,091)
suulaitee deposito received	 (171)
	43,786
Percentage of ownership acquired	 69.08%
	30,248
Goodwill	 1,717
Total acquisition cost of ADCast	\$ 31,965

(Continued)

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars)

Amount Total acquisition cost of ADCast Carrying value of swapped equity-method investments \$ Cash payment \$

b. In July 2007, Far EasTone bought 51% of Q-ware Communications Co., Ltd.'s common stock; the fair value of total assets and total liabilities at the time of acquisition was as follows:

28,313

3,652 31,965

	Amount
Cash and cash equivalents	\$ 496,860
Accounts and notes receivable, net	6,212
Prepaid expenses	3,811
Other current assets	2,601
Properties, net	617,161
Prepayments for equipment	7,174
Refundable deposits	12,498
Accounts payable	(5,457)
Accrued expenses	(15,103)
Unearned revenues	(2,670)
Other current liabilities	(263,066)
Other liabilities	(13,864)
	846,157
Percentage of ownership acquired	51.00%
	431,540
Goodwill	64,315
Cash payment due to merger	<u>\$ 495,855</u>

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

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

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2008 AND 2007

(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, 2008, 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 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 1% 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.

Far EasTone merged with Yuan-Ze Telecommunications Co., Ltd. ("Yuan-Ze Telecom") on May 2, 2005. 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.

On July 26, 2007, the National Communications Commission (NCC) awarded Far EasTone a license to have operations in worldwide interoperability for microwave access (WiMAX) in southern region of Taiwan. On August 30, 2007, Far EasTone paid a guarantee deposit of \$40,000 thousand and a minimum advance payment of \$210,000 thousand for the license fee through a guarantee provided by a bank. On October 1, 2007, Far EasTone got the NCC's permission to start preparations for the construction of WiMAX networks.

Far EasTone and its consolidated subsidiaries (hereinafter referred to as the "Group") had 5,079 and 4,837 employees as of December 31, 2008 and 2007, 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 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 loss on decline in value of inventories, depreciation and amortization, impairment losses on tangible and intangible assets, asset retirement obligation, product warranty reserve, income taxes and pension cost, bonus to employees and remuneration to directors and supervisors. 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, 2008 are shown below:



- a. Entities included in the consolidated financial statements as of and for the years ended December 31, 2008 and 2007 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. On January 1, 2004, 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 with the Ministry of Economics Affairs (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) ARCOA Communication Co., Ltd. ("ARCOA")

ARCOA was incorporated in the ROC on May 4, 1981. 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.

ARCOA's shares have been listed as emerging market stock on the OTC exchange since December 27, 2002. 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, 2008, Far EasTone owned 59.78% of ARCOA's common stock.

<sup>3)</sup> Q-ware Communications Co., Ltd. ("Q-ware Com.")

Q-ware Com. was incorporated on February 13, 2007. It mainly provides Type II telecommunications services. On February 14, 2007, the board of directors of Far EasTone approved a cooperation plan with Q-ware System Inc. ("Q-ware") to operate WiFly and other businesses agreed upon by both Far EasTone and Q-ware. After obtaining the authorities' approval of this agreement, Far EasTone, as a specific person, subscribed for 36,460 thousand newly issued shares (NT\$13.60 per share) of Q-ware Com. for \$495,855 thousand on July 2, 2007. On July 3, 2007, Q-ware spun off its WiFly business, with a net worth of \$349,301 thousand, to Q-ware Com. and received 34,930 thousand new shares of Q-ware Com. for this spin-off. Q-ware Com. got the right to provide WiFly business in Taipei City through this spin-off until September 7, 2013, with an annual fee at 3% of total WiFly revenues. Moreover, the NCC issued to Q-ware Com. a Type II license, allowing it to provide Internet services for three years from 2007 for a fixed annual license fee based on Q-ware Com.'s paid-in capital. After the completion of this spin-off, Far EasTone owned approximately 51% of Q-ware Com.'s common stock and thus became its parent company. Q-ware's revenues and expenses were included in the consolidated financial statements since the acquisition date.

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

KGEx.com was incorporated on August 9, 2000. KGEx.com mainly provides Type II telecommunications services.

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

Yuan Cing was incorporated on August 5, 2000. Yuan Cing provides call center services.

6) Far Eastern Tech-info Ltd. (Shanghai) ("FETI")

FETI was incorporated in the People's Republic of China on November 18, 2002. FETI provides computer software, data processing and Internet content providing services.

7) Far EasTron Co., Ltd. ("Far EasTron") and ADCast Interactive Marketing Co., Ltd. ("ADCast")

Far EasTron was incorporated in the R.O.C. on August 12, 2005. Far EasTron mainly provides Internet content providing services.

To enhance the Group's market share of Internet advertisements and integrate the Group's resources, the stockholders of Far EasTron resolved on April 21, 2008 for Far EasTron to have a share swap with ADCast Interactive Marketing Co., Ltd. ("ADCast"), a subsidiary of New Century Info Comm Tech Co., Ltd., with ADCast as the survivor entity. After ADCast's capital reduction, Far EasTron's stockholders will receive 1 share of ADCast for every 4.8526 shares of Far EasTron. However, in their special meeting on August 29, 2008, Far EasTron's stockholders revised the share swap ratio to 5.4490:1. In addition, Far EasTron's board of directors resolved to have September 3, 2008 as the merger date. The share swap was completed on September 30, 2008 after the related registration with the Taipei City Government. After the share swap, Far EasTone, Far EasTron Holding and KG Telecom owned 69.08% of ADCast's common stock; thus, Far EasTone became ADCast's parent company. ADCast's revenues and expenses were included in the consolidated financial statements since the merger date and Far EasTron's revenues and expenses before the merger date were also included in the consolidated statements.

 E. World (Holdings) Ltd. ("E. World"), Far Eastern Info Service (Holding) Ltd. ("FEIS"), KGT International Holding Co., Ltd. ("KGTI") and Far EasTron Holding Ltd. ("Far EasTron Holding")

E. World, FEIS, KGTI and Far EasTron Holding are primarily investment holding companies.

On May 7, 2008, KGTI's stockholders approved the board of directors' proposal to dissolve KGTI, and on May 27, 2008, the authorities of the British Virgin Islands approved this dissolution. The dissolution was also approved by ROC Investment Commission of the MOEA on August 21, 2008. In addition, KG Telecom recognized this equity-method investment using KGTI's liquidation value.

- b. Except for the financial statements of some immaterial subsidiaries, KGTI (dissolved on May 7, 2008) and Far EasTron (dissolved on September 3, 2008 due to a merger), as of and for the year ended December 31, 2008, all of the financial statements of subsidiaries had been audited.
- 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 statements of Far EasTone and affiliates 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. All other assets such as properties and intangible assets are classified as noncurrent. Current liabilities are obligations held for trading and those 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.

#### Available-for-sale Financial Assets

On initial recognition, available-for-sale financial assets are recorded at fair value plus transaction costs 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. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

Any cash dividends received are recognized as income on the ex-dividend date, except for dividends distributed from the pre-acquisition profit, which are treated as a reduction of investment cost. Stock dividends received are accounted for only as an increase in the number of shares held but are not recognized as investment income. The cost per share is recalculated on the basis of the total number of shares held after stock dividends are received.

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.

Fair value is determined as follows: Publicly traded stocks - at the closing price on the balance sheet date, and mutual funds - at their net asset value on the balance sheet date.

#### **Bonds Carried at Amortized Cost**

Bonds with fixed or determinable payments that are not quoted in an active market are carried at amortized cost. Bonds should be carried at original cost plus transaction cost on initial recognition. Gains or losses are recognized when derecognition, impaired or amortized. All regular way purchases or sales of bonds are recognized and derecognized on a trade date basis.

An impairment loss should be recognized if there is objective evidence that bonds are impaired. The impairment loss is reversed if an increase in the bonds' recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the bonds may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the bonds in prior years.

#### 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 access 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 recharge call 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 cost 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.

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 a review of the collectibility of accounts receivable. The Group assesses the probability of collections of accounts receivable by examining the aging analysis of the outstanding receivables and assessing the value of the collateral provided by customers.

#### **Promotion Expenses**

Commissions and cellular phone equipment subsidy costs 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. Loss 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.

#### **Government Grant**

When received, the government grant is included in the restricted assets and in deferred revenue at the same time. The restricted asset is recognized as cash or cash equivalent when Far EasTone uses the grant under the terms of the related agreement. The deferred revenue is recognized as follows: (1) if the grant is related to depreciable assets, it should be recognized as revenue over the asset economic lives in proportion to the depreciation expenses for these assets; or (2) if the grant is related to income, the grant amount should be deducted from the related expense when the revenue is realized.

#### **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 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 acquisition cost is allocated to the assets acquired and liabilities assumed based on their fair values at the date of acquisition, and the excess of the acquisition cost over the fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. 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 subjected 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.

#### **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, and private domestic mutual funds are carried at cost upon initial recognition. The accounting treatment for dividends on financial assets carried at cost is similar to that for dividends on available-for-sale financial assets.

An impairment loss should be recognized and charged to current income if there is objective evidence that a financial asset is impaired. A reversal of this impairment loss is disallowed.

#### **Properties and Rental Assets**

Properties and rental assets are stated at cost less accumulated depreciation. 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 period 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.

Since November 2008, the Group estimates and capitalizes the costs of dismantling, removing properties and restoring the cellular site on which they are located and to record these costs as properties and accrued asset retirement cost.

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, which are amortized using the straight-line method over the terms of lease and agreements on the rights of software use.

#### **Idle Properties**

Properties not currently used in operations are transferred to idle properties at the lower of net book value or fair value, with difference charged to nonoperating expenses. However, starting on January 1, 2006, based on related regulations, depreciation of idle properties 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 investments) exceeds their recoverable amount, and this impairment loss should be charged to current income. For investees which the Group has significant influence but with no control, the carrying value amount (including goodwill) of each investment is compared with its own recoverable amount for the purpose of impairment testing. For investees which the Group has control, the recoverable amount is accessed under the consideration of taking the consolidated financial statement as a whole. 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.

To test for impairment, goodwill should be allocated to each of the cash-generating units that are expected to benefit from the synergies of the combinations. A cash-generating unit should be tested for impairment at least annually by comparing the carrying amount of the unit with its recoverable amount. If the carrying amount exceeds the recoverable amount of the unit, the impairment loss is allocated to reduce the carrying amount of the unit in the following order: (a) reduce the carrying amount of any goodwill allocated to the unit; and (b) reduce the carrying amounts of other assets of the unit proportionally. A reversal of an impairment loss on goodwill is disallowed.

#### **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, which is included in other current liabilities.

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, Far EasTron, Q-ware Com., and ADCast 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.

#### 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 unappropriated 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

Non-derivative foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange differences arising from settlement of foreign-currency assets and liabilities are recognized in profit or loss.

At the balance sheet date, foreign-currency monetary assets and liabilities are revalued using prevailing exchange rates and the exchange differences are recognized in profit or loss.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates, with the exchange differences treated as follows:

- a. Recognized in stockholders' equity if the changes in fair value are recognized in stockholders' equity;
- b. Recognized in profit and loss if the changes in fair value is recognized in profit or loss.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

If the functional currency of an equity-method investee is a foreign currency, translation adjustments will result from the translation of the investee's financial statements into the reporting currency of the Group. Such adjustments are accumulated and reported as a separate component of stockholders' equity.

The above prevailing exchange rates are based on the average of bid and ask rates of principal correspondent banks.

#### 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 Far EasTone 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.

Far EasTone uses interest rate swaps to hedge cash flow risks from interest rate fluctuations of liabilities.

# Reclassifications

Certain accounts in the consolidated financial statements as of and for the year ended December 31, 2007 have been reclassified to be consistent with the presentation of the consolidated financial statements as of and for the year ended December 31, 2008.

# 3. PRO FORMA FINANCIAL INFORMATION

The following pro forma financial information presents the combined balance sheets and statements of income of the Group as of and for the years ended December 31, 2008 and 2007, respectively. The pro forma financial information based on the assumption that Far EasTone acquired the majority interest of ADCast on January 1, 2008 and 2007 is as follows:

#### (In Thousands, Except EPS)

	 Years Ended December 31			
	2008		2007	
Current assets	\$ 18,022,193	\$	20,859,114	
Properties, net	45,428,447		48,929,392	
Current liabilities	15,238,511		15,138,172	
Operating revenue	62,536,014		64,066,905	
Income before income tax	13,322,245		14,558,392	
Net income	10,020,424		11,417,786	
EPS	3.09		3.00	

The pro forma combined balance sheets and statements of income 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 acquired the majority interest of ADCast on January 1, 2008 and 2007, nor is it necessarily indicative of future financial position or results of operations of the Group.

# 4. CHANGE IN ACCOUNTING PRINCIPLE

In March 2007, the Accounting Research and Development Foundation (ARDF) issued Interpretation No. 2007-052 that requires companies to recognize bonuses to employees and remunerations to directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses and remunerations were previously recorded as appropriations from earnings. This accounting change resulted in a decrease of \$205,266 thousand in combined income attributable to controlling interest and a decrease of NT\$0.06 in basic earnings per share after income tax for the year ended December 31, 2008.

# 5. CASH AND CASH EQUIVALENTS

	 December 31			
	2008		2007	
Cash				
Cash on hand	\$ 7,086	\$	6,540	
Checking deposits	10,003		92,724	
Demand deposits	891,629		1,014,72	
Certificates of deposits - interest of 1.00%-2.71% in 2008 and				
1.965%-4.87% in 2007	 2,483,961		811,602	
	 3,392,679		1,925,587	
Cash equivalents				
Commercial paper purchased under resell agreements - interest of				
0.50%-1.30% in 2008 and 1.91%-2.00% in 2007	3,753,173		6,026,820	
Bonds purchased under resell agreements - interest of 0.50%-0.60% in				
2008 and 1.625%-1.92% in 2007	 90,020		2,325,90	
	 3,843,193		8,352,720	
	\$ 7,235,872	\$	10,278,31	

As of December 31, 2008 and 2007, foreign demand deposits were as follows:

	 December 31		
	2008		2007
Belgium (US\$752 thousand in 2008 and US\$516 thousand in 2007)	\$ 24,666	\$	16,73
Hong Kong (US\$10 thousand in 2008 and US\$16 thousand in 2007)	328		51
	\$ 24,994	\$	17.25

#### 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

		December 31		
		2008		2007
Domestic quoted stocks Open-ended mutual funds	\$	316,751 1,429,016	\$	293,282 1,328,138
	<u></u>	1,745,767	¢	1.621.420

# 7. BONDS CARRIED AT AMORTIZED COST - CURRENT

December 31 2008 200		
3 2	2007	
00 \$	3,000	
,0	<u>8,000</u> <u>\$</u>	

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.

# 8. ACCOUNTS AND NOTES RECEIVABLE, NET

		Dec	r 31	
		2008		2007
Accounts and notes receivable Less: Allowance for doubtful accounts	\$	7,047,646 (866,639)	\$	7,427,410 (920,509)
	<u>\$</u>	6,181,007	<u>\$</u>	6,506,901

The change in allowance for doubtful accounts was as follows:

			Years Ende	ed D	ecember 31		
		2008			2	007	,
	.ccounts eceivable	(In Oth	Other eceivables acluded in er Current Assets)	1	Accounts Receivable	(.	Other Receivables Included in ther Current Assets)
Beginning balance	\$ 920,509	\$	2,090	\$	1,334,622	\$	-
Deduct: Bad debts written off	(1,018,546)		-		(1,078,745)		-
Add: Acquired from ADCast	135		-		-		-
Collection after write-off	286,310		-		247,133		-
Accrual of bad debt expenses	 678,231				417,499		2,090
	\$ 866,639	\$	2,090	\$	920,509	\$	2,090

# 9. INVENTORIES, NET

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		December 31			
		2008		2007	
Cellular phone equipment	\$	713,017	\$	594,074	
SIM cards and prepaid cards		37,929		34,328	
Cellular phone accessories		36,428		38,215	
Others		123,291		84,141	
		910,665		750,758	
Less: Allowance for losses		57,998		79,918	
	<u>\$</u>	852,667	\$	670,840	
# 10. EQUITY-METHOD INVESTMENTS

			Dec	emb	er 31	
		20	08		20	07
			% of			% of
	(	Carrying	Owner-		Carrying	Owner-
		Value	ship		Value	ship
non stocks with no quoted market prices						
ew Century InfoComm Tech Co., Ltd.	\$	5,490,024	24.51	\$	6,062,000	24.51
Eastern Electronic Toll Collection Co., Ltd.		408,729	41.18		644,856	41.18
creen Corporation		28,765	40.00		26,534	40.00
ng Ding Integrated Marketing Service Co., Ltd.		5,744	15.00		17,300	15.00

#### a. New Century InfoComm Tech Co., Ltd. (NCIC)

Far EasTone issued 100,637,444 and 59,732,926 common shares to exchange for 615,178,755 and 365,136,728, respectively, of NCIC's common shares after NCIC's capital reduction from Infocom Holding Company Pte Ltd. and SingTel Taiwan Limited on December 31, 2007 (the record date of the share swap). The ratio for this share swap was 1:6.11282174. The share swap was approved by the Financial Supervisory Commission under the Executive Yuan on December 26, 2007 and registered with the MOEA on January 14, 2008. After the share swap, Far EasTone acquired about 24.51% of NCIC's issued shares.

b. Far Eastern Electronic Toll Collection Co., Ltd. (FETC)

On February 26, 2004, Far Eastern Electronic Toll Collection Co. was selected by the Taiwan Area National Freeway Bureau (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 the related negotiations and signed the project contract.

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 promotion of public interest and stripped FETC of its "best qualified candidate" status. In response to the verdict, the TANFB announced a second bidding for the ETC project. On April 14, 2007, TANFB announced that FETC was again the best qualified candidate. FETC then completed the ETC project negotiations and on August 22, 2007, signed the project contract with a term of 18 years and 4 months with TANFB.

c. Equity in investees' net gains or losses

Equity in investees' net gains (losses) consisted of:

				Years Er	nded	December 31		
			200	8			200	7
	Ne	t Gain (Loss)	Eq	luity in Net	Net	t Gain (Loss)	Ec	quity in Net
	of	the Investee	G	ain (Loss)	of	the Investee	G	ain (Loss)
New Century InfoComm Tech Co., Ltd.	\$	(2,800,811)	\$	(567,440)	\$	(235,630)	\$	-
Far Eastern Electronic Toll Collection Co., Ltd.		(594,577)		(236,127)		(717,513)		(291,046)
iScreen Corporation		5,362		2,231		13,928		5,536
Ding Ding Integrated Marketing Services Co., Ltd.		(91,562)		(11,556)		(55,304)		(9,490)
			<u>\$</u>	(812,892)			\$	(295,000)

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%.

### d. Changes in the difference between investment cost and the investees' net assets

For the years ended December 31, 2008 and 2007, the changes in the difference between investment cost and the Group's equity in its investees' net assets were as follows:

	Dece	ember 31
	2008 Amortizable Assets	2007 Amortizable Assets
Beginning balance Increase	\$ (924,029)	\$ - (924,029)
	115,356	
	<u>\$ (808,673</u> )	<u>\$ (924,029</u> )

## 11. FINANCIAL ASSETS CARRIED AT COST - NONCURRENT

Domestic unlisted common stock THI Consultants Inc.	2008	2007
THI Consultants Inc.		
	\$ 13,729	\$ 13,729
VIBO Telecom Inc.	8,400	20,000
Chunghwa Int'l Communication Network Co., Ltd.	6,714	6,714
Web Point Co., Ltd.	1,618	1,618
Domestic private fund		
Fuh Hwa Value Added Strategy Fund	150,000	150,000
FEA Long-Short Private Placement Fund	 -	 100,000

The above equity and fund investments, which had no quoted prices in an active market and of which fair values could not be realizably measured, were carried at cost.

