OFFERING MEMORANDUM

US$100,000,000

Far EasTone Telecommunications Co., Ltd.

(incorporated as a company limited by shares in Taiwan, the Republic of China)

ZERO COUPON CONVERTIBLE BONDS DUE 2008

The US$100,000,000 Zero Coupon Convertible Bonds Due 2008 (the “”Bonds”, which term shall include any Optional Bonds referred to below) will be issued by Far EasTone Telecommunications Co., Ltd. (referred to in this Offering Memorandum as the “Company” or “we”), a company limited by shares incorporated in Taiwan, the Republic of China. Except during certain closed periods, each Bond will, at the option of the holder, be convertible into our Shares, par value of NT$10 per share (“Shares”), on or after March 21, 2003 up to and including January 20, 2008. The initial conversion price of the Bonds will be NT$35.955 per Share.

Our Shares are listed on the GreTai Securities Market, and application will be made to list the Shares issuable upon conversion of the Bonds on the GreTai Securities Market. On February 14, 2003, the closing price of our Shares was NT$28.30 per Share.

We may, at our option at any time on or after February 19, 2006 and prior to February 19, 2008, redeem the Bonds, in whole or in part, at their accreted value in US dollars if the closing price of the Shares on the GreTai Securities Market, translated into US dollars at the Prevailing Rate (as defined herein), for each of the 20 consecutive trading days immediately preceding the date of our redemption notice is at least 130% of the conversion price of the Bonds then in effect, translated into US dollars at a fixed exchange rate of NT$34.554 = US$1.00, on each such trading day. We may also, at our option at any time, redeem the Bonds, in whole but not in part, at their accreted value in US dollars if at least 90% in principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted or certain changes relating to taxation in Taiwan have occurred. Each holder of the Bonds has the right, at such holder’s option, to require us to redeem all or a portion of such holder’s Bonds at their accreted value on February 19, 2005 or in the event that the Shares cease to be listed on the Taiwan Stock Exchange or the GreTai Securities Market for a period of at least five consecutive trading days. “Accreted value” means, in relation to a Bond to be redeemed on any redemption date, an amount of principal that would result in an annual yield on the Bond purchased on the date of the original issuance of the Bond at its principal amount of 1.00% per annum through the redemption date, calculated on a semi-annual bond equivalent basis using a 360-day year consisting of twelve 30-day months. For a more detailed description of the Bonds, see “Description of the Bonds.”

See “Risk Factors” for certain considerations relevant to an investment in the Bonds.

Application has been made to list the Bonds on the Luxembourg Stock Exchange. We cannot guarantee that our application to the Luxembourg Stock Exchange will be approved. The offering and settlement of the Bonds is not conditioned on obtaining the listing. Any prospective investor is advised to check the listing status with the listing agent in Luxembourg.

ISSUE PRICE 100%

The Bonds and the Shares issuable upon conversion of the Bonds have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the “Securities Act”), and are being offered and sold only outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act (“Regulation S”). For a description of certain restrictions on resale or transfer, see “Transfer Restrictions” and “Plan of Distribution.”

We have granted the Initial Purchasers an option to be exercised no later than February 26, 2003 to purchase up to an additional US$15,000,000 principal amount of the Bonds (the “Optional Bonds”).

The Bonds will be represented by beneficial interests in a global certificate (the “Global Certificate”) in registered form, which will be registered in the name of a nominee for, and shall be deposited on or about February 19, 2003 (the “Closing Date”) with The Bank of New York, as common depositary for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, société anonyme (“Clearstream”). Transfers of interests on the Bonds (and Shares issuable upon conversion of the Bonds) will be subject to certain restrictions on transfer for a period of 40 days after the later of the commencement of this offering and the latest closing date for this offering. Beneficial interests in the Bonds will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their participants. Except as described herein, individual definitive certificates for the Bonds will not be issued in exchange for interests in the Bonds.

Lead Manager and Sole Bookrunner

MORGAN STANLEY

Co-Manager

FUH-HWA SECURITIES CORPORATION

February 17, 2003

The purpose of this offering memorandum is to give information about us and the Bonds. We accept responsibility for the information contained in this document, which comprises listing particulars for the purpose of listing the Bonds on the Luxembourg Stock Exchange. Having made all reasonable inquiries, we confirm that this offering memorandum is true and accurate in all material respects and is not misleading and that the opinions and intentions expressed herein are honestly held. Notwithstanding the foregoing, certain market and industry data used in this offering memorandum were obtained from publicly available information and industry publications, and we take responsibility for correctly reproducing such information only.

No person has been or is authorized to give any information or to make any representation concerning the Company, its subsidiaries and affiliates, the Bonds or the Shares issuable upon conversion of the Bonds, other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorized by us or the purchasers of the Bonds under the purchase agreement dated January 27, 2003 (the "**Initial Purchasers**"). Neither the delivery of this offering memorandum nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstance, constitute a representation that there has been no change or development in the affairs of the Company, its subsidiaries and affiliates or any of them since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof.

No representation or warranty, express or implied, is made or given by the Initial Purchasers as to the accuracy, completeness or sufficiency of the information contained in this offering memorandum, and nothing contained in this offering memorandum is, or shall be relied upon as, a promise, representation or warranty by the Initial Purchasers. This offering memorandum is not intended to provide the basis of any credit or other evaluation and it should not be considered as a recommendation by either us or the Initial Purchasers that any recipient of this offering memorandum should purchase the Bonds. Each potential investor in the Bonds should determine for itself the relevance of the information contained in this offering memorandum and its investment in the Bonds should be based upon such investigations as it deems necessary.

The distribution of this offering memorandum and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this offering memorandum comes are required by us and the Initial Purchasers to inform themselves about and to observe any such restrictions. This offering memorandum does not constitute an offer of, or any invitation by or on behalf of us or the Initial Purchasers to subscribe for or purchase, any of the Bonds or the Shares issuable upon conversion of the Bonds and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or is unlawful. No action is being taken to permit a public offering of the Bonds or the Shares issuable upon conversion of the Bonds or the distribution of this document in any jurisdiction where action would be required for such purposes.

There are restrictions on the offer and sale of the Bonds and/or the Shares issuable upon conversion of the Bonds and on the circulation of documents relating thereto in certain jurisdictions, including the United States, the United Kingdom, Singapore, Hong Kong and Taiwan, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this offering memorandum, see "Plan of Distribution."

In making an investment decision, investors must rely on their own examination of the Company and the terms of this offering, including the merits and risks involved. See "Risk Factors" for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Each person receiving this offering memorandum acknowledges that such person has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of such information or its investment decision. Prospective investors in the Bonds are hereby notified that the seller of any Bonds may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Regulation S.

Each person receiving this offering memorandum acknowledges that (i) this offering memorandum does not contain all the information that would be included in an offering memorandum for this offering were this offering registered under the Securities Act and (ii) the financial statements included herein have been prepared in accordance with generally accepted accounting principles in the ROC, or ROC GAAP, which differ in many significant respects from accounting principles generally accepted in the United States, and thus are not comparable to the financial statements of a United States company. See "Summary of Principal Differences Between ROC GAAP and US GAAP."

Under ROC GAAP, we are required to consolidate the financial statements of any subsidiary into our annual financial statements if the total assets or net operating revenues of such subsidiary exceed 10% of our unconsolidated total assets or net operating revenues, as the case may be. In addition, the ROC Securities and Futures Commission requires us to consolidate the financial statements of each non-consolidated subsidiary whose total assets or net operating revenues exceed 3% of our unconsolidated total assets or net operating revenues, as the case may be, into our annual financial statements if the assets or net operating revenues of all unconsolidated subsidiaries exceed 30% of our unconsolidated total assets or net operating revenues, as the case may be. None of our subsidiaries has met the above criteria in 1999, 2000 and 2001, and therefore we are not required to consolidate the financial statements of any subsidiary in our annual financial statements for such periods. Neither ROC GAAP nor the ROC Securities and Futures Commission requires us to consolidate the financial statements of any of our subsidiaries, including those that have met the above criteria, into our interim financial statements.

With respect to the unaudited interim financial statements for the nine month periods ended September 30, 2001 and 2002 included in this offering memorandum, the independent accountants have reported that they applied limited procedures in accordance with professional standards for a review of such information in accordance with the ROC Statement on Auditing Standards No. 36, "Review of Financial Statements." However, their separate review report included in this offering memorandum states that they did not audit and they do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

Statements contained in this offering memorandum as to the contents of any contract or other document referred to in this offering memorandum may not set forth all of the terms and conditions of such contracts or other documents.

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IN CONNECTION WITH THIS ISSUE, TO THE EXTENT PERMITTED BY, AND IN ACCORDANCE WITH, APPLICABLE LAWS AND REGULATIONS, THE INITIAL PURCHASERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL WHICH MIGHT NOT OTHERWISE PREVAIL. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

THE BONDS HAVE NOT BEEN RECOMMENDED BY ANY UNITED STATES FEDERAL OR STATE OR FOREIGN SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT REVIEWED OR PASSED ON THE ACCURACY OR ADEQUACY OF THIS OFFERING MEMORANDUM, AND ANY REPRESENTATION TO THE CONTRARY MAY BE A CRIMINAL OFFENCE.

PRESENTATION OF INFORMATION

The references to "**we**," "**us**," "**our**" and "**the Company**" in this offering memorandum refer to Far EasTone Telecommunications Co., Ltd. The references to "**Shares**" refer to our Shares, par value NT$10 per Share. The references to "**Taiwan**" and "**ROC**" refer to Taiwan, the Republic of China. The references to "**PRC**" refer to the People's Republic of China.

Unless expressly stated otherwise, all financial data for the years ended December 31, 1999, 2000 and 2001 included in this offering memorandum are presented on an audited non-consolidated basis in accordance with ROC GAAP, and all financial data for the nine months ended September 30, 2001 and 2002 included in this offering memorandum are presented on an unaudited non-consolidated basis in accordance with ROC GAAP.

For convenience only, certain NT dollar amounts as of and for the year ended December 31, 2001 have been translated into US dollars at the Federal Reserve Bank of New York noon buying rate for cable transfers in NT dollars per US dollar (the "**Noon Buying Rate**") as of December 31, 2001, which was NT$35.00 = US$1.00, and certain NT dollar amounts as of and for the nine months ended September 30, 2002 have been translated into US dollars at the Noon Buying Rate as of September 30, 2002, which was NT$34.92 = US$1.00, unless otherwise specified. Such translations should not be construed as representations that the NT dollar amounts have been, could have been, or could be converted to US dollars at these or any other rate or at all.

In this offering memorandum, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, the total of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding.

FORWARD-LOOKING STATEMENTS

This offering memorandum contains forward-looking statements, including statements regarding:

- our business and operating strategy;
- our network expansion plans;
- our business, operations and prospects;
- our financial condition and results of operations;
- our dividend policy;
- our relationships with our principal shareholders;
- the telecommunications industry regulatory environment; and
- future developments in the telecommunications industry in Taiwan.

These forward-looking statements are generally indicated by the use of forward-looking terminology such as believe, expect, anticipate, estimate, plan, project, may, will or other similar words that express an indication of actions or results of actions that may, or are expected to, occur in the future. These statements are subject to risks, uncertainties and assumptions, many of which are beyond our control. You should not place undue reliance on these statements. These forward-looking statements are based on our own information and on information from other sources we believe to be reliable. Actual results may differ materially from those expressed or implied by these forward-looking statements. Factors that could cause differences include, but are not limited to, those discussed under "Risk Factors." These forward-looking statements speak only as of the date of this offering memorandum. We expressly disclaim any obligation or undertaking to publicly update or revise any forward-looking statements in this offering memorandum, whether as a result of new information, future events or otherwise. Because of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this offering memorandum might not occur in the way we expect, or at all.

ENFORCEABILITY OF FOREIGN JUDGMENTS IN THE ROC

We are a company limited by shares and were incorporated under the ROC Company Law. Substantially all of our directors and executive officers, our supervisors and certain other parties named herein are residents of the ROC and a substantial portion of our assets and such persons are located in the ROC. As a result, it may not be possible for investors to effect service of process upon us or such persons outside the ROC, or to enforce against any of them judgments obtained in courts outside the ROC including those predicated upon the civil liability provisions of the securities laws of the United States or any State or territory within the United States.

We have been advised by Lee and Li, our legal adviser in the ROC, that any final judgment obtained against us or such persons in any court other than the courts of the ROC in respect of any legal suit or proceeding arising out of or relating to the Bonds or the Shares will be enforced by the courts of the ROC without further review of the merits only if the court of the ROC in which enforcement is sought is satisfied that: (i) the court rendering the judgment has jurisdiction over this subject matter according to the laws of the ROC; (ii) the judgment is not contrary to the public order or good morals of the ROC; (iii) if the judgment was rendered by default by the court rendering the judgment, we or such persons were served within the jurisdiction of such court, or process was served on us or such persons with judicial assistance of the ROC; and (iv) judgments of the courts of the ROC are recognized and enforceable in the jurisdiction of the court rendering the judgment on a reciprocal basis. For instance, under ROC law, claims in respect of the (i) payment of principal would become unenforceable after 15 years and (ii) payment of interest and premium would become unenforceable after five years, each measured from the relevant for payment in respect thereof. The statute of limitation under the ROC law may be regarded as a public order by an ROC court and any foreign judgement rendered differently may not be enforced by the ROC court. Moreover, a person seeking to enforce a foreign judgment in the ROC would, except under limited circumstances, be required to obtain foreign exchange approval from the Central Bank of China, Taiwan's central bank, for the remittance out of the ROC of any amounts exceeding NT$500,000 or its equivalent recovered in respect of such judgment denominated in a currency other than the NT dollar.

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SUMMARY

You should read the following summary together with the more detailed information regarding us, the Bonds, our Shares and our non-consolidated financial statements and notes to those statements appearing elsewhere in this offering memorandum.

Our Business

We are a leading and profitable wireless operator in Taiwan. As of September 30, 2002, we had more than four million SIM cards, representing approximately 17.7% of the total number of reported SIM cards in Taiwan. We had a market share of approximately 19.1% based on total wireless operating revenues in Taiwan for the nine months ended September 30, 2002.

We provide wireless voice and data services throughout Taiwan using a digital network based on GSM technology. We own both an island-wide GSM 1800 license and a regional GSM 900 license covering the northern region of Taiwan, which includes Taipei. Our integrated dual-band digital network structure enables us to handle a large volume of calls at peak times in an efficient manner. In February 2002, Yuan-Ze Telecommunications Co., Ltd., our subsidiary, was awarded a 3G license. This license gives us the right to offer through Yuan-Ze 3G services across Taiwan upon the satisfaction of certain requirements. We expect to commence our 3G services in selected areas of Taiwan in late 2003.

Following an aggressive roll-out schedule, we launched commercial operations in January 1998, approximately one year after we were awarded our GSM licenses. We have invested, and will continue to invest, in improving and expanding our network infrastructure.

We generated net income in 1999, our first full fiscal year of operation. In the year ended December 31, 2001, we had total operating revenues, EBITDA and net income of NT$34,544.4 million (US$987.0 million), NT$11,610.9 million (US$331.7 million) and NT$6,659.3 million (US$190.3 million), respectively. In the nine months ended September 30, 2002, we had total operating revenues, EBITDA and net income of NT$25,675.3 million (US$735.3 million), NT$10,966.8 million (US$314.1 million) and NT$5,814.8 million (US$166.5 million), respectively.

Our Shares have been listed on the GreTai Securities Market since December 10, 2001. On February 14, 2003, the closing price of our Shares was NT$28.30 per Share.

Our Strategy

Our goal is to strengthen our current position as a leading provider in Taiwan of wireless services, with a focus on revenue and profit growth. The principal elements of our strategy include:

- *Expand the scope of services.* We will seek to continue to expand the scope of our services and increase overall network usage. We plan to develop wireless data applications using GPRS and W-CDMA technologies and target specified customer segments.

- *Continue to enhance our operational efficiency.* We will continue to focus on enhancing our operational efficiency through effective use of our technology investments and marketing programs. We plan to better control our customer acquisition costs and lower our operational costs.

- *Capitalize on the consolidation trends in the wireless industry in Taiwan.* Taiwan has a population of approximately 22.5 million. The country currently has six GSM operators, two of which are affiliated companies; one PHS operator; and five prospective 3G operators. Two of these prospective 3G operators are new entrants in the wireless market, and the remaining three are existing GSM operators, including us. We believe the wireless industry in Taiwan is likely to undergo further consolidation as a result of the increasing importance of providing island-wide communications services and the substantial financial commitment required for building out future generation networks such as 3G. We plan to explore opportunities to make selective investments and grow through mergers and acquisitions and/or joint ventures.

- *Aggressively pursue growth in the enterprise segment.* We believe that the telecommunications needs of corporate customers have shifted from a focus on cost-saving measures to productivity-enhancing solutions. We plan to continue to target selected corporate customers and offer tailored services to corporations.

- *Further enhance customer loyalty with superior customer care.* We will continue to focus on keeping and expanding our customer base through our strong brand image, responsive customer care and the introduction of customized services. We plan to offer more personalized services to our customers and strengthen our distribution networks.

Corporate and Other Information

We were incorporated (Corporate Registration Number: 97179430) on April 11, 1997 under ROC law. Our principal executive offices are located at 468 Juikuang Road, Neihu, Taipei, Taiwan, ROC, and our telephone number is (886-2) 8793-5000. Our corporate website address is http://www.fareastone.com.tw. The information on our website is not part of this offering memorandum.

The Offering

Terms used in this summary and not otherwise defined shall have the meanings given to them in "Description of the Bonds."

Company	Far EasTone Telecommunications Co., Ltd.
Offering	The Bonds are being offered by the Initial Purchasers outside the United States in reliance on Regulation S. We have not registered, and will not register, under the securities laws of the United States, the Bonds or any of the Shares issuable upon the conversion of the Bonds. See "Transfer Restrictions."
Initial Purchasers' Option .	We have granted the Initial Purchasers an option to be exercised no later than 30 days after January 27, 2003 to purchase up to an additional US$15,000,000 principal amount of the Bonds. See "Plan of Distribution."
Status	Direct, unconditional, unsubordinated and, subject to our negative pledge covenant, unsecured debt obligations ranking pari passu among themselves and, subject to our negative pledge covenant, with all our other present and future direct, unconditional, unsubordinated and unsecured obligations.
Interest	No interest will accrue on the Bonds.
Closing Date	February 19, 2003.
Conversion	Each holder of the Bonds has the right to convert any of its Bonds into Shares at any time during the Conversion Period referred to below.
Conversion Period	The period on or after March 21, 2003 up to and including January 20, 2008. The holders of the Bonds, however, will not be able to effect conversions into Shares during any Closed Period. A Closed Period means (i) the 60-day period prior to the date of any of our general shareholders' meetings; (ii) the 30-day period prior to the date of any of our special shareholders' meetings; (iii) the period from the date following the third Trading Day prior to the date of our notification to the GreTai Securities Market of the record date for determination of shareholders entitled to receive dividends, subscription of new shares or other benefits to such record date; and (iv) such other periods that we are required to close our stock transfer books as determined by ROC laws and regulations applicable from time to time.
Conversion Price	The initial Conversion Price will be NT$35.955 per Share. The Conversion Price will be subject to adjustment for, among other things, subdivision or consolidation of Shares, bonus issues, rights issues, distributions of cash and stock dividends and other dilutive events. See "Description of the Bonds — Conversion."
Final Redemption	Unless previously redeemed, repurchased and cancelled, or converted, the Bonds will be redeemed at 105.114% of their principal amount in US dollars on February 19, 2008. See "Description of the Bonds — Redemption, Repurchase and Cancellation — Redemption at Maturity."

Early Redemption . . . . . . The Bonds may be redeemed at their accreted value prior to February 19, 2008 under certain circumstances described below. "Accreted value" means, in relation to a Bond to be redeemed on any redemption date, an amount of principal that would result in an annual yield on the Bond purchased on the date of the original issuance of the Bond at its principal amount of 1.00% per annum through the redemption date, calculated on a semi-annual bond equivalent basis using a 360-day year consisting of twelve 30-day months.

- Redemption at the Option of the Company — We may, at our option at any time on or after February 19, 2006 and prior to February 19, 2008, redeem the Bonds, in whole or from time to time in part (being US$1,000 in principal amount or an integral multiple thereof), at their accreted value, if the Closing Price of the Shares, translated into US dollars at the Prevailing Rate, for each of the 20 consecutive Trading Days immediately preceding the date of our redemption notice, is at least 130% of the Conversion Price then in effect, translated into US dollars at a fixed exchange rate of NT$34.554 = US$1.00. We may, at our option at any time, redeem, in whole but not in part, the Bonds at their accreted value if at least 90% of the principal amount of the Bonds has already been redeemed, repurchased and cancelled, or converted. See "Description of the Bonds — Redemption, Repurchase and Cancellation — Redemption at the Option of the Company."

- Tax Redemption — We may at any time redeem the Bonds, in whole but not in part, at their accreted value in the event of certain changes in ROC taxation that would require us to gross up for payment of principal or to gross up for payment of interest, if any, or premium, if any, at a rate greater than 20%. See "Description of the Bonds — Redemption, Repurchase and Cancellation — Redemption for Taxation Reasons."

- Redemption at the Option of the holder of the Bonds — Until and unless previously redeemed, repurchased and cancelled, or converted, each holder of the Bonds has the right, at such holder's option, to require us to redeem all or a portion (in an aggregate principal amount of at least US$1,000 or an integral multiple thereof) of such holder's Bonds at their accreted value on February 19, 2005 or in the event that our Shares cease to be listed on the GreTai Securities Market or Taiwan Stock Exchange for a period of at least five consecutive Trading Days (as defined herein). See "Description of the Bonds — Redemption, Repurchase and Cancellation — Redemption at the Option of the Holders."

Form and Denomination of the Bonds. . . . . The Bonds will be originally issued in registered form in the minimum denomination of US$1,000. The Bonds will be offered, sold and transferred in principal amount of US$1,000 or an integral multiple thereof.

The Bonds will be represented by a global certificate, which will be registered in the name of a nominee of, and be deposited on or about the Closing Date with, The Bank of New York, as common depositary for Euroclear and Clearstream.

Transfer of the Bonds . . . All transfers of the Bonds and entries on the register of holders of the Bonds shall be made subject to the detailed provisions concerning transfer of the Bonds set forth in the Agency Agreement. In addition, transfers of interests in the Bonds and the Shares to be issued upon conversion of the Bonds will be subject to certain other restrictions. For a discussion of these restrictions, see "Description of the Bonds — Transfer of Bonds; Issue of Certificates", "Plan of Distribution" and "Transfer Restrictions."

Governing Law	The laws of the State of New York.
Trustee	The Bank of New York.
Listing	Application has been made to list the Bonds on the Luxembourg Stock Exchange. We cannot guarantee that our application to the Luxembourg Stock Exchange will be approved. The offering and settlement of the Bonds is not conditioned on obtaining the listing. Our Shares are listed on the GreTai Securities Market, and application will be made to list the Shares issuable upon conversion of the Bonds on the GreTai Securities Market.
Lock-up	We have agreed that, without the prior written consent of the Lead Manager on behalf of the Initial Purchasers, we will not, subject to certain exceptions, during the period ending 90 days after the date of this offering memorandum, offer, sell, contract to sell, pledge or otherwise dispose of, directly or indirectly, any Shares or securities convertible into or exchangeable or exercisable for Shares. Several of our shareholders have also agreed to similar restrictions. See "Plan of Distribution."

Summary Financial and Operating Data

The following tables present our summary audited and unaudited non-consolidated financial data. The data as of and for the years ended December 31, 1999, 2000 and 2001 are derived from our audited non-consolidated financial statements and the notes thereto included elsewhere in this offering memorandum. The data presented as of and for the nine months ended September 30, 2001 and 2002 are derived from the unaudited non-consolidated financial statements and the notes thereto included elsewhere in this offering memorandum. These financial statements have been prepared and presented in accordance with generally accepted accounting principles in the ROC (together referred to herein as ROC GAAP), which differ in many material respects from accounting principles generally accepted in the United States, or US GAAP. For a discussion of these differences, see "Summary of Principal Differences between ROC GAAP and US GAAP." The summary financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our non-consolidated financial statements and the notes thereto included elsewhere in this offering memorandum.

	As of and for the year ended December 31,				As of and for the nine months ended September 30,		
	1999	2000	2001		2001	2002	
	NT$	NT$	NT$	US$[(1)]	NT$	NT$	US$[(2)]
						(unaudited)	
	(in millions, except Share, margin and per Share information)						
Income Statement Data:							
Operating revenues:							
Service revenue	16,774.1	28,651.0	31,760.6	907.4	24,282.6	24,665.5	706.4
Equipment sales revenue — net	1,844.1	3,529.5	2,760.4	78.9	2,561.8	1,002.8	28.7
Other	0.0	0.0	23.4	0.7	8.0	7.0	0.2
Total operating revenues	18,618.2	32,180.5	34,544.4	987.0	26,852.4	25,675.3	735.3
Operating costs:							
Cost of services	7,470.4	10,421.4	12,950.3	370.0	9,667.4	11,373.3	325.7
Cost of equipment sales	1,769.5	3,443.2	2,772.9	79.2	2,570.7	997.2	28.6
Total operating costs	9,239.9	13,864.6	15,723.2	449.2	12,238.1	12,370.5	354.3
Gross profit	9,378.3	18,315.9	18,821.2	537.8	14,614.3	13,304.8	381.0
Operating expenses:							
Marketing	5,062.8	10,370.0	6,441.2	184.0	5,436.4	4,461.6	127.8
General and administrative	2,180.1	3,859.8	5,587.9	159.7	4,330.5	2,401.1	68.7
Research and development	107.6	147.0	205.9	5.9	111.4	170.9	4.9
Total operating expenses	7,350.5	14,376.8	12,235.0	349.6	9,878.3	7,033.6	201.4
Income from operations	2,027.8	3,939.1	6,586.2	188.2	4,736.0	6,271.2	179.6
Non-operating income	242.3	215.0	287.2	8.2	310.8	130.6	3.8
Non-operating expenses	266.9	231.5	483.7	13.8	289.9	326.6	9.4
Income before income tax	2,003.2	3,922.6	6,389.7	182.6	4,756.9	6,075.2	174.0
Income tax (benefit) expense	368.0	(117.1)	(269.6)	(7.7)	(182.7)	260.4	7.5
Net income	1,635.2	4,039.7	6,659.3	190.3	4,939.6	5,814.8	166.5
Earnings per Share	1.02	2.42	3.52	0.10	2.14	2.52	0.07
Number of Shares used in per Share calculations[(3)]	1,601,055	1,669,577	1,890,000	1,890,000	2,305,800	2,305,800	2,305,800

	As of and for the year ended December 31,				As of and for the nine months ended September 30,		
	1999	2000	2001		2001	2002	
	NT$	NT$	NT$	US$[1]	NT$	NT$ (unaudited)	US$[2]
	(in millions, except Share, margin and per Share information)						
Balance Sheet Data:							
Cash and cash equivalents	734.4	2,048.3	2,807.8	80.2	785.7	1,378.4	39.5
Property and equipment — net	21,313.0	33,934.1	40,695.5	1,162.7	40,844.1	39,343.8	1,126.7
Capital stock	11,370.0	14,000.0	18,900.0	540.0	18,900.0	23,058.0	660.3
Total assets	26,053.8	46,274.1	52,810.6	1,508.9	50,644.9	57,279.2	1,640.3
Total long-term liabilities	4,444.5	7,207.7	8,473.6	242.1	8,110.9	9,385.4	268.8
Total liabilities	12,061.3	20,650.0	20,527.0	586.5	20,080.9	21,222.3	607.7
Total shareholders' equity	13,992.5	25,624.1	32,283.6	922.4	30,564.0	36,056.9	1,032.6
Cash Flow Data:							
Net cash provided by operating activities	4,764.8	4,236.0	13,104.4	374.4	8,275.0	11,292.8	323.4
Net cash used in investing activities	(10,501.0)	(15,766.8)	(13,080.5)	(373.7)	(10,537.0)	(10,524.3)	(301.4)
Net cash provided by (used in) financing activities	6,439.8	12,844.7	735.6	21.0	999.4	(2,197.9)	(62.9)
Other Data:							
Capital expenditures[4]	10,657.5	15,689.3	13,163.4	376.1	10,503.1	10,508.5	300.9
EBITDA[5]	4,300.6	7,046.4	11,610.9	331.7	8,334.0	10,966.8	314.1
EBITDA margin	23.1%	21.9%	33.6%	33.6%	31.0%	42.7%	42.7%
Cash dividends declared per Share	—	0.2195	—	—	—	1.0000	—

	As of and for the year ended December 31,			As of and for the nine months ended September 30,	
	1999	2000	2001	2001	2002
Other Operating and Industry Data:					
Market data:					
Total population base in Taiwan	22.1 million	22.3 million	22.4 million	22.4 million	22.5 million
Wireless penetration rate[6]	52.2%	80.2%	96.6%	93.7%	105.3%
Market share[7]:					
Based on reported SIM cards	14.8%	19.1%	17.5%	18.0%	17.7%
Based on total wireless revenues	N/A[11]	22.6%	20.8%	21.6%	19.1%
Usage data:					
Total customers, based on SIM cards	1,707,726	3,410,876	3,775,379	3,776,691	4,200,452
Average churn rate[8]	2.5%	2.1%	2.5%	2.5%	3.0%
Average monthly outgoing MOU per customer[9]	74.5 minutes	81.4 minutes	71.2 minutes	72.9 minutes	66.7 minutes
Average monthly ARPU[10]	NT$910	NT$1,050	NT$798	NT$838	NT$705

(1) Translations of amounts from NT dollars into US dollars for the convenience of the reader have been made at the Noon Buying Rate on December 31, 2001 of NT$35.00 = US$1.00.

(2) Translations of amounts from NT dollars into US dollars for the convenience of the reader have been made at the Noon Buying Rate on September 30, 2002 of NT$34.92 = US$1.00.

(3) Number of Shares used in per Share calculations for the years 1999 and 2000 is expressed in thousands in the table and represents the weighted average number of outstanding Shares after retroactive adjustments to give effect to stock dividends issued in 1999 and 2000. To conform with the audited financial statements for the year ended December 31, 2001, number of Shares for such period has not been adjusted retroactively for stock dividends issued in 2002. If such number were adjusted retroactively for the stock dividends issued in 2002, number of Shares for such period would have been 2,305,800,000, resulting in an Earnings per Share of NT$2.89. To conform with the unaudited financial statements for the nine months ended September 30, 2002, number of Shares for such period has been adjusted retroactively for stock dividends issued in 2002.

(4) Include investment in our GSM network and operating equipment and capital contributions to Yuan-Ze Telecommunications, our subsidiary with the 3G license. We made capital contributions of NT$1,200.0 million and NT$7,170.0 million to Yuan-Ze in the year ended December 31, 2001 and the nine months ended September 30, 2002, respectively.

(5) EBITDA represents our net income before interest, taxes, depreciation and amortization. EBITDA is one measure commonly used in the telecommunications industry to analyze companies on the basis of operating performance. Since the telecommunications industry is a very capital intensive business, differences in depreciation policies, debt levels and interest terms may have a significant impact on net income for companies with similar results of operations. Therefore, we believe that EBITDA provides a more comparable measure of our results of operations. You should not construe EBITDA as a substitute for operating income, net income or cash flows from operating activities for purposes of analyzing our operating performance, financial position and cash flows. Our EBITDA as described in this offering memorandum is not necessarily comparable with similarly titled measures for other companies.

(6) Wireless penetration rate represents the total number of reported SIM cards in Taiwan divided by the population of Taiwan, as published by the MOTC in Highlights of Transportation and Communications Statistics in Taiwan.

(7) Derived from data published by the MOTC in Highlights of Transportation and Communications Statistics in Taiwan.

(8) Our churn rate for each month equals the number of SIM card deactivations (both voluntary and involuntary) for the month divided by the number of SIM cards at the beginning of the month. Our average monthly churn rate shown for each period represents the average of each month's churn rates during that period. We count as deactivated any cash-based SIM card that has not been recharged within six months after either activation or the most recent recharge. Because we launched cash-based payment plans in October 1998, we generally did not experience churn in our cash-based SIM cards before the second quarter of 1999.

(9) Our outgoing "MOU" per customer for each month equals total outgoing airtime traffic in minutes divided by the average number of SIM cards for the month. For purposes of the outgoing MOU calculation, the average number of SIM cards shown for each month represents the average of number of SIM cards at the beginning of the month and the number of SIM cards at the end of the month. Our average outgoing MOU shown for each period represents the average of each month's outgoing MOU.

(10) Our "ARPU" for each month equals total service revenues divided by the average number of SIM cards for the month. For purposes of the ARPU calculation, the average number of SIM cards shown for each month represents the average of the number of SIM cards at the beginning of the month and the number of SIM cards at the end of the month. Our average monthly ARPU shown for each period represents the average of each month's ARPU during that period.

(11) Data for other GSM operators not available in 1999.

RISK FACTORS

This offering involves a high degree of risk. You should carefully consider the risks described below before making an investment decision. If any of the risks described below actually occurs, our business, financial condition and results of operations could be seriously harmed, the trading price of the Bonds and/or the Shares could decline, and you may lose all or part of your investment.

Risks Relating to Our Business

Increasing competition in the wireless industry in Taiwan could adversely affect our business growth and results of operations.

The wireless market in Taiwan is highly competitive. The ROC government has gradually opened up different segments of the telecommunications industry for competition. The country currently has six GSM operators, two of which are affiliated companies; one PHS operator; and five prospective 3G operators. Two of these prospective 3G operators are new entrants to the wireless market, and the remaining three are existing GSM operators, including us. See "Business — Competition."

At the same time, wireless market growth rates in Taiwan have slowed recently as customer penetration has increased and the industry has matured. In response to the increased number of players and the declining growth in the market, wireless operators have lowered tariffs, increased handset subsidies and offered other price-based concessions to customers in an effort to retain market share and minimize customer churn rates. We expect competition to remain intense for the foreseeable future. Competition is based principally on network quality and coverage, the range of services offered, tariff packages and customer service.

Competition among wireless operators may lead to reductions in prices for our services, increases in our handset subsidies, increases in our churn rates and increases in our marketing and distribution expenses and could adversely affect our financial condition and results of operations. In addition, consolidation among our competitors could increase their size in relation to us and reduce our competitiveness and growth opportunities.

Wireless communications services are highly dependent on advances in technology. Our business, results of operations and financial condition are subject to various risks relating to the advent of these new technologies, including the following:

- ***Changes in technology may render our current technologies obsolete or require us to make substantial capital investments in new licenses or technologies.***

  The Taiwan telecommunications industry has recently been characterized by rapid increases in the diversity and sophistication of the technologies and services offered. As a result, we expect that we will need to constantly upgrade our telecommunications technologies and services in order to respond to competitive industry conditions and customer requirements. If we fail to develop, or obtain timely access to, new technologies and equipment, or if we fail to obtain the necessary licenses and spectrum to provide services using these new technologies, we may lose customers and market share. This would have an adverse effect on our financial condition and results of operations. In addition, the cost of implementing new technologies, upgrading our networks or expanding capacity could be significant.

- ***Financing for these new licenses or technologies may not be available to us on commercially acceptable terms.***

  To the extent the costs of implementing new technologies, including upgrading our networks or expanding our capacity, exceed our cash resources, we will be required to seek additional debt or equity financing. If we fail to obtain funding for our capital investments on commercially acceptable terms, our expansion plans could be jeopardized and our competitive position could be seriously harmed. Our ability to obtain additional financing on commercially acceptable terms will depend on a number of factors, including:

  - our financial condition;
  - our compliance with current ROC regulations that require us to maintain a ratio no greater than 1:1 of total liabilities to total stockholders' equity, which effectively limits the amount of debt we may incur;
  - the condition of the economy and the telecommunications market in Taiwan;
  - limitations on foreign ownership of our Shares;
  - the cost of financing and financial market conditions; and
  - obtaining relevant government approvals.

- ***Our financial condition and results of operations could be adversely affected if our new technologies do not perform as expected or if we are unable to effectively deliver new services based on these technologies in a commercially viable manner.***

  We are pursuing a number of new growth opportunities in the wireless telecommunications industry, including data services. These opportunities involve new services for which there are no proven markets. Our ability to deploy and deliver these services will depend, in many instances, on new and unproven technologies, and will also require us to incorporate several key elements into each new service, including compelling applications, effective navigation, a data-ready network and attractive handsets.

  There are many risks inherent in pursuing these opportunities, including the following:

  - New technologies, such as W-CDMA and GPRS, may not generate an acceptable rate of return.
  - The success of our new wireless data services is substantially dependent on the availability of wireless data applications and devices that are being developed by third party developers. These applications or devices may not be sufficiently developed to support the deployment of our wireless data services, or may not be available in sufficient supply.
  - We may not be able to develop successfully new applications to deliver these services effectively and economically, or we may not be able to compete successfully in the delivery of wireless telecommunications services based on new technologies.
  - We may not be able to generate sufficient customer demand for applications using these new technologies, for instance, because consumers find the applications too difficult to navigate with a handheld device.
  - There may not be sufficient spectrum available to us to support these new services.

We cannot guarantee when or that these services will be widely introduced and fully implemented, or that they will be successful when they are in place or that customers will purchase the services offered. If these services are not successful, our financial condition and results of operations could be adversely affected.

The successful development and introduction of our 3G network and services is dependent on market demand, compatibility of W-CDMA technology and overcoming scheduling difficulties.

In February 2002, Yuan-Ze was awarded one of the five 3G licenses by the ROC government. This gives us the right to offer 3G services through Yuan-Ze, subject to our ability to satisfy certain roll-out requirements. We expect to commence our 3G services in selected areas of Taiwan in late 2003.

For our 3G system, we plan to use Wideband Code Division Multiple Access, or W-CDMA technology. W-CDMA technology is one of the global cellular telecommunications standards approved by the International Telecommunications Union as part of its efforts to standardize 3G cellular technology. We will have an opportunity to offer our services, such as global roaming, worldwide if enough number of other wireless operators adopt W-CDMA technology compatible with ours. However, if enough number of other wireless operators do not adopt W-CDMA compatible technology, we may not be able to offer global roaming and other services as expected and we may not be able to realize the benefits of economies of scale, including in terms of purchasing power and of access to content, that we currently anticipate.

As is common with new technology, various difficulties, including software, network, handset and other technical problems are expected. Accordingly, we cannot be certain that:

- our 3G network and services will deliver the quality and level of services currently anticipated;
- we will be able to provide all planned 3G services, or that we will be able to provide such services on schedule, and that developing and providing such services will not be more costly than expected;
- manufacturers and content providers will create and offer products, including handsets for our 3G system and content, on a timely basis;
- there will be sufficient demand for 3G services to offer these services profitably; or
- competitors will not be able to offer similar services at lower prices.

Yuan-Ze has made an upfront payment of NT$10,169.0 million for its 3G license and is obligated to pay an annual spectrum fee during the term of the license. The principal asset of Yuan-Ze is its 3G license. Yuan-Ze is conducting preliminary work on its 3G network, but it has not yet offered any services. It plans to borrow up to NT$3.5 billion in bank loans to finance its capital expenditures. If we experience substantial problems with our 3G services, it may impair the success of our 3G services and therefore may hinder our growth.

By conducting our 3G operations through Yuan-Ze, a non-wholly-owned subsidiary, rather than on our own, we face many risks and uncertainties, and our business, results of operations and financial condition could be adversely affected.

Yuan-Ze was established in December 2001 as a wholly-owned subsidiary of ours. We made a capital contribution of NT$1,200.0 million to Yuan-Ze at the time of its incorporation. In March 2002, we made a capital contribution of NT$7,170.0 million to Yuan-Ze, and Teco Electric & Machinery Co., Ltd. and certain of its affiliates made capital contributions aggregating NT$2,000.0 million to Yuan-Ze. Yuan-Ze used NT$10,169.0 million of the amounts received to pay for its 3G license. As of December 31, 2002, we held an ownership interest of 80.71% in Yuan-Ze, and Teco and certain of its affiliates held collectively an ownership interest of 19.29% in Yuan-Ze.

We face many risks and uncertainties by operating our 3G business through a non-wholly-owned subsidiary, any or all of which could adversely affect our business, results of operations and financial condition. These include the following:

- Before Yuan-Ze commences its 3G service, we may be required to negotiate a range of agreements with Yuan-Ze concerning revenue-sharing, cost-sharing and other items of mutual interest.

- If Yuan-Ze's 3G network is successful, our existing GSM network may eventually become obsolete. Given that we only held an ownership of interest of 80.71% in Yuan-Ze as of December 31, 2002, our offering of 3G services through Yuan-Ze would dilute the benefits to be realized by our shareholders; and

- We recognize the benefits of offering our 3G services either directly or through a wholly-owned subsidiary, as opposed to doing so through another entity not wholly owned by us. As a result, we may later seek to merge Yuan-Ze into us, acquire all its assets or effect another form of combination transaction with Yuan-Ze. To consummate such a transaction, we will need to agree with Teco on an appropriate valuation for Yuan-Ze in order to determine the transaction price. There can be no assurance we will be able to negotiate a transaction price that is favorable to us, or at all. We also may be required to seek additional debt or equity financing or obtain various regulatory or third-party approvals for such a transaction. There can be no assurance we will be able to obtain any required financing for such a transaction on commercially acceptable terms, or to obtain all required approvals in a timely manner.

We will require additional capital in the future and may not be able to secure adequate funds on terms acceptable to us.

The expansion and development of our business will require significant capital, which we may be unable to obtain on acceptable terms, or at all, to fund our capital expenditures and operating expenses, including working capital needs.

We may fail to generate sufficient cash flow from the sales of our services to meet our cash requirements. Further, our capital requirements may vary materially from those currently planned if, for example, our revenues do not reach expected levels or we have to incur unforeseen capital expenditures and make investments to maintain our competitive position. If this is the case, we may require additional financing sooner than anticipated or we may have to delay or abandon some or all of our development and expansion plans or otherwise forego market opportunities. In case of further indebtedness, we may not be able to obtain future equity or debt financing on favorable terms, if at all. Future borrowing instruments such as credit facilities and lease agreements are likely to contain restrictive covenants and may require us to pledge assets as security for borrowings thereunder. Our inability to obtain additional capital on satisfactory terms may delay or prevent the expansion of our business.

Our ability to maintain and to expand our telecommunications networks may be affected by disruption of supplies and services from our principal suppliers.

We rely on a limited number of leading international and domestic communications equipment manufacturers to provide network and telecommunications equipment and technical support. The key suppliers of equipment for our existing network are Ericsson and Lucent. The key suppliers of our handsets and accessories are Nokia, Motorola and Sony Ericsson, which collectively accounted for substantially all of the handsets and accessories supplied to us in 2002. The key suppliers of our SIM cards are Schlumberger and Gemplus, which accounted for a large percentage of the SIM cards supplied to us in 2002. We expect that Ericsson would be one of our key suppliers for our 3G wireless equipment. We do not have operational or financial control over our key suppliers, and we have limited influence with respect to the manner in which they conduct their businesses. If we are unable to obtain adequate supplies of equipment or services in a timely manner or on acceptable commercial terms, or if there are significant increases in the cost of these supplies, our ability to maintain and to expand our telecommunications networks may be materially and adversely affected.

Extensive regulation of our industry may limit our flexibility to respond to market conditions and competition, or require us to incur substantial additional costs without realizing corresponding revenue increases.

As a telecommunications service provider in Taiwan, we are subject to extensive regulation and supervision by the Ministry of Transportation and Communications (the "**MOTC**") and the Directorate General of Telecommunications (the "**DGT**") of the ROC government. See "Regulation — Regulatory Authorities." The regulatory framework within which we operate may limit our flexibility to respond to market conditions, competition or changes in our cost structure. For example, under regulations promulgated by the DGT, a wireless operator has the right to collect airtime charges from customers for calls originating from a fixed-line network and the power to set the level of such charges. Such regulations could change at any time in a manner that would immediately and substantially decrease our revenues. In addition, we could experience enhanced competition if the government put new regulations that require wireless operators to enable customers to keep their telephone numbers when changing service providers into practice.

We operate our businesses with approvals and licenses granted by the ROC government. In many cases these licenses are for limited duration or require the payment of licensing fees that can be increased by the government from time to time. For example, our GSM licenses are valid only for 15 years, and the license fees payable by us increased from 1% to 2% of our service revenue on January 1, 2001. Although the license fee for Yuan-Ze's 3G license has been paid upfront, an annual spectrum fee must be paid also in order for Yuan-Ze to continue to offer 3G services under that license. This spectrum fee is set by the government and is subject to change every year. If the government revokes or suspends or does not renew our existing approvals or licenses, or if we are only allowed to renew our approvals or licenses by paying significant additional amounts to the government, or if we are unable to obtain any additional licenses we may need to operate our business in the manner we desire, our business and results of operations may suffer.

Furthermore, if in the future our wireless market share in Taiwan causes us to be designated by the government as a dominant provider of wireless services within the meaning of applicable telecommunications regulations (which generally means having a marked share exceeding 25%), we would become subject to special additional requirements imposed by the MOTC, including the requirement to obtain prior approval for any setting or changing of tariffs. See "Regulation — Telecommunications Act — Restrictions on Dominant Telecommunications Service Providers."

AT&T Wireless, one of our principal shareholders, may sell its shares in whole or in part.

Our company was formed by a consortium consisting of the Far Eastern Group, AT&T Wireless and other Taiwanese companies. As of December 31, 2002, AT&T Wireless held a 20.69% interest in us and also beneficially owned 30.00% of Cheung Hing Development, which held a 6.85% interest in us. See "Principal Shareholders." AT&T Wireless has publicly announced that it has refocused its international objectives on enlarging its footprint to extend throughout North America. AT&T Wireless has indicated to us that they are actively exploring various options to dispose of their interests in our Shares, and may do so at any time, subject to the lock-up restrictions described in the "Plan of Distribution."

Taiwan's entry into the World Trade Organization may involve further liberalization of the telecommunications industry in Taiwan and this could exacerbate the competitive pressures we face in the market.

As a member of the World Trade Organization, the ROC government has committed to further open the telecommunications market in Taiwan to foreign participation. If this happens, we may be subject to increased competition by international operators that have substantially greater financial resources than we do, which could adversely affect our financial condition and results of operations.

We are controlled by the Far Eastern Group, which may have potential conflicts of interest with us.

Our controlling shareholder is the Far Eastern Group, the flagship company of which is Far Eastern Textile. The Far Eastern Group is a diversified conglomerate engaged in petrochemicals, communications, cement production, manufacturing, retailing, shipping, transportation, finance, investment and property development and management. We engage in a variety of transactions with other members of the Far Eastern Group on an ongoing basis. These transactions are generally conducted on an arm's length basis.

Members of the Hsu family, together with other major shareholders of Far Eastern Textile, most of which are affiliates of the Hsu family or Far Eastern Textile, are the dominant shareholders of Far Eastern Textile and the other members of the Far Eastern Group. As of December 31, 2002, Far Eastern Textile (together with other Far Eastern Group companies) beneficially owned 53.78% of our Shares. They have the ability to control our management and policies, control the timing and distribution of dividends, and elect a majority of our board of directors. These shareholders or other persons involved in our management who also have responsibility for other Far Eastern Group companies may take actions that favor the interests or business of other members of the Far Eastern Group over those of our own. They may also take actions with respect to our affairs that you may not agree with or that are not in our or our public shareholders' best interest.

We leased our principal executive offices from Far Eastern International Leasing Corp., a member of the Far Eastern Group. Pursuant to terms of the lease, the parties may renew the lease subject to terms to be mutually agreed, and if the parties fail to reach an agreement to renew the lease, we will have the obligation to purchase the building for NT$1,569.5 million when the lease expires. The lease expired on January 17, 2003. We are in the process of negotiating with Far Eastern International Leasing Corp. on this matter.

The Far Eastern Group has made a strategic equity investment of 24.07% in New Century Infocom Corporation ("**NCIC**"), which is owned by a consortium of investors. In February 2001, NCIC was awarded a license to provide fixed-line telecommunications services in Taiwan. Far Eastern Textile has made substantial capital contributions to NCIC and may be required to make additional capital contributions in the future. In addition, we have engaged in various transactions with NCIC on an arm's length basis, including the sharing of costs for the construction of a fiber optic backbone from Taipei in the north of Taiwan to Kaohsiung in the south and interconnection between our wireless services and their fixed-line services, and may in the future engage in other transactions with NCIC. See "Related Party Transactions." In the course of these dealings, Far Eastern Textile or other persons involved in our management who also have responsibility for NCIC may take actions that favor NCIC's business or interests over ours.

Potential acquisitions or other strategic investments may require us to incur substantial additional debt and integrate new technologies, operations and services.

The Taiwan telecommunications industry is rapidly evolving. We expect the number and identity of service providers in the market to continue to change. Future business combinations and alliances in the telecommunications industry may create significant new competitors with resources far greater than ours. Any significant changes in the telecommunications industry could have a material adverse effect on our business, financial condition and results of operations.

From time to time we consider opportunities to expand our business in Taiwan through mergers and acquisitions, joint ventures or other forms of strategic investment in other wireless operators in Taiwan, including opportunities to consolidate with existing wireless operators in Taiwan that have not been awarded a 3G cellular license. Any strategic investment we pursue may cause us to incur substantial additional indebtedness to finance the investment or, in the case of an acquisition, to assume indebtedness of the entities that are acquired. In addition, we may encounter difficulties in integrating those acquired operations with our own operations, including as a result of different technologies, services or service offerings. These actions could prove costly or time-consuming or divert our management's attention from other business matters.

Limits on foreign ownership of our Shares may be violated by shareholder action that is outside of our control, and we may thus lose our licenses through no fault of our own.

ROC law limits foreign ownership of our Shares. Currently, direct foreign ownership of our Shares is limited to 49%, while direct and indirect foreign ownership is limited to 60% on a combined basis. See "Regulation — Telecommunications Act — Foreign Ownership Limitations." Direct foreign ownership limits for companies traded on the GreTai Securities Market in Taiwan are continuously monitored by that exchange. Under this system, if a foreign investor places a purchase order that, if executed, would cause foreign investors in the aggregate to own more than 49% of our Shares on a direct basis, the GreTai Securities Market will reject the order automatically via its computer system. However, there is no automated mechanism for ensuring compliance with indirect foreign ownership limits, nor is there any way for us to monitor changes in the nationality or jurisdiction of incorporation of domestic shareholders (for example, when an ROC individual changes citizenship). Because we are unable to control foreign ownership of our Shares in all cases, and because we have no ability to force particular shareholders to sell their Shares or otherwise remedy a breach of these foreign ownership limits, we may lose our licenses through no fault of our own, and we do not have any effective means to protect our business against this risk.

Health risk concerns about wireless handsets and base stations could adversely affect our business.

According to some published reports, the electromagnetic signals from wireless telephones and wireless base stations may pose health risks or interfere with the operation of electronic equipment. Although the findings of those reports are disputed, actual or perceived risks of using wireless communications devices or base stations could have an adverse impact on wireless service providers, including us. For example, our customer base could be reduced, our customers may reduce their wireless telephone usage or we could encounter difficulties in obtaining sites for additional base stations required to expand our network coverage. We have experienced organized protests from time to time by local community groups that are concerned about the location of our base stations in their communities. In addition, we could be exposed to potential liability for any health problems caused by wireless handsets and base stations. As a result, our business may generate less revenue and our financial condition and results of operations may suffer.

Political and Economic Risks

Our business may be harmed, and the price of the Bonds and/or the Shares may be adversely affected, by changes in economic, political and business conditions resulting from outside Taiwan, such as terrorist activities, political unrest and military action.

Market conditions in Taiwan, our business and results of operations and the market price and liquidity of the Bonds and our Shares may be adversely affected by developments outside Taiwan, including, among others, those relating to the September 11, 2001 terrorist attacks in the United States and subsequent or any future terrorist activities, possible hostilities involving Iraq and tensions involving North Korea.

We face substantial political risks associated with our operations in Taiwan, particularly due to the tense relationship between the ROC and the PRC governments.

Our principal executive offices and all our assets are located in Taiwan, and all of our revenues are derived from our operations in Taiwan. Taiwan has a unique international political status. Since 1949, Taiwan and the Chinese mainland have been separately governed. The PRC government claims that it is the sole government in China and that Taiwan is part of China. Although significant economic and cultural relations have been established during recent years between Taiwan and the PRC, the PRC government has refused to renounce the possibility that it may at some point use force to gain control over Taiwan. Relations between the ROC and the PRC governments have been strained in recent years for a variety of reasons, including the PRC government's position on the "One China" policy and tensions concerning arms sales to Taiwan by the US government. Any tension between Taiwan and the PRC, or between the United States and the PRC, could adversely affect the market prices of the Bonds and our Shares.

If economic conditions in Taiwan deteriorate, our current business and future growth would be materially and adversely affected.

Our business and results of operations and the market prices of the Bonds and our Shares may be affected by changes in ROC government policies, taxation, inflation or interest rates in Taiwan, such as the following:

- In recent years, the currencies of many East Asian countries, including Taiwan, have experienced considerable volatility and depreciation. The Central Bank of China, Taiwan's central bank, has from time to time intervened in Taiwan's foreign exchange market to minimize the fluctuation of the US dollar/NT dollar exchange rate and to prevent significant decline in the value of the NT dollar. In October 1997, the Central Bank of China halted its intervention, and in January 1998, the US dollar/NT dollar exchange rate exceeded US$1.00 = NT$34.00 for the first time since April 1987. NT dollars have depreciated against US dollars substantially from US$1.00 = NT$27.52 on January 2, 1997 to US$1.00 = NT$34.92 on September 30, 2002, based on the Noon Buying Rates.