# **12. PROPERTIES**

a. Changes in properties consisted of:

						Year	En	ded December		2008			
				Movement								mulativa	
		Beginning Balance		Addition		Sale or Disposal	R	eclassification		classification Other Assets	Tr	anslation	Ending Balance
Cost						r						J	
Land	\$	1,467,746	\$	-	\$	-	\$	5,842	\$	-	\$	- \$	1,473,588
Buildings and equipment		2.888.046		7,571		181		40.225					2,935,661
Operating equipment		102,139,535		121,179		1,438,081		5,362,323		-		-	106,184,956
Computer equipment		14,960,798		7,689		100,450		1,030,077		-		1,885	15,899,999
Office equipment		1,001,385		93		16,503		4,603		-		9,226	998,804
Leasehold improvements		1,709,137		57		29,554		57,347		-		-	1,736,987
Miscellaneous equipment		497,949		118,485		8,670		(173)		-		-	607,591
		124,664,596	\$	255.074	\$	1.593.439	\$	6.500.244	\$	-	\$	11.111	129,837,586
Accumulated depreciation			_		_		-						
Buildings and equipment		903,859	\$	115,819	\$	114	\$	613	\$	-	\$	-	1,020,177
Operating equipment		64,537,629		9,005,935		1,099,100		511		-		-	72,444,975
Computer equipment		11,870,126		1,471,348		86,891		(52)		-		1,290	13,255,821
Office equipment		843,637		40,571		11,008		-		-		7,093	880,293
Leasehold improvements		1,268,266		130,227		17,731		-		-		-	1,380,762
Miscellaneous equipment		248,021		68,625		8,553		(459)		-		-	307,634
		79,671,538	\$	10,832,525	\$	1,223,397	\$	613	\$	-	\$	8,383	89,289,662
		44,993,058									-		40,547,924
Construction-in-progress and prepayments for equipment		3,935,609	\$	7,552,870	\$	80,315	\$	(6,488,939)	\$	(38,702)	<u>\$</u>		4,880,523
	<u>\$</u>	48,928,667										<u>\$</u>	45,428,447

		_					Movement					
_	Beginning Balance		Addition		Sale or Disposal	Re	eclassification		classification Other Assets	1	Cumulative Translation djustments	Ending Balance
Cost												
Land	\$ 1,490,772	\$		\$	2,255	\$	-	\$	(20,771)	\$	- \$	1,467,746
Buildings and equipment	2,872,605		3,994		4,785		16,377		(145)		-	2,888,046
Operating equipment	98,300,808		804,251		1,291,988		4,325,759		705		-	102,139,535
Computer equipment	14,009,777		17,283		69,811		1,002,235		(48)		1,362	14,960,798
Office equipment	920,912		6,679		32,916		100,197		-		6,513	1,001,385
Leasehold improvements	1,715,118		6,036		65,725		53,708		-		-	1,709,137
Miscellaneous equipment	519,129		8,481		35,533		2,767		3,105	_		497,949
	119,829,121	\$	846,724	\$	1,503,013	\$	5,501,043	\$	(17,154)	\$	7,875	124,664,596
Accumulated depreciation												
Buildings and equipment	774,271	\$	129,952	\$	313	\$	-	\$	(51)	\$	-	903,859
Operating equipment	55,859,580		9,469,706		792,362		-		705		-	64,537,629
Computer equipment	10,486,141		1,434,654		51,377		-		-		708	11,870,126
Office equipment	791,643		80,745		32,857		-		-		4,106	843,637
Leasehold improvements	1,148,623		160,587		40,944		-		-		-	1,268,266
Miscellaneous equipment	192,580		68,923	_	13,991				509			248,021
	69,252,838	\$	11,344,567	\$	931,844	\$		\$	1,163	\$	4,814	79,671,538
	50,576,283											44,993,058
Construction in process and advances for acquisition of	4,089,508	\$	5,447,532	\$	89,269	\$	(5,501,043)	\$	(11,119)	¢		3,935,609
equipment	<u>\$ 54,665,791</u>	φ	<u></u>	φ	<u> </u>	<u>\$</u>	(3,301,043)	Ψ	<u>(11,119</u> )	Ψ	<u> </u>	48,928,667

Year Ended December 31, 2007

In November 2008, the ARDF issued Interpretation No. 2008-340 that required the Group to estimate and to capitalize the costs of dismantling and removing properties and restoring the cellular site on which they are located and to record the costs as properties and accrued asset retirement cost. This accounting change resulted in an increase in properties of NT\$110,774 thousand as of December 31, 2008; however, the adoption had no significant influence in the current year's income.

b. Capitalized interest on properties was as follows:

		Years End	ed D	ecember 31
		2008		2007
Total interest expense Less: Interest capitalized (included in construction-in-process and	\$	67,011	\$	87,486
prepayments for equipment)		44,347		45,880
Interest expense, net of amounts capitalized	<u>\$</u>	22,664	\$	41,606
Interest rate capitalized	1.56	%-2.39%		1.56%-2.29%

### 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.

In conformity with SFAS No. 35 - "Accounting for Asset Impairment," the Group was divided into several identifiable cash-generating units: To enhance the operating effectiveness, the Group integrated its telecommunications resources actively in 2008. Thus, in 2008, the identifiable cash-generating units were defined as mobile telecommunications service business, telecommunication equipment business and WiFly business, which were divided by distinct business functions. In 2007, the identifiable cash-generating units were defined as Far EasTone, KG Telecom, ARCOA and Q-ware Com.

On December 31, 2008 and 2007, the carrying values of the tangible and intangible assets used by the Group were \$63,927,354 thousand and \$68,221,128 thousand, respectively. The Group's management estimated the recoverable amounts of core assets at their expected useful lives and thus based the cash flow forecast with discount rates of 12.64% (mobile telecommunications service business), 16.88% (telecommunication equipment business) and 10.00% (WiFly business) on December 31, 2008 and 13.38% (Far EasTone), 14.48% (KG Telecom), 15.60% (ARCOA) and 10.00% (Q-ware Com.) on December 31, 2007. The operating revenue forecast was based on the expected future growth rate of the telecom industry along with the prospective advancement of the business.

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

- a. Expected future growth rate of each business
  - 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.
  - Business of telecommunication equipment: Based on past experience, plans and the trend in the overall market, the anticipated growth rate is expected to decrease gradually.
  - WiFly business: Based on present experience and the demand of WiFly, the growth rate is expected to be stable.
- b. Expected ratio of service EBITDA (earnings before interest, taxes, depreciation and amortization) to operating revenue: The ratio was around 50% in 2008 and 2007; this ratio is expected to decrease slightly in future years.

Estimated impairment losses of \$20,000 thousand for 2008 and \$10,211 thousand for 2007 were recorded, respectively.

# 14. INTANGIBLE ASSETS - 3G CONCESSION, NET

	Years Ended December 3	1
	2008 2007	r
Cost	<u>\$ 10,169,000</u> <u>\$ 10,169,</u>	000
Accumulated amortization		
Beginning balance	2,131,228 1,400,	521
Amortization	730,707 730.	707
Ending balance	2,861,935 2,131,	228
Intangible assets, net	<u>\$ 7.307,065</u> <u>\$ 8,037;</u>	772

### 15. RENTAL ASSETS, NET

			Y	ears Ended	December 3	1		
			2008			20	07	
	Beginning Balance	Addition	Reclassification	Ending Balance	Beginning Balance	Addition	Reclassification	Ending Balance
Cost								
Land	\$ 130,631	\$-	\$ (5,842)	\$ 124,789	\$ 105,366	\$-	\$ 25,265	\$ 130,631
Buildings and equipment	<u>113,260</u> 243,891		<u>(5,463</u> ) \$ (11,305)	<u>107,797</u> 232,586	<u>100,136</u> 205,502	<u> </u>	<u> </u>	<u>113,260</u> 243,891
Accumulated depreciation Buildings and		<u>*</u>						
equipment	12,355	\$ 2,277	\$ (613)	14,019	7,493	\$ 2,139	\$ 2,723	12,355
111	231,536	<u> </u>	/	218,567	198.009	· · · · ·	· ·····	231,536
Accumulated impairment	5,770	<u>\$</u>	<u>\$</u>	5,770	,	<u>\$</u>	<u>\$ 5,770</u>	5,770
Rental assets, net	<u>\$ 225,766</u>			<u>\$ 212,797</u>	<u>\$ 198,009</u>			<u>\$ 225,766</u>

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 December 2011 (ARCOA), respectively. Future rental income is summarized as follows:

Year	Amount
2009	\$ 12,296
2010	12,458
2011	9,204
2012	2,271
2013	379

# 16. SHORT-TERM BANK LOANS

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		Decem	ber 31
		2008	2007
Secured bank loans - interest of 2.29%-2.42% in 2008 and 2.965% in 2007	\$	433,500	\$ 224,000
Unsecured bank loans - interest of 1.95%-4.19% in 2008 and 2.64% in 2007		1,255,950	45,215
	<u>\$</u>	1,689,450	\$ 269,215

## **17. COMMERCIAL PAPER PAYABLE**

Far EasTone issued the commercial paper and Q-ware Com. issued the commercial paper guaranteed by the financial institution, which were discounted at interest rate of 1.838% and 2.900%, respectively, and were fully repaid on January 16, 2009.

### **18. ACCRUED EXPENSES**

	 Decer	nber	31
	2008		2007
Commission	\$ 1,458,616	\$	1,644,231
Bonus	557,748		467,684
Bonus to employees and remuneration to directors and supervisors	273,688		-
Advertisement	149,150		144,357
Maintenance fee	141,295		209,948
Utilities	119,216		154,568
Billing processing fee	77,509		60,017
Other	 723,029		954,332
	\$ 3.500.251	\$	3.635.137

### **19. BONDS PAYABLE**

		December 31, 2007						
	Due Within One Year			Due After One Year			Total	
Bonds payable Domestic unsecured bonds - 2nd - Far EasTone Domestic unsecured bonds - 3rd - Far EasTone			70,000 00,000	\$		-	\$	1,470,000 1,200,000
		\$ 2,6	<u>70,000</u>	\$		-	\$	2,670,000

#### a. Domestic unsecured bonds - 2nd - Far EasTone

These are five-year unsecured domestic bonds issued at par value from March 28, 2003 to April 3, 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 already repaid all of the bonds payable by April 3, 2008.

### b. 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 all of the bonds payable by December 18, 2008.

#### 20. LONG-TERM BANK LOANS

	_	December 31, 2008				
		Due Within One Year		Due After One Year		Total
Secured bank loan - KGEx.com Unsecured bank loan - Q-ware Com.	\$	38,095 200,000	\$	19,048	\$	57,143 200,000
	\$	238,095	\$	19,048	\$	257,143

		December 31, 2007			
		Within e Year	Due After One Year	Total	
Secured bank loan - KGEx.com	<u>\$</u>	38,095	<u>\$ 57,143</u>	<u>\$ 95,238</u>	

a. Secured bank loan - KGEx.com

KGEx.com obtained a secured bank loan at interest rates of 2.54% in 2008 and 2.85% in 2007, 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 loan - Q-ware Com.

Q-ware Com. obtained an unsecured bank loan at interest rates of 3.15% in 2008, payable monthly. Q-ware Com. should repay the full amount on loan maturity by December 2008.

## 21. LEASE PAYABLE

		December 31			
		2008	2007		
Total future lease payments	\$	19,406 \$	62,412		
Less: Imputed interest expense		2,652	5,344		
		16,754	57,068		
Less: Current portion of lease payable		8,394	40,314		
Lease payable - noncurrent	<u>\$</u>	<u>8,360</u> <u>\$</u>	16,754		

The contracts of capital lease were summarized as follows:

			<u>Rental</u> Years I Decem	Ended
Lessor	Properties	Payment Terms	2008	2007
Far Eastern International Leasing Corp Far EasTone	Computer equipment	July 2004-June 2009 \$15,414 thousand annually	\$15,414	\$15,414
Far Eastern International Leasing Corp Far EasTone	Computer equipment	March 2006-February 2011 \$5,063 thousand annually	5,063	5,063
Far Eastern International Leasing Corp KG Telecom	Computer equipment	July 2004-June 2009 \$15,414 thousand annually	15,414	15,414
Far Eastern International Leasing Corp KG Telecom	Computer equipment	March 2006-February 2011 \$5,063 thousand annually	5,063	5,063
Far Eastern International Leasing Corp KGEx.com	Office equipment	November 2005-October 2008 \$16 thousand monthly	160	192
Far Eastern International Leasing Corp KGEx.com	Office equipment	September 2006-August 2009 \$5 thousand monthly	60	60
Taiwan Telecommunication Network Services Co., Ltd KGEx.com	Computer equipment	July 2005-June 2008 \$55 thousand monthly	330	660

## <u>\$41,504</u> <u>\$41,866</u>

### 22. PENSION PLAN

- a. The pension plan under the Labor Pension Act (LPA) is a defined contribution plan. Based on the LPA, rate of monthly contributions by Far EasTone, KG Telecom, KGEx.com, ARCOA, Yuan Cing, Far EasTron, Q-ware Com. and ADCast 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 \$138,827 thousand and \$157,654 thousand for the years ended December 31, 2008 and 2007, respectively. FETI, under its government's regulations, had recognized pension costs of \$3,378 thousand and \$4,256 thousand for the years ended December 31, 2008 and 2007, respectively.
- b. 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 Bank of Taiwan (the Central Trust of China merged with the Bank of Taiwan in July 2007, with the Bank of Taiwan as the survivor entity).

#### c. Information about the defined benefit pension plan was as follows:

1) Net pension cost consisted of:

		Years Ended December 3			
		2008		2007	
Service cost	\$	31,659	\$	31,103	
Interest cost		35,721		29,785	
Expected return on plan assets		(15,483)		(12,994)	
Amortization of net transition obligation		1,128		1,333	
Amortization of unrecognized pension loss		12,762		11,209	
Net pension cost	<u>\$</u>	65,787	\$	60,436	

2) Reconciliation of the funded status of the plan and accrued pension cost was as follows:

		Decer	nber	31
		2008		2007
Benefit obligation				
Vested benefit obligation	\$	5,605	\$	6,016
Non-vested benefit obligation		645,232		631,500
Accumulated benefit obligation		650,837		637,516
Additional benefits based on projected and future salaries		639,283		553,091
Projected benefit obligation		1,290,120		1,190,607
Fair value of plan assets		(545,450)		(495,282)
Funded status		744,670		695,325
Unrecognized net transition obligation		(803)		(2,136)
Unrecognized pension loss		(407,000)		(387,624)
Included in prepaid pension cost		9,461		9,239
Accrued pension cost	<u>\$</u>	346,328	\$	314,804
Vested benefit	<u>\$</u>	7,752	\$	7,465
	<u>*</u>	.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	-	7,10

<sup>3)</sup> Actuarial assumptions were as follows:

	Dece	December 31			
	2008	2007			
Discount rate used in determining present value	2.25%-2.75%	3.00%-3.25%			
Rate of future salary increase	1.00%-3.50%	2.00%-3.50%			
Expected rate of return on plan assets	2.25%-2.75%	3.00%-3.25%			

### 23. STOCKHOLDERS' EQUITY

#### a. Capital surplus

Under government regulations, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (additional paid-in capital from issuance of common shares and that arising from business combination) may be capitalized, which however is limited to a certain percentage of Far EasTone's paid-in capital. Also, the capital surplus from long-term investments may not be used for any purpose.

#### 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 bonus 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.

The bonus to employees of NT\$182,459 thousand and the remuneration to directors and supervisors of NT\$91,229 thousand, which representing 2% and 1% of net income (net of the bonus to employees and remuneration to directors and supervisors) less 10% legal reserve and special reserve, respectively, was recognized for the year ended December 31, 2008. The amounts were estimated based on past experiences. If the actual amounts subsequently resolved by the stockholders differ from the proposed amounts, the differences are recorded in the year of the stockholders' resolution as a change in accounting estimate. If bonus shares are resolved to be distributed to employees, the number of shares is determined by dividing the amount of bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day preceding the stockholders' meeting.

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.

Legal reserve shall be appropriated until it has reached Far EasTone's paid-in capital. This reserve may be used to offset a deficit. When the legal reserve has reached 50% of the Far EasTone's paid-in capital, up to 50% thereof may be transferred to paid-in capital.

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 2007 and 2006 earnings were approved by Far EasTone's stockholders on June 5, 2008 and June 12, 2007, respectively.

	 Appropriation and Distribution			Dividend Per Share (Dollars)			
	2007		2006		2007		2006
Legal reserve	\$ 1,161,944	\$	1,315,623				
Special reserve	(44,832)		44,832				
Bonus to employees - cash	210,047		235,915				
Remuneration to directors and supervisors	105,023		117,958				
Cash dividend	10,101,353		12,005,255	\$	3.10	\$	3.10

There was no difference in the appropriation and distribution of the 2007 and 2006 earnings proposed by the board of directors on April 22, 2008 and April 19, 2007, respectively, and those resolved by the stockholders. Had the above bonus to employees and directors been charged to net income in 2007 and 2006, the basic earnings per share for 2007 and 2006 (after tax), based on the weighted-average number of outstanding shares would have decreased from NT\$3.00 to NT\$2.92 and from NT\$3.40 to NT\$3.31, respectively. As of December 31, 2008, directors and supervisors' remuneration of \$500 thousand of Far EasTone had been included in other current liabilities.

Information on the bonus to employees, and remuneration to directors and supervisors can be accessed through the Market Observation Post System website of the Taiwan Stock Exchange Corporation's website.

#### c. Global depositary receipts

Far EasTone's Global Depositary Receipts (GDRs) as of December 31, 2008 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
Net decrease due to capital increase or capital reduction	3)	(362)	(5,426)
Reissued within authorized units	4)	21,723	325,838
GDRs transferred to common stock	,	(29,455)	(441,832)
Outstanding GDRs issued		2,071	31,053

- 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, 2008, 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. Furthermore, in 2008, Far EasTone cancelled 658 thousand units of GDRs as a result of its capital reduction. These GDRs represent 9,874 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 re-issuance is allowed up to the aggregate amount previously approved by the SFB. Thus, as of December 31, 2008, Far EasTone had reissued 21,723 thousand units of GDRs representing 325,838 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.
- d. Capital reduction

To enhance the return of stockholders' equities, Far EasTone's board of directors proposed on April 30, 2007 to reduce capital by returning \$7,745,326 thousand in cash to stockholders and decreasing common stock by 774,532 thousand shares. The capital reduction was approved by the stockholders' meeting on June 12, 2007. The capital reduction ratio was 19.204715% and the cash return per share was around NT\$1.9204715. Paid-in capital after the capital reduction was \$32,585,008 thousand. Far EasTone's board of directors resolved January 15, 2008 as the record date of the capital reduction. On January 22, 2008, this capital reduction was registered with the MOEA. The authority also approved March 17, 2008 as the share exchange date of the capital reduction. The foregoing payable amounts due to the capital reduction were fully paid on March 28, 2008.

e. Cumulative translation adjustments

Cumulative translation adjustments for the years ended December 31, 2008 and 2007 were summarized as follows:

		Years Ended December 31		
		2008	2007	
Difference due to translation of foreign-currency financial statements				
Beginning balance	\$	11,826 \$	4,960	
Recorded as adjustment under stockholders' equity		16,638	6,866	
	<u>\$</u>	28,464 \$	11,826	

### f. Unrealized gains and losses on financial instruments

Unrealized gains and losses on financial instruments for the years ended December 31, 2008 and 2007 were summarized as follows:

Year ended December 31, 2008	Recognized from Equity- Unrealized Gain method (Loss) on Cash Investments Flow Hedge Total	
Beginning balance Recorded as adjustments to stockholders' equity Recognized as profit or loss	\$ 19,510 \$ (16,201) \$ 3,30 (69,714) 3,209 (66,50 - 12,992 12,99	05)
Ending balance	<u>\$ (50,204)</u> <u>\$ - \$ (50,204</u> )	<u>04</u> )
Year ended December 31, 2007		
Beginning balance Recorded as adjustments to stockholders' equity Recognized as profit or loss	\$ (174) \$ (49,618) \$ (49,79 19,684 (8,183) 11,50 - 41,600 41,60	01
Ending balance	<u>\$ 19,510</u> <u>\$ (16,201)</u> <u>\$ 3,30</u>	09

# 24. INCOME TAX

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

		Years Ende	d De	cember 31
		2008		2007
Income tax expense computed at statutory tax (25% to 33%)	\$	3,635,696	\$	4,664,838
Add (deduct) tax effects of:				
Permanent differences				
Tax-exempt income		-		(443,752)
Equity in investees' net gains		(253,841)		(821,718)
Other		99,844		(184,739)
Temporary differences		179,332		(652,081)
Loss carryforwards used		(12,965)		(308)
Investment tax credits used		(160,392)		(79,171)
Unappropriated earnings tax (10%)		8,596		
Income tax payable - current		3,496,270		2,483,069
Income tax expense on income subject to a separate rate of 20%		20,943		33,306
Prior year's adjustment	—	(36,060)	_	(27,850)
Income tax expense - current	<u>\$</u>	3,481,153	\$	2,488,525

Far EasTone's 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.

b. Income tax expense consisted of:

		Years Ended December 31					
		2008		2007			
Income tax expense - current Income tax expense - deferred	\$	3,481,153	\$	2,488,525			
Temporary differences		(179,332)		652,081			
	<u>\$</u>	3,301,821	\$	3,140,606			

E. World, Far EasTron Holding, FEIS and KGTI were incorporated in Cayman Islands, Bermuda Islands and British Virgin Islands, respectively, where their incomes are tax-exempt.

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

		December 31			
		2008		2007	
Current					
Deferred income tax assets					
Allowance for doubtful accounts	\$	715,982	\$	736,755	
Provision for losses on decline in value of inventories		13,762		18,767	
Investment tax credits		6,773		26,841	
Loss carryforwards		-		53,341	
Unrealized loss on financial instruments		-		5,400	
Other		39,364		29,181	
		775,881		870,285	
Less: Valuation allowance		37,263		112,602	
	<u>\$</u>	738,618	<u>\$</u>	757,683	
Noncurrent					
Deferred income tax assets					
Loss carryforwards	\$	533,975	\$	390,865	
Equity in investees' net losses		713,071		44,386	
Impairment loss on idle properties		144,334		217,021	
Accrued pension cost		89,754		88,226	
Depreciation resulting from the differences in estimated service					
lives of properties		36,269		36,119	
Investment tax credits		3,192		1,110	
Impairment loss on financial assets		3,372		3,372	
Other		21,966		1,383	
		1,545,933		782,482	
Less: Valuation allowance		984,962		611,423	
		560,971		171,059	
Deferred income tax liabilities					
Goodwill amortization		(592,416)		(395,501	
	<u>\$</u>	(31,445)	\$	(224,442)	

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

# d. Integrated income tax information was as follows:

		December 31				
		2008 2007				
Balance of imputation credit account (ICA)						
Far EasTone	<u>\$</u>	264,186	<u>\$ 201,975</u>			
KG Telecom	<u>\$</u>	6,781	<u>\$ 9,856</u>			
ARCOA	<u>\$</u>	12,584	<u>\$ 11,595</u>			

Estimated ratio of the ICA balance for Far EasTone as of December 31, 2008 to unappropriated earnings as of such date was 2.36%. When the dividends from the unappropriated earnings as of December 31, 2007 were distributed in 2008, the actual ratio Far EasTone used was 25.53%.