- The banking industry in Taiwan has been seriously harmed by the general economic downturn in Taiwan and other parts of Asia, which has caused a depressed property market and an increase in the number of companies filing for corporate reorganization and bankruptcy protection. As a result, financial institutions are more cautious in providing credit to businesses in Taiwan. We cannot assure you that we will continue to have access to credit at commercially reasonable rates of interest or at all.

The trading price of the Bonds may be adversely affected by the general activities of the ROC securities market, the trading price of our Shares, increases in interest rates and economic performance of Taiwan.

Our Shares are listed on the GreTai Securities Market, one of the two major exchanges in Taiwan. As of February 14, 2003, the aggregate market capitalization of the GreTai Securities Market was NT$881.8 billion. The ROC securities market is smaller and, as a market, more volatile than the securities markets in the United States and a number of European countries. The ROC securities market has experienced substantial fluctuations in the prices and volumes of sales of listed securities, and there are currently limits on the range of daily price movements on both exchanges in the ROC. The ROC securities market is particularly volatile during times of political instability including when relations between Taiwan and the PRC are strained. Moreover, the ROC securities market has experienced problems including market manipulation, insider trading and settlement defaults. The recurrence of these or similar problems could decrease the market price and liquidity of our Shares.

Since its inception in 1995 at 100, the GreTai Securities Market Index peaked at 343.99 points in August 1997 and bottomed at 78.22 points in October 2001. On February 14, 2003, the GreTai Securities Market Index closed at 93.45 points.

Shareholders may have more difficulty protecting their interests under ROC law than they would under US law.

Holders of the Bonds will become our shareholders upon exercise of their conversion rights. While the Bonds will be issued under an indenture governed by New York law, we were incorporated under ROC law. Our corporate affairs are governed by our articles of incorporation and by the laws governing corporations incorporated in the ROC. The rights of shareholders and the responsibilities of management and the members of the board of directors of ROC companies are different from those applicable to a corporation incorporated in the United States or Europe. Our shareholders may have more difficulty in protecting their interests in connection with actions taken by our management or our directors than they would as public shareholders of a European or U.S. corporation.

Holders of the Bonds may have difficulty enforcing any judgment obtained outside Taiwan against us or our directors, supervisors or executive officers.

We were incorporated under ROC law. Substantially all of our directors, supervisors and executive officers reside in Taiwan. In addition, all of our assets and a substantial portion of the assets of those persons are located in Taiwan. As a result, it may not be possible for holders of the Bonds to effect service of process upon us or those persons outside Taiwan. We have, however, irrevocably appointed an agent in New York to receive service of process in any proceedings in the State of New York based on any of the Bonds. Notwithstanding the foregoing, it may be difficult to enforce in the ROC courts judgments obtained against us and our directors, supervisors and executive officers in non-ROC courts, including those obtained against us in a New York court based upon the civil liability provisions of U.S. securities laws. See "Enforceability of Foreign Judgments in the ROC."

Risks Related to the Bonds, the Shares and Our Trading Markets

The Bonds will rank junior to our secured indebtedness with respect to the assets securing the indebtedness and be structurally subordinated to all borrowings of Yuan-Ze Telecommunications Co., Ltd., our subsidiary with the 3G license, with respect to its assets.

As of September 30, 2002, NT$5,648.0 million of our borrowings were secured by all or a portion of our base station sites, other equipment, land and buildings. The Bonds will rank junior to such secured borrowings and any future secured indebtedness with respect to the assets securing the indebtedness.

Holders of the Bonds will not have any claim as creditors against any of our subsidiaries. Indebtedness and other liabilities, including trade payables, of those subsidiaries will effectively be senior to a holder's claims against those subsidiaries as an equity holder. Yuan-Ze is planning to enter into one or more financing arrangements in connection with the construction of the 3G network, including bank loans in the aggregate amount of up to NT$3.5 billion. The Bonds will be structurally subordinated to such indebtedness with respect to the assets of Yuan-Ze.

There are limitations on the ability of the holders of the Bonds to exercise their conversion rights.

Currently the telecommunications business which we are engaged in is a restricted business in Taiwan. The ROC law limits foreign ownership of our Shares. Currently, direct foreign ownership of our Shares is limited to 49%, while direct and indirect foreign ownership is limited to 60% on a combined basis. This restriction may be lifted only with the approval of the ROC Executive Yuan on a case-by-case basis.

As of December 31, 2002, the percentage of our outstanding Shares directly held by non-ROC persons was 17.21%. As of the date of this offering memorandum, if all of the Bonds offered hereby were converted at the initial Conversion Price, translated into US dollars at the fixed exchange rate of NT$34.554 = US$1.00, and assuming the full exercise by the Initial Purchasers of the option to purchase the Optional Bonds, the number of Shares issuable upon conversion would be 110.5 million Shares, or 4.57% of our outstanding Shares, on a fully-diluted basis.

In addition, holders of the Bonds will not be able to exercise their conversion rights during certain Closed Periods. See "Description of the Bonds — Conversion." Under current ROC law and regulations, PRC persons are not permitted to hold or to convert the Bonds or to register as our shareholders, and, as described above, other non-ROC persons may only register as our shareholders if such registration would not increase the percentage of foreign ownership in us to above 49% on a direct basis and 60% on a direct and indirect basis. See "Foreign Investment and Exchange Controls in the ROC."

An active trading market for the Bonds may not develop.

The Bonds are a new issue of securities for which there is currently no trading market. We have been advised that the Initial Purchasers intend to make a market in the Bonds, but they are not obligated to do so and may discontinue such market making activity at any time without notice. The Bonds are being offered pursuant to an exemption from registration under the Securities Act and, as a result, the Initial Purchasers will only be able to resell their Bonds in transactions that are not subject to or exempt from registration under the Securities Act. In addition, the Initial Purchasers or their respective affiliates may purchase Bonds for proprietary purposes and not with a view to distribution. Such purchases may involve a substantial portion of the Bonds. We cannot predict whether an active trading market for the Bonds will develop or be sustained. If an active trading market were to develop, the Bonds could trade at prices that may be lower than the initial offering price. Whether or not the Bonds could trade at lower prices depends on many factors, including:

- the market price of our Shares, prevailing interest rates and the markets for similar securities;
- general economic conditions; and
- our financial condition, historic financial performance and future prospects.

If an active market for the Bonds fails to develop or be sustained, the trading price of the Bonds could be materially adversely affected. Application has been made to have the Bonds listed on the Luxembourg Stock Exchange. However, there can be no assurance that we will be able to obtain or be able to maintain such a listing or that, if listed, a trading market will develop on the exchange. We do not intend to apply for listing of the Bonds on any securities exchange other than the Luxembourg Stock Exchange. The Bonds may not be publicly offered, sold, pledged or otherwise transferred in any jurisdiction where registration may be required.

We cannot assure you that the market for our Shares will be active and liquid; the offering of the Bonds will not result in additional liquidity of the Shares until the commencement of the Conversion Period, if at all.

The average daily trading volume for our Shares on the GreTai Securities Market in 2002 was approximately 1,256,000 Shares. We cannot assure you that the liquidity of our Shares will be maintained or enhanced after the offering of the Bonds. Since the holders of the Bonds cannot convert the Bonds into our Shares until March 21, 2003 and may elect never to exercise their conversion rights, the sale of the Bonds will not result in additional liquidity of our Shares until such dates, if at all. Market prices of our Shares have been and continue to be extremely volatile. From January 2, 2003 to February 14, 2003, daily closing price of our Shares ranged from NT$25.90 per Share to NT$30.90 per Share. As a result, volatility in the price of our Shares may be caused by factors outside of our control and may be unrelated or disproportionate to our operating results.

Future offers or sales of Shares by us or existing shareholders may hurt the value of your investment.

The market price of the Bonds and the Shares could decline as a result of future sales of a large number of Shares or the perception that such sales could occur. If we or any of our shareholders offer or sell a large number of our Shares, the market price for the Bonds and/or the Shares could be depressed. Pursuant to certain lock-up agreements, we and certain shareholders holding an aggregate of approximately 53.07%

of our Shares have agreed, subject to certain exceptions, not to offer, sell or agree to sell, directly or indirectly, or otherwise dispose of the Shares without the prior written consent of the Lead Manager until 90 days from the date of this offering memorandum, and certain other shareholders holding an aggregate of 20.69% of our Shares have agreed to be subject to similar restrictions until 90 days from January 27, 2003. Nevertheless, the Lead Manager may lift or waive all or some of these restrictions in its sole discretion, and when the applicable restrictive period expires, we and such shareholders will be able to sell Shares in the public market, subject to legal restrictions. See "Plan of Distribution."

Holders of the Bonds will be required to appoint local agents in Taiwan and will be subject to other requirements if they convert the Bonds into our Shares and become our shareholders, which may make ownership burdensome.

When a non-ROC holder of the Bonds exercises its conversion rights to receive Shares and register as our shareholder, such holder will be required to appoint an agent as a tax guarantor in Taiwan. Such tax guarantor will be required to meet the qualifications set by the Ministry of Finance of the ROC government and will act as the guarantor of such holder's tax payment obligations. Evidence of the appointment of a tax guarantor and the approval of such appointment is required as conditions to receiving such holder's profits derived from the sale of Shares. There can be no assurance that such holder will be able to appoint and obtain approval for a tax guarantor in a timely manner.

In addition, under current ROC law, a converting holder of the Bonds is required to appoint a local agent in the ROC to open a securities trading account with a local securities brokerage firm and a NT dollar bank account, remit funds, exercise a shareholder's rights and perform such other matters as may be designated by the converting holder. Further, the converting holder must appoint a local bank to act as custodian for confirmation and settlement of trades, safekeeping of securities and cash proceeds and reporting of information. Without satisfying these requirements, the converting holder would not be able to hold, sell or otherwise transfer Shares on the GreTai Securities Market.

A holder of the Bonds or its designee requesting the conversion of its Bonds into Shares may be required to provide certain information to us, and failure to provide such information may prevent conversion or cause the conversion to be delayed.

A holder of the Bonds or its designee requesting the conversion of its Bonds may be required to provide certain information to us or our conversion agents, including the name and nationality of the person to be registered as the holder of our Shares and the number of Shares such person is acquiring and has acquired in the past as a result of the conversion of the Bonds it holds, and supporting documents, before such conversion is effected. See "Description of the Bonds — Conversion." Under applicable ROC laws, we are required to report to the Securities and Futures Commission of the ROC government if the person to be registered as a shareholder (i) is a "related party" of ours as defined in Statement of Financial Accounting Standard No. 6 of the ROC or (ii) will hold, immediately following such conversion, more than 10% of the total number of Shares deliverable upon conversion of the aggregate principal amount of all Bonds at the time of issue. The conversion of the Bonds may be delayed or prevented if such information is not provided.

USE OF PROCEEDS

We estimate that the net proceeds from this offering, after deducting the Initial Purchasers' commissions and other estimated expenses of this offering, will be approximately US$97.4 million (US$112.0 million if the Initial Purchasers' option is exercised in full). We intend to use the net proceeds of this offering to make additional capital expenditures to expand and enhance our wireless network. You can find more detailed information on our planned capital spending under "Management's Discussion and Analysis of Financial Condition and Results of Operations — Capital Expenditures." As part of our overall cash management, we may, pending these uses, temporarily invest a portion of the net proceeds in short-term, interest-bearing securities, deposit a portion in bank accounts, or use a portion for working capital or general corporate purposes.

MARKET PRICE INFORMATION FOR OUR SHARES

Our Shares have been listed on the GreTai Securities Market since December 10, 2001. The table below shows, for the periods indicated, the high and low closing prices and the average daily volume of trading activity on the GreTai Securities Market for our Shares and the highest and lowest of the daily closing values of the GreTai Securities Market Index.

Period	Closing Price per Share		Average Daily Trading Volume	GreTai Securities Market Index	
	High	Low		High	Low
	NT$	NT$	(Shares in thousands)		
2001					
December (since December 10)	43.03	27.13	4,486.2	136.23	119.65
2002					
January	38.44	33.20	1,867.6	154.81	135.26
February	35.25	33.03	1,148.7	153.52	139.25
March	34.51	32.21	1,366.6	156.96	142.74
April	36.23	33.93	2,135.8	163.00	152.88
May	34.67	32.38	1,563.8	147.85	131.06
June	34.34	32.95	2,358.6	138.00	121.52
July	33.44	30.98	1,326.2	129.89	118.38
August	31.56	29.80	795.6	120.94	110.73
September	30.50	28.10	811.7	111.68	97.99
October	28.50	26.00	1,187.9	104.58	89.71
November	28.60	26.30	1,181.3	105.37	99.86
December	26.80	25.50	1,385.3	104.91	93.64
2003					
January	30.90	25.90	3,323.3	104.99	94.98
February (through February 14)	29.20	28.30	1,085.4	97.83	93.45

Source: Bloomberg.

The closing price of our Shares on the GreTai Securities Market on February 14, 2003 was NT$28.30 per Share.

There is no public market outside Taiwan for our Shares. The GreTai Securities Market has experienced significant fluctuations in the prices of listed securities and there are currently limits on the range of daily price movements. See "The Securities Markets of Taiwan."

DIVIDENDS

The following table sets forth the cash and stock dividends per Share during each of the years indicated in respect of Shares outstanding on the record date applicable to the dividend payment, except as otherwise noted.

Year[1]	Total Aggregate Number of Shares[2]	Cash Dividends Per Share	Stock Dividends Per Share[3]
		(NT$)	(NT$)
2000	1,137,000,000	0.2195	0.7805
2001	1,400,000,000	—	3.5000
2002	1,890,000,000	1.0000	2.2000

(1) Dividends declared and paid in any year relate to net income recorded in the prior year.

(2) Aggregate number of Shares outstanding on the record date applicable to the dividend payment.

(3) We express a stock dividend declared as an NT dollar amount per Share. A shareholder receives as a stock dividend the number of Shares equal to the NT dollar amount per Share of dividend declared multiplied by the number of Shares owned and divided by the par value of NT$10 per Share. Fractional Shares are not issued but are paid in cash.

In 2002, our shareholders approved a cash dividend of NT$1.0000 per Share, which was paid on September 6, 2002, and a stock dividend of NT$2.2000 per Share, which was distributed on October 14, 2002. Of the stock dividend, NT$2.1000 per Share was paid out of retained earnings and NT$0.1000 per Share was paid out of capital surplus. See "Changes in Our Share Capital" and "Description of Our Share Capital — Dividends and Distributions."

The form, frequency and amount of future dividends on our Shares will depend upon our earnings, cash flow, financial condition, investment opportunities and other factors.

At each annual ordinary meeting of our shareholders, our board of directors submits to shareholders for their approval our financial statements and any proposal for the distribution of a dividend or the making of any other distribution to shareholders from our net income for the preceding year.

Except in limited circumstances, the ROC Company Law does not permit a company to distribute dividends or to make other distributions to shareholders in respect of any year in which the company has not recorded net income. In addition, before paying dividends or making other distributions to shareholders, ROC companies must recover any past losses, pay all outstanding taxes and set aside a legal reserve equal to 10% of net income until the accumulated legal reserve equals paid-in capital. See "Description of Our Share Capital — Dividends and Distributions." For the foreseeable future, we expect to pay out any net income (less any amounts required to recover past losses, pay outstanding taxes or fund any required legal reserves) to our shareholders as dividends, unless we determine those amounts are required for investments or capital expenditures or for improving our capital structure. We also expect that at least 10% of any dividends declared will be paid in cash, unless the Company has any recapitalization or major capital expenditure plans in the year. In such cases the percentage of cash dividend may be raised or lowered by a resolution adopted at the shareholders' meeting.

Shareholders on a dividend record date will be entitled to the full dividend declared without regard to any subsequent transfer of their Shares. Payment of dividends in respect of a particular year, if any, will be made in the following year after approval by our shareholders at the annual ordinary meeting of shareholders.

For information relating to ROC withholding taxes payable on dividends, see “ROC Taxation — Dividends on the Shares.” For information relating to the foreign exchange approvals required in Taiwan for the conversion of proceeds from the sale of Shares from NT dollars into foreign currency for payment to you, see “Foreign Investment and Exchange Controls in the ROC.”

CHANGES IN OUR SHARE CAPITAL

The following table sets out the changes in our issued share capital since April 11, 1997, our date of incorporation.

Date of Issue	Type of Issue	Number of Shares Issued	Total Number of Issued Shares after the Issue
July 10, 1997	Initial issuance of Shares for cash	900,000,000	900,000,000
March 8, 1999	Issuance of Shares for cash	170,000,000	1,070,000,000
October 5, 1999	Issuance of Shares for cash	67,000,000	1,137,000,000
August 24, 2000	Distribution of stock dividend	88,742,850	1,225,742,850
February 26, 2001 . . .	Issuance of Shares for cash	174,257,150	1,400,000,000
September 6, 2001. . .	Distribution of stock dividend	490,000,000	1,890,000,000
October 14, 2002 . . .	Distribution of stock dividend	415,800,000	2,305,800,000

CAPITALIZATION

The following table sets forth our short-term debt and capitalization as of September 30, 2002 and as adjusted for this offering. The adjustment reflects the sale of US$100.0 million principal amount of the Bonds in this offering and assumes no exercise of the Initial Purchasers' over-allotment option. You should read this table together with our financial statements, including the related notes, appearing elsewhere in this offering memorandum.

Except as otherwise described herein, there has been no material change in our capitalization since September 30, 2002.

	As of September 30, 2002			
	Actual		As Adjusted	
	NT$	US$(1)	NT$	US$(1)
	(in millions) (unaudited)			
Short-term debt:				
Current portion of long-term bank loans and other loans	616.0	17.6	616.0	17.6
Notes payable(2)	644.0	18.4	644.0	18.4
Total short-term debt	1,260.0	36.0	1,260.0	36.0
Long-term debt(3):				
Long-term bank loans and other loans, net of current portion	3,601.4	103.1	3,601.4	103.1
Bonds(4)	5,784.0	165.7	9,276.0	265.7
Total long-term debt	9,385.4	268.8	12,877.4	368.8
Stockholders' equity:				
Capital stock(5)	23,058.0	660.4	23,058.0	660.4
Capital surplus	5,967.5	170.9	5,967.5	170.9
Capital surplus from long-term investment	29.1	0.8	29.1	0.8
Retained earnings	6,999.2	200.4	6,999.2	200.4
Translation adjustments	3.1	0.1	3.1	0.1
Total stockholders' equity	36,056.9	1,032.6	36,056.9	1,032.6
Total capitalization(6)	45,442.3	1,301.4	48,934.3	1,401.4

(1) Translations of amounts from NT dollars into US dollars for the convenience of the reader have been made at the Noon Buying Rate as of September 30, 2002 of NT$34.92 = US$1.00.

(2) Includes notes outstanding under our note issuance facilities.

(3) As of September 30, 2002, NT$5,648.0 million of our long-term debt was secured by certain of our base station sites, other equipment, land and buildings. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations-Liquidity and Capital Resources."

(4) Includes secured bonds due 2005, unsecured bonds due 2007 and, as adjusted, the Bonds in this offering (assuming no exercise of the Initial Purchasers' over-allotment option).

(5) As of September 30, 2002, our authorized capital stock was NT$33,600,000,000, divided into 3,360,000,000 Shares, par value NT$10 each, of which 2,305,800,000 Shares were issued and outstanding. All of these Shares have been fully paid.

(6) Total capitalization is long-term debt plus total stockholders' equity.

EXCHANGE RATES

In portions of this offering memorandum, we have translated NT dollar amounts into US dollars for the convenience of readers. The rate we used for the translations was NT$34.92 = US$1.00, which was the Noon Buying Rate on September 30, 2002. The translation does not mean that NT dollars could actually be converted into US dollars at that rate. The following table shows the Noon Buying Rates expressed in NT dollars per US dollar.

Year Ended December 31,	Average(1)	High(2)	Low(3)	At Period-End
1997	28.728	33.250	27.340	32.800
1998	33.547	35.000	32.050	32.270
1999	32.321	33.400	31.390	31.390
2000	31.249	33.250	30.350	33.170
2001	33.819	35.130	32.230	35.000
2002				
January	35.027	35.080	34.940	34.990
February	35.073	35.110	34.990	35.110
March	35.020	35.100	34.950	35.000
April	34.917	35.010	34.720	34.720
May	34.460	34.720	34.050	34.050
June	33.889	34.070	33.460	33.460
July	33.272	33.760	32.850	33.610
August	33.884	34.240	33.520	34.240
September	34.573	34.980	34.120	34.920
October	34.947	35.160	34.750	34.750
November	34.673	34.820	34.460	34.760
December	34.799	34.890	34.700	34.700
2003				
January	34.571	34.760	34.400	34.610
February (through February 14)	34.721	34.819	34.610	34.819

Source: Bloomberg.

(1) Equals to the average of daily closing rates.

(2) Equals to the highest daily closing rate for the period.

(3) Equals to the lowest daily closing rate for the period.

DESCRIPTION OF THE BONDS

*The following is a description of the Terms and Conditions (the "**Conditions**") of the Bonds (subject to amendment and except for the sentences in italics), which includes summaries of, and are subject to, the more detailed provisions of the Indenture referred to below.*

*The issue of Zero Coupon Convertible Bonds Due 2008 (the "**Bonds**", which shall include any Optional Bonds issued pursuant to the option to increase the principal amount of the Bonds described in the Indenture (as defined below)) of Far EasTone Telecommunications Co., Ltd. (the "**Company**" or "**we**") was authorized by a resolution of our board of directors adopted on January 30, 2003. The Bonds are initially limited to US$100,000,000 aggregate principal amount (or US$115,000,000 if the Initial Purchasers' Option is exercised in full). The Company may from time to time, without notice to or consent of the holders of the Bonds, issue further bonds which will form a single series with the Bonds. Any such additional bonds will be identical in all respects to the Bonds, except the bonds issued in the future will have different issuance prices and issuance dates. The Bonds will be issued on or about February 19, 2003 (the "**Issue Date**") pursuant to an indenture (the "**Indenture**") dated the Issue Date between us and The Bank of New York, as trustee (the "**Trustee**", which term shall include all persons for the time being appointed as trustee or trustees under the Indenture) for the holders of the Bonds. We will also enter into a paying and conversion agency agreement (the "**Agency Agreement**") dated the Issue Date with The Bank of New York, as the Trustee and the registrar and principal paying, conversion, transfer and replacement agent appointed thereunder, and any other paying, conversion, transfer and replacement agent appointed thereunder (collectively, the "**Agents**") in relation to the Bonds. The registrar, principal paying, conversion, transfer and replacement agent, paying agents, conversion agents, transfer agents and replacement agents for the time being are referred to below as the "**Registrar**", the "**Principal Agent**", the "**Paying Agents**" (which expression shall include the Principal Agent), the "**Conversion Agents**" (which expression shall include the Principal Agent), the "**Transfer Agents**" (which expression shall include the Registrar) and the "**Replacement Agents**" (which expression shall include the Principal Agent), respectively. Copies of the Indenture and the Agency Agreement are available for inspection during normal business hours at the principal office of the Trustee and at the specified offices of each of the Agents. The holders of the Bonds are entitled to the benefit of the Indenture and are bound by, and are deemed to have notice of, all of the provisions of the Indenture and the Agency Agreement.*

1. Status

The Bonds constitute direct, unconditional, unsubordinated and, subject to the provisions of Condition 3, unsecured obligations of the Company and shall at all times rank pari passu and without any preference or priority among themselves and, subject to the provisions of Condition 3, with all other present and future direct, unconditional, unsubordinated and unsecured obligations of the Company, except as may be required by mandatory provisions of law.

2. Form, Denomination and Title

(A) *Form and Denomination*

The Bonds shall be issued in registered form, without coupons, and shall be offered, sold and transferred in the principal amount of US$1,000 or an integral multiple thereof. The Bonds shall initially be represented by a global certificate (the "**Global Certificate**"), and only under the limited circumstances described in the Global Certificate and the Indenture shall definitive bond certificates (each a "**Definitive Certificate**") be issued to holders of the Bonds in respect of their individual holdings. Each Definitive Certificate, if issued, shall be serially numbered and shall have an identifying number which shall be recorded on the relevant certificate and in the register of holders of the Bonds, which the Company shall procure to be kept by the Registrar.

The Bonds shall be represented by the Global Certificate and deposited with, and registered in the name of a nominee of, The Bank of New York, as common depositary for Euroclear and Clearstream. The Global Certificate shall contain or incorporate by reference the Conditions.

(B) ***Title***

The Bonds shall be registered instruments, and title to the Bonds shall pass by transfer and registration of title in the register of holders of the Bonds. The holder of any Bond shall, except as otherwise required by law, be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Definitive Certificate issued in respect of it), and no person shall be liable for so treating the holder. In these Conditions, "**holder of the Bonds**" and "**holder**" in relation to a Bond mean the person in whose name a Bond is registered in the register of holders of the Bonds.

3. Certain Covenants

(A) ***Negative Pledge***

So long as any of the Bonds remains outstanding, the Company will not, and will not permit any of its Principal Subsidiaries (as defined below) to create or permit to subsist any mortgage, charge, pledge, lien or other form of encumbrance or security interest ("**Security**") upon the whole or any part of the property, assets or revenues of the Company or such Principal Subsidiary, as the case may be, present or future, to secure for the benefit of the holders of any International Investment Securities (as defined below) any payment of any sum due in respect of or under any guarantee of or payment indemnity or other like obligation relating to any such International Investment Securities, unless, in any such case, at the same time or prior thereto, either (i) the same Security is granted to the holders of the Bonds or (ii) there is outstanding any guarantee, indemnity or other like obligation or such other security that is not materially less beneficial to the holders of the Bonds or as shall be approved by holders of the Bonds holding not less than 50% of the principal amount of the outstanding Bonds.

For the purposes of these Conditions:

"***International Investment Securities***" mean bonds, debentures, notes, or other similar investment securities of the Company or any of its Principal Subsidiaries evidencing indebtedness with a maturity of not less than one year that (a) either (i) are by their terms payable, or confer a right to receive payment, in any currency other than NT dollars or (ii) are denominated or payable in NT dollars and more than 50% of the aggregate principal amount thereof is initially distributed outside the ROC by the Company or with its authorization; and (b) are for the time being, or are capable of being, quoted, listed, ordinarily dealt in or traded on any stock exchange, quotation system or over-the-counter or other similar securities market outside the ROC.

"***Principal Subsidiary***" means any corporation or other business entity, more than 50% of the outstanding voting stock of which is for the time being owned directly or indirectly by the Company and either (a) the net sales or net operating revenues of which, as shown by the accounts (consolidated in the case of an entity which itself has subsidiaries) of such entity upon which the most recent audited consolidated accounts of the Company have been based, are at least 10% of its consolidated net sales or net operating revenues, as the case may be, as shown by such audited consolidated accounts; or (b) the gross assets of which, as shown by the aforementioned accounts, are at least 10% of its consolidated gross assets as shown by such audited consolidated accounts.

(B) ***Mergers and Disposals***

The Company shall not merge, amalgamate or consolidate with or into any other corporation or entity (if the Company is not the surviving entity) or sell or transfer all, or substantially all, of its assets, whether as a single transaction or a number of transactions, related or not, to any corporation, entity or person or to one or more members of any group under the common control of any corporation, entity or person unless:

(i) The Company has notified the holders of the Bonds of such event in accordance with Condition 14; and

(ii) The Company and such corporation, entity or person have executed an indenture supplemental to the Indenture, in form and substance satisfactory to the Trustee, and the supplemental indenture includes the following: (a) the express assumption by such corporation, entity or person of the Company's obligations under the Bonds, the Indenture and the Agency Agreement, including the covenants contained in this Condition 3(B) relating to subsequent mergers, amalgamations, consolidations, sales or transfers; (b) provisions for the convertibility of each Bond then outstanding into the class and amount of Shares and other securities, cash and other property receivable upon such consolidation, amalgamation, merger, sale or transfer by a holder of the number of Shares into which such Bonds would have been convertible immediately prior to such consolidation, amalgamation, merger, sale or transfer (assuming for such purpose that the Bonds were convertible at the time of such consolidation, amalgamation, merger, sale or transfer) at the Conversion Price as adjusted from time to time pursuant to the Indenture; and (c) provisions for adjustments that shall be as nearly equivalent as may be practicable to the adjustments provided for in the provisions of Condition 5(C).

So long as the Bonds are listed on the Luxembourg Stock Exchange, the Company shall submit a copy of the supplemental indenture to the Luxembourg Stock Exchange as soon as practicable and shall make such supplemental indenture available for inspection at the specified offices of its Paying, Conversion and Transfer Agent in Luxembourg.

4. Transfers of Bonds; Issue of Certificates

(A) ***Transfers***

A Bond may be transferred as follows: (i) in the case of a Bond represented by a Definitive Certificate, by depositing such certificate at the specified offices of any Transfer Agent, with the form of transfer on the back of such certificate duly completed and signed, or (ii) in the case of a Bond represented by the Global Certificate, by delivery at such office of a form of transfer duly completed and executed, and any other evidence that such Transfer Agent may require.

The forms of transfer are available at the specified offices of any Transfer Agent during normal business hours. Transfers of interests in the Bonds evidenced by the Global Certificate shall be effected in accordance with the rules of the relevant clearing systems.

(B) ***Delivery of New Definitive Certificates***

Each new Definitive Certificate to be issued upon transfer of the Bonds shall, within five Business Days of receipt by the Transfer Agent of the duly signed and completed form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds to the address specified in the form of transfer.

Where some but not all the Bonds in respect of which a Definitive Certificate is issued are to be transferred, converted or redeemed, a new Definitive Certificate in respect of the Bonds not so transferred, converted or redeemed shall, within five Business Days of deposit or surrender of the original certificate with or to the relevant Agent, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred, converted or redeemed to the address of such holder appearing on the register of holders of the Bonds.

For the purposes of this Condition 4:

"**Business Day**" means a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Agent with whom a Definitive Certificate is deposited in connection with a transfer is located.

(C) ***Formalities Free of Charge***

Registration of transfer of the Bonds shall be effected without charge by or on behalf of the Company or any of the Agents, subject to payment (and the giving of such indemnity as the Company or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to it.

(D) ***Restricted Transfer Period***

No holder of the Bonds may require the transfer of a Bond to be registered (i) during the period of 15 days ending on the due date for any payment in respect of the Bond pursuant to Condition 6, (ii) after the Bond has been selected for redemption pursuant to Condition 7(B) or Condition 7(C), (iii) following exercise by the holder of its option to require the Company to redeem the Bond pursuant to Condition 7(D) or (iv) following exercise by the holder of its option to convert the Bond pursuant to Condition 5(A).

(E) ***Provisions on Transfer***

All transfers of the Bonds and entries on the register of holders of the Bonds shall be made subject to the detailed provisions concerning transfer of the Bonds set forth in the Agency Agreement. Such provisions may not be changed without the prior written approval of the Trustee and the Registrar. A copy of the current provisions shall be mailed (or sent via facsimile) by the Registrar to any holder of the Bonds upon written request.

5. Conversion

We have agreed in the Indenture that, within five Trading Days (as defined below) from each Conversion Date (as defined in Condition 5(B)(i)), we will issue and deliver the Shares to the converting holder or its designee, subject to applicable law and the provisions of the Indenture relating to the conversion.

The Indenture provides that the term "Shares" means, when used to refer to the class or classes of our capital stock into which the Bonds are convertible and when used in certain other instances, only our Shares, NT$10 par value per Share, but when used elsewhere, including in Condition 5(C), such term also includes Shares of any other class or classes of our capital stock authorized after the date of the Indenture that have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or winding-up.

(A) ***Conversion Right***

(i) *Conversion Period.* Each holder of the Bonds has the right hereunder to convert any Bond into Shares subject to the terms set forth herein (the "**Conversion Right**"). Subject to and upon compliance with the provisions of this Condition 5, the Conversion Right attaching to any Bond may be exercised, at the option of the holder of the Bonds and to the extent provided herein, at any time (i) on or after March 21, 2003 and prior to the close of business (at the place where such Bond is deposited for conversion) on January 20, 2008 (or if such day shall not be a Business Day (as defined below) at such place, on the immediately preceding Business Day at such place) (but in no event thereafter) or (ii) if such Bond shall have been called for redemption on a redemption date on or prior to January 27, 2008 (or if such day shall not be a Business Day at the place where such Bond is deposited for conversion, on the immediately preceding Business Day at such place), then up to the close of business (at the place aforesaid) on the seventh day prior to the date fixed for redemption thereof (or if such day shall not be a Business Day at such place, on the immediately preceding Business Day at such place) (the "**Conversion Period**"); provided, however, that the Conversion Right during any Closed Period (as defined below) shall be suspended and the Conversion Period shall not include any such Closed Period. Holders of the Bonds shall be given not less than 10 and not more than 60 days notice in accordance with Condition 14 of the commencement of any Closed Period.

For the purposes of these Conditions:

"**Closed Period**" means (i) the 60-day period prior to the date of any of the Company's general shareholders' meetings; (ii) the 30-day period prior to the date of any of the Company's special shareholders' meetings; (iii) the period from the date following the third Trading Day (as defined below) prior to the date of the Company's notification to the GreTai Securities Market of the record date for the determination of shareholders entitled to the receipt of dividends, subscription of new Shares or other benefits to such record date; and (iv) such other periods during which the Company may be required to close its stock transfer books under ROC laws and regulations applicable from time to time.

"**Trading Day**" means a day when the GreTai Securities Market is open for business.

For the purposes of this Condition 5:

"**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in London and the city in which the specified office of the Conversion Agent with whom a Conversion Notice is deposited in connection with the conversion is located.

Under current ROC law, regulation and policy, PRC persons are not permitted to hold or convert the Bonds or to register as our shareholders. Under current ROC law, "PRC person" means an individual holding a passport issued by the PRC; a resident of any area of China under the effective control or jurisdiction of the PRC (but not including a special administrative region of the PRC such as Hong Kong or Macau, if so excluded by applicable laws of the ROC); any agency or instrumentality of the PRC; and any corporation, partnership or other entity organized under the laws of any such area or controlled or beneficially owned by any such person, resident, agency or instrumentality.

Under current ROC law, a converting holder of the Bonds, when exercising its conversion right to convert the Bonds into Shares, is required to appoint a local agent, also referred to as a Tax Guarantor, in the ROC to file tax returns and make tax payments on its behalf. In addition, a non-ROC converting holder is required to appoint a local agent in the ROC with such qualifications as are set by the ROC Securities and Future Commission. Such *local agent shall open a securities trading account with a local brokerage firm and a NT dollar bank account, pay ROC withholding taxes, remit funds, exercise shareholders' rights and perform such other matters as may be designated by such converting holder on behalf of and as agent for such person. In addition, such non-ROC converting holder must also appoint a custodian bank to hold the securities for safekeeping, make confirmation and settlement of trades, and report all relevant information. Without first obtaining the approval of the GreTai Securities Market and opening such accounts, the converting holder of the Bonds would not be able to hold or sell or otherwise transfer the Shares on the GreTai Securities Market or otherwise. See "Certain ROC Legal Requirements."*

(ii) *Number of Shares Issuable on Conversion.* The number of Shares issuable upon conversion of any Bond shall be determined by dividing the principal amount of the Bond (translated into NT dollars at a fixed exchange rate of NT$34.554 = US$1.00, the "**Fixed Exchange Rate**") by the Conversion Price (as defined in Condition 5(A)(iii)) in effect on the Conversion Date (as defined in Condition 5(B)(i)). If more than one Bond shall be deposited for conversion at any one time by the same holder of the Bonds, the number of Shares to be issued upon conversion thereof shall be calculated on the basis of the aggregate principal amount of the Bonds so deposited. Fractions of Shares shall not be issued on conversion, and cash adjustments shall not be made in respect thereof by the Company. Notwithstanding the foregoing, in the event of a consolidation or reclassification of Shares by operation of law or otherwise that occurs after the date of the original issuance of the Bonds, the Company shall upon conversion of the Bonds pay in US dollars a sum equal to such portion of the principal amount of the Bonds deposited for conversion as corresponds to any fraction of a Share not issued as aforesaid if such sum exceeds US$10. For the purpose of calculating the amount of such payment, the Company shall use the Fixed Exchange Rate.

(iii) *Initial Conversion Price.* The price at which Shares shall be issued upon conversion (the "**Conversion Price**") shall initially be NT$35.955 per Share, but shall be subject to adjustment in the manner provided in Condition 5(C).

(iv) *Revival on Default.* Notwithstanding the provisions of Condition 5(A)(i), if an Event of Default (as defined in Condition 9) occurs, the Conversion Right attaching to a Bond shall continue to be exercisable up to and including the close of business at the place where the relevant Conversion Notice (as defined in Condition 5(B)(i)) is deposited for conversion on the date upon which the full amount of the monies payable in respect of such Bond has been duly received by the Trustee or the Principal Agent and notice of such receipt has been duly given to the holders of the Bonds.

(B) ***Conversion Procedures***

(i) *Exercise Procedures; Conversion Notice; Deposit Date; Conversion Date.* To exercise the Conversion Right attaching to any Bond, a holder of the Bond shall deposit the following at its own expense between 9:00 a.m. and 3:00 p.m. on any Business Day at which the Bond is presented for conversion during the Conversion Period at the specified office of a Conversion Agent outside the ROC:

(a) a notice of conversion (a "**Conversion Notice**") in duplicate, duly completed and signed, in the then current form obtainable from the specified office of any Conversion Agent, together with the relevant Definitive Certificate, if issued, in respect of the relevant Bond;

(b) any certificates and other documents as may be required under the law of the ROC or the jurisdiction in which such Conversion Agent shall be located; and

(c) any amount required to be paid by the holder of the Bond referred to in Condition 5(B)(ii) below.

Any of the above items deposited outside the hours specified above or on a day that is not a Business Day shall for all purposes be deemed to have been deposited with that Agent on the immediately succeeding Business Day. The Conversion Notice shall contain, among other things, (i) the appointment of a local agent; (ii) an irrevocable instruction to convert the Bonds into Shares; and (iii) other information required by ROC laws and regulations. Once deposited, the Conversion Notice may not be withdrawn without the Company's consent in writing. The price at which such Bond shall be converted shall be the Conversion Price in effect on the Conversion Date (as defined below).

We will covenant in the Indenture that we will send to the Trustee an officer's certificate, which certificate the Trustee may exclusively rely on, certifying to the best knowledge of such officer, there has been no change in the laws or regulations of the ROC affecting the conversion of the Bonds, including the change in the ROC laws or regulations in connection with any certificates or other documents required for the conversion of the Bonds.

For the purposes of these Conditions:

"**Deposit Date**" means the first date on which (i) the Definitive Certificate, if issued, in respect of the Bond to be converted, (ii) a duly signed and completed Conversion Notice (in duplicate), (iii) any certificates or other documents, as may be required, relating thereto, and (iv) the payments referred to in Condition 5(B)(ii) below, as may be required, have all been deposited with a Conversion Agent.

"**Conversion Date**" means the Trading Day next following the Deposit Date that is not within a Closed Period.

(ii) *Taxes and Expenses.* As conditions precedent to the exercise of the Conversion Right attaching to any Bond, together with the delivery of the Conversion Notice, the Definitive Certificate, if issued, and any certificates or other documents as may be required, the holder of the Bond must pay all stamp, issue, registration and similar taxes and duties, if any, arising on conversion in the country in which the Bond is deposited for conversion or payable in any jurisdiction upon the issue or delivery of Shares or any other property or cash upon conversion to or to the order of the converting holder of the Bond or any other person. Except as aforesaid, the Company shall pay the expenses arising in the ROC on the issue of Shares upon conversion of the Bond and all charges of the Conversion Agents in connection therewith as provided in the Agency Agreement.

(iii) *Holder of Record.* With effect from the opening of business in the ROC on the Conversion Date, the Company shall deem the converting holder of a Bond as indicated in the Conversion Notice to have become the holder of record of the number of Shares to be issued upon such conversion, disregarding any retroactive adjustment of the Conversion Price referred to below prior to the time such retroactive adjustment shall have become effective. At such time, subject to Condition 5(B)(iv), the rights of such converting holder with respect to the Bond deposited for conversion shall cease, except rights arising under Condition 5(B)(v).

(iv) *Delivery of Shares; Alternative Payment of Cash.* On the Conversion Date the Company shall register the converting holder of a Bond or its designee in its register of shareholders as the owner of the number of Shares to be issued pursuant to Condition 5(B)(iii) upon conversion of such Bond. Subject to any applicable limitations then imposed by ROC laws and regulations, including any limitations on the percentage of foreign ownership of the

Shares, the Company shall deliver in accordance with the Indenture and the request made in the relevant Conversion Notice as soon as practicable, and in any event within five Trading Days (subject to applicable law) following the Conversion Date, for the benefit of the converting holder the following:

(a) the relevant Shares, through book-entry transfer to an account registered in the name of the converting holder or its designee at Taiwan Securities Central Depository Co., Ltd.;

(b) any other property or cash (including, without limitation, cash payable pursuant to Condition 5(A)(ii)) required to be delivered upon conversion; and

(c) such documents as may be required by law to effect the delivery thereof.

We have certain disclosure obligations and reporting obligations under ROC law and regulations if:

(i) the person to be registered as a shareholder is a "related party" of ours under Statement of Financial Accounting Standard No. 6 of the ROC and such person beneficially owns Shares converted from the Bonds, or

(ii) the person to be registered as a holder of Shares owns Shares received on conversion of his Bonds and the Shares converted exceed 10% of the total number of Shares expected to be converted based on the conversion price at the time of issue of the Bonds.

Due to these obligations, the Indenture provides that, if we so instruct, the Trustee may ask converting holders of the Bonds to disclose the name of the person to be registered as the shareholder and to provide proof of identity and genuineness of any signature and other documents before it converts the Bonds. The conversion of the Bonds may be delayed until the Trustee receives the required information and satisfactory evidence of compliance with relevant laws and regulations by the converting holder of the Bonds. The information that a converting holder of the Bonds is required to provide includes the name and nationality of the person to be registered as shareholder and the total number of Shares such person has or will receive as a result of the conversion of the Bonds it holds.

Notwithstanding anything herein to the contrary, if and so long as the Company is prohibited under the ROC Telecommunications Law (or any successor ROC law) from registering the converting holder of a Bond or its designee in its register of shareholders as the owner of all or a portion of the number of Shares to be issued pursuant to Condition 5(B)(ii) upon conversion of such Bond (the "Excess Shares"), the Company shall convert into US dollars at the Prevailing Rate (as defined in Condition 7(B)) no later than the third Trading Day following the Conversion Date and pay to the converting holder on the Conversion Date an amount equal to aggregate market value of the Excess Shares at the Closing Price (as defined in Condition 5(C)) for the Shares on the GreTai Securities Market on the Trading Day next preceding the Conversion Date after deducting from such amount any amount that the Trustee determines to be payable in respect of its liability for Taxes (as defined in Condition 8). The Trustee shall not have any liability in connection with the rate at which any amount is converted into US dollars, or for any inability to make any conversion.

In the event the conversion of a Bond shall result in a payment to the converting holder as provided above, the Company shall deliver a notice setting forth the above details to the address of the converting holder appearing on the register of holders of the Bonds.

(v) *Retroactive Adjustment of Conversion Price.* If (a) the Conversion Date in relation to any Bond shall be on or after a date with effect from which an adjustment to the Conversion Price takes retroactive effect pursuant to any of the provisions referred to in Condition 5(C) and the Indenture and (b) the relevant Conversion Date falls on a date when the relevant adjustment has not been reflected in the Conversion Price, the Company shall, within 20 days after the date of such adjustment of the Conversion Price, issue and deliver to the local agent appointed by the converting holder of the Bond such number of Shares as is equal to the excess of (1) the number of Shares that would have been required to be issued on conversion of such Bond if the relevant retroactive adjustment had been made as of the said Conversion Date over (2) the number of Shares previously issued pursuant to such conversion; and in such event and in respect of such number of Shares, references in Conditions 5(B)(iii) and 5(B)(iv) to the Conversion Date shall be deemed to refer to the date upon which such retroactive adjustment becomes effective disregarding the fact that it becomes effective retroactively. Fractions of Shares shall not be issued, and no cash adjustment shall be made in respect thereof.

(vi) *Dividend and Other Entitlement.* The converting holder of a Bond shall be entitled to any annual dividend distributions of the Company if the Conversion Date is prior to the relevant record date (and the relevant closure of the shareholders' register) for determining the identity of shareholders who are entitled to such dividend distributions.

(vii) *Conversion Agents.* The Company reserves the right, subject to the provisions of the Agency Agreement and with the prior written consent of the Trustee, to vary or terminate the appointment of any Conversion Agent and to appoint other Conversion Agents at any time; provided that the Company shall at all times maintain Conversion Agents having specified offices in London and, so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of the exchange so require, in Luxembourg. Notice of any such termination or appointment and of any changes in the specified offices of the Conversion Agents shall be given promptly by the Company to the holders of the Bonds and the Luxembourg Stock Exchange in accordance with Condition 14.

(viii) *Depositary Receipts.* The Company may, at its option, but is not required to, make arrangements satisfactory to the Trustee for the Bonds to be converted into depositary receipts or other scrip evidencing Shares. Any such arrangements shall be in addition to the provisions of these Conditions relating to conversion into Shares.

We have not, at the date of this offering memorandum, established or authorized the establishment of any depositary receipt facility. Accordingly, the option to convert Bonds into depositary receipts is not and may not be available in the foreseeable future. If in the future a depositary receipt facility is established or authorized by the Company, we will, to the extent permitted by applicable laws and regulations, make arrangements satisfactory to the Trustee for Shares issued on conversion of Bonds to be accepted for deposit (at the option of the converting holder of the Bonds) into such depositary receipt facility, subject always to the terms of such depositary receipt facility, which terms may include certification or other requirements as conditions to the acceptance for deposit of Shares issued on conversion of Bonds. In such an event, we will give notice of any such arrangements to holders of the Bonds in accordance with Condition 14. There can be no assurance that we will in the future establish or authorize any depositary receipt facility or that any arrangements for the deposit of Shares into such depositary receipt facility would be available to all holders of the Bonds.

(C) ***Adjustments to Conversion Price***

The Conversion Price shall be subject to adjustment in the manner set forth in the Indenture upon the occurrence of certain events set out in the Indenture, including:

(i) the making of a free distribution of Shares, including distribution from retained earnings or capital reserve;

(ii) subdivisions, consolidations or reclassifications of Shares;

(iii) the declaration of a dividend in Shares;

(iv) the issue of (a) securities convertible into or exchangeable for Shares at less than the then Current Market Price or (b) options, rights or warrants to subscribe for or purchase Shares at less than the then Current Market Price or to subscribe for or purchase securities convertible into or exchangeable for Shares at less than the then Current Market Price;

(v) a Capital Distribution (as defined below) or other distribution to the holders of Shares of (a) evidences of indebtedness of the Company, (b) capital stock (other than Shares) of the Company, (c) assets (other than annual or interim dividends in cash not constituting a Capital Distribution) or (d) options, rights or warrants to subscribe for or purchase Shares or securities (other than those mentioned in (iv) above);

(vi) the issue of Shares (other than (a) Shares issued upon conversion of the Bonds; (b) Shares issued to shareholders of any company that merges with the Company upon such merger in proportion to their shareholdings in such company immediately prior to such merger; and (c) Shares issued in any of the circumstances (i) through (v) described above), including Shares issued in any employee dividend or employee profit-sharing arrangements, at less than the then Current Market Price; and

(vii) any other event or circumstance that would have, in the Company's determination, an analogous effect to any of the events in (i) to (vi) above.

No adjustment shall be made where such adjustment would be less than 1% of the then Conversion Price, but any adjustment that otherwise would be required to be made shall be carried forward and taken into account in determining any subsequent adjustment. Any adjustment shall be notified promptly by the Company to the Luxembourg Stock Exchange and the holders of the Bonds in accordance with Condition 14.

As a result of any adjustment required by this Condition 5(C), the Conversion Price may be reduced to an amount below the par value of the Shares to the extent permitted by ROC law, provided that any Shares issued upon the conversion of a Bond at such reduced Conversion Price will be legally issued, fully-paid and non-assessable.

We have covenanted in the Indenture not to take any action that would reduce the Conversion Price to an amount below the par value of the Shares unless the Bonds could be converted at such reduced Conversion Price into legally issued, fully-paid and non-assessable Shares.

The Trustee shall not be obliged to monitor whether any event has occurred that might fall within (i) to (vii) above and shall assume that no such event has occurred until it has actual knowledge by way of notice in writing from the Company to the contrary.

For the purposes of these Conditions:

"**Capital Distribution**" means any cash dividend, distribution of cash, distribution of assets in specie or payment on redemption, or for the purchase of, capital stock of the Company made by the Company for any fiscal year which:

(a) exceeds (when taken together with all dividends, distributions by the Company of cash or assets and payments on redemption, or for the purchase, of capital stock previously made or paid in respect of such fiscal year) 5% of market capitalization of the Company on the date that the shareholders of the Company approve the making of such dividend or distribution; and

(b) exceeds 110% of (when taken together with all other dividends or distributions by the Company of cash or assets and payments on redemption, or for the purchase, of capital stock made or paid in respect of such fiscal year) the aggregate amount of dividends (excluding stock dividends) and distributions on such class of capital charged or provided for in the Company's accounts for the immediately preceding fiscal year, and in computing such amounts, the value of such dividends and distributions and adjustments as are in the Company's auditor's opinion appropriate to the circumstances shall be taken into account; and

(c) if any such payment is a payment on redemption, or for the purchase, of capital stock of the Company, the average price (before expenses) in any one day in respect of such purchase or redemption exceeds by more than 5% the Current Market Price either (i) on that day or (ii) in a situation in which an announcement has been made of the intention to purchase or redeem Shares at some future date at a specified price, on the Trading Day immediately preceding the date of such announcement.

"**Closing Price**", in relation to the Shares, for any Trading Day means the last reported transaction price or, if no transaction takes place on such day, the last available reported transaction price of the Shares on the GreTai Securities Market in effect on the Trading Day immediately preceding such day or, if the Shares are not at that time listed or admitted to trading on the GreTai Securities Market, the average of the closing bid and offered prices of Shares for such day as furnished by a leading independent securities firm licensed to trade on the GreTai Securities Market selected by the Company for that purpose.

"**Current Market Price**", in relation to the Shares, for any day means (a) the average of the Closing Prices for the 30 consecutive Trading Days commencing 45 Trading Days before such day and (b) when used with respect to any issuance or distribution, the average of the Closing Prices for the 30 consecutive Trading Days commencing not more than 45 Trading Days (with the commencement date selected by the Company) before the first day on which the Shares without the right to receive such issuance or distribution trade in a regular way on the GreTai Securities Market, other applicable securities exchange or any applicable securities market; provided, however, if no Closing Price is available for one or more Trading Days, such day or days shall be disregarded in any relevant calculation and shall be deemed not to have existed when ascertaining any period of consecutive Trading Days.

6. Payments

(A) *Manner of Payment*

Payment in respect of a Bond shall be made (i) by transfer to the registered account of the holder of the Bond or (ii) if such holder does not have a registered account, by a US dollar check mailed to its registered address. The registered account and address of a holder of the Bonds mean its account and address appearing on the register of holders of the Bonds at the close of business on the second Business Day (as defined below) before the due date for payment.

References in these Conditions, the Indenture and the Agency Agreement to payment in respect of a Bond shall, where the context so permits, be deemed to include not only a reference to the principal of, but also to any premium, interest and other amounts payable on, such Bond.

For the purposes of this Condition 6 and Condition 7:

"**Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for business in The City of New York, in London, in Taiwan and, in the case of the surrender of a Definitive Certificate, in the place where the Definitive Certificate is surrendered.

(B) *Commissions and Expenses*

All payments are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 8. No commissions or expenses shall be charged to the holders of the Bonds in respect of such payments.

(C) *Date of Payment*

Where payment is to be made by transfer to a registered account, payment instructions for value the due date (or, if that date is not a Business Day, for value the next Business Day) shall be initiated. Where payment is to be made by check, the check shall be mailed on the Business Day preceding the due date for payment. Notwithstanding the above, payment of principal of a Bond represented by a Definitive Certificate shall not be made earlier than the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

(D) *Default Interest and Payment Delay*

If the Company fails to pay any sum in respect of the Bonds when the same becomes due and payable under these Conditions, interest shall accrue on the overdue sum at the rate of 3.0% per annum from the due date and ending on the date that the Trustee determines to be the date on and after which payment is to be made to the holders of the Bonds in respect thereof (both dates inclusive) as stated in a notice given to the holders of the Bonds in accordance with Condition 14. Such default interest shall accrue on the basis of the actual number of days elapsed and a 360-day year consisting of 12 months of 30 days each.

A holder of the Bonds shall not be entitled to any interest or other payment for any delay in receiving the amount due if (i) the due date is not a Business Day, (ii) the Bond is represented by a Definitive Certificate and the holder is late in surrendering its Definitive Certificate (if required to do so) or (iii) a check mailed in accordance with this Condition 6 arrives after the due date for payment.