Estimated ratio of the ICA balance for KG Telecom as of December 31, 2008 to unappropriated earnings as of such date was 0.67 %. When the dividends from the unappropriated earnings as of December 31, 2007 were distributed in 2008, the actual ratio KG Telecom used was 0.62%.

ARCOA, Yuan Cing, KGEx.com, Q-ware Com. and ADCast had no appropriated earnings as of December 31, 2008. Thus, their ICA balances will be accumulated until dividend distribution in the future.

Based on the Income Tax Law, the imputation tax credits distributed to each stockholder are based on the ICA balance as of the date of dividend distribution. Thus, the estimated creditable ratio for the 2008 earnings appropriation may be adjusted when the imputation credits are distributed. While the distribution ratio for the 2007 earnings appropriation had been determined, the actual ratio was disclosed.

e. Investment tax credits are as follows:

The unused investment tax credits of the Group as of December 31, 2008 are summarized as follows:

<u>ARCOA</u>

Regulatory Basis of Tax Credits	Items	T Inve Tax (	ısed tment Credits	Expiry Year		
Statute for Upgrading Industries	Personnel training expenses	\$	623	\$	623	2009
	Personnel training expenses		487		487	2010
	Personnel training expenses		420		420	2011
	Purchase of automated equipment or technology		115		115	2012

ADCast

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	<u>\$ 264</u>	<u>\$</u>	2010

#### Q-ware Com.

			Fotal	U	nused	
		Inv	estment	Inv	estment	Expiry
Regulatory Basis of Tax Credits	Items	Tax	Credits	Tax	Credits	Year
Statute for Upgrading Industries	Purchase of automated equipment or technology	\$	6,150	\$	6,150	2009
	Purchase of automated equipment of technology		1,642		1,642	2010
	Purchase of automated equipment or technology		526		526	2012
		\$	8,318	\$	8.318	

f. The unused loss carryforwards of ARCOA, KGEx.com, Q-ware Com. and ADCast as of December 31, 2008 are as follows:

Year	Tot Credit Amo	able	Cr	maining editable mount	Expiry Year
2003	\$	53,452	\$	53,452	2013
2004	-	2,907		72,907	2014
2005	(	5,165		65,165	2015
2006	10	06,190		106,190	2016
2007	13	30,680		130,680	2017
2008	1(	05,581		105,581	2018
	<u>\$ 53</u>	33,975	\$	533,975	

g. Status of income tax returns are as follows:

Income tax returns through 2004 of Far EasTone had been examined by the tax authorities. However, Far EasTone disagreed with the tax authorities' assessment of its 2000 to 2004 returns. Thus, Far EasTone filed appeals for the reexamination of its 2000 to 2004 returns. Nevertheless, Far EasTone accrued the related tax.

Income tax returns through 2003 of KG Telecom and the former KG Telecom had been examined by the tax authorities. However, KG Telecom disagreed with the tax authorities' assessment of the former KG Telecom's 2000 to 2003 returns and thus filed appeals for the reexamination of these returns. Nevertheless, KG Telecom accrued the related tax.

Income tax returns through 2006 of ARCOA had been examined by the tax authorities. However, ARCOA disagreed with tax authorities' assessment of its 2002 to 2004 returns and thus filed appeals for reexamination of these returns. Nevertheless, ARCOA accrued the related tax.

Income tax returns through 2007 of Far EasTron had been examined and cleared by the tax authorities. Income tax returns of Yuan Cing, KGEx.com and ADCast through 2006 had been examined and cleared by the tax authorities. Income tax return of Q-ware Com. in 2007 had not been examined and cleared by the tax authorities.

# 25. FACTORING OF NONPERFORMING ACCOUNTS RECEIVABLE

Far EasTone and KG Telecom wrote off certain overdue/nonperforming accounts receivables. Under agreements signed in March 2007, Far EasTone and KG Telecom factored these receivables, i.e. sold them without recourse to an asset management company. Thus, Far EasTone and KG Telecom were no longer responsible for collecting these receivables.

Related information for the year ended December 31, 2007 was as follows:

Counter Party	Amount of Factored Accounts Receivable	Proceeds of the Factoring of Accounts Receivable
Year ended December 31, 2007		
Hui Cheng First Asset Management Co., Ltd.		
- Far EasTone	\$ 1,158,871	\$ 26,979
Hui Cheng First Asset Management Co., Ltd.		
- KG Telecom	1,864,698	29,285
	<u>\$ 3,023,569</u>	<u>\$ 56,264</u>

# 26. EMPLOYEE, DEPRECIATION AND AMORTIZATION EXPENSES

				Year E	nde	d December 31,	2008			
	0	perating Costs		Operating Expenses	ľ	Nonoperating Expenses and Losses	of C C	eductions Operating Costs or Xpenses		Total
Employee expenses										
Salaries	\$	677,990	\$	2,335,847	\$	-	\$	77,711	\$	3,091,548
Pension		65,166		136,079		-		6,747		207,992
Meal		16,872		75,287		-		1,876		94,035
Employee benefit		719		69,808		-		-		70,527
Insurance		52,096		178,582		-		5,576		236,254
Miscellaneous		8,616		54,225				464		63,305
	<u>\$</u>	821,459	\$	2,849,828	\$		\$	92,374	<u>\$</u>	3,763,661
Depreciation Amortization	<u>\$</u>	<u>9,664,881</u> 3,785	<u>\$</u> \$	<u>1,167,030</u> 57,227	<u>\$</u> \$	18,765	<u>\$</u>		<u>\$</u> \$	<u>10,850,676</u> 61,012

				Year E	nded	December 31,	2007			
	0	perating Costs		Operating Expenses		onoperating Expenses and Losses	of Op Co	ductions oerating sts or oenses		Total
Employee expenses										
Salaries	\$	584,951	\$	2,167,053	\$	-	\$	-	\$	2,752,004
Pension		57,292		165,054		-		-		222,346
Meal		17,396		74,133		-		-		91,529
Employee benefit		1,404		105,376		-		-		106,780
Insurance		53,671		174,155		-		-		227,826
Miscellaneous		6,479		53,534		-		-		60,013
	\$	721,193	\$	2,739,305	\$		<u>\$</u>		<u>\$</u>	3,460,498
Depreciation Amortization	<u>\$</u>	9,862,094	<u>\$</u>	<u>1,331,644</u> 64,234	<u>\$</u>	18,807	<u>\$</u>		<u>\$</u>	<u>11,212,545</u> 64,234

To enhance their competency, Far EasTone, New Century InfoComm Tech Co., Ltd. and Digital United Inc. made a strategic business alliance to integrate the resources of their marketing departments and operating management departments and to support each other's human resources. The related employee revenues and expenses were charged and paid on the basis of agreed-upon terms and recorded as nonoperating income and operating cost or expense.

# 27. EARNINGS PER SHARE (EPS)

				Shar	ings Per re (NT\$)
Year ended December 31, 2008	Amount Income Before Income Tax	(Numerator) Net Income	Common Stock (Denominator) (in Thousand Shares)	Income Before Income Tax	Net Income
Basic EPS Net income - Far EasTone Effect of dilutive potential common stock Bonus to employees	\$ 13,127,822	\$ 10,160,747	3,288,127 4,892	<u>\$ 3.99</u>	<u>\$ 3.09</u>
Diluted EPS Net income including the effect of potential dilutive common stock - Far EasTone Year ended December 31, 2007	<u>\$ 13,127,822</u>	<u>\$ 10,160,747</u>	<u> </u>	<u>\$ 3.99</u>	<u>\$ 3.09</u>
Basic EPS Net income - Far EasTone	<u>\$ 13,690,944</u>	<u>\$ 11,619,441</u>	3,873,102	<u>\$ 3.53</u>	<u>\$ 3.00</u>

The ARDF issued Interpretation No. 2007-052 that requires Far EasTone to recognizes bonuses paid to employees, remuneration to directors and supervisors as compensation expenses beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. If Far EasTone may settle the bonus to employees by cash or shares, Far EasTone should presume that the entire amount of the bonus will be settled in shares and the resulting potential shares should be included in the weighted average number of shares outstanding used in the calculation of diluted EPS, if the shares have a dilutive effect. The number of shares is estimated by dividing the entire amount of the bonus by the closing price of the shares at the balance sheet date. Such dilutive effect of the potential shares need to be included in the calculation of diluted EPS until the stockholders resolve the number of shares to be distributed to employees at their meeting in the following year.

### 28. FINANCIAL INSTRUMENTS

a. Fair value information

		Decem	ber 31	
	2008	8	2007	7
	Carrying	Fair	Carrying	Fair
	Value	Value	Value	Value
Assets				
Available-for-sale financial assets - current	\$1,745,767	\$1,745,767	\$1,621,420	\$1,621,420
Bonds carried at amortized cost - current	3,000	3,000	3,000	3,000
Equity-method investments	5,933,262	5,933,262	6,750,690	6,750,690
Financial assets carried at cost - noncurrent	180,461	180,461	292,061	292,061
Refundable deposits	409,363	409,219	412,077	410,908
Liabilities				
Hedging derivative financial liabilities - current	\$ - 5	\$-	\$21,601	\$21,601
Current portion of long-term bonds payable	-	-	2,670,000	2,670,000
Long-term bank loans (including current portion)	257,143	257,143	95,238	95,238
Lease payable (including current portion)	16,754	16,754	57,068	57,068
Guarantee deposits received (including current portion)	831,854	831,854	949,691	949,691
				(Concluded)

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

 Cash and cash equivalents, accounts and notes receivable, receivables from related parties, restricted assets, pledged certificates of deposits, short-term bank loans, commercial paper payable, notes payable, accounts payable, 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 values of derivative financial instruments and available-for-sale financial assets.

If quoted market prices are not available, the fair values are evaluated by the Group using the same estimates and assumptions used by other market participants (e.g., banks or derivative sellers). These estimations and assumptions are available to the Group.

The Group uses the long-term interest rate quotations of Reuters (or Bloomberg) to calculate the fair value of each interest rate swap contract based on the net cash flow and the interest rate, respectively.

- 3) The fair values of bonds carried at amortized cost current, financial assets carried at cost noncurrent and equity-method investments with no quoted market prices will be measured by net worth of investees or their respective carrying values.
- 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:

		Quoted	Price	Estimated P	rice	
		Decen	nber 31	December 31		
		2008	2007	2008	2007	
	Assets					
	Available-for-sale financial assets - current	\$1,745,767	\$1,621,420 \$	- \$	-	
	Liabilities					
	Hedging derivative financial liabilities - current	-	-	-	21,601	
d.						

	December 31 2008 2007								
Risk of interest rate change	Fina	ncial Assets	100	Financial Liabilities	Fin	ancial Assets	<u>JU /</u>	Financial Liabilities	
Fair value risk Cash flow risk	\$	5,483,606 2,255,150	\$	2,907,072 268,093	\$	9,552,969 1,209,551	\$	1,006,759 3,034,453	

- 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.

Fair values of mutual funds and domestic quoted stocks held by KG Telecom and ARCOA are determined at their quoted prices in an active market; thus, market price fluctuations would result in changes in the fair values of these investments. However, since KG Telecom and ARCOA periodically evaluates the performance of these investments, market risk is expected to be immaterial.

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 loss 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 possessed equity-method investment with no quoted prices in an active market; thus, it might face liquidity risk.

KG Telecom invested in domestic quoted stocks and 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

Far EasTone used interest rate swap to hedge overall cash flow fluctuations on its liabilities.

		Designa	ted Hedging L	nstı	uments				Expected Year for Realization of Gains or Losses
	Financial	 Notio	nal Amount		Fa	ir Va	alue	Expected	
	Instruments							Year of	
Hedged Items	Designated	 Dec	ember 31		Dec	emb	er 31	Cash Flows	
_	-	2008	2007		2008		2007		
Bonds with floating interest rate	Interest rate swap - Far EasTone	\$	\$2,670,000	\$		\$	(21,601)	2003-2008	2003-2008

# 29. RELATED-PARTY TRANSACTIONS

a. The group's related parties and their relationships were as follows:

Related Party	<b>Relationship with the Group</b>
Far Eastern Textile Ltd.	Ultimate parent company
New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman (became equity-method investee
	of Far EasTone since December 31, 2007)
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
Digital United Inc. (DU)	Subsidiary of NCIC (became related party since
	December 31, 2007)
Information Security Service Digital United Inc.	Subsidiary of NCIC (became related party since
	December 31, 2007)
NTT DoCoMo Inc.	Director of Far EasTone
Far Eastern International Leasing Corp. (FEILC)	Supervisor of Far EasTone
Telecommunication and Transportation Foundation (former	Far EasTone's donation is over one third of the
Far Eastern Technology Developmental Foundation) (TTF)	foundation's fund
Far Eastern Apparel Co., Ltd.	Same ultimate parent company
Far Cheng Human Resources Consultant Corp. (FCHRC)	Same ultimate parent company
Far Eastern Resource Development Co., Ltd. (FETRD)	Same ultimate parent company
Yuan Ding Co., Ltd.	Same chairman
Far Eastern Department Stores Co., Ltd.	Same chairman
Asia Cement Co., Ltd.	Same chairman
Oriental Union Chemical Corporation	Same chairman
Far Eastern Geant Company Ltd.	Same chairman
Far Eastern Memorial Hospital	Same chairman
Oriental Institute of Technology	Same chairman
Yuan-Ze University	Same chairman
Far Eastern Medical Foundation (FEMF)	Same chairman
Far Eastern Construction Co., Ltd.	Same ultimate parent company
Yuang Tong Investment Corporation	Same ultimate parent company
Kai Yuan International Investment Corp.	Same ultimate parent company
An-Ho Garment Corp.	Same ultimate parent company
Fu Kwok Garment Manufacturing Co.	Same ultimate parent company
Yuan Ding Investment Corporation	Same ultimate parent company
	(Continued)

(Continued)

## **Related Party**

# Relationship with the Group

Far Eastern Polychem Industries Ltd.	Same ultimate parent company
Ding Yuan International Investment Ltd.	Same ultimate parent company
Far Eastern Polytex (Holding) Ltd.	Same ultimate parent company
Far Eastern Investment (Holding) Ltd.	Same ultimate parent company
Far Eastern General Contractor Inc.	Same ultimate parent company
Oriental Resources Development Limited (former Taiwan	Same ultimate parent company
Recycling Corp.)	
Yuan Faun Ltd.	Same ultimate parent company
Far Eastern Apparel (Holding) Ltd.	Same ultimate parent company
Oriental Textile (Holding) Ltd.	Same ultimate parent company
Pacific Petrochemical (Holding) Ltd.	Same ultimate parent company
PET Far Eastern (Holding) Ltd.	Same ultimate parent company
F.E.D.P. (Holding) Ltd.	Same ultimate parent company
Pet Far Eastern (M) Sdn Bhd.	Same ultimate parent company
FETG Investment Antilles N.V.	Same ultimate parent company
Ming Ding Corp.	Same ultimate parent company
Far Eastern Spinning Weaving and Dyeing (Suzhou) Limited	Same ultimate parent company
Far Eastern Industries (Wuxi)	Same ultimate parent company
Oriental Industries (Suzhou) Ltd.	Same ultimate parent company
Far Eastern Industries (Jiu Jiang) Ltd.	Same ultimate parent company
Oriental Petrochemical (Shanghai) Ltd.	Same ultimate parent company
Far Eastern Industries (Shanghai) Ltd.	Same ultimate parent company
Far Eastern Industries (Suzhou) Ltd.	Same ultimate parent company
Far Eastern Apparel (Suzhou) Ltd.	Same ultimate parent company
Waldorf Service B.V.	Same ultimate parent company
Shanghai Far Eastern Petrochemical Logistic Ltd.	Same ultimate parent company
Shanghai Far Eastern IT Company	Same ultimate parent company
Wu Han Far Eastern New Material Ltd. (former Wu Han	Same ultimate parent company
Far Eastern Industrial Trading Ltd.)	
Far Eastern (China) Investment Limited	Same ultimate parent company
Sino Belgium (Holding) Limited	Same ultimate parent company
Sino Belguim (Suzhou) Limited	Same ultimate parent company
Fashionline Saigon Ltd.	Same ultimate parent company
Suzhou An He Apparel Ltd.	Same ultimate parent company

(Concluded)

b. In addition to those disclosed in other notes, the Group's significant transactions with the above parties are summarized as follows:

		 2008		2007	
		Amount	%	Amount	%
During the year					
Operating revenue	1)				
NCIC	2)	\$ 1,140,627	2 \$	596,795	1
NTT DoCoMo	3)	117,340	-	81,086	
Other	19)	 55,713	<u> </u>	29,033	
		\$ 1,313,680	2 \$	706,914	1

			2008			2007	
			Amount	%		Amount	%
Operating costs and expenses							
Cost of telecommunications service							
NCIC	2)	\$	184,981	1	\$	113,660	
Other	19)		20,051			15,907	
		<u>\$</u>	205,032	1	<u>\$</u>	129,567	
Rental							
FETRD	4)	\$	45,266	1	\$	45,399	
FEILC	5)		40,468	1		36,897	
NCIC	6)		40,357	1		36,680	1
Other	19)		11,791			12,413	
		<u>\$</u>	137,882	3	<u>\$</u>	131,389	
Marketing expense							
DDIM	7)	<u>\$</u>	165,352	2	<u>\$</u>	142,220	
Service fee							
FCHRC	8)	<u>\$</u>	57,703	40	<u>\$</u>	52,232	4
Donation expense							
Yuan-Ze University	9)	\$	15,000		\$	16,000	
TTF	10)		14,391	29		8,639	
FEMF	11)					200,000	8
		<u>\$</u>	29,391	59	<u>\$</u>	224,639	9
Nonoperating income and gains							
Management services revenue							
NCIC	12)	\$	3,475		\$	-	
DU	12)		1,336	1			
		<u>\$</u>	4,811	3	<u>\$</u>		
Guarantee service revenue							
FETC	13)	<u>\$</u>	<u> </u>		<u>\$</u>	285	
Acquisition of properties							
NCIC	14)	\$	45,620	1	\$	-	
Other	19)		18,352			<u> </u>	
		<u>\$</u>	63,972	1	<u>\$</u>		
Disposal of properties							
NCIC	15)	\$	7,928	19	\$	-	
Others	19)		82				

			2008			2007	
			Amount	%		Amount	Q
At end of year							
Receivables from related parties							
Accounts and notes receivable							
NCIC	2)	\$	37,547	17	\$	1,089	
NTT DoCoMo Inc.	3)		25,970	12		14,229	
FETC	16)		5,360	3		7,698	
Other	19)		10,447	5		2,014	
			79,324	37		25,030	
Other receivables							
NCIC	2), 12) and 15)		91,878	42		2,489	
DU	12)		29,467	14		-	
DDIM	7)		10,254	5		-	
FETC	17)		5,095	2		5,174	
Other	19)		330			_	
			137,024	63		7,663	
		<u>\$</u>	216,348	100	<u>\$</u>	32,693	1
Refundable deposits							
DDIM	7)	\$	43,693	11	\$	48,922	
Other	19)		10,357	2		8,950	
		<u>\$</u>	54,050	13	<u>\$</u>	57,872	
Payables to related parties							
NCIC	2) and 6)	\$	206,499	60	\$	97,901	
DDIM	7)		72,729	21		69,889	
FEILC	5)		5,359	2		2,389	
FETRD	4)		3,680	1		3,355	
NTT DoCoMo Inc.	18)		2,808	1		4,626	
Other	19)		52,072	15		23,823	
		<u>\$</u>	343,147	100	<u>\$</u>	201,983	1
Lease payable (including current portion)							
FEILC	5)	\$	16,754	100	\$	56,718	

I manoring to related particles was as relies with

Related Party Year ended December 31, 20	Highest Balance Held During the Year	Ending Balance	Rate %	Interest	Collateral
FETC	<u>\$50,000</u>	<u>\$</u>	6.685-6.915	<u>\$2,081</u>	<u>\$ -</u>

Descriptions of transactions with related parties were as follows:

- Operating revenues (such as service revenue and revenues from sales of cellular phone equipment, accessories and customer service revenues) from related parties were based on normal service rates, selling prices and collection terms.
- 2) 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 were included in telecommunications service revenues. 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 telecommunications service revenue.
- 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 receivables from related parties.
- 4) 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.
- 5) 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. Some of these contracts will be automatically renewed unless either Far EasTone or FEILC informs the other party of contract nonrenewal.

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 and office equipment under capital lease agreements, with amounts of \$41,174 thousand and \$41,206 thousand paid for the years ended December 31, 2008 and 2007, respectively (Note 21).

- 6) Far EasTone leases from NCIC the office space in Neihu, telecommunications network and backbone network facilities under operating lease contracts.
- 7) Far EasTone and KG Telecom authorized DDIM to manage the accumulation and redemption of customers' reward points. The related service charges were treated as marketing expense and payables to related parties. Reduced amounts of Far EasTone's and KG Telecom's telecommunication bills by redemption of customers' reward points resulting from their consumption in other stores were included in receivables from related parties. In addition, Far EasTone and KG Telecom give DDIM monthly refundable deposits for the points accumulated but not yet redeemed, and these deposits are calculated at a fixed percentage of the unused reward points.
- 8) The Group have contracts with FCHRC for manpower dispatching services, under which the Group paid for FCHRC's providing the Group with temporary or specific personnel demands.

- 9) Far EasTone and KG Telecom made donation to non-profit organizations for further integration and development of telecommunications business and personnel.
- 10) KG Telecom made donation to TTF for telecommunications technology researches.
- 11) KG Telecom made donation to non-profit organizations.
- 12) Far EasTone provided management services and advances to NCIC and DU for their daily operating expenditures.
- 13) Far EasTone provided FETC with \$154,000 thousand as endorsement for its bank loans, with charges to FETC based on the agreed rate.
- 14) Far EasTone bought operating equipment from NCIC.
- 15) KG Telecom had sold properties to NCIC. The proceeds amounted to \$7,928 thousand, and the gain of \$2,410 thousand on this disposal was included in nonoperating income and gains.
- 16) KGEx.com and Arcoa charged FETC for the providing of co-location service, manpower service and logistics service, which were included in receivables from related parties.
- 17) Far EasTone gave advances for FETC daily operating expenditures, which were treated as receivables from related parties.
- 18) The payments made by Fat EasTone and KG Telecom for using the I-Mode services of NTT DoCoMo Inc., which were included in payables to related parties.
- 19) 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.

c. Compensation of directors, supervisors and management personnel:

		Years Ended December 31					
		2008		2007			
Salary and bonus	\$	95,874	\$	105,082			
Remuneration paid from distribution of earnings		91,238		105,057			
Bonus paid from distribution of earnings		17,137		20,722			
Operation allowance of directors		7,264		7,588			
	¢						
	\$	211,513	\$	238,449			

The compensation of directors, supervisors and management personnel for the years ended December 31, 2008 and 2007 included the estimated and actual bonuses appropriated from the 2008 and 2007 earnings, for which were approved by stockholders in their annual meetings held in 2009 and 2008, respectively. Related details are shown in Far EasTone's 2008 and 2007 annual reports.

#### 30. COMMITMENTS AS OF DECEMBER 31, 2008

The Group had the following significant commitments:

a. The Group was under contracts to acquire properties and cellular phone equipment for \$1,592,693 thousand and \$161,461 thousand, respectively.

- b. The Group's outstanding letters of credit amounted to US\$1,398 thousand (equivalent to \$45,854 thousand) and \$27,690 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
2009	<u>_</u>	2,873,493
2010		2,930,842
2011		3,247,076
2012		3,101,225
2013		3,162,613

d. Oriental Securities Investment Advisory Co. manages KG Telecom's funds of \$350,000 thousand, which are based on discretionary portfolio management agreements through January 2009 and March 2009. Under the agreements, the portfolio can include domestic quoted stocks, government bonds, corporate bonds and commercial papers or bonds under resell agreements. However, investments in the affiliates of the Group and other domestic telecommunications companies' (except Chunghwa Telecom Co., Ltd.) and related derivatives are prohibited. As of December 31, 2008, the carrying value of the funds was \$228,218 thousand as follows:

		ember 31, 2008
Cash and cash equivalent		
Demand deposits	\$	37,779
Bonds purchased under resell agreements		20,020
		57,799
Available-for-sale financial assets - current		170,580
Receivable from the sale of securities (included in other current assets)		8,225
Payables for the purchase of securities (included in other current liabilities)		(8,323)
Other		(63)
	<u>\$</u>	228,218

Under the NCC's policy effective April 1, 2007, Far EasTone had provided performance guarantees amounting to \$450,000 thousand to KG Telecom and \$45,000 thousand to KGEx.com for prepaid cards already bought by customers. KG Telecom had also provided Far EasTone a similar guarantee amounting to \$850,000 thousand.

# 31. ASSETS PLEDGED OR MORTGAGED

Assets pledged or mortgaged, i.e., used as collaterals for the guarantee provided by banks, cell cites, long-term and short-term bank loans and the purchase of inventory, were as follows:

		Dec	embe	r 31
		2008		2007
Pledged certificates of deposits - current	\$	20,000	\$	39,036
Pledged certificates of deposits - noncurrent (included in other assets - other)		15,164		16,099
Properties, net		467,676		479,892
	<u>\$</u>	502,840	<u>\$</u>	535,027

# 32. ADDITIONAL DISCLOSURES REQUIRED BY THE SECURITIES AND FUTURES BUREAU

- a. Important transactions and b. information on the Group's investees.
  - 1) Financing provided: None
  - 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
  - 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
  - Total purchase from or sale to related parties amounting to at least NT\$100 million or 20% of the paid-in capital: Schedule D
  - 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: None
- c. Investment in Mainland China:
  - 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
  - Significant direct or indirect transactions with the investee company, prices, payment terms, and unrealized gain or loss: Schedule H
  - 3) Endorsements, guarantees or collateral directly or indirectly provided to the investees: None
  - 4) Financings directly or indirectly provided to the investees: None
  - 5) Other transactions that significantly impacted current period's profit or loss or financial position: None
- 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

# **33. 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 was as follows:

		200	8	2007			
		Amount	Percentage of Operating Revenue (%)	Amount	Percentage of Operating Revenue (%)		
Company A	:	\$ 8,737,467	14	\$ 9,679,703	15		

SCHEDULE A

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES ENDORSEMENT/GUARANTEE PROVIDED YEAR ENDED DECEMBER 31, 2008

(In Thousands of New Taiwan Dollars)

		Counter-p	arty						Maximum
No.	Endorser/ Guarantor	Name	Nature of Relationship	Limits on Endorsement/ Guarantee Amount Provided to Each Counter-party (Note A)	Maximum Balance for the Year (Note B)	Balance (Note B)	Endorsement/ Guarantee Collateralized	Ratio of Accumulated Endorsement/ Guarantee to Net Equity per Financial Statement	Guarantee Allowed to Be Provided by the
0	Far EasTone	KG	Subsidiary	\$35,648,101	\$450,000	\$450,000	\$-	0.63%	\$71,296,202
		Co., Ltd.	Subsidiary of KG Telecom	35,648,101	45,000	45,000	-	0.06%	71,296,202
	Telecommunications	Far EasTone Telecommunications Co., Ltd.	Parent Company	16,237,720	850,000	850,000	-	2.62%	32,475,440

Note B: The maximum balance for the year and the ending balance chown above were the amounts allowed not the actual appropriations.

Note B: The maximum balance for the year and the ending balance shown above were the amounts allowed, not the actual appropriations.

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES MARKETABLE SECURITIES HELD DECEMBER 31, 2008

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

		Relationship			December				Highest
Holding Company Name	Type and Issuer/Name of Securities	with the Holding Company	Financial Statement Account	Shares	Carrying Value (Note D)	Percentage of Ownership (%)	Market Value or	Note	Shares/ Units Held During the Year
Far EasTone	Stocks								
Telecommunications	KG	Equity-method	Equity-method	1,332,997,916	\$32,475,440	100.00	\$32,475,440	Notes A and C	1,332,997,910
Co., Ltd.	Telecommunications	investee	investments						
	Co., Ltd.								
	New Century	Equity-method	Equity-method	980,315,483	5,490,024	24.51	5,490,024	Notes A and C	980,315,48
	InfoComm Tech Co., Ltd.	investee	investments						
	ARCOA	Equity-method	Equity-method	80,276,314	1,039,987	59.78	1.039.987	Notes A and C	80,276,31
	Communication Co.,	investee	investments						
	Ltd.								
		Equity-method	Equity-method	157,714,020	408,729	41.18	408,729	Notes A and C	157,714,02
	Toll Collection Co., Ltd.	investee	investments						
	Q-ware	Equity-method	Equity-method	36,459,930	190,370	51.00	190 370	Notes A and C	36,459,93
		investee	investments						
	Ltd								
	Far Eastern Info Service		Equity-method	1,200	153,851	100.00	153,851	Notes A and C	1,200
	(Holding) Ltd.	investee Equity-method	investments	6 014 622	67,305	85.92	67,305	Notes A and C	6,014,622
	• • • • • • • • • • • • • • • • • • •	investee	Equity-method investments	6,014,622	07,505	63.92	07,505	Notes A and C	0,014,022
		Equity-method	Equity-method	4,486,988	25,575	100.00	25,575	Notes A and C	4,486,988
	Ltd.	investee	investments						
	Ding Ding Integrated	Equity-method	Equity-method	4,500,000	5,744	15.00	5,744	Notes A and C	4,500,000
		investee	investments						
	Ltd. ADCast Interactive	Paris and d	Paulta and a	10.251	170	0.40	170	Network	10.25
	Marketing Co., Ltd.	Equity-method investee	Equity-method investments	18,351	170	0.40	170	Notes A and C	18,35
	Markening Co., Eld.	investee	nivestnents						
KG	Stocks								
Telecommunications	KGEx.com Co., Ltd.	Equity-method	Equity-method	198,136,425	890,885	79.25	890,885	Notes A and C	198,136,425
Co., Ltd.		investee	investments			40.00			
	iScreen Corporation	Equity-method investee	Equity-method investments	4,000,000	28,765	40.00	28,765	Notes A and C	4,000,000
	ADCast Interactive	Equity-method	Equity-method	368,519	3,414	8.16	3,414	Notes A and C	1,255,382
	Marketing Co., Ltd.	investee	investments		-,		-,		.,,
	TCC	-	Available-for-sale financial	200,000	5,390		5,390	Note E	703,000
			assets - current						
	ACC	-	Available-for-sale financial	3,449,000	98,124	-	98,124	Note E	3,499,000
	GREATWALL		assets - current Available-for-sale financial	270,369	6,813		6,813	Note E	300,000
	OREAI WALL		assets - current	270,507	0,015	-	0,015	1000 2	500,000
	FPC		Available-for-sale financial	100,000	4,360	-	4,360	Note E	600,000
			assets - current						
	TYG	-	Available-for-sale financial	350,000	3,955	-	3,955	Note E	350,000
	OUCC		assets - current	500.000	< 000		< 000	Note E	500.000
	OUCC	-	Available-for-sale financial assets - current	500,000	6,900	-	6,900	NOIC L	500,000
	CSC		Available-for-sale financial	207,500	4,793		4,793	Note E	850,000
			assets - current		.,				
	CSRC		Available-for-sale financial	130,000	4,199	-	4,199	Note E	300,000
			assets - current					N . E	
	DELTA	-	Available-for-sale financial	100,000	6,350	-	6,350	Note E	400,000
	ACER		assets - current Available-for-sale financial	100,000	4,260		4,260	Note E	70,000
			assets - current	100,000	4,200		4,200		,0,000
	FTC	-	Available-for-sale financial	70,000	5,404	-	5,404	Note E	150,000
			assets - current						
	FOXLINK	-	Available-for-sale financial	120,000	4,320	-	4,320	Note E	120,000
	EVERLIGHT		assets - current Available-for-sale financial	100,000	4,320		4,320	Note E	400,000
	LVENLIGHT		Available-for-sale financial assets - current	100,000	4,520	-	4,520	HOLE L	400,000
	1								(Continued)

		Relationship			December .				Highest
Holding	Type and Issuer/Name of	with the	Financial Statement		<b>a</b>	Percentage		Note	Shares/
Company Name	Securities	Holding	Account	Shares	Carrying Value (Note D)	of Ownership	Market Value or Net Asset Value	Note	Units Held During the
		Company			(1000 2)	(%)	Tterrisser vinde		Year
								N-4-E	
	AUO	-	Available-for-sale financial assets - current	300,000	7,410	-	7,410	Note E	750,000
	СНТ	-	Available-for-sale financial	181,500	9,710	-	9,710	Note E	300,000
			assets - current	10.000				N. t. F	
	HTC	-	Available-for-sale financial assets - current	18,000	5,886		5,886	Note E	25,000
	U-MING	-	Available-for-sale financial	1,047,000	41,147	-	41,147	Note E	1,047,000
	CMT		assets - current	100.000	5.000	-	5.040	Note E	200.000
	СМТ	-	Available-for-sale financial assets - current	100,000	5,060			NOIC L	200,000
	Yuanta Group	-	Available-for-sale financial	400,000	5,880	-	5,880	Note E	600,000
	FFHC		assets - current Available-for-sale financial	150,000	2,588		2,588	Note E	500,360
	rrnc	-	assets - current	150,000	2,388			NOLE	500,500
	UNIMICRON	-	Available-for-sale financial	280,000	3,808	-	3,808	Note E	280,500
	CHINESEGAMER	_	assets - current Available-for-sale financial	50,000	4.725			Note E	102,974
	CHINESEGAMER	-	assets - current	50,000	4,725			Hole E	102,974
	SZS	-	Available-for-sale financial	45,000	3,690	-	3,690	Note E	50,000
	Alpha		assets - current Available-for-sale financial	100,000	1,895		1,895	Note E	400,000
	Априа		assets - current	100,000	1,075			1000 2	400,000
	INNOLUX	-	Available-for-sale financial	200,000	4,850	-	4,850	Note E	300,000
	UMT		assets - current Available-for-sale financial	50,000	4,025		4,025	Note E	50,000
	OWI		assets - current	50,000	4,025	: :		HOLE E	50,000
	PT TECH.	-	Available-for-sale financial	70,000	3,913	-	3,913	Note E	150,000
	GET	_	assets - current Available-for-sale financial	75,000	7,200			Note E	150,136
	GEI		assets - current	15,000	7,200				150,150
	PAHSCO	-	Available-for-sale financial	180,000	5,778	-	5,778	Note E	180,000
	CyberLink	_	assets - current Available-for-sale financial	25,000	2,913		2,913	Note E	100,000
	CyberLink		assets - current	25,000	2,715				100,000
	SONIX	-	Available-for-sale financial	200,000	6,880		6,880	Note E	200,000
	S.W.		assets - current Available-for-sale financial	100,000	3,480	-	3,480	Note E	100,000
			assets - current		-,				-
	HWACOM	-	Available-for-sale financial	60,000	1,233	-	1,233	Note E	60,000
	MOTECH		assets - current Available-for-sale financial	90,000	6,966	-	6,966	Note E	100,000
			assets - current						
	TSMT	-	Available-for-sale financial assets - current	160,000	3,560	-	3,560	Note E	300,000
	LITE-ON IT	-	Available-for-sale financial	600,750	1,311	-	1,311	Note E	60,760
			assets - current						
	N.P.C	-	Available-for-sale financial assets - current	19,000	7,930	-	7,930	Note E	300,000
	PVI	-	Available-for-sale financial	130,000	1,898	-	1,898	Note E	400,000
			assets - current					NE	1
	GIANT		Available-for-sale financial assets - current	52,500	3,827	-	3,827	Note E	200,000
	Open-ended mutual		ussets current						
	funds							Net D	
	Deutsche Far Eastern DWS Taiwan Bond	-	Available-for-sale financial assets - current	73,960,494.25	824,268	-	824,268	Note B	73,960,494.25
	Security Investment								
	Trust Fund (Former Far								
	Eastern Alliance Taiwan Bond Security								
	Investment Trust Fund)								
	JPM (Taiwan) European	-	Available-for-sale financial	20,000,00.00	196,462	-	196,462	Note B	20,000,000.00
	Bond Fund Deutsche Far Eastern	-	assets - current Available-for-sale financial	10,000,000.00	77,200		77,200	Note B	10,000,000.00
	DWS Taiwan Thematic		assets - current	,000,000,000			,200		
	Fund								
	Private funds								
	Fuh Hwa Value Added	-	Financial assets carried at	14,866,204.20	150,000	-	150,000	Note C	14,866,204.20
	Strategy Fund		cost - noncurrent						1

ARCOA Stor Communication Co., Ltd. TH Chu	Type and Issuer/Name of Securities	Relationship with the Holding Company	Financial Statement Account	Shares	December : Carrying Value (Note D)	Percentage of Ownership	Market Value or	Note	Highest Shares/ Units Held
Company Name ARCOA Communication Co., Ltd. TH Chu Con	Securities	Holding	: :			of	Market Value or	Note	Units Held
ARCOA <u>Stor</u> Communication Co., Ltd. TH Chu Con	<u>peks</u>		Account	Shares		Ownershin		Note	Units Held
Communication Co., Ltd. THI Chu Cor		Company					Net Asset Value		During the
Communication Co., Ltd. THI Chu Cor						(%)			Year
Communication Co., Ltd. THI Chu Cor									
Communication Co., Ltd. THI Chu Cor									
Ltd. THI Chu Cor	H consultants		:						
TH Chu Cor	II consultants								
Chu Cor	ii consultants		Financial assets carried at	1,213,594	13,729	18.32	13,729	Note C	1,213,594
Cor			cost - noncurrent	1,215,574	15,727	10.52	15,727	Hole C	1,215,574
Cor	unghwa Int'l		Financial assets carried at	2,086,854	6,714	4.12	6,714	Note C	2,830,901
	ommunication	-	cost - noncurrent	2,000,034	0,/14	4.12	0,714	Note C	2,850,901
			cost - noncurrent						
	etwork Co., Ltd.		-				0.400		
VIE	BO Telecom Inc.	-	Financial assets carried at	840,000	8,400	0.04	8,400	Note C	200,000
			cost - noncurrent						1
Wel	eb Point Co., Ltd.	-	Financial assets carried at	160,627	1,618	0.63	1,618	Note C	160,627
			cost - noncurrent						
Ope	pen-ended mutual								
fun	<u>nds</u>								
Yua	anta Wan Tai Bond	-	Available-for-sale financial	2,096,201.70	30,246	-	30,246	Note B	12,626,337.00
Fun	ınd		assets - current						
INC	G Taiwan Bond Fund	-	Available-for-sale financial	1,946,497.28	30,293	-	30,293	Note B	1,948,950.49
			assets - current						
PC	A Well Pool Fund	_	Available-for-sale financial	6,969,144.50	90,187		90,187	Note B	12,563,948,80
10.	or went toor t und		assets - current	0,707,144.50	50,107			Note D	12,505,740,00
ID1	T 1699 Bond Fund		Available-for-sale financial	5,969,159.60	90,049	-	90,049	Note B	5,969,159.60
101	1 1099 Bollu Fullu	-	assets - current	3,909,139.00	90,049		90,049	Note D	5,909,159.00
. In				5 6 6 7 2 2 2 0 0 0	00.211	-	00.011	NAD	5 ( (7 220 20
	PAMC Great China	-	Available-for-sale financial	5,667,328.00	90,311	-	90,311	Note B	5,667,328.20
Fun	nd		assets - current						1
Bor									
	Chong Bank	-	Bonds carried at amortized	3,000,000.00	3,000	-	3,000	Note C	3,000,000.00
Fin	nancial Bonds 93		cost - current						
Seri	ries-I								
Far Eastern Info Sha	are certificates								1
Service (Holding) Ltd. Far	r Eastern Tech-info	Equity-method	Equity-method	-	US\$4,078,000	100.00	US\$4,078,000	Notes A and C	-
Ltd	d. (Shanghai)	investee	investments						
Far EasTron Holding Stor	ocks								
Ltd.									
	DCast Interactive	Equity-method	Equity-method	2,734,446	US\$772,000	60.52	US\$772.000	Notes A and C	2,734,446
		investee	investments	_,,			2.2.1.2,000		_,,.
E. World (Holdings) Stor	ocks								
Ltd.	JURD			-					
	on Cine Co. Ltd	Donito acada d	Emiter method	10.240.004	11060 110 000	00.00	1000 110 000	Natas A	10 240 004
Yua	an Cing Co., Ltd.	Equity-method	Equity-method	19,349,994	US\$2,112,000	99.99	08\$2,112,000	Notes A and C	19,349,994
		investee	investments						

Note A: The calculation was based on audited financial statements as of December 31, 2008.
Note B: The market values of open-ended mutual funds were calculated at their net asset values as of December 31, 2008.
Note C: The financial assets carried at cost, bonds carried at amortized cost and equity-method investments without quoted prices were measured by net worth of investees or their metations. Note D: The carrying values. Note D: The carrying values. Note E: The calculation of domestic publicly traded stocks wase based on the closing price at the end of December 31, 2008. (Concluded)

# SCHEDULE C

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES MARKETABLE SECURITIES ACQUIRED OR DISPOSED OF AT COSTS OR PRICES OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL YEAR ENDED DECEMBER 31, 2008

(In Thousands of New Taiwan Dollars)