7. Redemption, Repurchase and Cancellation

(A) *Redemption at Maturity*

Unless the Bonds have been previously redeemed, repurchased and cancelled, or converted as herein provided, the Company shall redeem the Bonds at 105.114% of their principal amount in US dollars on February 19, 2008 (the "**Maturity Date**") or if such day shall not be a Business Day, on the immediately preceding Business Day. The Bonds may be redeemed prior to that date only as provided in Condition 7(B), (C) and (D) below, but without prejudice to Condition 9.

(B) *Redemption at the Option of the Company*

At any time on or after February 19, 2006 and prior to February 19, 2008, the Company may, having given not less than 30 or more than 60 days notice to the holders of the Bonds (which notice shall be irrevocable and delivered in accordance with Condition 7(H) and Condition 14), redeem the Bonds in whole, or from time to time in part (being US$1,000 in principal amount or an integral multiple thereof), at their accreted value (as defined below) if the Closing Price (as defined in Condition 5(C)) of the Shares, translated into US dollars at the Prevailing Rate (as defined below) on the same day, for each of the 20 consecutive Trading Days immediately preceding the date of such notice of redemption, is at least 130% of the Conversion Price then in effect, translated into US dollars at the Fixed Exchange Rate. If an event giving rise to a change in the Conversion Price occurs during such 20 consecutive Trading Days, appropriate adjustments for the relevant days shall be made for the purpose of calculating the Closing Price for such days.

Notwithstanding the conditions to the Company's right to redeem the Bonds set forth in the paragraph above, at any time, the Company may, having given not less than 30 or more than 60 days notice to the holders of the Bonds (which notice shall be irrevocable and delivered in accordance with Condition 7(H) and Condition 14), redeem the Bonds in whole, but not in part, at their accreted value if at least 90% in principal amount of the Bonds has already been redeemed, repurchased and cancelled or converted.

For the purposes of these Conditions:

"**accreted value**" means, in relation to a Bond to be redeemed on any redemption date, an amount of principal that would result in an annual yield on the Bond purchased on the date of the original issuance of the Bond at its principal amount of 1.00% per annum through the redemption date, calculated on a semi-annual bond equivalent basis using a 360-day year consisting of twelve 30-day months.

"**Prevailing Rate**" for any Trading Day means the last available buying rate for the purchase of US dollars against the sale of NT dollars quoted by Taipei Forex Inc. (or a replacement agency selected by the Company and approved by the Trustee) on such Trading Day or, if no buying rate is quoted on such Trading day, the last available buying rate quoted on the immediately preceding Trading Day.

(C) ***Redemption for Taxation Reasons***

At any time, the Company may, having given not less than 30 or more than 60 days notice to the holders of the Bonds (which notice shall be irrevocable and delivered in accordance with Condition 7(H) and Condition 14), redeem the Bonds in whole, but not in part (subject to the provisions of Condition 7(E) below), at their accreted value, provided that the Company satisfies the Trustee that, immediately prior to the giving of such notice:

(i) the Company has become obliged to pay Additional Amounts (as defined in Condition 8) as a result of any change in, or amendment to, the laws or regulations of the ROC or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective after the date of the original issuance of the Bonds and would require the Company to gross up for payment of principal or to gross up for payment of interest or premium, if any, at a rate greater than 20%, and

(ii) such obligation cannot be avoided by the Company taking reasonable measures available to it.

Notwithstanding the foregoing, no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such Additional Amounts.

Prior to the delivery of any notice of redemption pursuant to this Condition 7(C), the Company shall deliver to the Trustee (1) a certificate signed by two of its authorized officers stating that the obligation referred to in (i) above cannot be avoided by taking reasonable measures available to it, and the Trustee shall be entitled to accept such certificate as sufficient and conclusive evidence of the satisfaction of the condition precedent set out in clause (ii) above and (2) an opinion addressed to the Trustee by an independent law firm of recognized standing admitted to practice in the ROC or a written advice of a qualified tax expert to the effect that the Company has or will become obliged to pay such Additional Amounts as a result of such change or amendment, and the Trustee shall be entitled to accept such certificate and opinion or advice as sufficient and conclusive evidence of the conditions precedent referred to in this Condition 7(C), in which event it shall be conclusive and binding on the holders of the Bonds. The Bonds in respect of which a notice of redemption has been given under Condition 7(B) or 7(D) shall not be affected by any notice given subsequently under this Condition 7(C).

(D) ***Redemption at the Option of the Holders***

Each holder of the Bonds shall have the right (the "**Holders' Put Right**") to require the Company to redeem in whole, or in part only (being US$1,000 in principal amount or an integral multiple thereof), the Bonds held by such holder, on February 19, 2005 at their accreted value. Not less than 30 or more than 60 days prior to this date, the Company shall notify the holders of the Holders' Put Right which notice shall be delivered in accordance with Condition 7(H) and Condition 14.

In the event that the Shares cease to be listed or admitted to trading on the Taiwan Stock Exchange or the GreTai Securities Market (a "**Delisting**") for a period of at least five Trading Days (as defined in Condition 5(A)), the Company shall notify the holders promptly (which notice shall be delivered in accordance with Condition 7(H) and Condition 14), and each holder of the Bonds shall have the right (the "**Delisting Put Right**") to require the Company to redeem such holder's Bonds in whole, or in part only (being US$1,000 in principal amount or an integral multiple thereof), at their accreted value on the 20th Business Day (as defined in Condition 6(D)) after the date of such notice.

(E) ***Non-Redemption Option of the Holders***

If the Company gives a notice of redemption of the Bonds under Condition 7(C), each holder of the Bonds shall have the right (the "**Non-Redemption Right**") to elect that all or a portion (being US$1,000 in principal amount or an integral multiple thereof) of its Bonds not be redeemed. Upon the exercise of the Non-Redemption Right with respect to such Bonds, no Additional Amounts referred to in Condition 8 shall be payable on the payments due after the relevant date in respect of such Bonds and, subject to Condition 8, such payments shall be made subject to the deduction or withholding required under the laws or regulations of the ROC. For the avoidance of doubt, any increased amounts that had been payable in respect of the Bonds under Condition 8 as a result of the laws or regulations of the ROC in effect on the original date of their issuance shall continue to be payable to such holders of the Bonds.

(F) ***Repurchase and Cancellation***

The Company or any Subsidiary (as defined below) may at any time and from time to time repurchase the Bonds in the open market or otherwise at any price. The Company shall surrender any Bonds so repurchased to the Principal Paying Agent for cancellation.

For the purpose of these Conditions:

"**Subsidiary**" means any company or other business entity more than 50% of the issued share capital or other ownership interest of which is for the time being owned, directly or indirectly, by the Company.

(G) ***Cancellation***

All Bonds that are redeemed, repurchased or converted and surrendered to any Agent shall forthwith be cancelled. In the case of Bonds represented by Definitive Certificates, certificates in respect of all Bonds cancelled shall be forwarded to or to the order of the Principal Agent. Bonds cancelled may not be reissued or resold.

(H) ***Redemption Procedures***

In the event that the Company is required to deliver a notice to the holders of the Bonds under this Condition 7, the Company shall provide sufficient information to the Trustee in sufficient time to permit the Trustee to give notice to each holder of the Bonds in accordance with Condition 14, which notice shall state, to the extent applicable:

(i) the relevant redemption date;

(ii) in the case of a Delisting, the date of such Delisting and, briefly, the events resulted in such Delisting;

(iii) the date by which the Exercise Notice (as defined below) must be given by the holder;

(iv) the applicable redemption price of a Bond on the redemption date and the method by which such redemption price will be paid;

(v) the names and addresses of all Paying Agents;

(vi) the Conversion Price then in effect;

(vii) the procedures that holders must follow and the requirements they must satisfy in order to exercise their Holders' Put Right, Delisting Put Right, Non-Redemption Right, and/or Conversion Right, as the case may be; and

(viii) that an Exercise Notice, once validly given, may not be withdrawn.

So long as the Bonds are listed on the Luxembourg Stock Exchange, the Company shall submit a copy of the redemption notice to the Luxembourg Stock Exchange as soon as practicable.

To exercise its Holders' Put Right, Delisting Put Right or Non-Redemption Right, as the case may be, a holder must deliver a written irrevocable notice of the exercise of such right (an "**Exercise Notice**") in the form obtainable from any of the Agents, to any Paying Agent on any Business Day that is not fewer than ten (10) Business Days prior to the relevant redemption date.

Payment of the redemption price upon exercise of the Holders' Put Right or Delisting Put Right attaching to any Bond represented by a Definitive Certificate for which an Exercise Notice has been delivered is conditioned upon the delivery of such Definitive Certificate (together with any necessary endorsements) to any Paying Agent on any Business Day, together with the delivery of such Exercise Notice, and shall be made promptly following the later of the relevant redemption date and the time of delivery of such Definitive Certificate. If the Paying Agent holds on a redemption date money sufficient to pay the redemption price for a Bond for which an Exercise Notice has been delivered, then, whether or not the Definitive Certificate representing such Bond is delivered to the Paying Agent, on and after such redemption date (i) such Bond shall cease to be outstanding; (ii) such Bond shall be deemed paid; and (iii) all other rights of the holder shall terminate, other than the right to receive the redemption price.

(I) ***Partial Redemption***

In the case of a redemption of less than all of the Bonds then outstanding pursuant to Condition 7(B), the Bonds to be redeemed shall be selected individually by lot by the Principal Agent, in such place as the Trustee shall approve and in such manner as the Trustee shall deem to be appropriate and fair, not more than 70 days or less than 40 days prior to the date fixed for redemption.

8. Taxation

All payments in respect of the Bonds by the Company shall be made free and clear of and without any deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature ("**Taxes**") imposed, levied, collected, withheld or assessed by or on behalf of the government of the ROC or any authority thereof or therein having power to tax, provided that, in respect of any such deduction or withholding from any such payment, the Company shall pay such additional amounts ("**Additional Amounts**") as will result in the receipt by the holders of the Bonds of the amounts that would have been receivable in the absence of any such deduction or withholding, except that no Additional Amounts shall be payable in respect of any Bond:

(i) to, or on behalf of, a holder who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of its being connected with the ROC otherwise than merely by holding such Bond or by the receipt of payments in respect of the Bond;

(ii) to or on behalf of a holder of the Bond or its beneficial owner to the extent that such holder or beneficial owner would not be liable for or subject to such deduction or withholding by making a declaration of non-residence or other claims for exemption or deduction to the relevant tax authorities if such holder or beneficial owner is eligible to make such declaration or claim and, such holder or beneficial owner fails to timely do so; or

(iii) if the Definitive Certificate, if issued, in respect of the Bond is presented for payment more than 30 days after the relevant date (as defined below) except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant certificate for payment on the last day of such 30-day period.

References in these Conditions to payments in respect of the Bonds shall be deemed also to refer to any Additional Amounts that may be payable in respect thereof under this Condition 8.

For the purposes of these Conditions:

"**Relevant Date**" in relation to any Bonds means (a) the due date for payment in respect thereof, or (b) if the full amount of the monies payable on such due date has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which notice is duly given to the holders of the Bonds that such monies have been so received.

9. Events of Default

The Trustee at its discretion may, and if so requested in writing by the holders of the Bonds of not less than 25% in principal amount of the Bonds then outstanding shall (in each case subject to being indemnified and/or secured by the holders of the Bonds to its satisfaction), give notice in writing to the Company that the Bonds are immediately due and payable, if an Event of Default (as defined below) shall have occurred and be continuing. Upon any such notice being given to the Company, the Bonds shall immediately become due and payable at their accreted value plus any overdue interest payable in accordance with Condition 6(E). Notwithstanding the foregoing, if any of the events specified in clauses (vi), (vii) and (viii) shall have occurred, the Bonds shall forthwith become immediately due and payable at their accreted value, plus any overdue interest payable in accordance with Condition 6(E), without regard to the giving of any such notice. An "**Event of Default**" occurs if:

(i) the Company fails to pay the principal of, premium or interest, if any, on, any of the Bonds within seven days after the same shall become due and payable; or

(ii) the Company fails to deliver Shares as and when such Shares are required to be delivered upon the conversion of a Bond; or

(iii) the Company defaults in performance or observance of or compliance with any of its other obligations set out in the Bonds or the Indenture, which default is incapable of remedy or, if in the opinion of the Trustee such default is capable of remedy, such default is not remedied within 30 days after written notice of such default shall have been given to the Company by the Trustee; or

(iv) (a) any other present or future indebtedness of the Company or any of its Principal Subsidiaries (as defined in Condition 3) for or in respect of monies borrowed or raised becomes due and payable prior to its stated maturity by reason of an event of default, howsoever described, or any such indebtedness is not paid when due or, as the case may be, within any applicable grace period originally provided for or (b) the Company or any of its Principal Subsidiaries fails to pay when due any amount payable by the Company or such Principal Subsidiary, as the case may be, under any present or future guarantee or indemnity or arrangement or obligation having a like or similar effect, howsoever described, for any monies borrowed; provided that the aggregate amount of the relevant indebtedness or amount payable in respect of which one or more events mentioned above in this paragraph (iv) have occurred equals or exceeds US$10,000,000 or its equivalent in any other currency; or

(v) any person entitled to the benefit thereof shall institute legal proceedings to enforce any mortgage, charge, pledge, lien or other encumbrance upon all or a material portion of the assets, property or revenues of the Company and its subsidiaries, taken as a whole, unless the Company or such subsidiary, as the case may be, are contesting such proceedings in good faith by appropriate legal proceedings and have established reserves adequate in the Company's judgment with respect thereto; or

(vi) a decree or order by a court having jurisdiction shall have been entered adjudging the Company or any of its Principal Subsidiaries bankrupt or insolvent, or approving a petition seeking the Company's reorganization or that of any of its Principal Subsidiaries under any applicable bankruptcy, insolvency or reorganization law, or for the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of, or all or substantially all of the business or assets of, or for the winding-up or liquidation of the affairs of, the Company or any of its Principal Subsidiaries; or

(vii) an effective resolution shall be passed for the winding-up or liquidation of the Company or that of any of its Principal Subsidiaries, or the Company or any of its Principal Subsidiaries shall institute proceedings to be adjudicated as a voluntary bankrupt, or shall consent to the filing of a bankruptcy proceeding against it, or shall file a petition or answer or consent seeking reorganization or arrangement under any applicable bankruptcy, insolvency or reorganization law, or shall consent to the filing of any such petition, or shall consent to the appointment of a receiver or liquidator or trustee or assignee in bankruptcy or insolvency of it or of all or substantially all of its business or assets, or shall make a general assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due, or corporate action shall be taken by the Company or any of its Principal Subsidiaries in furtherance of any of the aforesaid purposes; or

(viii) proceedings shall have been initiated against the Company or any of its Principal Subsidiaries under any applicable bankruptcy, insolvency, or reorganization law and such proceedings shall not have been discharged or stayed within a period of 90 days (or such longer period as the Trustee may consider appropriate on the advice of counsel); or

(ix) it is or will become unlawful for the Company to perform or comply with one or more of its material obligations under any of the Bonds, the Indenture or the Agency Agreement.

10. Prescription

Claims against any payment in respect of the Bonds shall be prescribed unless made within six years from the relevant date of payment in respect thereof.

11. Enforcement

At any time after the Bonds have become due and payable, the Trustee may, at its discretion and without further notice, take such proceedings against the Company as it may think fit to enforce payment in respect of the Bonds, including any premium and interest, and to enforce the provisions of the Indenture; provided, however, that the Trustee shall not be bound to take any such actions unless (a) it shall have been so requested in writing by the holders of at least 25% in principal amount of the Bonds then outstanding and (b) it shall have been indemnified and/or secured to its satisfaction. No holder of the Bonds shall be entitled to proceed directly against the Company, unless (a) the Trustee, having become bound to take proceedings against the Company, fails to do so and such failure shall have continued for a period of 60 days and (b) no direction inconsistent with the Trustee taking such proceedings has been given to the Trustee during such 60-day period by the holders of not less than a majority in principal amount of the Bonds then outstanding.

12. Meetings of Holders of the Bonds, Modification and Waiver

(A) *Meetings*

The Indenture will contain provisions for convening meetings of holders of the Bonds to consider any matter affecting their interests, including the approval of amendments or modifications of the terms and conditions of the Bonds or the provisions of the Indenture upon either the written consent of the holders of not less than a majority in principal amount of the Bonds then outstanding or the approval at a meeting of holders duly called by persons entitled to vote not less than a majority in principal amount of the Bonds then outstanding, with a quorum of two or more persons, holding or representing over 50% in principal amount of the Bonds then outstanding; provided that no such modification of the terms and conditions of the Bonds or the provisions of the Indenture may, without the consent of each holder of the Bonds affected thereby:

(i) modify the Maturity Date;

(ii) reduce the principal, redemption price of, the rate of interest, if any, on, any Bond or increase the Conversion Price (as adjusted in accordance with the provisions of the Indenture);

(iii) change the place or currency of payment of principal of, or interest, if any, on, any Bond or the method of calculating any such payment;

(iv) impair the right to institute suit for the enforcement of any payment on any Bond;

(v) alter the Company's obligations relating to mergers and disposals, and the payment of Additional Amounts, as described in Conditions 3(B) and 8, respectively;

(vi) except to the extent permitted by Condition 12(B) below, modify, cancel or adversely affect the Conversion Right, Holders' Put Right, Delisting Put Right or Non-Redemption Right;

(vii) reduce the above-stated percentage of outstanding Bonds the consent of whose holders of the Bonds is necessary to modify or amend the Indenture;

(viii) reduce the percentage or aggregate principal amount of outstanding Bonds the consent of whose holders of the Bonds is necessary for waiver of compliance with provisions of the Indenture or for waiver of Defaults under the Indenture;

(ix) modify the provisions concerning the voting and quorum required at any meeting of holders of the Bonds; or

(x) release the Company from any obligation under the Indenture other than in accordance with the provisions of the Indenture, or amend or modify any provision relating to such release.

The Indenture will provide that, in determining whether the holders of the Bonds representing the requisite principal amount of Bonds then outstanding are present at a meeting of holders of the Bonds for quorum purposes or have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, Bonds owned by the Company or any other obligor upon the Bonds or any affiliate of the Company or such other obligor shall be disregarded and deemed not to be outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such determination as to the presence of a quorum or upon any such request, demand, authorization, direction, notice, consent or waiver, only Bonds as to which the Trustee has actually received written notice shall be so disregarded.

(B) ***Modification of Conversion Right***

Notwithstanding Condition 12(A) above, the Trustee may agree to, without the consent of the holders of the Bonds, any modification to the Conversion Right that (i) is in the Trustee's opinion necessary or desirable to effect or facilitate conversion as contemplated in these Conditions and (ii) is not materially prejudicial to the interests of the holders of the Bonds. The Trustee's agreement may be subject to any condition which the Trustee requires, including but not limited to the delivery of an opinion of a financial or legal or other expert, and shall be binding on the holders of the Bonds. Unless the Trustee instructs the Company otherwise, any such modification shall be notified by the Company to the holders of the Bonds as soon as practicable thereafter in accordance with Condition 14 and, for so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, to the Luxembourg Stock Exchange.

(C) ***Other Modifications and Waivers***

The Trustee may also agree to, without the consent of the holders of the Bonds, (i) any modification of, or the waiver or authorization of any breach or proposed breach of, the Bonds, the Indenture or the Agency Agreement that is not, in the Trustee's opinion, materially prejudicial to the interests of the holders of the Bonds or (ii) any modification of the Bonds or the Indenture that, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. In connection with such modification, waiver or authorization, the Trustee may require a certificate from the Company certifying, and a legal opinion advising the Trustee, that the modification, waiver or authorization is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provision of law. Any such modification, waiver or authorization shall be binding on the holders of the Bonds. Unless the Trustee instructs the Company otherwise, any such modification, waiver or authorization shall be notified by the Company to the holders of the Bonds as soon as practicable thereafter in accordance with Condition 14, and for so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, to the Luxembourg Stock Exchange.

(D) ***Exercise of Trustee's Functions***

Where the Trustee is required in connection with the exercise of its powers, trusts, authorities, duties and discretions to have regard to the interests of the holders of the Bonds, it shall have regard to the interests of the holders of the Bonds as a class and, in particular but without prejudice to the generality of the foregoing, the Trustee shall not have regard to, or be in any way liable for, the consequences of such exercise for any individual holder resulting from it being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory. In connection with any such exercise, the Trustee shall not be entitled to require, and no holder of Bonds shall be entitled to claim, from the Company, the Trustee or any other person any indemnification or payment in respect of any tax consequences of any such exercise upon such individual holder of the Bonds.

13. Replacement of Certificates

Any replacement of mutilated, defaced, destroyed, stolen or lost Definitive Certificates shall take place at the specified offices of the Registrar and Paying Agents in accordance with the provisions of the Indenture, which provisions include the following:

(i) replacement certificates shall only be issued upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Company and the Registrar may reasonably require;

(ii) mutilated or defaced certificates must be surrendered before replacements will be issued;

(iii) in the event any Bonds represented by a mutilated, destroyed, lost or stolen Definitive Certificate has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Definitive Certificate representing such Bonds, make payment as consideration for the cancellation of the Bonds represented thereby in accordance with the Conditions.

14. Notices

All notices to holders of the Bonds shall be validly given if (i) made in writing in English and mailed to them at their respective addresses in the register of holders of the Bonds maintained by the Registrar; (ii) published in a leading English language newspaper having general circulation in Europe (which is expected to be the *Financial Times, London Edition*); and (iii) so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*).

Any such notice shall be deemed to have been given on the later of the date of such publication and the seventh day after being so mailed.

15. Indemnification

The Indenture contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce payment unless indemnified.

16. Agents

The Company reserves the right, subject to the provisions of the Agency Agreement, at any time to vary or terminate the appointment of Agents; provided that it shall at all times maintain an Agent having a specified office in London and so long as the Bonds are listed on the Luxembourg Stock Exchange and the rules of that exchange so require, a Paying, Transfer and Conversion Agent in Luxembourg. Notice of any such termination or appointment, of any changes in the specified offices of the Agents, or of any change in the identity or specified office of any Conversion Agent, Paying Agent or Transfer Agent shall be given promptly by the Company to the holders of the Bonds in accordance with Condition 14.

17. Governing Law and Jurisdiction; Third Party Rights

(A) *Governing Law*

The Indenture, the Agency Agreement and the Bonds are governed by and shall be construed in accordance with the laws of the State of New York.

(B) *Jurisdiction*

The courts of the State of New York sitting in the Borough of Manhattan, The City of New York, and the federal courts of the United States sitting in the Borough of Manhattan, The City of New York, are to have jurisdiction to settle any disputes that may arise out of or in connection with the Bonds and accordingly any legal action or proceedings arising out of or in connection with the Bonds ("**Proceedings**") may be brought in such courts. The Company has in the Indenture irrevocably submitted to the jurisdiction of such courts.

(C) *Agent for Service of Process*

The Company has irrevocably appointed CT Corporation System, 111 Eighth Avenue, 13th Floor, New York, NY 10011, United States of America, as its agent in the State of New York to receive service of process in any Proceedings in the State of New York based on any of the Bonds.

THE GLOBAL CERTIFICATE

Capitalized terms used in this section and not otherwise defined shall have the meanings given to them in "Description of the Bonds."

The Global Certificate

The Global Certificate will be deposited with, and registered in the name of a nominee for the Bank of New York, as common depositary for Euroclear and Clearstream (the "**Common Depositary**"). Euroclear and Clearstream will credit their respective account holders with the respective principal amounts of the individual interests represented by the Global Certificate. Such accounts will be designated initially by or on behalf of the Initial Purchasers. Ownership of beneficial interests in the Global Certificate will be limited to persons who have accounts with Euroclear or Clearstream, or persons who hold interests through such account holders. Ownership of beneficial interests in the Global Certificate will be shown on, and the transfer of that ownership will be effected only through, the records maintained by Euroclear and Clearstream (with respect to interests of their respective account holders) and the records of such account holders (with respect to interests of persons with beneficial interests in the Global Certificate other than such account holders).

The laws of certain jurisdictions require that certain purchasers of Bonds take physical delivery of such Bonds in definitive form. Accordingly, the ability of beneficial owners to own, transfer or pledge beneficial interests in the Global Certificate may be limited by such laws.

Payments of the principal of, and any premium on, the Global Certificate will be made to the Common Depositary or its nominee as the registered owner thereof. None of us, the Trustee, the Common Depositary, the Registrar, the Principal Paying Agent, the Paying Agents, any custodian, any transfer agent or any other agent of ours will have any responsibility or liability for the accuracy of any of the records relating to, or payments made on account of, ownership interests in the Global Certificate or for any notice permitted or required to be given to persons with beneficial interests in the Global Certificate or any consent given or actions taken by such persons. We expect that upon receipt of any payment in respect of the Global Certificate representing any Bonds held by it or its nominee, the Common Depositary will promptly credit the accounts of the participants of Euroclear and Clearstream with payments proportionate to their respective interests in the amount of the principal of the Global Certificate as shown on its records.

Transfers between account holders in Euroclear and Clearstream will be effected through the records of Euroclear and Clearstream and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream and their respective direct and indirect participants.

Subject to the requirements of Euroclear and Clearstream, the Conversion Right attaching to the Bonds in respect of which the Global Certificate is issued may be exercised by the presentation of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in such Bonds. Deposit of the Global Certificate with the Conversion Agent together with the relevant Conversion Notice shall not be required. The provisions of Condition 5 of the Bonds will otherwise apply.

Although Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Certificate among participants and account holders of Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of us, the Trustee, the Common Depositary, the Registrar, the Principal Paying Agent, the Paying Agents, any custodian, any transfer agent, any registrar or any other agents of ours will have any responsibility for the performance by Euroclear or Clearstream, or their respective participants, indirect participants or account holders, of their respective obligations under the rules and procedures governing their operations.

Euroclear and Clearstream each holds the Bonds for participating organizations and facilitates the clearance and settlement of Bond transactions between its respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their respective participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream participants are financial institutions throughout the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to Euroclear and Clearstream is also available to others, such as banks, brokers, dealers and trust companies which clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Definitive Certificates

We will issue Definitive Certificates in registered form in exchange for the Global Certificate if:

(i) the Common Depositary or any successor to the Common Depositary notifies us in writing that it is at any time unwilling or unable to continue as a depositary and a successor depositary is not appointed by us within 90 days, or

(ii) either Euroclear or Clearstream or a successor clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so, or

(iii) an Event of Default under the Bonds or the Indenture has occurred and is continuing.