					Beginning I	Balance	Acquisi	tion		Disposa	d		Ending B	alance
Company Name	Marketable Securities	Account		Nature of Relationship	Share/Units	Amount	Share/Units	Amount	Share/Units	Price		Gain or (Loss)	Share/Units	Amount
												· /		
ARCOA Communication Co., Ltd.		Available-for-sale financial assets - current	-		11,840,116.17	\$150,000	17,943,657.00	\$230,000	22,814,628.67	\$291,238	\$290,000	\$1,238	6,969,144.50	\$90,000
		Available-for-sale financial assets - current	-	-	8,486,961.50	120,000	10,511,710.10	150,000	16,902,469.90	242,197	240,000	2,197	2,096,201.70	30,000
KG Telecommunications Co., Ltd.	• •	Available-for-sale financial assets - current	-	-	100,000	9,158	1,350,000	108,749	1,350,000	110,570	112,462	(1,892)	100,000	5,445
		Available-for-sale financial assets - current	-	-	-	-	10,000,000.00	100,000	-	-	-	-	1,000,000.00	100,000
Note: Except for th	e disposal price, othe	er amounts were their respo	ective inve	stment costs.		I		I						<u> </u>

# SCHEDULE D

# 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, 2008

(In Thousands of New Taiwan Dollars)

Purchaser (Seller)	Related Party	Nature of	1	ransaction D	etails			normal nsaction	Notes/Accounts Receivable or (Payable)	)
of Goods	Kelateu I al ty	Relationship	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	\$(3,007,573)	(6%)	Based on agreement	-	-	Accounts receivable \$398,046	6%
			Cost of telecommunications services	1,658,786	8%	Based on agreement	-	-	Accounts payable (139,326)	(6%)
	ARCOA Communication Co., Ltd.	Subsidiary	Sales of cellular phone equipment and accessories and telecommunications	(245,153)	-	Based on agreement	-	-	Accounts receivable 174,080	3%
			service revenue Cost of telecommunications services, marketing expenses and cost of sales	2,229,708	6%	Based on agreement	-	-	Accounts payable and accrued expense (142,182)	(3%)
	KGEx.com Co., Ltd.	Subsidiary of KG Telecom	Telecommunications service revenues	(208,305)	-	Based on agreement	-	-	Accounts receivable 40,953	1%
	New Century InfoComm Tech Co., Ltd.	Equity-method investee	Telecommunications service revenues	(773,982)	(2%)	Based on agreement	-	-	Accounts receivable (Note) -	-
			Cost of telecommunication services	102,144	-	Based on agreement	-	-	Accounts payable (Note) (134,600)	(6%)
	NTT DoCoMo Inc.	Director	Telecommunications service revenues	(114,572)	-	Based on agreement	-	-	Accounts receivable 25,810	-
	Ding Ding Integrated Marketing Co., Ltd.	Equity-method investee	Marketing expenses	128,396	1%	Based on agreement	-	-	Accrued expense (58,309)	2%
	Far Eastern Tech-Info Ltd. (Shanghai)	Subsidiary of FEIS	Service fee	146,383	57%	Based on agreement	-	-	Accrued expense (16,797)	1%
	Far EasTone Telecommunications Co., Ltd.	Parent company	Telecommunications service revenues	(1,658,786)	(13%)	Based on agreement	-	-	Accounts receivable 139,326	10%
releasin)			Cost of telecommunications services	3,007,573	33%	Based on agreement	-	-	Accounts payable (398,046)	(44%)
	ARCOA Communication Co., Ltd.	Same parent company	Cost of telecommunications services, marketing expenses and cost of sales	533,013	5%	Based on agreement	-	-	Accounts payable and accrued expense (33,450)	(2%)
Communication Co.,	Far EasTone Telecommunications Co., Ltd.	Parent company	Commission revenue, sales of cellular phone equipment and accessories and service revenues	(2,229,708)	(38%)	Based on agreement	-		Accounts receivable 142,182	67%
			Purchase and cost of telecommunications services	245,153	5%	Based on agreement	-	-	Accounts payable (174,080)	(41%)
	KG Telecommunications Co. Ltd.	Same parent company	Commission revenue and sales of cellular phone equipment and accessories	(533,013)	(9%)	Based on agreement	-	-	Accounts receivable 33,450	16%
KGEx.com Co., Ltd.	Telecommunications	Ultimate parent	Cost of telecommunications	208,035	18%	Based on agreement	-	-	Accounts payable (40,953)	(21%)
	Co., Ltd. New Century InfoComm Tech Co., Ltd.		services Telecommunications service revenues	(277,667)	(27%)	Based on agreement			Accounts receivable 37,317	18%
Tech-Info Ltd.	Far EasTone Telecommunications Co., Ltd.	Ultimate parent company	Service revenue	(146,383)	(84%)	Based on agreement	-	-	Accounts receivable 16,797	62%

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.

### SCHEDULE E

# 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, 2008

(In Thousands of New Taiwan Dollars)

						Overdue	Amounts	Allowance
Company Name	Related Party	Nature of Relationship		_	Amount	Action Taken	Received in Subsequent Period	for
Telecommunications	Telecommunications		\$460,375	(Note A)	\$-		- \$270,734	\$-
,	Co., Ltd. ARCOA Communication Co., Ltd.	Subsidiary	178,036	9.60	-		- 130,063	-
Telecommunications	Far EasTone Telecommunications Co., Ltd.	Parent company	841,906	(Note B)	_		- 648,164	-
Communication Co.,	Far EasTone Telecommunications Co., Ltd.	Parent company	142,182	10.91	_		- 98,290	

Note A: The turnover rate was unavailable as the receivables from related parties were mainly due to the advances made for KG Telecom's daily operating expenditures.

Note B: The turnover rate was unavailable as the receivables from related parties were mainly due to collection of Telecommunications bills by Far EasTone for KG Telecom.

#### SCHEDULE F

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE YEAR ENDED DECEMBER 31, 2008

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

			Main Businesses and Products	Investme	nt Amount	Balance a	s of Decembe	er 31, 2008	Net	Equity	
Investor Company	Investee Company	Location		December 31, 2008	December 31, 2007	Shares	Percentage of Ownership (%)	Carrying	Gain (Loss) of the Investee	in Net Gain (Loss)	Note
Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	Taiwan	Type I telecommunications	\$29,629,139	\$29,629,139	1,332,997,916	100.00	\$32,475,440	\$1,013,276	\$1,013,206	Notes A and B
	New Century InfoComm Tech Co., Ltd.	Taiwan	services Type I, II telecommunications	6,062,000	6,062,000	980,315,483	24.51	5,490,024	(2,800,811)	(567,440)	Notes B and C
	ARCOA Communication Co., Ltd.	Taiwan	services Type II telecommunications services, sales of	1,283,560	1,278,944	80,276,314	59.78	1,039,987	61,190	35,600	Notes A and B
	Far Eastern Electronic Toll Collection Co., Ltd.	Taiwan	communications products and office equipment Electronic toll collection service	1,577,140	1,577,140	157,714,020	41.18	408,729	(594,577)	(236,127)	Notes B and C
	Q-ware Communications Co., Ltd.	Taiwan	Type II telecommunications services	495,855	495,855	36,459,930	51.00	190,370	(277,906)	(141,732)	Notes A and B
	Far Eastern Info Service (Holding) Ltd.		Investment	92,616							Notes A and B
	E. World (Holdings) Ltd.	Islands	Investment	82,883							Notes A and B
	Far EasTron Holding Ltd.	Cayman Islands Taiwan	Investment	150,000							Notes A and B
	Ding Ding Integrated Marketing Service Co., Ltd.	Taiwan	Marketing	45,000	45,000	4,500,000	15.00	5,744	(91,562)	(11,556)	Notes B and C
	ADCast Interactive Marketing Co., Ltd. (Note G)	Taiwan	Internet advertisements and marketing	1,000	-	18,351	0.40	170	(3,320)	9	Notes B and E
	Far EasTron Co., Ltd. (Note G)	Taiwan	Internet service	-	1,000	-	-	-	(10,846)	(72)	Notes D and E
KG Telecommunications Co., Ltd.	KGEx.com Co., Ltd. (Note H)	Taiwan	Type II telecommunications services	2,355,649	2,197,794	198,136,425	79.25	890,885	(135,428)		Notes B and E
	KGT International Holding Co., Ltd. (Note H)	British Virgin Islands	Investment	-	93,976	-	-	-	(4,596)		Notes D and E
	iScreen Corporation ADCast Interactive Marketing Co., Ltd.	Taiwan Taiwan	Information service Internet advertisements and marketing	100,000 3,652		4,000,000 368,519					Notes B and F Notes B and E
Far Eastern Info Service (Holding) Ltd.	Far Eastern Tech-info Ltd. (Shanghai)	Shanghai	Computer data providing service	US\$2,500,000	US\$2,500,000	-	100.00	US\$4,078,000	282		Notes B and E
Far EasTron Holding Ltd.	ADCast Interactive Marketing Co., Ltd. (Note G)	Taiwan	Internet advertisements and marketing	US\$4,532,000	-	2,734,446	60.52	US\$772,000	(3,320)		Notes B and E
	Far EasTron Co., Ltd. (Note G)	Taiwan	Internet service	-	US\$4,532,000	-	-	-	(10,846)		Notes D and E
E. World (Holdings) Ltd.	Yuan Cing Co., Ltd.	Taiwan	Call center services	193,500	193,500	19,349,994	99.99	US\$2,112,000	7,252		Notes B and E
KGT International Holding Co., Ltd. (Note H)	KGEx.com Co., Ltd.	Taiwan	Type II telecommunications services		US\$4,822,000	-	-	-	(135,428)		Notes B and E

Note A: Subsidiary.

Note B: Note C:

Note D:

Subsidiary. The calculation was based on audited financial statements as of December 31, 2008. Equity-method investee of Far EasTone. The calculation was based on unaudited financial statements as of December 31, 2008. Subsidiary of KG Telecom, E. World (Holdings), Far Eastern Info Service (Holding) and Far EasTron Holding. Note E:

Note F: Note G:

Substanty of KO relecon, E. word (Holdings), Far Eastern into Service (Holding) and Far Eastfori Holding. Equipty-method investee of KG Telecom. Far EasTron was dissolved on September 3, 2008 upon its merger with ADCast. Thus, Far EasTron's common shares owned by Far EasTone and Far EasTron Holding were swapped into ADCast's common shares. KGTI was dissolved on May 27, 2008 and completed its liquidation on August 21, 2008. KGTI's holding of the common shares of KGEx.com was distributed to KG Telecom after the liquidation. Note H:

# SCHEDULE G

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES **INVESTMENT IN MAINLAND CHINA** YEAR ENDED DECEMBER 31, 2008

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	of Paid-in Canital	Investment Type (e.g.,	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2008	Flo <sup>.</sup> Outflow	ws		% Ownership	(Loss)	Carrying	Investment	Authorized	Upper Limit on Investment
	Computer software, data processing and network information providing services			\$92,616	\$ -	\$ -	\$92,616	100%		\$133,758 (US\$4,078,000)	\$92,616	\$92,616	\$42,777,721 (Note C)

Note A: The calculation was based on audited financial statements as of December 31, 2008. Note B: Far EasTone made the investment through a company registered in a third region. Note C: Based on the limit, which is 60% of Far EasTone's net worth, as stated in the Principles Governing the Review of Investment or Technical Corporation in Mainland China, which was issued on August 29, 2008 by the Investment Commission of the MOEA, ROC. Note D: Please refer to Schedule H for significant transactions with the investee company.

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES SIGNIFICANT TRANSACTIONS BETWEEN FAR EASTONE AND SUBSIDIARIES YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

Number (Note A)				Transaction Details				
	Company Name	Counter Party	Flow of Transactions (Note B)	Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)	
	Year ended December							
	<u>31, 2008</u>							
	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	1	Receivables from related parties	\$460,375	Note D	19	
				Inventories	3,666	Note D	-	
				Payables to related parties		Note D	19	
				Unearned revenues	2,250	Note D	-	
				Telecommunications service revenues	3,007,573	Note D	59	
				Cost of telecommunications	1,658,786	Note D	39	
	4			services				
				Marketing expenses	÷ (	Note D	-	
				Nonoperating income and gains	1	Note D	-	
				Management service revenue	£	Note D	-	
				Nonoperating expenses and	2,242	Note D	-	
		ARCOA Communication	1	losses	179.026	Note D		
		Co., Ltd.	1	Receivables from related parties	178,030	Note D	-	
		C0., Eta.		Inventories	462	Note D	-	
				Payables to related parties	1	Note D	-	
	-	1 - -		Unearned revenues	• · · · · · · · · · · · · · · · · · · ·	Note D	-	
				Sales of cellular phone	41,738	Note D	-	
				equipment and accessories, net				
				Telecommunications service	203,415	Note D	-	
				revenues				
	-	- - -		Cost of sales	1,583,993	• •	39	
				Other operating cost	1 C	Note D	-	
				Marketing expenses	1 C	Note D	19	
		KCE Co. I.t.	1	Nonoperating income and gains		Note D	-	
		KGEx.com Co., Ltd.	1	Receivables from related parties	1 C	Note D Note D	-	
	-			Payables to related parties Telecommunications service	1	Note D	-	
				revenues	208,035	Note D	-	
				Cost of telecommunications	30.305	Note D	-	
				services				
	-			General and administrative	7,558	Note D	-	
				expenses				
				Nonoperating income and gains	1,356	Note D	-	
		Far Eastern Tech-Info	1	Payables to related parties	16,797	Note D	-	
		Ltd. (Shanghai)		-				
				General and administrative	146,383	Note D	-	
				expenses	1 172	NID		
		ADCast Interactive	1	Receivables from related parties	1,173	Note D	-	
	-	Marketing Co., Ltd.		Management service revenue	250	Note D		
		Yuan Cing Co., Ltd.	1	Receivables from related parties	<ul> <li>•</li> </ul>	Note D Note D	-	
		ruan Cing CO., Liu.	1	Payables to related parties	1	Note D	-	
				General and administrative	1	Note D	-	
				expenses	5,009	1,000 D	-	
				Management service revenue	890	Note D	-	
	Ĩ		[					

(Continued)

				Transa			
Number (Note A)	<ul> <li>Company Name</li> </ul>	Counter Party	Flow of Transactions (Note B)	Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenue (Note C)
		Q-ware Communications Co., Ltd.	1	Receivables from related parties	\$23,463	Note D	-
				Nonoperating income and gains	11,212	Note D	-
1	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	841,906	Note D	1%
				Inventories	2,250	Note D	-
				Payables to related parties	460,375	Note D	1%
				Unearned revenues	3,666	Note D	-
				Telecommunications service revenues	1,658,786	Note D	3%
				Cost of telecommunications services	3,026,389	Note D	5%
				Marketing expenses	57,922	Note D	-
				General and administrative expenses		Note D	-
				Research and development expenses	444	Note D	-
				Nonoperating income and gains	194,956	Note D	-
				Nonoperating expenses and losses		Note D	-
		ARCOA Communication Co., Ltd.	3	Receivables from related parties	12,203	Note D	-
	5 			Inventories	124	Note D	-
				Payables to related parties	33,450	Note D	-
				Unearned revenues	4,502	Note D	-
				Other operating revenues		Note D	-
				Cost of sales		Note D	1%
				Marketing expenses		Note D	-
		KGEx.com Co., Ltd.	3	Receivables from related parties	1 · · · · ·	Note D	-
				Payables to related parties		Note D	-
				Telecommunications service revenues	70,305	Note D	-
				General and administrative	38.848	Note D	_
				expenses			
				Management service revenue	2,726	Note D	-
		Far Eastern Tech-Info Ltd. (Shanghai)	3	Payables to related parties	5,034	Note D	-
				General and administrative expenses	27,137	Note D	-
2	ARCOA Communication Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	142,182	Note D	-
				Inventories	46,028	Note D	-
				Payables to related parties		Note D	-
				Sales of cellular phone equipment	•	•	5%
	- 		1	and accessories, net Other operating revenues	370.059	Note D	1%
			-	Cost of sales	379,958	-	1%
	-			Cost of telecommunications	•	Note D	- 270
				services General and administrative		Note D	-
				expenses	107.2/7	NAR	
		KG Talacammus instin	2	Nonoperating income and gains		Note D	-
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	33,450	Note D	-
	1 - - -			Inventories	4,502	Note D	-
				Payables to related parties	12,203	Note D	-

(Continued)
			Flow of	Transa	cuon Detan		% to
Number Note A)	: Comnany Name	Counter Party	Transactions (Note B)	Financial Statement Account	Amount	Payment Terms	% to Consolidated Assets/Revenu (Note C)
	- - -			Sales of cellular phone equipment	686 413	Note D	1
	•			and accessories, net	000,415		
				Other operating revenues	36,920	Note D	
				Cost of sales	190,283	Note D	
		Yuan Cing Co., Ltd.	3	Payables to related parties Marketing expenses		Note D Note D	-
2	KGEx.com Co., Ltd.	Far EasTone	2	D	¢2.002	Net D	
	(Note E)	Telecommunications Co., Ltd.	2	Receivables from related parties	\$2,902	Note D	
		Elu.		Payables to related parties	46,403	Note D	
				Telecommunications service	•	Note D	
				revenues			
				Cost of telecommunications services	208,035	Note D	
				Nonoperating expenses and losses		Note D	
				Other operating revenues	•	Note D	
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	3,537	Note D	
				Payables to related parties		Note D	
				Other operating revenues	•	Note D	
				Cost of telecommunications services		Note D	
				General and administrative expenses		Note D	
		Far EasTron Co., Ltd.	3	Telecommunications service revenues	644	Note D	
		Q-ware communications Co., Ltd.	3	Receivables from related parties	753	Note D	
				Telecommunications service revenues	9,163	Note D	
4	Far Eastern Tech-Info Ltd.	Far EasTone	2	Receivables from related parties	16,797	Note D	
	(Shanghai)	Telecommunications Co., Ltd.					
				Other operating revenues	146,383	Note D	
		KG Telecommunications	3	Receivables from related parties		Note D	
		Co., Ltd.		Other operating revenues	27.137	Note D	
5	Far EasTron Co., Ltd.	KGEx.com Co., Ltd	3	Service cost	644	Note D	
6	Yuan Cing Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	3,697	Note D	
		Etu.		Payables to related parties	4.487	Note D	
				Other operating revenues	-	Note D	
	- 			General and administrative expenses	890	Note D	
	- - - - - - - -	ARCOA communications Co., Ltd.	3	Receivables from related parties	1,939	Note D	- - - - - -
				Other operating revenues	6,394	Note D	
7	Q-ware Communications Co., Ltd.	Far EasTone Telecommunications Co.,	2	Payables to related parties	23,463	Note D	
		Ltd.					
				General and administrative expenses	11,212	Note D	
		KGEx.com Co., Ltd	3	Payables to related parties		Note D	
				Cost of telecommunications services	9,163	Note D	
	-			Payables to related parties	1 173	Note D	
	ADCast Interactive	Far EasTone	2	rayables to related parties	1,175	Note D	
	ADCast Interactive Marketing Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	rayables to related parties	1,175	Note D	

			Flow - P	Transaction Details				
Number (Note A)		Counter Party	Flow of Transactions (Note B)	Financial Statement Account	Amount		% to Consolidated Assets/Revenue (Note C)	
	<u>Year ended December</u> <u>31, 2007</u>				-			
	Far EasTone Telecommunications Co., Ltd.	KG Telecommunications Co., Ltd.	1	Receivables from related parties	\$649,022	Note D	1%	
	Liu.			Inventories	14,979	Note D	-	
				Payables to related parties	789,247	Note D	1%	
			-	Unearned revenues		Note D	-	
				Telecommunications service revenues Cost of telecommunications	2,828,152 1,831,295		4% 3%	
				services	1,051,275	Hole D	570	
				Marketing expenses	207,308	Note D	-	
		1		Nonoperating income and gains		Note D	-	
				Management service revenue		Note D Note D	-	
		ARCOA Communication	1	Nonoperating expense and losses Receivables from related parties	÷	Note D	-	
		Co., Ltd.	1	inconvables from feraled parties	101,040	THUE D	_	
				Inventories	568	Note D	-	
			-	Payables to related parties		Note D	-	
				Unearned revenues	,	Note D	-	
				Sales of cellular phone equipment and accessories, net Telecommunications service		Note D Note D	-	
				revenues	110,407	Note D	-	
				Cost of sales	1,071,211	Note D	2%	
		-		Other operating costs		Note D	-	
				Marketing expenses		Note D	1%	
		KGEx.com Co., Ltd.	1	Nonoperating income and gains Receivables from related parties		Note D Note D		
		KOEX.com Co., Etu.	1	Payables to related parties		Note D		
			-	Telecommunications service revenues		Note D	-	
				Cost of telecommunications services	8,628	Note D	-	
				General and administrative expenses		Note D	-	
		Far Eastern Tech-Info Ltd.	1	Nonoperating income and gains Payables to related parties		Note D Note D	-	
		(Shanghai)	1	General and administrative		Note D	_	
				expenses	155,724	Note D	-	
		Far EasTron Co., Ltd.	1	Receivables from related parties		Note D	-	
		Yuan Cing Co., Ltd.	1	Management service revenues Receivables from related parties		Note D Note D	-	
		Tuan Chig Co., Liu.	1	Payables to related parties	<b>-</b> /	Note D		
				General and administrative expenses	3,346	Note D	-	
				Management service revenue	1,030	Note D	-	
		Q-ware Communications Co., Ltd.	1	Receivables from related parties	4,839	Note D	-	
	KG Telecommunications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	789,247	Note D	1%	
				Inventories	5,191	Note D	-	
		-	1	Payables to related parties		Note D	1%	
				Unearned revenues		Note D	-	
				Telecommunications service revenues	1,831,295		3%	
				Cost of telecommunications services	2,862,245		4%	
				Marketing expenses General and administrative		Note D Note D	_	
				expenses Research and development		Note D	-	
				expenses	-,0			
				Nonoperating income and gains	\$208,044	Note D	-	