Upon receipt of such notice from Euroclear, Clearstream or the Registrar, as the case may be, we will make arrangements for the exchange of interests in the Global Certificate for Definitive Certificates representing individual definitive Bonds and cause such Definitive Certificates to be executed and delivered to the Registrar in sufficient quantities and authenticated by the Registrar for delivery to the holders of the Bonds. Each person exchanging interests in the Global Certificate for one or more of these Definitive Certificates will be required to provide to the Trustee, through the relevant clearing system, written instructions and other information required by us and the Registrar to complete, execute and deliver the relevant certificates. Any Definitive Certificates delivered in exchange for the Global Certificate or beneficial interests therein will be registered in the names requested, and issued in any denominations approved, by the relevant clearing system.

CERTAIN ROC LEGAL REQUIREMENTS

Tax Guarantor for Repatriation of Profits

When a non-ROC person (other than PRC persons who, under current ROC law, regulations and policy, are not permitted to hold or convert the Bonds or to register as our shareholders) exercises its conversion right to receive Shares and register as our shareholder, such holders will be required to appoint an agent, referred to as a tax guarantor, in the ROC for filing tax returns and making tax payments on their behalf. A tax guarantor will be required to meet the qualifications set by the Ministry of Finance of the ROC government and will act as the guarantor of the holder's tax payment obligations. Evidence of the appointment of a tax guarantor and the approval of such appointment are required as conditions to repatriating the holder's profits derived from the sale of Shares. There can be no assurance that a converting holder of the Bonds will be able to appoint and obtain approval for a tax guarantor in a timely manner. See "ROC Taxation."

Appointment of Local Agent

Under current ROC law, a converting holder of the Bonds wishing to convert Bonds into Shares or its designee is required to appoint a local agent in the ROC. Such a local agent will be required to meet the qualifications set by the Securities and Futures Commission of the ROC government and will act as the converting holder's agent to (i) open a securities trading account with a local securities brokerage firm and an NT dollar bank account, (ii) handle the safekeeping, confirmation and settlement of trades, (iii) remit funds, (iv) pay taxes and (v) exercise shareholder's rights. Unless these requirements are satisfied, converting holders of the Bonds that receive Shares on conversion will not be able to receive and hold or otherwise transfer Shares on the GreTai Securities Market.

Securities Transaction Tax

The ROC government imposes a securities transaction tax that will apply to sales of the Bonds and Shares. The transaction tax, which is payable by the seller, is generally levied on sales of the Shares at the rate of 0.3% of the sales proceeds and on sales of the Bonds at the rate of 0.1% of sales proceeds. However, according to a letter issued by the Ministry of Finance of the ROC government, dated January 17, 2001, sales of the Bonds outside of the ROC are exempted from the securities transaction tax. Moreover, according to the amended ROC Statute for Upgrading Industries which was enacted on January 30, 2002, no securities transaction tax will be imposed on the transfer of corporate bonds and financial debentures until December 31, 2009. See "ROC Taxation — Securities Transaction Tax."

Disclosure Obligations

A holder of the Bonds requesting the conversion of its Bonds into Shares or its designee may be required to provide certain information to us or our conversion agents, including the name and nationality of the person to be registered as the shareholder, the number of Shares such person has acquired in the past through conversion of Bonds held by it, and supporting documents, before such conversion will be effected. We are required to report the status of the Bonds every month to the Central Bank of China, Taiwan's central bank, and post the above information on the Website of the GreTai Securities Market in the event that the person to be registered as a shareholder (i) is a "related party" to us as defined in the Statement of Financial Accounting Standard No. 6 of the ROC or (ii) will hold immediately following such conversion more than 10% of the total number of Shares deliverable upon the conversion of the aggregate principal amount of all Bonds at the time of issue.

TRANSFER RESTRICTIONS

Because of the following restrictions, we encourage you to consult legal counsel prior to making any offer, resale, pledge or other transfers of the Bonds or the Shares issuable upon conversion of the Bonds.

The Bonds may not be offered or sold directly or indirectly in the ROC. The Bonds and the Shares issuable upon conversion of the Bonds have not been and will not be registered under the Securities Act. The Bonds and the Shares issuable upon conversion of the Bonds may not be offered or sold to any person in the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. **In addition, no transfer of any interest in the Global Certificate and no issuance or transfer of Shares issuable upon conversion of the Bonds may be made to any U.S. person outside the United States or any person in the United States for a period of 40 days after the later of the commencement of this offering and the latest closing date of this offering.** Terms used in this section are defined in Regulation S.

Except in certain limited circumstances, interests in the Bonds may only be held through interests in the Global Certificate. Such interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective direct and indirect participants. See "Description of the Bonds" and "The Global Certificate."

Each purchaser of the Bonds, by accepting delivery of this offering memorandum, will be deemed to have acknowledged and represented and agreed as follows:

1. The Bonds and Shares issuable upon conversion of the Bonds have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state of the United States and are subject to significant restrictions on transfer.

2. Each person purchasing the Bonds prior to the expiration of 40 days after the later of the commencement of the offering and the latest closing date (the "**Distribution Compliance Period**") is purchasing such Bonds in an offshore transaction meeting the requirements of Rule 903 or 904 of Regulation S.

3. The Bonds will not be sold, pledged or transferred to, or for the account or benefit of, any U.S. person outside the United States or any person in the United States during the Distribution Compliance Period.

4. Such purchaser will not offer, sell, pledge or otherwise transfer any interest in the Bonds or Shares issuable upon conversion of the Bonds except as permitted by the applicable legend set forth in paragraph 5 below.

5. The Bonds will bear legends to the following effect, which restrictions we will observe unless we determine otherwise in compliance with applicable law:

   THE BONDS EVIDENCED HEREBY (THE "BONDS") OR THE SHARES OF FAR EASTONE TELECOMMUNICATIONS CO., LTD. (THE "COMPANY") ISSUABLE UPON CONVERSION OF THE BONDS (THE "SHARES") HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND PRIOR TO THE EXPIRATION OF 40 DAYS AFTER THE LATER OF THE COMMENCEMENT OF THE OFFERING OF THE BONDS AND THE LATEST CLOSING DATE (THE "DISTRIBUTION COMPLIANCE PERIOD"), THE BONDS AND THE SHARES ISSUABLE UPON CONVERSION OF THE BONDS MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED TO ANY U.S. PERSON OUTSIDE THE UNITED STATES OR ANY PERSON IN THE UNITED STATES. EACH

HOLDER AND BENEFICIAL OWNER, BY ITS ACCEPTANCE OF THE BONDS EVIDENCED HEREBY, REPRESENTS THAT IT UNDERSTANDS AND AGREES TO THE FOREGOING AND FOLLOWING RESTRICTIONS.

THIS LEGEND WILL BE NO LONGER EFFECTIVE AFTER THE END OF THE DISTRIBUTION COMPLIANCE PERIOD, AFTER WHICH THE BONDS EVIDENCED HEREBY AND THE SHARES ISSUABLE UPON CONVERSION OF THE BONDS WILL NO LONGER BE SUBJECT TO THE RESTRICTIONS SET FORTH IN THIS LEGEND, PROVIDED THAT AT SUCH TIME AND THEREAFTER THE OFFER OR SALE OF THE BONDS EVIDENCED HEREBY OR THE SHARES ISSUABLE UPON CONVERSION OF THE BONDS WOULD NOT BE RESTRICTED UNDER ANY APPLICABLE SECURITIES LAWS OF THE UNITED STATES OR OF THE STATES OR TERRITORIES OF THE UNITED STATES.

SELECTED NON-CONSOLIDATED FINANCIAL DATA

The following tables present our summary audited and unaudited non-consolidated financial data. The data as of and for the years ended December 31, 1999, 2000 and 2001 are derived from our audited non-consolidated financial statements and the notes thereto included elsewhere in this offering memorandum. The data presented as of and for the nine months ended September 30, 2001 and 2002 are derived from the unaudited non-consolidated financial statements and the notes thereto included elsewhere in this offering memorandum. These financial statements have been prepared and presented in accordance with generally accepted accounting principles in the ROC (together referred to herein as ROC GAAP), which differ in many material respects from accounting principles generally accepted in the United States, or US GAAP. For a discussion of these differences, see "Summary of Principal Differences between ROC GAAP and US GAAP." The summary financial data set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our non-consolidated financial statements and the notes thereto included elsewhere in this offering memorandum.

	As of and for the year ended December 31,				As of and for the nine months ended September 30,		
	1999	2000	2001		2001	2002	
	NT$	NT$	NT$	US$(1)	NT$	NT$ (unaudited)	US$(2)
	(in millions, except Share, margin and per Share information)						
Income Statement Data:							
Operating revenues:							
Service revenue	16,774.1	28,651.0	31,760.6	907.4	24,282.6	24,665.5	706.4
Equipment sales revenue — net	1,844.1	3,529.5	2,760.4	78.9	2,561.8	1,002.8	28.7
Other	0.0	0.0	23.4	0.7	8.0	7.0	0.2
Total operating revenues	18,618.2	32,180.5	34,544.4	987.0	26,852.4	25,675.3	735.3
Operating costs:							
Cost of services	7,470.4	10,421.4	12,950.3	370.0	9,667.4	11,373.3	325.7
Cost of equipment sales	1,769.5	3,443.2	2,772.9	79.2	2,570.7	997.2	28.6
Total operating costs	9,239.9	13,864.6	15,723.2	449.2	12,238.1	12,370.5	354.3
Gross profit	9,378.3	18,315.9	18,821.2	537.8	14,614.3	13,304.8	381.0
Operating expenses:							
Marketing	5,062.8	10,370.0	6,441.2	184.0	5,436.4	4,461.6	127.8
General and administrative	2,180.1	3,859.8	5,587.9	159.7	4,330.5	2,401.1	68.7
Research and development	107.6	147.0	205.9	5.9	111.4	170.9	4.9
Total operating expenses	7,350.5	14,376.8	12,235.0	349.6	9,878.3	7,033.6	201.4
Income from operations	2,027.8	3,939.1	6,586.2	188.2	4,736.0	6,271.2	179.6
Non-operating income	242.3	215.0	287.2	8.2	310.8	130.6	3.8
Non-operating expenses	266.9	231.5	483.7	13.8	289.9	326.6	9.4
Income before income tax	2,003.2	3,922.6	6,389.7	182.6	4,756.9	6,075.2	174.0
Income tax (benefit) expense	368.0	(117.1)	(269.6)	(7.7)	(182.7)	260.4	7.5
Net income	1,635.2	4,039.7	6,659.3	190.3	4,939.6	5,814.8	166.5
Earnings per Share	1.02	2.42	3.52	0.10	2.14	2.52	0.07
Number of Shares used in per Share calculations(3)	1,601,055	1,669,577	1,890,000	1,890,000	2,305,800	2,305,800	2,305,800

	As of and for the year ended December 31,				As of and for the nine months ended September 30,		
	1999	2000	2001		2001	2002	
	NT$	NT$	NT$	US$(1)	NT$	NT$ (unaudited)	US$(2)
	(in millions, except Share, margin and per Share information)						
Balance Sheet Data:							
Cash and cash equivalents	734.4	2,048.3	2,807.8	80.2	785.7	1,378.4	39.5
Property and equipment — net	21,313.0	33,934.1	40,695.5	1,162.7	40,844.1	39,343.8	1,126.7
Capital stock	11,370.0	14,000.0	18,900.0	540.0	18,900.0	23,058.0	660.3
Total assets	26,053.8	46,274.1	52,810.6	1,508.9	50,644.9	57,279.2	1,640.3
Total long-term liabilities	4,444.5	7,207.7	8,473.6	242.1	8,110.9	9,385.4	268.8
Total liabilities	12,061.3	20,650.0	20,527.0	586.5	20,080.9	21,222.3	607.7
Total shareholders' equity	13,992.5	25,624.1	32,283.6	922.4	30,564.0	36,056.9	1,032.6
Cash Flow Data:							
Net cash provided by operating activities	4,764.8	4,236.0	13,104.4	374.4	8,275.0	11,292.8	323.4
Net cash used in investing activities	(10,501.0)	(15,766.8)	(13,080.5)	(373.7)	(10,537.0)	(10,524.3)	(301.4)
Net cash provided by (used in) financing activities	6,439.8	12,844.7	735.6	21.0	999.4	(2,197.9)	(62.9)
Other Data:							
Capital expenditures(4)	10,657.5	15,689.3	13,163.4	376.1	10,503.1	10,508.5	300.9
EBITDA(5)	4,300.6	7,046.4	11,610.9	331.7	8,334.0	10,966.8	314.1
EBITDA margin	23.1%	21.9%	33.6%	33.6%	31.0%	42.7%	42.7%
Cash dividends declared per Share	—	0.2195	—	—	—	1.0000	—

	As of and for the year ended December 31,			As of and for the nine months ended September 30,	
	1999	2000	2001	2001	2002
Other Operating and Industry Data:					
Market data:					
Total population base in Taiwan	22.1 million	22.3 million	22.4 million	22.4 million	22.5 million
Wireless penetration rate(6)	52.2%	80.2%	96.6%	93.7%	105.3%
Market share(7):					
Based on reported SIM cards	14.8%	19.1%	17.5%	18.0%	17.7%
Based on total wireless revenues	N/A(11)	22.6%	20.8%	21.6%	19.1%
Usage data:					
Total customers, based on SIM cards	1,707,726	3,410,876	3,775,379	3,776,691	4,200,452
Average churn rate(8)	2.5%	2.1%	2.5%	2.5%	3.0%
Average monthly outgoing MOU per customer(9)	74.5 minutes	81.4 minutes	71.2 minutes	72.9 minutes	66.7 minutes
Average monthly ARPU(10)	NT$910	NT$1,050	NT$798	NT$838	NT$705

(1) Translations of amounts from NT dollars into US dollars for the convenience of the reader have been made at the Noon Buying Rate on December 31, 2001 of NT$35.00 = US$1.00.

(2) Translations of amounts from NT dollars into US dollars for the convenience of the reader have been made at the Noon Buying Rate on September 30, 2002 of NT$34.92 = US$1.00.

(3) Number of Shares used in per Share calculations for the years 1999 and 2000 is expressed in thousands in the table and represents the weighted average number of outstanding Shares after retroactive adjustments to give effect to stock dividends issued in 1999 and 2000. To conform with the audited financial statements for the year ended December 31, 2001, number of Shares for such period has not been adjusted retroactively for stock dividends issued in 2002. If such number were adjusted retroactively for the stock dividends issued in 2002, number of Shares for such period would have been 2,305,800,000, resulting in an Earnings per Share of NT$2.89. To conform with the unaudited financial statements for the nine months ended September 30, 2002, number of Shares for such period has been adjusted retroactively for stock dividends issued in 2002.

(4) Include investment in our GSM network and operating equipment and capital contributions to Yuan-Ze Telecommunications, our subsidiary with the 3G license. We made capital contributions of NT$1,200.0 million and NT$7,170.0 million to Yuan-Ze in the year ended December 31, 2001 and the nine months ended September 30, 2002, respectively.

(5) EBITDA represents our net income before interest, taxes, depreciation and amortization. EBITDA is one measure commonly used in the telecommunications industry to analyze companies on the basis of operating performance. Since the telecommunications industry is a very capital intensive business, differences in depreciation policies, debt levels and interest terms may have a significant impact on net income for companies with similar results of operations. Therefore, we believe that EBITDA provides a more comparable measure of our results of operations. You should not construe EBITDA as a substitute for operating income, net income or cash flows from operating activities for purposes of analyzing our operating performance, financial position and cash flows. Our EBITDA as described in this offering memorandum is not necessarily comparable with similarly titled measures for other companies.

(6) Wireless penetration rate represents the total number of reported SIM cards in Taiwan divided by the population of Taiwan, as published by the MOTC in Highlights of Transportation and Communications Statistics in Taiwan.

(7) Derived from data published by the MOTC in Highlights of Transportation and Communications Statistics in Taiwan.

(8) Our churn rate for each month equals the number of SIM card deactivations (both voluntary and involuntary) for the month divided by the number of SIM cards at the beginning of the month. Our average monthly churn rate shown for each period represents the average of each month's churn rates during that period. We count as deactivated any cash-based SIM card that has not been recharged within six months after either activation or the most recent recharge. Because we launched cash-based payment plans in October 1998, we generally did not experience churn in our cash-based SIM cards before the second quarter of 1999.

(9) Our outgoing "MOU" per customer for each month equals total outgoing airtime traffic in minutes divided by the average number of SIM cards for the month. For purposes of the outgoing MOU calculation, the average number of SIM cards shown for each month represents the average of number of SIM cards at the beginning of the month and the number of SIM cards at the end of the month. Our average outgoing MOU shown for each period represents the average of each month's outgoing MOU.

(10) Our "ARPU" for each month equals total service revenues divided by the average number of SIM cards for the month. For purposes of the ARPU calculation, the average number of SIM cards shown for each month represents the average of the number of SIM cards at the beginning of the month and the number of SIM cards at the end of the month. Our average monthly ARPU shown for each period represents the average of each month's ARPU during that period.

(11) Data for other GSM operators not available in 1999.

RECENT OPERATING RESULTS

Under regulations promulgated by the GreTai Securities Market, we are required to publish publicly certain preliminary financial data of ours before such data is audited or reviewed by independent accountants. Set forth below is such preliminary financial data for the year ended December 31, 2002. Such financial data is preliminary and is subject to change and has not been reviewed by the independent accountants, and they do not express any opinion therein.

Operating Results for the Year Ended December 31, 2002

Our operating revenues were NT$34,478.0 million for the year ended December 31, 2002, compared to NT$34,544.4 million (US$987.0 million) for the year ended December 31, 2001.

Our operating costs and expenses were NT$26,561.7 million for the year ended December 31, 2002, compared to NT$27,958.2 million (US$798.8 million) for the year ended December 31, 2001.

Our income from operations were NT$7,916.3 million for the year ended December 31, 2002, compared to NT$6,586.2 million (US$188.2 million) for the year ended December 31, 2001.

Our net income was NT$7,808.4 million for the year ended December 31, 2002, compared to NT$6,659.3 million (US$190.3 million) for the year ended December 31, 2001.

Our income from operations for the three months ended December 31, 2002 decreased compared to that for the three months ended December 31, 2001. The decrease was primarily due to increased customer acquisition costs, such as handset subsidies and dealer commissions, associated with an increase in the gross additions to our customer base and due to increased advertising expenses. In addition, ARPU of our customers continued to decrease and depreciation expenses continued to increase due to the additional capital expenditures we have made to improve and expand our GSM network.

Capital Expenditures

Our total capital expenditures for the year ended December 31, 2002 were NT$12,965.0 million. NT$7,170.0 million of these were made in the form of a capital contribution to Yuan-Ze, our subsidiary with the 3G license, and NT$5,795.0 million of these were made in the form of additional investment in our GSM network and operating equipment.

Capital Resources

Since September 30, 2002, the full amount outstanding under our NT$1,978.0 million note facility has been repaid and NT$308.0 million aggregate principal amount of our secured bonds issued in 2000 has been redeemed.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless stated otherwise, the discussion and analysis of our financial condition and results of operations in this section apply to our financial information as prepared in accordance with ROC GAAP. You should read the following discussion of our financial condition and results of operations together with the audited non-consolidated financial statements and the notes to such statements for the years ended December 31, 1999, 2000 and 2001 and the unaudited non-consolidated financial statements and the notes to such statements for the nine months ended September 30, 2001 and 2002, included in this offering memorandum. Our audited and unaudited non-consolidated financial statements are prepared in accordance with ROC GAAP, which differs in many material respects from US GAAP. For a discussion of these differences, see "Summary of Principal Differences between ROC GAAP and US GAAP."

Under ROC GAAP, we are required to consolidate the financial statements of any subsidiary into our annual financial statements if the total assets or net operating revenues of such subsidiary exceed 10% of our unconsolidated total assets or net operating revenues, as the case may be. In addition, the ROC Securities and Futures Commission requires us to consolidate the financial statements of each non-consolidated subsidiary whose total assets or net operating revenues exceed 3% of our unconsolidated total assets or net operating revenues, as the case may be, into our annual financial statements if the assets or net operating revenues of all unconsolidated subsidiaries exceed 30% of our unconsolidated total assets or net operating revenues, as the case may be. None of our subsidiaries has met the above criteria in 1999, 2000 and 2001, and therefore we are not required to consolidate the financial statements of any subsidiary in our annual financial statements for such periods. Neither ROC GAAP nor the ROC Securities and Futures Commission requires us to consolidate the financial statements of any of our subsidiaries, including those that have met the above criteria, into our interim financial statements.

The following discussion should be read in conjunction with the non-consolidated financial statements and related notes included elsewhere in this offering memorandum.

Overview

We are a leading and profitable wireless communications operator in Taiwan. As of September 30, 2002, we had more than four million SIM cards, representing approximately 17.7% of the total number of reported SIM cards in Taiwan. We had a market share of approximately 19.1% based on total wireless operating revenues in Taiwan in the nine months ended September 30, 2002.

Taiwan's wireless communications market experienced rapid growth in the first three years following the ROC government's deregulation of the market in 1997. With a wireless penetration rate exceeding 100%, Taiwan is now believed to have one of the highest wireless penetration rates in the world. Our growth in customers (based on SIM cards), operating revenues, EBITDA and net income since our incorporation on April 11, 1997 reflects this trend in Taiwan's wireless market, as shown in the following table:

	As of and for the year ended December 31,			As of and for the nine months ended September 30,	
	1999	2000	2001	2001	2002
				(unaudited)	
Customers, based on SIM cards	1,707,726	3,410,876	3,775,379	3,776,691	4,200,452
Operating revenues	NT$18,618.2	NT$32,180.5	NT$34,544.4	NT$26,852.4	NT$25,675.3
EBITDA(1)	NT$4,300.6	NT$7,046.4	NT$11,610.9	NT$8,334.0	NT$10,966.8
EBITDA margin	23.1%	21.9%	33.6%	31.0%	42.7%
Net income	NT$1,635.2	NT$4,039.7	NT$6,659.3	NT$4,939.6	NT$5,814.8

(1) EBITDA represents our net income before interest, taxes, depreciation and amortization. EBITDA is one measure commonly used in the telecommunications industry to analyze companies on the basis of operating performance. Since the telecommunications industry is a very capital intensive business, differences in depreciation policies, debt levels and interest terms may have a significant impact on net income for companies with similar results of operations. Therefore, we believe that

EBITDA provides a more comparable measure of our results of operations. You should not construe EBITDA as a substitute for operating income, net income or cash flows from operating activities for purposes of analyzing our operating performance, financial position and cash flows. Our EBITDA as described in this offering memorandum is not necessarily comparable with similarly titled measures for other companies.

A number of recent and expected future developments discussed below have had and in the future may have a material impact on our results of operations, financial condition and capital expenditures. In addition, our ability to continue to generate profits and positive cash flow will be substantially affected by a number of factors affecting all wireless operators in Taiwan, including:

- our ability to attract and keep new customers;
- the rate of growth of customers;
- the level of customer usage;
- the level and structure of tariffs;
- competition;
- changes in the regulatory environment;
- the rate of churn of customers;
- spectrum availability and allocation;
- fees for interconnection among telecommunications operators; and
- network capital expenditure requirements.

Operating Revenues

Our service revenues accounted for 91.9% and 96.1% of our total operating revenues for the year ended December 31, 2001 and the nine months ended September 30, 2002, respectively. Substantially all of our service revenues consist of wireless voice service revenues, principally activation fees, fixed monthly access charges, airtime usage fees, roaming and international long distance service fees, and interconnection fees from other telecommunications providers. We also derive service revenues from value-added services, such as short messaging services and wireless Internet services, and enterprise solution services, such as mobile virtual private networks.

Operating revenues also include revenues we generate from the sale of mobile phone handsets and related accessories, net of sales returns and allowances. Handset sales have not contributed meaningfully to our net income. Because we subsidize handset sales and because handsets can become obsolete quickly, we attempt to minimize our own purchases of handsets and keep inventories low.

Usage of Services

Our service revenues are driven primarily by customer levels, usage and prices charged for each service we offer. Our service revenue growth to date has been driven principally by the growth in the number of customers for our wireless voice services. Although our monthly minutes of use ("**MOU**") per customer and monthly average revenues per user ("**ARPU**") have decreased, these decreases have been offset by an increase in overall wireless voice traffic resulting from a growing customer base.

Our average outgoing MOU decreased to 71.2 minutes per month for the year ended December 31, 2001, compared to 81.4 minutes per month for the year ended December 31, 2000 and 74.5 minutes per month for the year ended December 31, 1999. Our average outgoing MOU decreased to 66.7 minutes per month for the nine months ended September 30, 2002, compared to 72.9 minutes for the nine months ended September 30, 2001. Our average outgoing MOU for 2001 decreased compared to the amounts in 2000 and 1999, and our average outgoing MOU for the nine months ended September 30, 2002 decreased compared to the amount for the same period in 2001. These decreases in average MOU were primarily due to wider penetration into lower usage customer segments and the growing trend in Taiwan for wireless users to have more than one activated SIM card.

Our average monthly ARPU decreased to NT$705 for the nine months ended September 30, 2002, compared to NT$838 for the nine months ended September 30, 2001. Our average monthly ARPU decreased to NT$798 for the year ended December 31, 2001, compared to NT$1,050 for the year ended December 31, 2000 and NT$910 for the year ended December 31, 1999. These decreases in ARPU were primarily due to tariff reductions resulting from greater price competition in the market and the resulting wider penetration into lower usage customer segments. We calculate our ARPU for each month by dividing total service revenues by the average number of SIM cards for the month. Monthly ARPU for a particular period represents the average of each month's ARPU during that period.

Churn Rates

Our results of operations can be significantly affected by deactivations of SIM cards, known as churn. We calculate our churn rate for each month by dividing the number of SIM card deactivations (both voluntary and involuntary) for the month by the number of SIM cards at the beginning of the month. We count as deactivated any credit-based SIM card that is more than 60 days delinquent, as well as any cash-based SIM card that has not been recharged within six months of either activation or the most recent recharge.

Our average monthly churn rate was 2.5% for the year ended December 31, 2001, compared to 2.1% for the year ended December 31, 2000 and 2.5% for the year ended December 31, 1999, and was 3.0% for the nine months ended September 30, 2002, compared to 2.5% for the nine months ended September 2001.

Our average monthly churn rate for the nine months ended September 30, 2002 increased, in part, because of certain promotions we launched in 2002. As of result of these promotions, many of our cash-based customers found it more economical to buy a new SIM card, rather than adding credits to their existing SIM card. Although these customers remained our customers in practice, they were recognized as customers who had deactivated from our service, for purposes of calculation, of our churn rate. In 2002, we also started deactivating credit-based customers whose accounts have remained dormant for some time.

Cash-based Payment Plans

When we commenced operations in January 1998, we offered only credit-based payment plans to our customers. Under these plans, customers are billed for usage on a monthly basis as they incur airtime charges. In November 1998 we began offering cash-based payment plans to customers.

We believe there are several advantages in offering customers the ability to choose cash-based payment plans, including the following:

- *No credit risk.* Taiwan does not have any system that allows us to check the credit histories of customers or potential customers, effectively limiting the credit checks we can do on customers who pay for our services on credit. In addition, competitive pressures in the Taiwan wireless market have limited our ability to collect upfront deposits from credit-based customers to hedge against credit risk. We do not face these same issues with customers on cash-based payment plans.

- *Lower customer acquisition and support costs.* We generally provide subsidized handsets to credit-based customers but not to cash-based customers. Accordingly, we save on the cost of handset subsidies when dealing with cash-based customers. Our support costs for cash-based customers are also lower because we do not have to send them billing statements or field as many service and billing-related questions as we do with credit-based customers.

- *Appeal to customers who value flexibility.* Cash-based payment plans appeal to customers who want to monitor and control their use of our service so it fits with their spending style and habits. This is particularly true for young adults and business travelers, who enjoy the flexibility that our cash-based payment plans afford.

- *Ability to profile and target customers.* Unlike many countries, where customers who choose cash-based payment plans can buy SIM cards anonymously and not disclose their identities to their wireless operator, ROC regulations require wireless operators to obtain the name and address of any purchaser of a cash-based SIM card. We do this in part to maintain usage and demographic profiles on our cash-based customers, which enables us to offer them value-added services that may be of interest to them.

Revenue Recognition

We recognize revenue from monthly access fees and airtime usage fees (except for airtime used by cash-based customers) on an accrual basis throughout the month in which service is rendered. We charge cash-based customers for airtime ahead of usage and initially record payments from sales as unearned income. We recognize the airtime usage revenue from cash-based customers upon the earlier of the actual usage of the airtime value of the SIM card or expiration of the unused value of the SIM card, which occurs six months after either activation or the most recent recharge. We do not recognize activation revenue from sales of SIM cards to dealers until those SIM cards are activated by customers.

Revenues we generate from roaming and international long distance service fees are recorded as revenue items, against which are applied any amounts payable by us to other telecommunications providers for providing those services.

We accrue interconnection revenues from other telecommunications operators each month based upon historical network usage patterns. We adjust these accruals in the following month based upon actual network usage, as reflected in monthly reconciliation reports we exchange with other telecommunications operators. There have not been any significant adjustments required to these monthly accruals.

Operating Costs and Expenses

Our principal operating costs and expenses consist of (i) cost of services, consisting principally of interconnection, leased-line and other network charges we pay to other telecommunications operators, depreciation charges relating to our telecommunications equipment, rental expenses for base station sites, the cost of SIM cards and licensing fees payable to the ROC government; (ii) cost of equipment sales, representing the cost of handsets and other accessories we sell to customers; (iii) marketing expenses, which include dealer commissions, the costs of promotions such as handset subsidies, and advertising expenses; (iv) general and administrative expenses, which include bad debt expenses and staffing costs; and (v) research and development expenses, which consist principally of personnel expenses and the cost of research projects we sponsor in conjunction with academic institutions.

Interconnection Charges

When we commenced operations in 1997, we had only one interconnection agreement: the agreement with Chunghwa Telecom, the incumbent operator of telephone services in Taiwan. This agreement establishes the interconnection fees (including airtime charges and bill processing fees) to be paid for traffic between our wireless network and Chunghwa Telecom's fixed-line and wireless networks. We entered into similar interconnection agreements with the three new fixed-line operators in Taiwan when they commenced operations in 2001 and with other wireless operators in Taiwan in December 2001. We were not required to pay, nor were we entitled to receive, interconnection fees for calls to or from the networks of these wireless operators prior to December 2001.

We accrue interconnection charges payable to other telecommunications providers each month based upon historical network usage patterns. We adjust these accruals in the following month based upon actual network usage, as reflected in monthly reconciliation reports we exchange with these other telecommunications operators.

License Fees

We include in the cost of services the license fee we pay to the government for our GSM licenses. This fee increased in 2001 from 1% to 2% of our wireless service revenues. This fee is payable in the year following its accrual.

Customer Acquisition Costs

We incur certain expenses in acquiring new customers, primarily dealer commissions and handset subsidies. Dealer commissions for acquiring new customers are paid upfront, when the customer's SIM card is activated. Certain dealers are also eligible to receive a "sustain fee" after a credit-based customer's SIM card has been activated for three months. Upfront dealer commissions and sustain fee are both expensed when the SIM card is activated. We also provide certain dealers the opportunity to receive "continuing service loyalty awards" as an incentive for performing after-sales service and improving customer loyalty. These awards, which are based on airtime usage by credit-based customers, are paid to dealers on a quarterly basis. We accrue expenses in respect of these awards as airtime usage revenues are recognized. Handset subsidies are expensed upfront when the credit-based customer's SIM card is activated, except in the case of customers who prepay their monthly fees in order to obtain our handset subsidies and free airtime, in which case we amortize the customer acquisition costs associated therewith and defer the recognition of the revenue collected.

Bad Debts

We make provisions for doubtful accounts monthly and adjust these provisions quarterly based on the aging of our accounts receivable at quarter end. We write off accounts receivable as non-collectible if they are outstanding for six months.

Our bad debts increased sharply for a short period of time following the installation of our new billing system in late 2000. These problems were primarily caused by software defects contained in the new billing system when we migrated our customer database to a new billing system. Although we conducted a test run on the new billing system, these problems did not emerge until the billing system started operating on a full scale. These defects were remedied in May 2001.

Depreciation Expenses

We depreciate our property, plant and equipment using the straight-line method over their estimated useful lives, after taking into consideration their estimated residual value. We depreciate most of our telecommunications equipment over eight years.

Taxation

The current corporate income tax rate in the ROC is 25%. We have benefited from tax incentives generally available to companies in the ROC under the ROC Statute for Upgrading Industries, including investment tax credits that can be applied against corporate income tax, which equals 5% to 15% of the amount of operating equipment investments. In addition, we have qualified for two tax holidays, each consisting of a five-year period of tax exemption, under the ROC Statute for Upgrading Industries with respect to income generated by capital investments made with the proceeds of our capital injections from 1997 to 2000. We began recognizing the benefits of our first tax holiday on January 1, 2000 and our second tax holiday on June 26, 2002.

Results of Operations

Nine Months Ended September 30, 2002 Versus Nine Months Ended September 30, 2001

Operating Revenues

Our operating revenues decreased by 4.4% from NT$26,852.4 million for the nine months ended September 30, 2001 to NT$25,675.3 million (US$735.3 million) for the nine months ended September 30, 2002. This decrease was primarily due to a decrease in revenues from sales of handsets and accessories, which was partially offset by an increase in service revenue. During the nine months ended September 30, 2002, we reduced our handset sales to the independent dealers, reflecting our efforts to reduce related sales costs and handset inventories. The increase in service revenue was driven largely by an increase in the number of our customers, which was partially offset by a decrease in ARPU.

Operating Costs

Our operating costs increased by 1.1% from NT$12,238.1 million for the nine months ended September 30, 2001 to NT$12,370.5 million (US$354.3 million) for the nine months ended September 30, 2002. This increase was due to an increase in cost of services, which was partially offset by a decrease in cost of equipment sales.

- *Cost of services.* Our cost of services increased during the nine months ended September 30, 2002 compared to the same period in 2001, primarily due to increases in interconnection charges and in depreciation. Interconnection charges increased because we started paying other wireless operators interconnection charges in December 2001 and there was increased airtime usage due to our larger customer base. The increased depreciation reflected the additional capital expenditures we have made to improve and expand our network.

- *Cost of equipment sales.* Our cost of equipment sales decreased during the nine months ended September 30, 2002 compared to the same period in 2001 because of reduced sales of our handsets and accessories mentioned above.

Operating Expenses

Our operating expenses decreased 28.8% from NT$9,878.3 million for the nine months ended September 30, 2001 to NT$7,033.6 million (US$201.4 million) for the nine months ended September 30, 2002, due primarily to decreases in general and administrative expenses and marketing expenses.

- *General and administrative expenses.* Our general and administrative expenses decreased during the nine months ended September 30, 2002 compared to the same period in 2001, primarily due to a significant decrease in bad debt expenses and a decrease in personnel expenses. Bad debt expenses decreased because we had unusually high bad debt expenses during the nine months ended September 30, 2001 as a result of problems associated with our new billing system, which was installed in late 2000.

- *Marketing expenses.* Our marketing expenses decreased during the nine months ended September 30, 2002 compared to the same period in 2001, primarily due to decreases in handset subsidies, dealer commissions and rental expenses. Handset subsidies and dealer commissions decreased because we supplied a smaller number of handsets to customers, which reflected a decrease in the gross additions to the number of credit-based customers.

As a percentage of operating revenues, operating expenses decreased from 36.8% for the nine months ended September 30, 2001 to 27.4% for the nine months ended September 30, 2002.

Income from Operations

As a result of the factors discussed above, our income from operations increased 32.4% from NT$4,736.0 million for the nine months ended September 30, 2001 to NT$6,271.2 million (US$179.6 million) for the nine months ended September 30, 2002.

Non-Operating Income and Expenses

Our non-operating income decreased by 58.0% from NT$310.8 million for the nine months ended September 30, 2001 to NT$130.6 million (US$3.8 million) for the nine months ended September 30, 2002. Our non-operating expenses increased by 12.7% from NT$289.9 million for the nine months ended September 30, 2001 to NT$326.6 million (US$9.4 million) for the nine months ended September 30, 2002.

Income Tax

For the nine months ended September 30, 2002, our income tax was NT$260.4 million (US$7.5 million), compared to a tax benefit of NT$182.7 million for the nine months ended September 30, 2001.

Our effective tax rate was 4.3% for the nine months ended September 30, 2002. We did not have an effective tax rate for the nine months ended September 30, 2001 because we did not have any income tax expense.

Net Income

As a result of the factors described above, our net income increased by 17.7% from NT$4,939.6 for the nine months ended September 30, 2001 to NT$5,814.8 million (US$166.5 million) for the nine months ended September 30, 2002.

Year Ended December 31, 2001 Versus Year Ended December 31, 2000

Operating Revenues

Our operating revenues increased by 7.3% from NT$32,180.5 million for the year ended December 31, 2000 to NT$34,544.4 million (US$987.0 million) for the year ended December 31, 2001. This increase was due to an increase in service revenue, driven largely by increases in the number of our customers and interconnection revenues from Chunghwa Telecom, which were partially offset by a decreases in ARPU, and revenues from sales of handsets and accessories. Sales of handsets decreased due to a decrease in the gross additions to the number of credit-based customers.

Operating Costs

Our operating costs increased by 13.4% from NT$13,864.6 million for the year ended December 31, 2000 to NT$15,723.2 million (US$449.2 million) for the year ended December 31, 2001. This increase was due to an increase in cost of services, which was partially offset by a decrease in cost of equipment sales.

- *Cost of services.* Our cost of services increased during the year ended December 31, 2001 compared to the same period in 2000, primarily due to increases in depreciation, license fees and rental expenses. The increased depreciation reflected the additional capital expenditures we have made to improve and expand our network. License fees increased because the DGT increased the license fees for our GSM licenses from 1% to 2% of the total service revenues. Rental expenses increased due to an increase in the number of base station sites.

- *Cost of equipment sales.* Our cost of equipment sales decreased for the year ended December 31, 2001, primarily due to reduced sales of our handsets and accessories mentioned above.

Operating Expenses

Our operating expenses decreased by 14.9% from NT$14,376.8 million for the year ended December 31, 2000 to NT$12,235.0 million (US$349.6 million) for the year ended December 31, 2001, due primarily to a decrease in marketing expenses, which was partially offset by an increase in general and administrative expenses.

- *Marketing expenses.* Our marketing expenses decreased during the year ended December 31, 2001 compared to the same period in 2000, primarily due to decreases in advertising expenses, handset subsidies and dealer commissions. Advertising expenses decreased because we reduced the scope of our marketing campaigns as we focused on issues related to our new billing system. We also switched the focus of our marketing efforts to one of customer retention rather than brand building. Handset subsidies and dealer commissions decreased due to a decrease in the number of gross additions to our customer base and our adoption of a new policy on handset subsidies. Under this new policy, we stopped bundling our service contracts with our handset sales, and our customers may purchase handsets from distributors other than ours without having to forego our handset subsidies.

- *General and administrative expenses.* Our general and administrative expenses increased during the year ended December 31, 2001 compared to the same period in 2000, primarily due to increases in bad debt expenses, depreciation and subscriber billing expenses. Bad debt expenses increased as a result of problems associated with our new billing system, which was installed in late 2000. The increased depreciation reflected the capital expenditures we have made to install our new billing system. Subscriber billing expenses increased as a result of an increase in the number of our credit-based customers.

As a percentage of operating revenues, operating expenses decreased from 44.7% for the year ended December 31, 2000 to 35.4% for the year ended December 31, 2001.

Income from Operations

As a result of the factors discussed above, our income from operations increased by 67.2% from NT$3,939.1 million for the year ended December 31, 2000 to NT$6,586.2 million (US$188.2 million) for the year ended December 31, 2001.

Non-Operating Income and Other Expenses

Our non-operating income increased by 33.6% from NT$215.0 million for the year ended December 31, 2000 to NT$287.2 million (US$8.2 million) for the year ended December 31, 2001. Our non-operating expenses increased by 108.9% from NT$231.5 million for the year ended December 31, 2000 to NT$483.7 million (US$13.8 million) for the year ended December 31, 2001.

Income Tax

For the year ended December 31, 2001, our tax benefit was NT$269.6 million (US$7.7 million), compared to a tax benefit of NT$117.1 million for the year ended December 31, 2000. The increase in tax benefit for the year ended December 31, 2001 was primarily due to the benefits of tax credits and a five-year tax exemption period with respect to income generated by capital investments made with the proceeds of our capital injection and our capital increase.

We did not have an effective tax rate for the years ended December 31, 2001 and 2000 because we did not incur any income tax expense.

Net Income

As a result of the factors described above, our net income increased by 64.8% from NT$4,039.7 million for the year ended December 31, 2000 to NT$6,659.3 million (US$190.3 million) for the year ended December 31, 2001.

Year Ended December 31, 2000 Versus Year Ended December 31, 1999

Operating Revenues

Our operating revenues increased by 72.8% from NT$18,618.2 million for the year ended December 31, 1999 to NT$32,180.5 million for the year ended December 31, 2000. This increase was primarily due to increases in service revenue and net sales from handsets and accessories. The increase in service revenue was driven largely by an increase in the number of our customers, which resulted in increases in airtime usage fees and interconnection revenues from Chunghwa Telecom. Sales of handsets increased due to an increase in the gross additions to the number of credit-based customers.

Operating Costs

Our operating costs increased by 50.1% from NT$9,239.9 million for the year ended December 31, 1999 to NT$13,864.6 million for the year ended December 31, 2000. This increase was due to increases in cost of services and cost of equipment sales.

- *Cost of services.* Our cost of services increased during the year ended December 31, 2000 compared to the same period in 1999, primarily due to increases in interconnection charges payable to Chunghwa Telecom and depreciation. The increased interconnection charges were resulted from increased airtime usage by a larger customer base but was partially offset by lower interconnection rates charged by Chunghwa Telecom. The increased depreciation reflected the additional capital expenditures we have made to improve and expand our network.

- *Cost of equipment sales.* Our cost of equipment sales increased during the year ended December 31, 2000 compared to the same period in 1999, primarily due to a significant increase in the number of handsets and accessories sold to customers, largely due to an increase in the gross additions to the number of credit-based customers and large volume purchases of handsets we made in connection with promotions targeting government, student and military personnel.

Operating Expenses

Our operating expenses increased by 95.6% from NT$7,350.5 million for the year ended December 31, 1999 to NT$14,376.8 million for the year ended December 31, 2000, primarily due to increases in marketing expenses and general and administrative expenses.

- *Marketing expenses.* Our marketing expenses increased during the year ended December 31, 2000 compared to the same period in 1999, primarily due to increases in handset subsidies, advertising expenses and dealer commissions. Handset subsidies increased primarily due to a significant increase in the gross additions to the number of our credit-based customers and an increase in average per unit handset subsidies. Advertising expenses increased because we targeted a larger customer base. Dealer commissions increased primarily due to a significant increase in gross additions to the number of cash-based and credit-based customers.

- *General and administrative expenses.* Our general and administrative expenses increased during the year ended December 31, 2000 compared to the same period in 1999, primarily due to increases in personnel expenses, bad debt expenses and mailing expenses. Personnel expenses increased primarily due to an increase in headcount. Bad debt and mailing expenses increased primarily due to a significant increase in the gross additions to the number of customers.

As a percentage of operating revenues, operating expenses increased from 39.5% for the year ended December 31, 1999 to 44.7% for the year ended December 31, 2000.

Income from Operations

As a result of the factors discussed above, our income from operations increased by 94.3% from NT$2,027.8 million for the year ended December 31, 1999 to NT$3,939.1 million for the year ended December 31, 2000.

Non-Operating Income and Other Expenses

Our non-operating income decreased by 11.3% from NT$242.3 million for the year ended December 31, 1999 to NT$215.0 million for the year ended December 31, 2000. Our non-operating expenses decreased by 13.3% from NT$266.9 million for the year ended December 31, 1999 to NT$231.5 million for the year ended December 31, 2000.

Income Tax

For the year ended December 31, 2000, our tax benefit was NT$117.1 million, compared to income tax of NT$368.0 million for the year ended December 31, 1999. The tax benefit for the year ended December 31, 2000 was primarily due to the benefits of a five-year tax exemption that began on January 1, 2000.

We did not have an effective tax rate for the year ended December 31, 2000 because we did not have income tax expense. Our effective tax rate was 18.4% for the year ended December 31, 1999.

Net Income

As a result of the factors described above, our net income increased by 147.0% from NT$1,635.2 million for the year ended December 31, 1999 to NT$4,039.7 million for the year ended December 31, 2000.

Liquidity and Capital Resources

Liquidity

The following table summarizes our cash flows for the period indicated:

	Year ended December 31,				Nine months ended September 30,		
	1999	2000	2001		2001	2002	
	NT$	NT$	NT$	US$(1)	NT$	NT$ (unaudited)	US$(2)
				(in millions)			
Net cash provided by operating activities	4,764.8	4,236.0	13,104.4	374.4	8,275.0	11,292.8	323.4
Net cash used in investing activities	(10,501.0)	(15,766.8)	(13,080.5)	(373.7)	(10,537.0)	(10,524.3)	(301.4)
Net cash provided by (used in) financing activities	6,439.8	12,844.7	735.6	21.0	999.4	(2,197.9)	(62.9)
Net increase (decrease) in cash and cash equivalents	703.6	1,313.9	759.5	21.7	(1,262.6)	(1,429.4)	(40.9)
Cash and cash equivalents at beginning of period	30.8	734.4	2,048.3	58.5	2,048.3	2,807.8	80.4
Cash and cash equivalents at end of period	734.4	2,048.3	2,807.8	80.2	785.7	1,378.4	39.5

(1) Translations of amounts from NT dollars into US dollars for the convenience of the reader have been made at the Noon Buying Rate on December 31, 2001 of NT$35.00 = US$1.00.

(2) Translations of amounts from NT dollars into US dollars for the convenience of the reader have been made at the Noon Buying Rate on September 30, 2002 of NT$34.92 = US$1.00.

Our primary source of liquidity has been capital contributions from our shareholders, proceeds of borrowings and cash flow from operations, which represents net income adjusted for non-cash items, primarily depreciation and amortization, and changes in current assets and liabilities.

The increase in net cash provided by operating activities for the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001 was primarily due to an increase in unearned revenues, an increase in net income, an increase in certain non-cash items, primarily depreciation and amortization, and a decrease in notes and accounts receivable, which were partially offset by an increase in prepaid expenses. Unearned revenues increased because more credit-based customers chose to prepay their monthly fees in order to qualify for some of the handset subsidies promoted by us. Prepaid expenses increased because we amortized the customer acquisition costs associated with these customers who chose to prepay their monthly fees. The increase in net cash provided by operating activities for the year ended December 31, 2001 compared to the year ended December 31, 2000 was primarily due to an increase in net income, an increase in certain non-cash items, primarily depreciation and amortization and provision for doubtful accounts, and a decrease in accounts receivable. These factors were partially offset by a decrease in accrued expenses as we paid in 2001 certain promotional expenses that we recognized in 2000, which were higher than usual due to an increase in the scope of our marketing activities. The decrease in net cash provided by operating activities for the year ended December 31, 2000 compared to the year ended December 31, 1999 was primarily due to an increase in accounts receivable, which was partially offset by increases in net income and accrued expenses. The increase in accounts receivable in 2000 was caused by delays in payment by our customers due to problems associated with our new billing system.

The slight decrease in net cash used in investing activities for the nine months ended September 30, 2002 compared to the nine months ended September 30, 2001 was primarily due to a reduction in our capital expenditures, which was almost offset by the capital contribution we made to Yuan-Ze, our subsidiary, for the payment of the 3G license fee to the ROC government. The decrease in net cash used in investing activities for the year ended December 31, 2001 compared to the year ended December 31, 2000 was primarily due to lower capital expenditures in 2001. The increase in net cash used in investing activities for the year ended December 31, 2000 compared to the year ended December 31, 1999 was primarily due to higher capital expenditures in 2000.

Net cash used in financing activities for the nine months ended September 30, 2002 was NT$2,197.9 million (US$62.9 million) compared to the net cash provided by financing activities of NT$999.4 million for the nine months ended September 30, 2001. In the nine months ended September 30, 2002, we paid a cash dividend to our shareholders and a bonus to our employees. Furthermore, in the nine months ended September 30, 2001, we borrowed NT$1,225.2 million in long-term debt, while we borrowed a significantly smaller amount in the nine months ended September 30, 2002. Net cash provided by financing activities for the year ended December 31, 2001 decreased compared to the year ended December 31, 2000 because we received equity capital contributions and proceeds from a bond issuance in 2000. The increase in net cash provided by financing activities for the year ended December 31, 2000 compared to the year ended December 31, 1999 resulted primarily from the equity capital contributions made by our shareholders and the proceeds of a bond issuance in 2000.

Capital Resources

We have historically financed our substantial capital expenditure requirements with capital contributions from our shareholders, proceeds of borrowings and cash flows from operations. Most of our cash and cash equivalents are held in NT dollars, with the remainder in US dollars. As of September 30, 2002, we had cash and cash equivalents of NT$1,378.4 million.

Our total outstanding borrowings as of September 30, 2002 were NT$10,645.4 million (US$304.9 million), of which NT$1,260.0 million was due within one year. All of our long-term borrowings are denominated in NT dollars. As of September 30, 2002, approximately 77.3% of our outstanding long-term borrowings, excluding amounts due within one year, bore interest at a fixed rate. We do not expect to receive additional capital contributions from our current shareholders to finance our future capital expenditure requirements.

The following table sets forth the repayment schedule of our long-term borrowings as of September 30, 2002:

Year	Aggregate Amount due
	(NT$ in millions)
2003	1,526.0
2004	2,061.5
2005	1,490.4
2006	2,207.0
2007	2,677.5
2008 and thereafter*	0.0

* All of our outstanding borrowings as of September 30, 2002 are due before 2008.

- *Secured Borrowings*

On November 30, 2000, we issued NT$2,200 million principal amount of secured bonds to domestic investors. These bonds mature in November 2005 and bear interest at a fixed rate of 5.06% that is compounded semiannually. These bonds are guaranteed by a consortium of banks. Our obligations in respect of the bank guarantee are secured by base station sites and mobile switching centers. Beginning on November 30, 2002, bondholders have the right to require us to redeem a portion of the principal amount of outstanding bonds up to an amount equivalent to 14% to 15% of their principal amount every six months until maturity. As of September 30, 2002, NT$2,200.0 million of such bonds were outstanding.

We have entered into a NT$1,978 million note issuance facility with a consortium of banks through August 2005. We had NT$1,978.0 million principal amount of short-term notes outstanding under the note issuance facility as of September 30, 2002. These notes bear interest at varying fixed rates ranging from 1.875% to 1.943% annually. Our obligations to the banks are secured by base station sites and mobile switching centers. The facility is revolving in nature, meaning borrowings may be repaid and reborrowed over the life of the facility. Our agreement with the bank consortium provides that, beginning in August 2004, the size of the facility will be reduced by at least 14% every six months.

We have entered into a NT$2,140 million note issuance facility with a consortium of banks through February 2005, on principal terms comparable to those for the note issuance facility described above. Our obligations to the banks are secured by base station sites, mobile switching centers, land and building. As of September 30, 2002 there were no notes outstanding under this facility.

We had a NT$1,470 million letter-of-credit facility with principal amount of NT$1,470.0 million outstanding as September 30, 2002. The letter-of-credit facility is provided by a local insurance company and is guaranteed by a consortium of banks. Our obligations in respect of the bank guarantee are secured by base station sites, mobile switching centers, land and buildings. Amounts outstanding under the facility bear interest at a fixed rate of 4.725% annually and are subject to varying mandatory repayment dates through January 2005.

We have access to a NT$4,300 million revolving bank facility for five years. This revolving bank facility is secured by base station sites and mobile switching centers. Borrowings under this facility bear interest at a fixed rate, which varies according to the time the loan is drawn down. As of September 30, 2002, there was no amount outstanding under this facility.

- *Unsecured Borrowings*

On February 19, 2002, we issued NT$4,200 million principal amount of unsecured bonds to Taiwanese investors. These bonds mature in February 2007 and bear interest rates of either 3.4% annually or 3.3716% semi-annually. These bonds consist of two types. The first type of bonds are redeemable at 40% of their face amount in February 2006 and 60% of their face amount in February 2007. The second type of bonds are redeemable at 60% of their face amount in February 2006 and 40% of their face amount in February 2007. As of September 30, 2002, NT$4,200 million of the bonds were outstanding.

Capital Expenditures

We made capital expenditures of NT$10,657.5 million for the year ended December 31, 1999 and NT$15,689.3 million for the year ended December 31, 2000. These capital expenditures we made during these periods reflected the investment made by us to continue to develop, optimize and expand our GSM network. We made capital expenditures of NT$13,163.4 million (US$376.1 million) for the year ended December 31, 2001. The capital expenditures we made during this period consisted of NT$1,200.0 million in the form of a capital contribution to Yuan-Ze, our subsidiary with the 3G license, and NT$11,963.4 million in the form of additional investment in our GSM network. We made capital expenditures of NT$10,508.5 million (US$300.9 million) for the nine months ended September 30, 2002. The capital expenditures we made during this period consisted of NT$7,170.0 million in the form of a capital contribution to Yuan-Ze and NT$3,338.5 million in the form of additional investment in our GSM network.

As of September 30, 2002, we had commitments for additional capital expenditures of NT$2,943.3 million (US$84.3 million). We expect our capital expenditures, including those relating to our 3G network buildout by Yuan-Ze, for the year ending December 31, 2003 to be comparable to but less than those we made for the year ended December 31, 2002.