(Continued)

	s	ction Detail	Transa	The P			
% to Consolida Assets/Rev (Note C	Payment Terms	Amount	Financial Statement Account	Flow of Transactions (Note B)	Counter Party	Company Name	umber lote A)
	Note D	546	Nonoperating expense and losses				
	Note D		Receivables from related parties	3	ARCOA Communication		
	Note D	166	Inventories		Co., Ltd.		
	Note D	54,000	Payables to related parties				
	Note D	-	Unearned revenues				
	Note D Note D		Sales of cellular phone equipment and accessories, net Telecommunications service				
	Note D	319,395	revenues Cost of sales				
	Note D	•	Marketing expenses				
	Note D		Receivables from related parties	3	KGEx.com Co., Ltd.		
	Note D Note D	-	Payables to related parties Telecommunications service				
	Note D	124,909	revenues	-	-		
	Note D		Cost of telecommunications services				
	Note D	35,999	General and administrative expenses	-	-		
	Note D	15,042	Management service revenue				
	Note D	9,092	Payables to related parties	3	Far Eastern Tech-Info Ltd.		
	Note D	40,547	General and administrative expenses		(Shanghai)		
	Note D	266,558	Receivables from related parties	2	Far EasTone Telecommunications Co.,	Co., Ltd.	2
	Note D	58 045	Inventories		Ltd.		
	Note D		Payables to related parties				
		•	Sales of cellular phone equipment				
		100.011	and accessories, net				
	Note D Note D	•	Other operating revenues Cost of sales				
	Note D	•	Cost of telecommunications				
	Note D	227	services General and administrative expenses				
	Note D	139,028	Nonoperating income and gains				
	Note D	54,000	Receivables from related parties	3	KG Telecommunications		
	Note D	43.005	Inventories		Co., Ltd.		
	Note D		Payables to related parties				
	Note D	422,620	Sales of cellular phone equipment				
	Note D	49.322	and accessories, net Other operating revenues				
	Note D		Cost of sales				
	Note D	425	Payables to related parties	3	Yuan Cing Co., Ltd.		
	Note D	2,269	Receivables from related parties	2	Far EasTone Telecommunications Co.,	,	3
	Note D Note D		Payables to related parties Telecommunications service		Ltd.		
	Note D	6 994	revenues Other operating revenues				
	Note D	•	Cost of telecommunications services				
	Note D Note D		Nonoperating expense and losses Receivables from related parties	3	KG Telecommunications Co., Ltd.		
	Note D	47,578	Payables to related parties		со., Liu.		
	Note D	248	Telecommunications service revenues				
	Note D	124,909	Cost of telecommunications services				
			501 11005		1		

				Transaction Details			
Number (Note A)	Company Name	Counter Party	Flow of Transactions (Note B)	Financial Statement Account	Amount		% to Consolidated Assets/Revenue (Note C)
				Other operating revenues	\$35,999	Note D	
				General and administrative	•	Note D	
		Far EasTron Co., Ltd.	3	Receivables from related parties	229	Note D	-
				Telecommunications service revenues		Note D	
		Q-ware communications Co., Ltd.	3	Receivables from related parties	1,359	Note D	
				Telecommunications service revenues	3,071	Note D	
4	Far Eastern Tech-Info Ltd. (Shanghai)	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	25,233	Note D	
				Other operating revenues	133,724	Note D	
		KG Telecommunications Co., Ltd.	3	Receivables from related parties	9,092	Note D	
				Other operating revenues	40,547	Note D	
5	Far EasTron Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Payables to related parties	4,000	Note D	
				General and administrative expenses	2,400	Note D	
		KGEx.com Co., Ltd	3	Payables to related parties	229	Note D	
				Service cost	2,699	Note D	
6	Yuan Cing Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Receivables from related parties	2,754	Note D	
				Payables to related parties	3,100	Note D	
				Other operating revenues		Note D	
				General and administrative expenses	1,030	Note D	
		ARCOA communications Co., Ltd.	3	Receivables from related parties	425	Note D	
7	Q-ware Communications Co., Ltd.	Far EasTone Telecommunications Co., Ltd.	2	Payables to related parties	4,839	Note D	
		KGEx.com Co., Ltd	3	Payables to related parties	1	Note D	
		actions are identified and numbe		Cost of telecommunications services	3,071	Note D	

 services

 Note A:
 Parties to the intercompany transactions are identified and numbered as follows:

 1."0" for Far EasTone Telecommunications Co., Ltd. ("Far EasTone").
 2.Subsidiaries are numbered from "1".

 Note B:
 The flow of related-party transactions is as follows:

 1.From the parent company to its subsidiary.
 2.From a subsidiaries.

 Note C:
 For assets and liabilities, amount is shown as a percentage to consolidated total assets as of December 31, 2008 and 2007; while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the years ended December 31, 2008 and 2007.

 Note D:
 Payment terms varied depending on the related agreements.

 Note E:
 The information shown in the schedule is equivalent to the eliminated material intercompany transactions.

## FAR EASTONE TELECOMMUNICATIONS CO., LTD. AND SUBSIDIARIES SEGMENT INFORMATION YEARS ENDED DECEMBER 31, 2008 AND 2007

(In Thousands of New Taiwan Dollars)

			Year	rs Ended Dec	ember 31			
		2	2008			20	07	
			Adjustment				Adjustment	
	Telecommunications		and		Telecommunications		and	
	Services	Sales	Eliminations	Combined	Services	Sales	Eliminations	Combined
Revenues generated from un-affiliates	\$57,318,993	\$5,198,917	\$ -	\$62,517,910	\$58,519,645	\$5,517,101	\$ -	\$64,036,746
Revenues generated from the Group (Note B)								
Total revenues	<u>\$57,318,993</u>	<u>\$5,198,917</u>	<u>\$ -</u>	<u>\$62,517,910</u>	<u>\$58,519,645</u>	<u>\$5,517,101</u>	<u>\$ -</u>	<u>\$64,036,746</u>
Segment operating income (loss) (Note C)	<u>\$20,457,665</u>	<u>\$(1,357,097)</u>	<u>\$ -</u>	\$19,100,558	<u>\$21,804,440</u>	<u>\$(1,666,560)</u>	<u>\$ -</u>	\$20,137,880
Interest revenue				179,558				185,939
Other revenue				317,792				346,531
Equity in investees' net losses				(812,892)				(295,000)
Interest expense				(22,664)				(41,606)
Other expense				(678,959)				(685,398)
General and administrative expense (Note D)				<u>(4,759,751</u> )				<u>(5,085,405</u> )
Income before income tax				<u>\$13,323,642</u>				<u>\$14,562,941</u>
Identifiable assets (Note E)	<u>\$62,939,804</u>	<u>\$1,331,092</u>	<u>\$</u> -	\$64,270,896	<u>\$67,144,503</u>	<u>\$1,194,106</u>	<u>\$ -</u>	\$68,338,609
Financial products				1,748,767				1,624,420
Long-term investment				6,113,723				7,042,751
Assets not identifiable to a specified segment				<u>16,365,180</u>				<u>19,534,802</u>
Total assets				<u>\$88,498,566</u>				<u>\$96,540,582</u>
Depreciation expense	<u>\$10,804,661</u>	<u>\$27,250</u>			<u>\$11,169,743</u>	<u>\$23,995</u>		
Amortization expense	\$13,073	\$47,939			\$16,169	\$48,065		
Capital expenditure Notes: A. The Group is distinguished	<u>\$7,771,909</u>	<u>\$34,267</u>			<u>\$5,486,908</u>	<u>\$32,184</u>		

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 and interest expense.
D. Represents general and administrative expenses of the Group.
E. Represents general 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.

# 6. Impact of the Financial Distress Occurred to the Company and Affiliates in the Recent Years until the Annual Report being Published

None



Far EasTone Telecommunications Co.,Ltd. Annual Report 2008

# 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. Analysis of Capital Expenditure and Sources of Funding
- 6. Investment Policies, Reasons for Profit/Loss, Plans for Improvement, and Future Investment Plan
- 7. Risk Management
- 8. Others

## **1. Financial Condition**

#### **Financial Condition Review and Analysis**

				2008/12/31;	Unit	NTD'000
Year	December 31, 2008	December 31, 2007		Variance		
Item	December 51, 2006	December 51, 2007		Amount	%	
Current Assets	\$ 7,872,426	\$ 10,594,966	(	2,722,540)	(	26)
Investments in Shares of Stock	39,857,195	43,342,778	(	3,485,583)	(	8)
Fixed Assets	29,412,868	29,794,143	(	381,275)	(	1)
Intangible Assets	7,307,065	8,037,772	(	730,707 )	(	9)
Other Assets	910,795	608,036		302,795		50
Total Assets	85,360,349	92,377,695	(	7,017,346)	(	8)
Current Liabilities	13,160,080	12,384,336		755,744		6
Long -term Liabilities	4,180	8,360	(	4,180)	(	50)
Other Liabilities	899,887	650,999		248,888		38
Total Liabilities	14,064,147	13,043,695		1,020,452		8
Capital Stocks	32,585,008	40,330,334	(	7,745,326)	(	19)
Capital Surplus	19,487,349	19,487,270		79		-
Retained Earnings	19,245,585	19,501,261	(	255,676)	(	1)
Other Shareholders' Equity Item	( 21,740)	15,135	(	36,875)	(	244)
Total Shareholders' Equity	71,296,202	79,334,000	(	8,037,798)	(	10)

#### 1-1. Analysis of variation plus and minus 20%

1. The decrease in current assets was due to the decrease in repurchased commercial paper and bonds

- 2. The increase in other assets was due to the increase in deferred income tax assets-non-current resulting from the difference in life year of depreciation between financial accounting and tax accounting.
- 3. The decrease in long-term liabilities was due to the repayment of lease payable in accordance with the term of the contract.
- 4. The increase in other liabilities was due to the increase in government's subsidies received in advance.
- 5. The decrease in stockholders' equity was due to the change in the unrealized loss on cash flow hedge and unrealized gain/loss on available-for-sale financial asset held by subsidiaries recognized in accordance with the ROC Statements of Financial Accounting Standards No. 34-"Accounting for Financial Instruments" and No 36-"Disclosure and Presentation of Financial Instruments".

#### 1-2. Effect of change in financial condition: None

1-3. Future response actions: Not applicable

#### 2. Operating Performances

### **Operating Performance Analysis**

2008/12/31; Unit: N							
Year	20	08	20	07	Varia	nce	
Item	Subtotal	Total	Subtotal	Total	Amount	(%)	
Operating Revenue		\$ 51,341,479		\$ 46,171,972	\$ 5,169,507	11	
Operating Costs and Expenses		38,370,355		35,897,402	2,472,953	7	
Operating Income		12,971,124		10,274,570	2,696,554	26	
Non-Operating Income and Gains							
Equity in Investor's Net Gains	\$ 88,449		\$ 3,353,048		( 3,264,599)	( 97)	
Government Grant	74,217		21,583		52,634	244	
Management Service Revenue	70,391		125,778		( 55,387)	( 44)	
Commission Revenue	44,590		152,606		( 108,016)	( 71)	
Interest Income	35,665		72,805		( 37,140)	( 51)	
Reversal of Loss on Decline in							
value of inventories	14,208		-		14,208	-	
Rental Income	14,857		14,909		( 52)	-	
Gain from Sale of							
Nonperforming Accounts							
Receivable	-		26,979		( 26,979)	( 100)	
Other	94,694		105,973		( 11,279)	· /	
Total Non-Operating Income and						. ,	
Gain		437,071		3,873,681	( 3,436,610)	( 89)	
Non-Operating Expenses and						. ,	
Losses							

#### 2008/12/31; Unit: NTD '000; %

Year	20	08	20	07	Varian	ce
Item	Subtotal	Total	Subtotal	Total	Amount	(%)
Loss on Disposal of Properties,						
net	209,209		402,412		( 193,203)	(48)
Impairment Loss	20,000		6,549		13,451	205
Interest	8,348		27,545		( 19,197)	(70)
Loss on Decline in Value of						
Inventories	-		17,551		( 17,551)	100)
Other	42,816		3,250		39,566	1,217
Total Non-Operating Expenses						
and Losses		280,373		457,307	( 176,934)	(39)
Income Before Income Tax						
Expense		13,127,822		13,690,944	( 563,122)	(4)
Income Tax Expense		2,967,075		2,071,503	895,572	43
Net Income		<u>\$ 10,160,747</u>		<u>\$ 11,619,441</u>	(\$ 1,458,694)	13)

#### 2-1. Analysis of variation

- 1. The increase in operating income was due to the growth rate of operating revenue higher than that of operating costs & expenses, resulting from stable growth of service revenue and effective cost control.
- 2. The decrease in investment income recognized under the equity method was due to (a) the decrease in profit gained of the operation of subsidiary, KG Telecommunications Co., Ltd., which was less than that in 2007, (b) the increase in long-term investment in which NCIC's share at the end of 2007 were accounted by equity method.
- 3. The increase in Government grant revenue was due to the Government grant for acquiring WiMAX related equipment in 2008.
- 4. The decrease in non-operating income of service charge was due to the decrease in the service charge from KT Telecommunications Co., Ltd. in 2008.
- 5. The decrease in commission income was due to the decrease in the commission income collected for sale of mobile phone numbers of KT Telecommunications Co., Ltd. on a consignment basis in 2008.
- 6. The decrease in interest was due to the decrease in interest income from the repurchase of commercial paper and bonds in 2008.
- 7. There was no transactions of sale of nonperforming accounts receivables in 2008.
- The decrease in net loss on disposal of fixed assets and idle assets was due to the decrease in dismantles of stations under site protests in 2008.
- 9. The increase in impairment loss was due to the loss for recognized the carrying value of subsidiary and their recoverable amount with the ROC Statements of Financial Accounting Standards No. 35-"Accounting for Impairment Loss".
- 10. The decrease in interest expenses was due to the repayment of corporate bonds and no new loans.
- 11. The decrease in loss on decline in value of inventories was due to the clearing out over the stored old type handsets in 2008.
- 12. The decrease in other expense was due to the donations to the Sichuan province of China for earthquake in 2008.
- 13. The increase in income tax expenses was due to the decrease in tax-exempt income upon expiration of the five-year tax exemption period in June 2007.

# 2-2. For the estimated sales volume and the underlying rationale for the following year, and the potential impacts on the Company's future business and action plans: Please refer to the "Letter to Shareholders".

#### 3. Cash Flow

#### 3-1. 2007 Cash Flow Analysis

					Unit: NT\$ '000
Cash and Cash Equivalents in	Total Cash Inflows from Operating	Total Cash	Balance of Cash and Cash	Remedy Plans for Neg and Cash E	
the Beginning (1)	Activities (2)	Outflows (3)	Equivalents (1) + (2) - (3)	Investment Plan	Financing Plan
3,614,660	22,840,764	27,635,157	(1,179,733)	184,294	1,500,000

1. Operating activities: the increase in cash flow from operating activities was due to the higher growth in 3G subscribers in 2008 than that in 2007.

2. Investing activities: the increase in cash outflow was due to the increase in capital expenditure in 2008.

3. Cash outflow from financing activities: the increase in cash outflow was due to capital reduction to return \$7,745,326 thousands in cash to shareholders in 2008.

#### 3-2. Remedy plans for insufficient liquidity:

To increase cash inflow from the financing activities.

### 3-3. 2009 Estimated Cash Flow Analysis

Unit: NT\$ '000

Cash and Cash Equivalents in	Total Cash Flows from Operating	Total Cash Outflows	Balance of Cash and Cash	ative Balance of Cash quivalents	
the Beginning (1)	Activities (2)	(3)	Equivalents (1) + (2) - (3)	Investment Plan	Financing Plan
504,561	21,373,182	17,885,207	3,992,536	0	0

1. Operating activities: Because of the effects of a saturated mobile communications market and the financial turmoil, the economy is now in a recession and consumers are reducing their expenditures. Estimated flows in net cash and cash equivalents from operating activities are expected to be lower than those from the previous year.

2. Cash flows from investing activities: The net cash used in investing activities in 2009 is expected to increase due to the higher capital expenditure on network expansion, including 3G, HSDPA, and WiMAX constructions.

3. Financing activities: No asset disposal plans or funding plan are scheduled because there will be sufficient cash to repay the bank loans due within one year.

## 4. Key Performance Indicator , KPI

				Unit: NT\$
KPI	Definition	2008 Target	Achievement in 2008	KPI Achievement ratio
ARPU	Customer's average monthly revenue (Unit: NT\$)	\$831	\$784	94%
EBITDA	Earning before interest, taxes, depreciation and amortization (Unit: \$1,000)	\$21,127,534	\$20,985,491	99%

# 5. Analysis of Major Capital Expenditure and Sources of Funding

#### 5-1. Major Capital Expenditure and Sources of Funding in 2008

	Unit: NT\$ '000		
Plan Item	Actual or Estimated Source of Capital	Actual or Estimated Fund Utilization Schedule	Total Capital Needed
Network Expansion: including 2G & 3G system expansion and upgrade, 3G& WiMAX system installation and expansion	Working Capital	2009	6,712,453

# 5-2. Expected Benefit: In the year of 2008, total operating revenue has increased by 11.2% in comparison with that of 2007.

### 6. Investment Policies, Reasons for Profit/Loss, Plans for Improvement, and Future Investment Plan

					Unit: NT\$'000
Explanation Item	Amount (Carrying Value as of 12/31/2008)	Polices	Reasons for Profit/Loss	Plans for Improvement	Future Investment Plans
KG Telecommunications Co., Ltd.	\$32,475,440	synergies from its merger with FET to boost market share and	After becoming a 100% owned subsidiary of the Company, KGT continued to be profitable in 2008 due to the advantages of both parties in multimedia services, network capacity, signal coverage and multiple customer support centers.		Already proposed to merge KGT into FET in 2009. FET will be the surviving company and KGT will be the extinguished company.
New Century InfoCom Tech Co., Ltd	\$5,490,024	Integrate the available resources to improve operational performance and competitiveness.	All the major world nations suffered serious financial- economic woes in 2008. This led to higher non-operating losses for the Company.	Apart from the continuing improvements in its core business, the Company will also adjust its non-operating investments strategy to improve its bottom line.	Already merged subsidiary, Digital United in March 2009. New Century InfoComm is the surviving company.

Explanation	Amount (Carrying	Dalias-	Dessens for Dr. 64/7	Plans for	Future
Item	Value as of 12/31/2008)	Polices	Reasons for Profit/Loss	Improvement	Investment Plans
Far Eastern Electronic Toll Collection Co, Ltd.	\$408,729	good performance and service during the	Since the contract was re-signed with National Highway Bureau in August	To continue to launch promotional plans and expand service	No concrete investment plans at present
		contract period, valid until 2025, for the "Freeway Electronic Tolling System Construction and Operation" contract	2007, political uncertainty has disappeared. Freeway electronic toll systems however involve large upfront investments and a long recovery period, so a loss was	channels to increase consumer utilization and operating revenues. Improved performance will also help reduce operating	
		signed with the National Freeway Bureau to deliver optimal returns for shareholders.	still posted for 2008 though this has improved in comparison to that for 2007.	· 1 1 0	
ARCOA Communications Co., Ltd.	\$1,039,987	Implementing strategic investments to vertically integrate the mobile business with the telecommunication channel services.	Integration of mobile communications business and telecommunications channel services is now delivering positive results. The Company has turned profitable in 2008.	None	No concrete investment plans at present
Q-Ware Communications Co., Ltd.	\$190,370	and improve the performance of existing resources.	Losses were still coming from the operations of offering public wireless internet business, but the revenue coming from virtue mobile service and enterprise consumers is increasing.	conglomerate strengths available and focus on developing various application services for wireless networks and enhance the service quality of back-end operations.	
FarEastern Info Service (Holding) Ltd.	\$153,851	Integrate the resource and improve the efficiency to offer the competitive information service and to lower group operational cost.	The company turned profitable in 2008 because Fat Eastern Tech Info (Shanghai), its invested company, has made profits in 2008 by cutting down its money-losing businesses.		No concrete investment plans at present
E.World (Holdings) Ltd.	\$67,305		Stable profits came from the invested company, Yuan Cing Co., Ltd.	None	No concrete investment plans at present
Far EasTron Holding Ltd.	\$25,575	Incorporate an offshore holding company to set foot in the international digital contents industry.	Losses mainly came from recognizing the losses of Far Eastron Co., Ltd., a subsidiary, before its merger with ADCast in September 2008.	Better business results can be expected from ADCast that has different business operations and characteristics from those of Far Eastron Co., Ltd.	
ADCast Interactive Marketing Co., Ltd.	\$170	Mainly provide internet marketing related services, advertising planning and productions	Losses mainly came from the disposal of idle fixed assets before the merger with Far Eastron Co., Ltd. for better business positioning.	To grab the growing business opportunities in internet marketing by integrating the resources inside the telecom sector.	No concrete investment plans at present
Far EasTron Co., Ltd.	\$0	Offer digital content related services.	Founded in September 2005, the company has been merged into ADCast. Increased losses mainly came from losses in disposing of idle fixed assets before the merger.	None.	None

Explanation Item	Amount (Carrying Value as of 12/31/2008)	Polices	Reasons for Profit/Loss	Plans for Improvement	Future Investment Plans
Ding Ding Integrated	\$5,744	Integrated marketing	Losses in 2008 mainly came	Manage operating	No concrete
Marketing Service		and operation	from the online shopping	cost wisely, while	investment
Co., Ltd.		development for the	business.	increasing business	plans at present
		Conglomerate.		revenue continually.	

## 7. Risk Management

# 7-1. Impacts and Hedges against Interest Rate and Exchange Rate Fluctuation and Inflation on the Company in the Recent Years

### 7-1-1 Interest Rate Analyses

Since the Company has no interest – bearing liability, the change of interest rate has no impact on the Company's interest expense. However, due to the lower interest rate in current market, the Company's interest revenue will be reduced. In consideration of risk control, the Company keeps conservative and steady principle in cash management.

#### 7-1-2 Exchange Rate Analyses

#### A. Sources of Exchange Gains/Losses

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 2008 and Q1 2009 are as follows:

		2009/3/31; Unit: NT\$'000
Year	2008	2009 (as of March 31)
Foreign Exchange Gains (Losses) (A)	(470)	(1,611)
Operating Revenue (B)	51,341,479	12,894,797
% of Operating Revenue (A)/(B)	(0.001%)	(0.012%)
Operating Income (C)	12,971,124	3,221,332
% of Operating Income (A)/(C)	(0.004%)	(0.050%)

As shown in the above table the foreign exchange gains/losses account for a small percentage of operating revenue (0.001% in 2008 and 0.012% in Q1 2009) and operating income (0.004% in 2008 and 0.050% in Q1 2009).

#### B. Hedges against 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

The global recession has reduced the demand for oil, which led to a drop in raw material prices across the board. Inflationary pressure has now weakened and currently has no effect on the Company's profit and loss.

#### 7-2. Hedge Accounting

Hedge accounting involves the recognition of the offsetting effects on profits or loss of changes in fair values of the hedging instrument and the hedged items. The accounting booking principles are:

- (1) Fair value hedge: The gains or losses from the changes in fair values of the hedge instruments and the gains or losses from the hedge item attributable to the hedged risk are recognized immediately as profit or loss.
- (2) 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 non-financial 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 interest rate swap ("IRS") held by the company is designed for a cash flow hedge purpose, and mainly aims to hedge the risk associate with floating interest rate of corporate bond. The IRS is settled every 6 months, and the amount of IRS is completely the same with corporate bond during the transaction period. As a result, it is qualified as cash flow hedge,

according to the regulation of ROC SFAS. So the gains or losses from the changes in fair values of the hedge instruments are recognized directly in shareholders' equity, and to be adjusted based on the changes of fair value each period. Due to the Company already repaid all of the bonds payable by the end of 2008, there was no financial instrument trading during the period until the annual report being published. The net loss from IRS held by the company for year 2008 was NT\$12,992 thousand respectively and has recognized as interest expenses.

# 7-3. Policies for High Risk or High Leveraged Investments, Lending, Endorsement, Derivative Financial Instruments, and Related for Gains or Losses in the Recent Years

- 1. High risks or high leveraged investments: The Company did not engage in high-risk and high-leverage investment in 2008.
- 2. Loan to others: The Company was no any outstanding loans in the end of 2008 until the annual report being published.
- 3. Endorsements and guarantees provided: Until the end of 2008 and the annual report being published, the balance of endorsements and guarantees made by the Company, which was the telecommunication products/service performance guarantees required by NCC, has been NT\$495,000,000. The joint performance guarantees made by the Company for its subsidiaries, KG Telecommunications Co., Ltd. and KGEx.com Co., Ltd., was NT\$450,000,000 and NT\$45,000,000 respectively.
- 4. Derivative financial instruments: The purposes of the Company's derivative transactions in 2008 were for non-trading on activities. 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. The 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. The Company has no any financial instrument trading during the period until the annual report being published.

#### 7-4. R&D Plans and Estimated Expenses in the Recent Years

#### A. R&D Plans

#### **I Strategic Projects**

Project Name	Project Description	Current Progress	Product Launch Date	Key Success Factors
	This project is a major three-year infrastructure	The network	April 30,	Experience gained
	project proposed by the MOEA Industrial	rollout for phase	2009	from phase I as
	Development Bureau. Its objective is to develop	II is now in its		well as continued
	Taiwan into a Mobile Application Service Island	final stages and		improvements in
	and promote the development of the domestic	will provide		technology will
	communications manufacturing & service	complete		allow phase II to
M-Taiwan	industries. The Company's proposal consists of two	coverage for the		proceed more
Project	phases. Phase I centers around the northern	Taichung City		smoothly
	freeways and the acceptance trials were completed	population. Other		
	at the end of 2006; phase II will involved the set up	application		
	of a network trial in Taichung City before WiMAX	services are now		
	enters commercial operation and wireless	undergoing final		
	broadband application services are planned.	acceptance		
		testing as well.		
	The Company has secured the network license for	Wireless	Dec. 31,	Experience from
Wireless	wireless broadband access in southern Taiwan. To	broadband access	2009	phase I and phase
Broadband	meet the demand for large mobile broadband, the	network roll-out		II of the M-Taiwan
	Company is now working quickly to set up the	and network		project means
Access (WiMAX or	MIMO (Multiple-Input, Multiple-Output) and	performance		greater confidence
·	OFDMA (Orthogonal Frequency-Division Multiple	testing now in		about the network
LTE)	Access) wireless broadband networks.	progress in		rollout and
		Taichung City		technology
	Market analysis and business requirement planning	Will focus on	May 31,	Foundations have
	conducted in response to FMC network	function	2009	been laid in phase
	type/service requirements. Focus is on developing	enhancement of		I. IMS market
Development	service products for home consumers and	IMS phase II in		trends and critical
of the IMS	enterprise users.	2009 and		technologies have
Service		planning for		also been mastered
Platform		future integrated		in order to achieve
		wireless		phase II in 2009
		broadband		
		services		

Project Name	Project Description	Current Progress	Product Launch Date	Key Success Factors
NGN/4G Network Format Research	This project involves pioneering Research into the NGN/4G network format and service requirements including 802.16m and LTE advance related technologies. The Company's NGN (Next Generation Network) communication strategies and risk assessments are developed, with existing and potential competitor technologies analyzed and studied in order to identify any technical difficulties associated with NGN/4G network roll-outs. This will allow advance planning to be carried out for resolving bottlenecks.	Now constructing wireless broadband network to test next generation technologies. We are also working through other system vendors to understand characteristics of 4G networks as well as its difference with existing 2G/3G networks for use in future assessment and planning.	Dec. 31, 2009	Experience from M-Taiwan experiences means we now have a better understanding of NGN/4G
Research into Smart Strategy and Billing Control Mechanism	Integrate multi-network strategy and rate control mechanism in order to develop a control center that adheres to the industry standards for mobile communications and fixed networks. This will not only allow for the effective use of the Company network bandwidth but also provide a single interface for flexible and smart billing controls. By providing a uniform value-added service, we can meet the needs of home, enterprise and broadband users.	Planning and design completed on the basic system functions in phase I. Now in the system function testing and stability simulation phase.	August, 2009	Have mastered the critical technologies

# **II System Projects**

Project Name	Project Description	Current Progress	Product Launch Date	Key Success Factors
FET Big Broadband	The Company's exclusive "FET Big Broadband Plan" uses the IMS network service platform as the basis for integrating wireless Internet access and telephony. It is able to support wireless Internet connection sharing, unlimited WiFly Internet access throughout Taiwan and cheap call rates. In the future, mobile value-added services will be integrated into the Company's IMS Platform to offer customers a better quality of service.	Will focus on function enhancement of IMS phase II in 2009 and planning for future integrated wireless broadband services	May 31, 2009	Foundations have been laid in phase I. IMS market trends and critical technologies have also been mastered in order to achieve phase II in 2009
3.5G Wireless Broadband Internet Access and Equipment	In 2006, the Company launched the first 3.5G (High Speed Packet Access: HSPA) service to truly offer transmission rates of up to 3.6Mbps. In 2008, support users various 3G data cards became available. A Mobile Internet Device with an integrated 3.5G wireless data card was also released that is easy to carry and allows for Internet access any where, any time.	Provide a variety of wireless data cards and MID terminal devices. Maintain the quality of network service in order to promote wireless broadband Internet access services	Dec. 31, 2009	A wide variety of low-cost wireless data cards and a high quality broadband network will encourage the adoption of wireless broadband Internet service

Project Name	Project Description	Current Progress	Product Launch Date	Key Success Factors
Multimedia Content Integration Platform	The Company has set up a multimedia platform to define a set of common functions that can be used to accelerate the set up of different audio-video services in the future. This audio-visual multimedia platform emphasizes a complete range of power functions (content delivery, streaming services, conversion/encoding services, digital rights management) and the system basically makes it easier for content providers and application developers to transmit all kinds of good quality audio-visual services through web service technology to thousands of different mobile phones, PDA and PC/NB models. It will also lower the technical threshold for billing controls and revenue sharing management. Content providers can thus develop different business models to promote all the different types of multimedia application services.	System analysis, programming, network and hardware setup now completed. Now carrying integration testing on the sub-systems.	June, 2009	<ol> <li>Sales and marketing departments must work hard to recruit large numbers of content providers in order to provide multimedia services that are attractive to the consumer.</li> <li>Strengthen the functions that the market actually wants.</li> </ol>

# **III Value-adding Service Projects**

Project Name	Project Description	Current Progress	Product Launch Date	Key Success Factors
"FET Beep 'N' Go" NFC Mobile Phone Service	The Company became the first telecommunications company in Taiwan to join the global "Pay-buy mobile" program set up by the GSMA association. Through the program, the Company and major telecommunications providers around the world set up a global standard for a "Credit Card/Cash Card with SIM functionality" and NFC wireless technology. The "FET Beep 'N' Go" service combines the functions of a SIM card, credit card, access card, membership card and discount voucher all onto one 3G SIM card. Agreements were also signed with leading companies in Taiwan to expand the service's reach. In February 2008 the Company and Taishin Bank invited 200 consumers to take part in a consumer trial that used the latest NFC technology to provide consumers with a new, convenient way of life that will work all around the world. The Company also partnered with the Yuan Ze University to give students the chance to use the NFC short-range wireless communications for more advanced and convenient services.	System feasibility has now been validated. Now carrying out R&D into system functions and working with content service providers on service planning and development of the integration platform	Oct. 31, 2009	Have already been successfully trialed and tested on campus. Service will be realized using technology based on international standards
FET Multi-function PND Unit	This is the first product to combine navigation, mobile phone, mobile TV and multimedia audio-visual entertainment functions all in one unit. It can also be matched to the "FET GPS Info Go" service to provide a unique mobile navigation capability. The multi-function PND units supplied by the Company in 2008 were the dmedia G6 and Mio Moov 380.	Evaluating different PND units and mobile phones with navigation, mobile phone, multimedia audio-visual entertainment functions in order to meet the needs of different customer segments	Oct., 2008	Key development and integration technologies as well as integration with navigation equipment have now been mastered. Will leverage the Company's existing "FET GPS Info Go" service to develop a customized and easy to use interface for accessing traffic and travel info through PND units and mobile phones

Project Name	Project Description	Current Progress	Product Launch Date	Key Success Factors
FET Mobile Storage	This service allows the Company customers to back up important data on their mobile phones at any time, any place. The service can also be accessed through the computer to edit data such as contact lists, calendars, to-do lists and notes with ease.	Service launched on December 9, 2008	Dec., 2008	A convenient and easy to use backup process backed up by technology to quickly recognize the brand and model of the mobile phone
FET Photo Sharing Service	Wi-Fi technology for digital picture frames is integrated with mobile communications service so consumers can use the photo sharing service to simply click and drag photos on their computers or on popular online photo albums and share them wirelessly with friends and family through the computer, Internet or mobile phone MMS.	Provide reasonably-priced wireless digital picture frames and integrate it with the Company's custom value-added service	Dec., 2008	Key development and integration technologies have now been mastered; multi-function digital picture frames with a reasonable price and integrated the Company value-added service
FET Gaming Platform	This service provides customers with a complete gaming service platform and a wide variety of games that can be subscribed to via the computer (web) or mobile phone (WAP). The platform helps to boost subscribers' repeat visit rate and game download rate, resulting in higher revenues.	System specifications have now been defined. Now in system development phase	June, 2009	Key development and integration technologies already mastered. Will be able to manage the Company's mobile gaming content
FET Mail 3.0	The user can use smart phones or PDA mobile phones to connect with the Company via GPRS. Using a simple and intuitive interface, the user can easily receive company mail through Microsoft Outlook and Lotus Notes or personal mail through Yahoo Mail, Google Mail or Seednet E-mail.	System analysis, programming, network and hardware setup now completed. Now already online.	Oct., 2008	Have mastered the critical technologies; allows the user to send and receive internal company e-mails over the public Internet
WAP Portal Website Advanced Version	The advanced version of the WAP portal website offers subscribers a personalized and content rich portal that they can use to easily find interesting content and SP websites. The WAP administrator can use the flexible recommendation mechanism and intuitive interface to design group displays that match the phone model and user characteristics. As the architecture is designed to be technical threshold-free, the portal administrator can use the user behaviors compiled by the system to easily adjust the content selection rules and activities within the portal and boost its cost-effectiveness. The portal also provides information on everything form webpage design to advertising effectiveness to help the decision maker make informed decisions.	System completed and now online	July, 2008	The user interface designed to sales requirements can provide the subscriber with a content-rich web portal.
3G Multimedia Audio-Visual Service	The subscriber can be provided with multimedia audio-visual entertainment over the 3G network. The rich array of content on offer includes TV channels, the latest movies, popular music, news and weather, and lifestyle information. Mobile TV, multimedia on demand, and audio-video streaming are all available for customers to choose from.	Service platform has been developed and is now online. Now conducting integration testing with the Company's mobile TV service.	April, 2009	Multimedia streaming technology already mastered

Project Name	Project Description	Current Progress	Product Launch Date	Key Success Factors
Reward Redemption	As the Company offers a wide variety of voice and value-added services, the reward redemption platform offers a cross-selling platform for all kinds of different services. Physical rewards can be specified for different time slots and promotions according to the subscriber's use of voice, messaging and value-added services. Rewards can also be redeemed for billing discounts and free ringtones to help the Company customers better understand experience and use the company's	Project to be completed in April 2009. Now in development & setup phase.	April, 2009	Requirements after commercialization have been defined. System integration and development technologies have also been mastered.
Advanced IMS Service	various services. In August 2007, the Company launched the Big Broadband Service. By using the advanced IMS platform, the Company released multimedia VoIP service using custom the Company client software. Where there is the Company network coverage or Q-ware wireless networks, an open communications protocol such as WiMAX, WiFI, 3G and Broadband can be accessed through PDAs, notebooks, desktops and mobile phones. New IMS functions will be added in 2009 to offer the following advanced services: a. SMS and MMS messaging; b. Ringtones; c. Online friends' status and group management system	SIT and UAT testing under way	July, 2009	Key technologies and integration experience already mastered for the IMS platform
Location Base Service	Use the fast and accurate AGPS positioning method to provide pedestrian, automobile and bicycle navigation services	AGPS infrastructure has now been completed. Service planning under way	Sep., 2009	The accuracy and speed of position fix as well as mobile phone support will the deciding factors

B. The projected R&D funding for 2009 is estimated at around NT\$133,607 thousand.

# 7-5. Impacts and responses of the Company of Material Changes of Policies and Regulations in Taiwan and Foreign Countries in the Recent Years

(1) Communications and broadcasting technology are now developing and converging at a rapid pace. In the interests of consumer protection and supporting the sound development of the communications & broadcasting industry, the government passed the "Communications Basic Law" in 2004. Article 3 of the law also required the government to set up an independent National Communications Commission (NCC) to oversee all communications and broadcasting affairs. The NCC was officially established on February 22, 2006 and its creation marked an end to decades of binary management in communications and broadcasting.

The Executive Yuan subsequently filed an application with the Justice of the Constitutional Court of the Judicial Yuan questioning the constitutionality of the NCC. On July 21, 2006, the Justice of the Constitutional Court issued Constitutional Interpretation No. 613 declaring the clauses in Article 4 of the NCC Organic Act governing the commission's make-up to be in breach of the Constitutional principles on the separation of powers and political responsibility. In response, the governing and opposition parties in the Legislative Yuan worked together to pass amendments to Article 4 on January 9, 2008. On July 18, 2008, the Legislative Yuan exercised its right to confirm the appointments of new commissioners put forward by the Premier. The Executive Yuan then appointed Hsieh Chin-nan, Liu Chorng-jian, Lee Ta-sung, Weng Hsiao-ling, Chen Cheng-tsang and Bonnie Peng to the NCC. At the meeting of the NCC on August 1, 2008, the commissioners voted among themselves to elect Bonnie Peng as the chief commissioner and Chen Cheng-tsang as the deputy chief commissioner.

The amendment to the NCC Organic Act and the inauguration of 7 new commissioners solved the constitutional dispute and allowed the NCC to begin operating normalied. This facilitates the development of the communications industry and protects the rights of the people. The Company will continue to liaise closely with the NCC and pay close attention to the division of responsibility between the NCC and the Executive Yuan's subordinate agencies. Future industry related policies and legislative efforts will also be tracked to allow for advance planning and response.

- (2) To realize the effective use of telecommunications numbers, in 2008 the NCC commissioned the Telecom Technology Center to begin the development of the "Telecommunications Number Management System". The NCC also requested industry input on "reducing number allocations" and "auctioning of prime numbers or fee-based number selection" schemes in preparation for future adjustments to the rates charged for number allocations. As any change to number allocation ranges and number fees will direct affect the company's operating costs, the Company will continue to closely monitor the NCC's handling of the matter and make any necessary adjustments to how telecommunications numbers are handled in the future.
- (3) After the fixed telecommunications market was deregulated in 2000, the competent authority proposed in 2001 that "the originating network shall set the rate and receive the revenues for inter-network communication costs". This proposal was

submitted to the National Transportation and Communications Conference for consideration.

The fixed network business had just been deregulated however and allowing the originating network to set the price would excessively favor CHT's local phone call network. As a result, operators proposed that "ownership of communications revenues should only be adjusted after there is sufficient competition in the local call market". After considering the industry feedback, in 2002 the competent authority declared in the "Telecommunications Deregulation Policy White Book" that: "the ownership of inter-network communications revenues will be adjusted in accordance with the "price to be set by originating network and revenues to belong to original network" once there is sufficient competition in the local call market. Reverting to a scheme where the originating network sets the prices may seriously impact on telecommunications operator revenues however. "When a fixed line calls a mobile phone, the mobile network operator must pay a connection fee and account collection fee to the fixed network operator; the fixed network operator may also require the mobile network operator to pay a reasonable surcharge to gradually increase the revenues of the local network operator." It is the opinion of the NCC that the above arrangement has been successful in encouraging the development of the mobile phone market.

The Company will closely monitor if the NCC intends to implement the "pricing rightownership principle (return the pricing right to originating network)" principle. How it will impact on the company will be studied and concrete measures proposed in response.

(4) On December 21, 2006, the NCC approved and announced the x value of each business, in accordance with Article 26 Paragraph 1 of the Telecommunications Act and Article 5 of Administrative Regulations Governing Tariffs of Type I Telecommunication Enterprises. From April 1, 2007 onwards, for 2G mobile phones all calls from fixed lines to mobile phones, mobile phone pre-paid card services and capped monthly mobile phone plans must undergo compulsory rate reductions for three consecutive years. The cuts amounted to 4.88% a year and this has been enforced for two years so far.

As the Company has always been committed to improving our operational efficiency, upgrading communications technologies, reducing service costs and offering all kinds of promotions and discounts to consumers in a bid to deliver reasonable telecommunications costs, improve the competitiveness of the nation and telecommunications industry, and protect the rights of consumers, our company finds the NCC's tariff control policy as well as its method of calculation and basis for price controls to be totally unacceptable. As the decision was made without proper assessment of its political implications or the state of competition in the market, the Company has since filed an appeal with the NCC on January 25, 2007. Administrative litigation is also been used to ask the NCC to take the impact on the market into consideration in future price control decisions. It is the Company's belief that telecommunications rates should be decided by the market in order to live up to the spirit of telecommunications deregulation.

(5) With regards to the allocation and use of the 19XX public welfare numbers, the Company has always set reasonable prices and cooperated with the government's welfare policy in accordance with the requirements of the NCC and other relevant resolutions. Apart from actively studying ways of reducing costs or offering discounts for the public welfare numbers, the Company is also cooperating fully with all related government measures.

Taipei City Government's 1999 number is problematic because it mixes the use of government business and public welfare services. Government business was originally conducted through the 080 toll-free numbers that the public could call for free, with communications cost met out of the government budget. The 1999 number is, however, significantly different from pure welfare applications such as the "1980 Teacher Chang" and "1995 Lifeline" so it should be handled differently from dedicated charity numbers as well. In order to arrive at a mutually satisfactory outcome for members of the public, operators and the government, the Company is now negotiating with the Taipei City Government on the use of 1999 government business and public welfare number.

#### 7-6. Technology Developments and Impacts on the Company in the Recent Years

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 focuses on the development of services that offer high mobility and high coverage. WLAN/WiMAX technology currently emphasizes the provision of Hotspot/Nomadic wireless network services. As wireless broadband access technology focuses on high bandwidth and mobility, the three types of technology not only deliver distinctly different services but also have a complementary effect. The Company is actively participating in the M-Taiwan Project promoted by the MOEA Industrial Development Bureau and taking this opportunity to expand our research and development into wireless broadband access technologies. For the Company, it is important to develop

and integrate the company's own advantages in GSM/GPRS and 3G operations as well as our expertise in international network services and wireless broadband access technology. To this end, we will gradually integrate our 2G/3G/WLAN/WiMAX services in response to the needs of enterprise and personal market. By reinforcing the Company's advantage in mobile network communications, we will create a diversified and integrated service that can meet all the different service and bandwidth requirements.

#### 7-7 Changes of Corporate Image and Impacts on the Company's Crisis Management in the Recent Years: None.

#### 7-8 Expected Benefits and Risks from Mergers in the Recent Years:

The Board of Directors was approved the simple merger of the Company and KGT on February 26, 2009. KGT will be merged into the Company and the Company will become the surviving company. Due to the Company owns 100% KGT shares, there was no any merge consideration. After the merger, due to the integration of resources which was expected helpful for the Company's NBV per share and EPS, there was no significant risk in the simple merger.

#### 7-9 Expected Benefits and Risks from Plant Expansion in the Recent Years: Not applicable.

#### 7-10 Risks from Concentration in Supply and Sales in the Recent Years:

The Company's major supplier and customer in 2008 was Chunghwa Telecommunications, which accounts for 13.63% of the total amount of supply and 13.46% of the total amount of sales. Therefore there are no situations of concentration in supply and sales.

- 7-11 Impacts 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 Yeas: None.
- 7-12 Impact and Risks from Change of Ownership in the Recent Year: None.
- 7-13 Material Impacts on Shareholders' Equity or share Price from Litigations, non-litigations or administrative actions in Directors, Supervisors, Chairman, President, Shareholders with Greater than 10% Shareholding and Subsidiaries in the Recent Year until the Annual Report being Published: None.

7-14 Other Major Risks: None

#### 8 Other

# To comply with the needs for Information Disclosure Ranking, a special note is disclosed by the company regarding the fair values related information about financial instruments:

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

- Cash and cash equivalents, accounts and notes receivable, receivables from related parties, restricted assets, short-term bank loans, commercial paper payable, notes payable, accounts payable, 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.
- If quoted market prices are available, these are used as fair values of derivative instruments. Otherwise, the fair values are evaluated by the Company using the same estimates and assumptions used by other market participants (e.g., banks or derivative sellers). These estimations and assumptions are available to the Company.
   The Company uses the long-term interest rate quotations of Reuters (or Bloomberg) to calculate the fair value of each
- interest rate swap based on the net cash flow. The discount rates adopted by the Company are between 2% and 3%.
  3) The fair values of equity-method investments with no quoted market prices will be measured by net worth of investees or their respective carrying values.
- 4) Fair values of bonds payable, lease payable, 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. The discount rates adopted by the Company are between 0% and 2.5%.



# Far EasTone Telecommunications Co.,Ltd. Annual Report 2008

# 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 Information

1-1. Consolidated Business Report of Affiliates (1) Organizational chart of the affiliates:



#### (2) General information of Far EasTone Telecommunications Co., Ltd. and affiliates:

Unit: In Thousands of New Taiwan Dollars, Unless Stated Otherwise

Company	Date of	Address	Common Stock Issued	Major Business Activities
1 0	Incorporation			
Far EasTone	April 11, 1997	28th Floor, 207 Tun-Hwa S. Rd.,	\$ 32,585,008	Wireless telecommunications service, leased
Telecommunications Co.,		Sec. 2, Taipei City, Taiwan,		circuit service, ISR and internet services and
Ltd.	-	R.O.C.		sale of cellular phone equipments and
				accessories.
	September 25, 2003	28th Floor, 207 Tun-Hwa S. Rd.,	13,329,979	2G wireless telecommunications service,
Co., Ltd.		Sec. 2, Taipei City, Taiwan,		leased circuit service and sale of cellular
		R.O.C.		phone equipments and accessories.
Far Eastern Info Service	July 17, 2002	Clarendon House 2, Church	US\$ 12,000	International investments
(Holding) Ltd. (British		Street Hamilton HM 11,		
Bermuda Islands)		Bermuda		
E. World (Holdings) Ltd.	April 7, 2000	4th Floor, One Capital Place,	US\$ 7,000,000	International investments
(British Cayman Islands)		P.O. Box 847, Grand Cayman,		
		Cayman Islands		
KGEx.com Co., Ltd.	August 9, 2000	11th Floor, No. 113, Sec. 2,	2,500,000	Type II telecommunications service
		Jhongshan N. Rd., Taipei,		
<b>D D i D i i i i i i i i i i</b>	1 10 2002	Taiwan, R.O.C.	D) (D) (0. (55.000)	
	November 18, 2002	3rd Floor, Building No. 23,	RMB 20,675,000	Computer software, data processing and
Ltd. (Shanghai)	•	Pudong Software District, No.		internet content providing services
		498, Guoshoujing Rd.,		
		Jhangjiang High Tech District,		
		Pudong Sin Section, Shanghai, P.R.C.		•
Yuan Cing Co., Ltd.	August 5, 2000	28th Floor, N. 7, Section 2,	102 500	Call center services
Yuan Cing Co., Ltd.	August 5, 2000	Tun-Hwa S. Rd., Taipei, Taiwan,	193,500	Call center services
		R.O.C.		
ARCOA Communication	Mov 4, 1081	36th Floor, No. 207 Tun-Hwa S.	1 242 800	Type II telecommunications service, sale of
Co., Ltd.	Widy 4, 1901	Rd., Sec. 2, Taipei, Taiwan,	1,542,800	cellular phone units and other
C0., Etd.		R.O.C.		telecommunications equipments or
		R.O.C.		accessories and related maintenance services.
Far EasTron Holding	August 30, 2005	Marguee Place, Suite 300, 430	US\$ 4.486.988	International investments
Ltd. (British Cayman		West Bay Road, P.O. Box 30691	1,100,500	
Islands)		SMB, Grand Cayman, Cayman		
101111110)		Islands, British West Indies.		- - 
O-ware Communications	February 13, 2007	9th Floor, No. 399, Ruei Guang	714.901	Type II telecommunications service
Co., Ltd.		Rd., Nei Hu, Taipei, Taiwan,	- <b>-</b> -	51
,		R.O.C.		- - 
ADCast Interactive	June 12, 2000	7th Floor, No. 270, Sec. 3,	45,182	Internet advertisements and marketing service
Marketing Co., Ltd.	,	Nanjing E. Rd., SongShan	,	
		District, Taipei, Taiwan, R.O.C.		

- (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, mobile virtual network operator services, sale of cellular phone equipments and accessories, international investments, computer software, call center services 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.
- f. Yuan Cing provides call center services to Far EasTone and ARCOA.
- g. Q-ware Com. sells Far EasTone's SIM card numbers to other mobile virtual network operator and provides marketing, activation and customer services to Far EasTone.
- h. ADCast provides advertising planning and production to Far EasTone as an advertisement agent.

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

			Unit: Number of	Shares; %	
	1		Registered Shares Owned		
Company	Title	Name of Representative	Shares	% of Ownership	
	Chairman	Yuan Ding Investment Co., Ltd.	1,066,657,614	32.73	
	Vice Chairman	Douglas Hsu Yuan Ding Investment Co. I td	1066657614	32.73	
	vice Chairman	Yuan Ding Investment Co., Ltd. Nilsson, Nils Jan-Erik	1,066,657,614	52.75	
	Managing Director	Yuan Ding Investment Co., Ltd.	1,066,657,614	32.73	
	Director	Champion Lee Yuan Ding Co. Peter Hsu	4,163,500	0.13	
	Director	Yuan Ding Co. Johnny J. Shih	4,163,500	0.13	
Far EasTone Telecommunications Co.,	Director	Yue Ding Industry Co., Ltd.	837,940	0.03	
Ltd.	Director	NTT DoCoMo Inc. Shiro Yamagishi	153,543,573	4.71	
	Director	Kurt Roland Hellstrom	-	-	
	Director	Lawrence Juen-Yee Lau	-	-	
	Supervisor	Far Eastern International Leasing Co., Ltd. Eli Hong	26,650,908	0.82	
	Supervisor	Asia Investment Corporation Morton Mate Huang	856,303	0.03	
	Supervisor	Chen-en Ko	-	-	
	General Manager	Nilsson, Nils Jan-Erik	138,950	-	

Company	Title	Name of Representative	Registered Shares Owned		
Company	The	Name of Representative	Shares	% of Ownership	
	Chairman	Far EasTone Telecommunications Co., Ltd. Douglas Hsu	1,332,997,916	100.00	
KG Telecommunications Co., Ltd.	Director	Far EasTone Telecommunications Co., Ltd. Nilsson, Nils Jan-Erik	1,332,997,916	100.00	
	Director	Far EasTone Telecommunications Co., Ltd.	1,332,997,916	100.00	
	Supervisor	Champion Lee Far EasTone Telecommunications Co., Ltd. Charles Wang	1,332,997,916	100.00	
	General Manager	Nilsson, Nils Jan-Erik	-	-	
	Chairman	Far EasTone Telecommunications Co., Ltd.	1,200	100.00	
	Director	Yvonne Li Far EasTone Telecommunications Co., Ltd. Jessica Chen	1,200	100.00	
Far Eastern Info Service (Holding) Ltd.	Director	Far EasTone Telecommunications Co., Ltd. Eton Shu	1,200	100.00	
(British Bermuda Islands)	Director	Far EasTone Telecommunications Co., Ltd. Roger Chen	1,200	100.00	
	Director	Far EasTone Telecommunications Co., Ltd. Samuel Yuan	1,200	100.00	
	Chairman	Far EasTone Telecommunications Co., Ltd. Douglas Hsu	6,014,622	85.92	
	Director	Far EasTone Telecommunications Co., Ltd. Laurence Yang (Note 1)	6,014,622	85.92	
E. World (Holdings) Ltd. (British Cayman Islands)	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	
	Chairman	KG Telecommunications Co., Ltd.	198,136,425	79.25	
	Director	Jeffey Gee KG Telecommunications Co., Ltd.	198,136,425	79.25	
	Director	Nilsson, Nils Jan-Erik KG Telecommunications Co., Ltd.	198,136,425	79.25	
KGEx.com Co., Ltd.	Director	Jessica Chen KG Telecommunications Co., Ltd. S. C. Lee	198,136,425	79.25	
	Director	S. C. Lee Cathay Life Insurance Co., Ltd. Jenho Chang	12,500,000	5.00	
	Supervisor	KG Telecommunications Co., Ltd. Yvonne Li	198,136,425	79.25	
	General Manager	Jeffey Gee	-	-	
	Chairman	Far Eastern Info Service (Holding) Ltd.	-	100.00	
	Director	Yvonne Li Far Eastern Info Service (Holding) Ltd.	-	100.00	
Far Eastern Tech-info Ltd.	Director	Jessica Chen Far Eastern Info Service (Holding) Ltd.	-	100.00	
(Shanghai)	Director	Eton Shu Far Eastern Info Service (Holding) Ltd.	-	100.00	
	Director	Roger Chen Far Eastern Info Service (Holding) Ltd. Samuel Yuan	-	100.00	
	Chairman	E. World (Holdings) Ltd.	19,349,994	99.99	
	Director	Nilsson, Nils Jan-Erik E. World (Holdings) Ltd.	19,349,994	99.99	
Yuan Cing Co., Ltd.	Director	Phiby Chen E. World (Holdings) Ltd.	19,349,994	99.99	
	Supervisor	Jessica Chen E. World (Holdings) Ltd.	19,349,994	99.99	
ARCOA Communication	Chairman	Yvonne Li Far EasTone Telecommunications Co., Ltd.	80,276,314	59.78	
Co., Ltd.	Director	Philby Chen Wan-Shih-Shin Co., Ltd.	470,325	0.35	
	Director	Gary Lin Far EasTone Telecommunications Co., Ltd.	80,276,314	59.78	
	Director	Alan Tsai Far EasTone Telecommunications Co., Ltd. Maxwell Cheng	80,276,314	59.78	

			Registered Shares Owned		
Company	Title	Name of Representative	Shares	% of Ownership	
	Director	Far EasTone Telecommunications Co., Ltd. Guang-Ruey Chiang	80,276,314	59.78	
	Director	Far EasTone Telecommunications Co., Ltd. Jessica Chen	80,276,314	59.78	
	Director	Taiwan Incubator SME Development Co. Chen-Chia Lee	1,122,979	0.84	
	Supervisor	Far EasTone Telecommunications Co., Ltd. Francies Chen	80,276,314	59.78	
	Supervisor	Francies Chen Far EasTone Telecommunications Co., Ltd. David Tsai	80,276,314	59.78	
	Supervisor	Far EasTone Telecommunications Co., Ltd. Sharon Lin	80,276,314	59.78	
	General Manager	Guang-Ruey Chiang	-	-	
Far EasTron Holding Ltd. (British Cayman Islands)	Chairman	Far EasTone Telecommunications Co., Ltd. Nilsson, Nils Jan-Erik	4,486,988	100.00	
	Chairman	President Chain Store Co., Ltd. James Heieh	8,059,091	11.27	
	Director	Far EasTone Telecommunications Co., Ltd. Yvonne Li	36,459,930	51.00	
	Director	Far EasTone Telecommunications Co., Ltd. Phiby Chen	36,459,930	51.00	
	Director	Far EasTone Telecommunications Co., Ltd. Jeffey Gee	36,459,930	51.00	
Q-ware Communications	Director	President Chain Store Co., Ltd. Nan Bey Lai	8,059,091	11.27	
Co., Ltd.	Director	President Chain Store Co., Ltd. Chia Hua Chang	8,059,091	11.27	
	Director	Far EasTone Telecommunications Co., Ltd. Maxwell Cheng	36,459,930	51.00	
	Supervisor	Uni-President Enterprises Co., Ltd. Jupiter Fang	9,875,060	13.81	
	Supervisor	Far EasTone Telecommunications Co., Ltd. Sharon Lin	36,459,930	51.00	
	General Manager	Pai Ling Chiang	-	-	
	Chairman	Digital United Inc. C. J. Cherng (Note 2)	932,327	20.63	
	Director	Digital United Inc. Sharon Lin (Note 2)	932,327	20.63	
	Director	Digital United Inc. Steven Tsou (Note 2)	932,327	20.63	
ADCast Interactive Marketing	Director	KG Telecommunications Co., Ltd. Eton Shu	368,519	8.16	
Co., Ltd.	Director	KG Telecommunications Co., Ltd. Roger Chen	368,519	8.16	
	Director	Cheng-Fong Kuo	212,693	4.71	
	Director	Shaw-Hu Wang	212,693	4.71	
	Supervisor	Digital United Inc. Charlene Lin	932,327	20.63	
	General Manager	Sharon Chao	-	-	

Note 1: Far EasTone Telecommunications Co., Ltd. has not yet appointed another individual to replace Laurence Yang who passed away on April 7, 2005.

Note 2: The original director Seednet was dissolved on March 16, 2009 due to the merger with NCIC. On March 20, 2009, the surviving company NCIC re-appointed Benjamin Ho, Sharon Lin and Steven Tsou as its representatives, effective from March 30, 2009. The ADCast held a Board Meeting to elect the Chairman on March 31, 2009 subsequently.

# (6) Operation overview of Far EasTone and affiliates:

Company	Common Stoc Issued	<sup>x</sup> 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.	\$ 32,585,0	08 \$ 85,360,34	9 \$ 14,064,147	\$ 71,296,202	\$ 51,341,479	\$ 12,971,124	\$ 10,160,747	\$ 3.09
KG Telecommunications Co., Ltd.	13,329,9	79 35,210,05	3 2,734,613	32,475,440	13,679,313	1,392,661	1,013,276	0.76
Far Eastern Info Service (Holding) Ltd. (British Bermuda Islands)	US\$ 12,0	00 US\$ 4,166,19	8 US\$ 2,222	US\$ 4,163,976	-	-	US\$ 150,009	US\$ 125.01
E. World (Holdings) Ltd.(British Cayman Islands)	US\$ 7,000,0	00 US\$ 2,390,40	1 US\$ 2,222	US\$ 2,388,179	-	-	US\$ 210,156	US\$ 0.03
KGEx.com Co., Ltd.	2,500,0	00 1,862,12	7 738,047	1,124,080	1,064,708	(108,037)	(135,428)	(0.54)
Far Eastern Tech-info Ltd. (Shanghai)	RMB 20,675,0	00: RMB32,163,44	0: RMB 4,341,321	RMB 27,822,119	RMB 40,290,669	RMB 526,864	RMB 62,054	N/A
Yuan Cing Co., Ltd.	193,5	00 79,48	2 10,200	69,282	33,306	8,415	7,252	0.37
ARCOA Communication Co., Ltd.	1,342,8	00 1,914,62	5 552,999	1,361,626	5,931,883	(65,569)	61,190	0.46
Far EasTron Holding Ltd. (British Cayman Islands)	US\$ 4,486,9	88 US\$ 781,91	4 US\$ 2,160	US\$ 779,754	-	-	US\$ (441,984)	US\$ (0.10)
Q-ware Communications Co., Ltd.	714,9	01 681,89	9: 395,516	286,383	57,457	(275,731)	(277,906)	(3.89)
ADCast Interactive Marketing Co., Ltd.	45,1	82 71,64	1 29,779	41,862	46,596	(635)	(3,320)	(0.82)

### Unit: In Thousands of New Taiwan Dollars, Unless Stated Otherwise

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

February 18, 2009

We hereby declare that the consolidated financial statements of affiliated enterprises as of and for the year ended 2008 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 2008 dated February 18, 2009 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, 2008 ("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 2008 Affiliation Report and the Criteria and the Notes for the year ended December 31, 2008.

February 18, 2009

#### (2) Declaration for the Affiliation Report of the Company

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

February 18, 2009

We hereby declare that the Affiliation Report of 2008 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, 2008.

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.
- G. Derivative financial instruments 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, 2008

Parent Company	For the Control Reason	Parent Comp Inf	any's Sh ormation	(Unit: Share, %) 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	1,066,657,614	32.73	75,462,796	Chairman Vice Chairman Managing Director	Douglas Hsu Nilsson, Nils Jan-Erik Champion Lee
Far Eastern Textile Co., Ltd.	Indirect control over the management of the personnel, financial or business operation of Far EasTone	-	-		-	-
Yuan Tong Investment Co., Ltd.	Indirect control over the management of the personnel, financial or business operation of Far EasTone	91,088,031	2.80	59,873,872	-	-
An Ho Garment Co., Ltd.	Indirect control over the management of the personnel, financial or business operation of Far EasTone	80,171,592	2.46	45,592,266	-	-
Kai Yuan International Investment Co., Ltd.	Indirect control over the management of the personnel, financial or business operation of Far EasTone	84,858,031	2.60	67,295,787	-	-

SCHEDULE B

# FAR EASTONE TELECOMMUNICATIONS CO., LTD. ASSET LEASING BETWEEN THE SUBORDINATE COMPANY AND THE PARENT COMPANY FOR THE YEAR ENDED DECEMBER 31, 2008

(In Thousands of New Taiwan Dollar									
Transaction	Target Asset		Period	Туре	Rental	Payment	Comparison with Ordinary	for	Other Special
	Name	Location Lease			Terms	Method	Leasing Price Level	· Period ·	Stipulations
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	\$246	None
Leasing	BTS5341	No. 3, King-Chen 6th Rd., Kuan-Ying, Industrial Area, Kuan-Yin Township, Tao-Yuan County	2004.11.15-2008.11.14	Operating	Same as normal leasing	Bank remittance monthly	Same	167	None
Leasing	Nei-Li MSC	No. 759, Yuan-Tung Section, Nei-Li Township, Tao-Yuan County	2007.05.01-2012.04.30	Operating	Same as normal leasing	Bank remittance monthly	Same	2,605	None
Leasing	BTS1588	No. 2, Alley 266, Desing Rd., Hu-Kuo Township, Hsin-Chu County	2000.11.15-2010.11.14	Operating	Same as normal leasing	Bank remittance monthly	Same	198	None
Total								\$3,216	

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

Please refer to "II Company Profile"-- 2-6 for details.



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