We plan to fund our capital expenditures in 2003 primarily from the proceeds of this offering, the proceeds from secured and unsecured bank credit facilities and other forms of debt financing, and with cash flows from operations.

In future years, we expect to have considerable capital expenditure requirements for the ongoing expansion and upgrade of our network combined with anticipated outlays for the introduction of new services, including our 3G services. In addition, we may require working capital from time to time to finance purchases of materials for our maintenance and other overhead. We plan to use the proceeds of this offering, as well as our cash generated from operations, to meet our capital expenditure requirements, repay our debts and meet our other commitments. To the extent these sources are insufficient, we plan to borrow additional funds or issue additional equity and debt securities.

Inflation

Our results of operations in recent years have not been materially impacted by inflation in Taiwan. Taiwan has inflation rates of approximately 0.17% in 1999 and 1.26% in 2000 and a deflation rate of approximately 0.01% in 2001.

Market Risk

We are currently exposed to the following principal types of market risks:

Interest Rate Risk

Our exposure to market risk for changes in interest rates relates to our short-term and long-term indebtedness that bears interest at variable rates. Upward fluctuations in interest rates increase the cost of new debt under our short-term note facilities and the interest cost of outstanding borrowings under certain of our bank facilities.

Approximately 26.1% of our total outstanding indebtedness as of September 30, 2002 bore interest at varying rates based on prevailing money market rates, with an annual weighted average interest rate of 2.488%. The interest rate for any outstanding borrowings under our bank facilities represents either prevailing money market rates or a fixed percentage spread over the cost of fund of the bank.

Exchange Rate Risk

Our exposure to exchange rate risk relates to expenses, payables and other amounts in foreign currencies, principally for the repayment of the Bonds offered hereof upon their redemption, purchases of telecommunications equipment and, to a much lesser extent, settlement payments to network carriers in foreign countries. As of September 30, 2002, approximately 17.22% of our accounts payable and payables for property and equipment were payable in foreign currencies, principally the US dollar.

Overview

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

- *High penetration rate.* Taiwan has become one of the most developed markets for telecommunications in the Asia Pacific region, particularly in terms of fixed-line and wireless penetration. Based on statistics compiled by the Directorate General of Telecommunications (the "**DGT**"), an agency under the Ministry of Transportation and Communications (the "**MOTC**") of the ROC government, as of December 31, 2002, the fixed-line penetration rate, which is calculated by dividing the number of lines in service by the population of Taiwan, was 58.2%, and the cellular penetration rate, which is calculated by dividing the total number of reported SIM cards by the population of Taiwan, was 106.2%.

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

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

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

Industry Transition

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

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

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

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

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

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

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

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

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

For a more detailed discussion of the regulation of the Taiwan telecommunications industry, see "Regulation."

Wireless Services

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

	As of December 31,				
	1998	1999	2000	2001	2002
	(in thousands, except percentages)				
Reported SIM cards	4,727	11,541	17,874	21,633	23,905
Growth rate (compared to previous year)	216.9%	144.2%	54.9%	21.0%	10.5%
Cellular penetration rate (as a percentage of population)	21.6%	52.2%	80.2%	96.6%	106.2%

Source: DGT.

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

With the incorporation of the GPRS technology, wireless data communication services have been offered with higher speed and richer content. GPRS, or General Packet Radio Service, is a technology that increases the speed and efficiency of existing GSM networks, thereby enabling some network operators to deliver multimedia and broadband services before 3G wireless communications become available. For this reason, a GSM network that uses GPRS technology is also known as a 2.5G network.

Leased-Line Services

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

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

	As of December 31,				
	1998	1999	2000	2001	2002
	(in thousands, except percentages)				
Leased lines	98.0	114.0	130.5	147.0	151.9
Growth rate (compared to previous year)	31.9%	16.3%	14.5%	12.6%	3.3%

Source: DGT.

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

OUR BUSINESS

Overview

We are a leading and profitable wireless operator in Taiwan. As of September 30, 2002, we had more than four million SIM cards, representing approximately 17.7% of the total number of reported SIM cards in Taiwan. We had a market share of approximately 19.1% based on total wireless operating revenues in Taiwan for the nine months ended September 30, 2002.

We provide wireless voice and data services throughout Taiwan using a digital network based on GSM technology. We own both an island-wide GSM 1800 license and a GSM 900 license in the northern region of Taiwan, which includes Taipei. Our integrated dual-band digital network structure enables us to handle a large volume of calls at peak times in an efficient manner. In February 2002, Yuan-Ze Telecommunications, our subsidiary, was awarded a 3G license. This license gives us the right to offer through Yuan-Ze 3G services across Taiwan. We expect to commence our 3G services in selected areas in Taiwan late 2003.

We generated net income in 1999, our first full fiscal year of operation. In the year ended December 31, 2001, we had total operating revenues, EBITDA and net income of NT$34,544.4 million (US$987.0 million), NT$11,610.9 million (US$331.7 million) and NT$6,659.3 million (US$190.3 million), respectively. In the nine months ended September 30, 2002, we had total operating revenues, EBITDA and net income of NT$25,675.3 million (US$735.3 million), NT$10,966.8 million (US$314.1 million) and NT$5,814.8 million (US$166.5 million), respectively.

Our History

Prior to 1997, all telecommunications services in Taiwan were provided by Chunghwa Telecom, the state-owned communications operator that enjoyed a monopoly in telecommunications services. In late 1996, the ROC government began to deregulate the telecommunications industry by offering new GSM licenses for tender. Some of these licenses give licensees the right to offer wireless services island-wide, while the remaining give licensees the right to offer wireless services on a regional basis. See "Regulation — Overview."

We were formed initially as a consortium of several investors and, after having been awarded our cellular licenses, we were incorporated in April 1997 as a limited liability company in the ROC. At the time we were formed, the Far Eastern Group and AT&T Wireless beneficially owned 62.4% and 12.0%, respectively, of our outstanding Shares. Our other shareholders included China Development Industrial Bank, Cheung Hing Development, Chiao Tung Bank and Systex Corporation. AT&T Wireless subsequently increased its beneficial ownership interest in us, most recently in December 2000 when it invested an additional NT$6,550.6 million. As of December 31, 2002, the Far Eastern Group and AT&T Wireless beneficially owned 53.78% and 20.69%, respectively, of our outstanding Shares, and AT&T Wireless had a 30.00% ownership in Cheung Hing Development, which owned 6.85% of our outstanding Shares.

Following an aggressive roll-out schedule, we launched commercial operations in January 1998, approximately one year after we were awarded our GSM licenses. We have invested, and will continue to invest, substantially in improving and expanding our network infrastructure.

Our Shares has been listed on the GreTai Securities Market since December 10, 2001. On February 14, 2003, the closing price of our Shares was NT$28.30 per Share.

Our Strategy

Our goal is to strengthen our current position as a leading provider in Taiwan of wireless services with a focus on revenue and profit growth. The principal elements of our strategy include:

Expand the scope of services. We will seek to continue to expand the scope of our services and increase overall network usage. We plan to:

- *Develop wireless data applications using GPRS and W-CDMA technologies.* We believe that there is strong potential for growth in the wireless data communications segment, which is currently constrained by low data transmission speeds. Accordingly, we plan to develop next generation wireless data applications using the higher transmission speeds available from the latest technology. We have upgraded our entire network with GPRS technology and expect to complete the first phase of our construction of a 3G network using W-CDMA technology in selected areas of Taiwan in late 2003. We expect these new technologies will provide the speed and capability necessary to support a broad range of wireless multimedia applications, providing customers with high value and personalized benefits.

- *Target specified customer segments.* We will continue to target different customer segments and to offer services that match their needs. In particular, we will focus our marketing efforts on customer segments that represent the greatest potential for high usage of wireless data, voice and value-added services. We have identified through market research customer segments that have high overall interest in wireless data services and a willingness to pay for those services and will target those segments accordingly.

Continue to enhance our operational efficiency. We will continue to focus on enhancing our operational efficiency through effective use of our technology investments and marketing programs. We plan to:

- *Better control our customer acquisition costs.* We will continue to control our customer acquisition costs by increasing the number of direct distribution channels, proactively approaching customers who may be at risk of changing service providers, and promoting our services to new customers through less costly marketing channels, such as the Internet.

- *Lower operational costs.* We intend to continue to lower our operational costs by using Internet and Intranet applications for service activation, communications with distributors and various office administration functions. We believe that automating these functions by using web-based tools will help us integrate these functions and hence increase our efficiency.

Capitalize on the consolidation trends in the wireless industry in Taiwan. Taiwan has a population of approximately 22.5 million. The country currently has six GSM operators, two of which are affiliated companies; one PHS operator; and five prospective 3G operators. Two of these prospective 3G operators are new entrants in the wireless market, and the remaining three are existing GSM operators, including us. We believe the wireless industry in Taiwan is likely to undergo further consolidation as a result of the increasing importance of providing island-wide communications services and the substantial financial commitment required for building out future generation networks such as 3G. We plan to:

- *Explore opportunities to make selective investments.* With a high-speed fiber optic backbone and the licenses to offer a range of telecommunications services, we believe that we have the capability to expand into other market segments. We evaluate various opportunities from time to time and may expand our network through strategic investments that are consistent with our strategies and available to us on commercially acceptable terms.

- *Grow through mergers and acquisitions and/or joint ventures.* We may consider acquiring or partnering with one or more existing cellular operators in order to increase our market penetration. Consolidation with other cellular operators under the right circumstances could increase our competitiveness and strengthen our market position.

Aggressively pursue growth in the enterprise segment. We believe that the telecommunications needs of corporate customers have shifted from a focus on cost-saving measures to productivity-enhancing solutions. We plan to:

- *Target selected corporate customers.* We have recently devoted significantly greater resources to target corporate customers, which generally exhibit lower churn rates than consumers and which also provide far greater revenue opportunities on a per-customer basis. We intend to continue to aggressively pursue the enterprise segment by targeting corporate customers in specific industries that we believe exhibit greater potential demand for value-added connectivity services.

- *Continue to offer tailored services to corporations.* We provide our corporate customers, either alone or in cooperation with strategic business partners in the communications, computing and media industries, with service offerings that combine various information and communications technologies, such as mobile virtual private networks, end-to-end data management services, data and voice broadcasting services, location-based services and mobile information on demand services. We have also identified market opportunities to offer our corporate customers high capacity bandwidth voice and data transmission services using our fiber optic backbone, and we intend to develop these opportunities selectively.

Further enhance customer loyalty with superior customer care. We will continue to focus on keeping and expanding our customer base through our strong brand image, responsive customer care and the introduction of customized services. We plan to:

- *Offer more personalized services to our customers.* We will seek to attract and keep high-end customers by offering them personalized customer service through the use of our advanced customer profiling technology. For example, when a customer calls us regarding his or her mobile phone account, information on that customer is retrieved and displayed on the computer screen of a customer service representative who serves that customer segment. Access to this information by our service representatives enables them to offer personalized service in an efficient manner. We also plan to continue to reduce our churn rate by offering our customers loyalty programs and special promotions.

- *Strengthen our distribution networks.* We intend to strengthen our distribution networks to increase customer recognition and utilization of our services. We will continue to work closely with our distributors by providing them with training and service information to help them better understand the needs and focus of our business. This will be particularly important as the range of wireless services we offer becomes more sophisticated. In addition, we plan to increase the use of Internet communications with our distributors to enhance communications with them. We will also keep in place our existing dealer commission structure, which we believe gives our distributors the incentive not only to acquire new customers, but also to provide after-sales services to existing customers. Furthermore, we will continue to organize various forms of marketing activities in conjunction with our distributors.

Services and Products

We offer wireless communications services in Taiwan using a digital network based on GSM technology. Our principal business is in the provision of wireless voice services to consumer customers. We also provide a broad range of value-added services that are informative, entertaining and e-commerce oriented, in collaboration with different content providers, retailers and financial institutions. In addition, we provide tailor-made communications services to corporate customers.

Voice Communications Services

Basic Voice Services. We offer basic voice services through an integrated communications system that allows customers to make and receive domestic and international calls from their handsets and to access a variety of enhanced calling features. In addition to the use of our wireless network in Taiwan, our credit-based customers can also automatically make and receive calls while away from Taiwan using the wireless networks of foreign operators with whom we have reciprocal roaming arrangements. As of December 31, 2002, our automatic international roaming service covered 186 networks in 97 countries and territories. Most of our reciprocal roaming agreements are with operators of GSM systems. We have also arranged for AMPS and TDMA roaming in North America and PDC roaming in Japan.

Enhanced Calling Features. We offer a variety of enhanced calling features that we believe enhance customer loyalty and satisfaction, and bundle most of these calling features with our basic voice services. These features include call divert, call waiting, caller identification, conference calling and basic voice mail. Customers may choose other calling features, such as detailed billing and enhanced voice mail, as optional supplements to our basic voice service.

Value-Added Services

Our value-added services integrate voice and data applications and are delivered through a wide spectrum of technological platforms. We integrate all our value-added services under the "I style, My style" brand. We believe that our present range of value-added services represents the early phase of wireless data services, and that these services will increase in importance in the years ahead as further applications and handsets are developed, as new technologies provide greater speed and as the framework for effecting secure mobile e-commerce (or m-commerce) transactions develops.

Short Messaging Services. Our short messaging services enable customers to send, receive and reply to short text messages of up to a certain number of characters in length to other users within or outside our network from any compatible handset.

Information-Based Services. We offer a range of programs that enable customers to transmit text messages and other data to and from their handsets. One of the most popular information-based programs we offer is the "*147#" program. Under this program, customers can use their handsets to access e-coupons available for discounts from a variety of retailers, including restaurants, fast-food chains, hotels, airlines and department stores. Participating merchants are not remunerated. Our other information-based programs include "Mobile Info", which enables customers to read financial news and stock quotes from their handsets, and "VOGO Player", which enables customers to download ringing tones and logos.

Interactive Voice Response Services. We launched our interactive voice response services in August 1999. Under these programs, customers can dial service numbers for recorded news, financial market information, stock quotes, horoscopes and jokes. They can also listen to selected pop songs, forward their favorite songs to their friends, chat with our other customers in virtual chat rooms, and use our dating services.

Wireless Internet Services. We offer wireless phone access to the Internet and introduced "Super i-style", our wireless Internet portal in June 2002. Customers can browse through "Super i-style" for a variety of consumer-oriented content, including stock quote information, news, weather, restaurant and entertainment information and book reviews; read, write and respond to e-mails; and chat with other wireless users online.

M-Commerce Services. We launched our "Mobile Intelligent Banking" program in October 1999. Under this program, customers with Java-enabled SIM cards can pay their credit card and wireless phone bills, check their account balances, handle account-to-account transfers and conduct other transactions through their handsets. Participating banks include Far Eastern International Bank and United World Chinese Commercial Bank, which generally share a portion of our maintenance costs for these services. In addition, we launched our "Mobile Brokerage" program in February 2000. Under this program, customers with Java-enabled SIM cards can trade securities through certain brokerage houses in Taiwan using their handsets.

Multi-Access Internet Portal Service. Some of our value-added services are delivered through "i-style.com", a multi-access Internet portal which also serves as an interactive marketing and sales channel for our products and services. "i-style.com" is accessible from GPRS-enabled handsets as well as from fixed-line computer modems. Through "i-style.com", customers can send short messages to their friends, download ring tones and logos, dedicate selected pop songs to their friends, send e-mails to GPRS-enabled handsets, update their personal calendars and recharge their cash-based SIM cards.

Multimedia and Java-based Services. We introduced our first self-branded handset, GX-i98, along with a wide selection of multimedia and Java-based services in December 2002. Manufactured by Sharp, GX-i98 is equipped with an embedded camera and supports multimedia and Java-based services. Java is a general purpose programming language with a number of features that make the language well suited for use on the World Wide Web. Java also supports some multimedia features such as graphics, imaging, basic sound and media tracking. Our Java-based games are offered in conjunction with well-known Japanese video game developers, including Sega and Namco.

Advertiser-Sponsored Call Services. We launched our advertiser-sponsored call service in June 2001. This service enables our customers to enjoy up to a certain amount of free airtime after listening to personalized, location-based, real-time and interactive messages from advertisers. This service allows us to create value for both customers, by allowing them to "talk more without spending more" and advertisers, by allowing them to target selected customer segments in a personalized manner.

Enterprise Solutions

As part of our strategy to increase revenues from corporate customers, we established an enterprise solutions business department under the sales and services division in January 2000, through which we offer our corporate customers tailor-made voice and data communications solutions.

We develop and administer complex telecommunications networks for our corporate customers and offer them related consultation, implementation, management and maintenance services. We have acquired many reference accounts in different industries, including Hewlett-Packard, Citibank, D-Link, 7-Eleven and Formosa Oil. To better service the needs of these customers, we divide our targeted enterprise solutions customers into nine segments, with each segment serviced by a dedicated team of sales representatives.

Mobile Virtual Private Networks. We install and operate mobile virtual private networks, or MVPNs, for our corporate customers. MVPN integrates a corporate customer's fixed-line telephone network with our wireless network, so that calls to and from an employee's wireless phone can be routed through the private network as if being made from or received on a desk phone. Features of MVPNs include four-digit dialing and low flat-rate billing for airtime usage within the corporate customer's office.

Leased-Lines. We offer our corporate customers dedicated leased lines for Internet access, also known as T1 lines, with speeds ranging from 64 kilobytes per second to 1.544 megabytes per second. We believe providing leased-line services enables us to promote other services that need to be integrated into our enterprise customers' communications systems.

Mobile Information on Demand. Our mobile information on demand, or MoID, services enable corporate employees in remote locations to transmit via short messaging selected information to and from company databases through customized wireless devices. An example of the application of our MoID services is sales force automation, which provides sales representatives with instant access to product information, such as inventory levels and price quotations, so that they can better meet the clients' needs on the spot.

Fleet Management. Our fleet management service enable our corporate customers to track company vehicles, check their speed, find the nearest vehicle to a job site, and communicate with their employees by voice or data through the wireless connection between a handheld device and our wireless network.

Wireless Virtual Private Networks. We install and operate wireless virtual private networks, or WVPNs, for our corporate customers, which enable their employees to access the corporate Website through the intranet. An example of the application of WVPNs is on-the-spot appraisal, which provides real estate agents with instant access to the firm's transaction records so that they can give an estimated value of the real property to the customer while they view the property. In contrast to MoID, through which employees may only access selected information, WVPNs give employees substantially full access to their corporate Websites.

Other Services. We will seek to design other creative, productivity-enhancing solutions for our corporate customers. For example, we plan to introduce the "Mobile Point-of-Sale" service, providing vendors with the ability to obtain credit card authorization codes through our wireless network from our financial institution customers.

Handsets

We generally provide a handset subsidy to our credit-based customers. Customers who receive a handset subsidy are generally required to enter into a service contract with us.

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

We offer a wide selection of handsets, ranging from entry-level to luxury products, in order to meet the needs of our customers. Our main suppliers of GSM handsets are Nokia, Motorola and Sony Ericsson. Given the wide acceptance of the GSM standard and the large number of manufacturers that are able to supply handsets, we do not believe that we are dependent upon any one supplier or that there will be a shortage in the supply of GSM handsets. Demand for certain models, however, may at times exceed supply due to their popularity.

Pricing and Payment Arrangements

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

Activation of Services

In order to use our services, a customer must have a GSM handset compatible with the GSM 1800 or GSM 900 frequency spectrum, as well as a SIM card that identifies the customer to our network and the services authorized for that customer. Customers must acquire SIM cards from us in conjunction with the activation of our services, but they may obtain handsets elsewhere.

Customers' activation requests are communicated to us by sales points within our distribution network through one of three channels: the Internet, facsimile or mail. See "— Marketing and Distribution." The Internet is the most efficient channel for service activation in terms of processing time and administrative costs involved. To weed out applicants who have a high risk of non-payment, we have also installed an activation scoring software program to identify applicants who fit into the profiles of our delinquent customers. See "— Billing and Credit Control."

Payment Plans

We offer our customers credit-based and cash-based payment plans and allow them to switch between cash-based and credit-based payment plans without changing their existing telephone numbers. We treat our cash-based customers in the same manner as our credit-based customers. For example, cash-based customers are billed on a per-second basis and have access to substantially all of our value-added services.

Credit-Based Payment Plans. Credit-based customers are billed on a monthly basis for services they use in the preceding month. Except for customers who receive promotions such as handset subsidies, there are no minimum contract terms associated with these plans.

Cash-Based Payment Plan. We introduced our cash-based payment plan in November 1998. Cash-based customers make their payments in advance by purchasing and recharging their SIM cards, which are marketed under the "IF" brand. After activation, customers can conveniently add credit to their cards at our distribution outlets, on the Internet or at automatic teller machines. The initial credit on a cash-based SIM card is valid for six months after activation, and any credit added later is also valid for six months from the time when the credit added is first used.

Corporate Accounts. We have special programs and tariffs for wireless voice services that are tailored to the needs of corporations. Although individual terms of these programs differ, these programs typically require a minimum number of subscriptions per corporation and a minimum contract term. In return, participating employees receive handset subsidies and enjoy a discount from our regular tariffs.

Tariffs

In late 1999, the ROC Telecommunications Act was amended to give wireless operators more pricing flexibility. This change has resulted in greater price competition in the Taiwan wireless market. Any proposed changes in our tariff schemes must be reported to the Directorate General of Telecommunications (the "**DGT**") the governmental agency that supervises the Taiwan telecommunications industry, seven days prior to the proposed changes. See "Regulation — Telecommunications Act — Tariff Control and Price Cap Regulation."

The tariffs payable by our consumer customers include primarily the following: (i) monthly access charges (which apply only to our credit-based customers), (ii) usage charges on a per second basis for outgoing calls, (iii) long distance charges, (iv) roaming charges, (v) charges for certain calling features such as enhanced voice mail, and (vi) charges for value-added services such as our short-messaging and wireless Internet based services.

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

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

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

Tariffs for Value-Added Services. Our value-added services are available only to customers of our voice services. We seek to devise a pricing scheme that is simple and easy to understand and to set prices at levels that are competitive in the market but at the same time attractive to our content and service providers. For each type of value-added service, customers have the option to pay either a transaction fee every time they use the service or a flat monthly fee for unlimited access.

Interconnection and Roaming

Interconnection refers to various arrangements that permit the connection between our network and other fixed-line or wireless networks. We connect our wireless customers to customers of (i) fixed-line networks in Taiwan; (ii) other wireless networks in Taiwan; and (iii) other networks, including fixed-line and wireless networks, outside Taiwan.

Interconnection Arrangements

Interconnection with Fixed-Line Networks in Taiwan. We have entered into an interconnection agreement with each of the fixed-line operators in Taiwan that establishes the interconnection fees (including airtime charges and bill processing fees) to be paid for carrying voice and data traffic between our networks.

For calls originating from our network, the operator of the fixed-line network on which the call terminates receives an interconnection fee from us. For calls terminating on our network, the operator of the fixed-line network from which the call originates collects airtime usage charges from its fixed-line customers and pays these amounts to us, less a handling charge and interconnection fee.

Interconnection with Other Wireless Networks in Taiwan. We have entered into an interconnection agreement with each of the wireless operators in Taiwan. For calls and short messages between our network and another wireless network, the operator of the network on which the call terminates receives an interconnection fee from the other operator.

Interconnection for IDD Calls. All calls originating from or terminating on fixed-line or wireless networks outside Taiwan must pass through the network of one of the fixed-line operators in Taiwan. For these calls, our customers are billed at the applicable international direct dialing rate established by the relevant fixed-line operator. We collect these charges from our customers and pay them to the relevant fixed-line operator, less a handling charge and an interconnection fee. For calls terminating on our network from overseas, we charge the relevant fixed-line operator an interconnection fee.

Roaming Arrangements

Domestic Roaming. We have entered into roaming agreements with MoBiTai and TransAsia, operators of regional wireless networks in the central and southern regions of Taiwan, respectively. Under these agreements, we pay each regional operator roaming fees when our customers with single-band GSM 900 handsets make or receive calls using the regional operator's GSM 900 network. In return, the regional operators pay us roaming fees when their customers make or receive calls using our GSM 1800 or GSM 900 network.

International Roaming. As of December 31, 2002, we had entered into roaming agreements, mostly reciprocal, covering 186 networks in 97 countries. Pursuant to these roaming agreements, we pay operators of other roaming networks when our customers make or receive calls when located in their coverage areas outside Taiwan. In return, they pay us roaming rates when their customers use our network in Taiwan. We bill our customers at the rate charged by the roaming network plus a surcharge.

Our Customers

Customer Base and Usage

Following an aggressive roll-out schedule, we launched commercial operations in January 1998, approximately one year after we were awarded our licenses. As of September 30, 2002, we had more than four million customers based on the total number of SIM cards. The table below sets forth certain information about our customer base for the periods indicated:

	As of and for the year ended December 31,			As of and for the nine months ended September 30,	
	1999	2000	2001	2001	2002
Number of customers					
Based on SIM cards	1,707,726	3,410,876	3,775,379	3,776,691	4,200,452
Market share(1)					
Based on reported SIM cards	14.8%	19.1%	17.5%	18.0%	17.7%
Based on total wireless revenues	N/A(5)	22.6%	20.8%	21.6%	19.1%
Churn rate(2)					
Average monthly rate	2.5%	2.1%	2.5%	2.5%	3.0%
Usage information					
Average monthly ARPU(3)	NT$910	NT$1,050	NT$798	NT$838	NT$705
Average monthly outgoing MOU per customer(4)	74.5 minutes	81.4 minutes	71.2 minutes	72.9 minutes	66.7 minutes

(1) Derived from data published by the MOTC in Highlights of Transportation and Communications Statistics in Taiwan.

(2) Our churn rate for each month equals the number of SIM card deactivations (both voluntary and involuntary) for the month divided by the number of SIM cards at the beginning of the month. Our average monthly churn rate shown for each period represents the average of each month's churn rates during that period. We count as deactivated any cash-based SIM card that has not been recharged within six months after either activation or the most recent recharge. Because we launched cash-based payment plans in October 1998, we generally did not experience churn in our cash-based SIM cards before the second quarter of 1999.

(3) Our "ARPU" for each month equals total service revenues divided by the number of SIM cards for the month. For purposes of the ARPU calculation, the average number of SIM cards shown for each month represents the average of number of SIM cards at the beginning of the month and the number of SIM cards at the end of the month. Our average monthly ARPU shown for each period represents the average of each month's ARPU during that period.

(4) Our outgoing "MOU" per customer for each month equals total outgoing airtime traffic in minutes divided by the average number of SIM cards for the month. For purposes of the MOU calculation, the average number of SIM cards shown for each month represents the average of number of SIM cards at the beginning of the month and the number of SIM cards at the end of the month. Our average outgoing MOU shown for each period represents the average of each month's outgoing MOU.

(5) Data for other GSM operators not available in 1999.

Customer Care and Support

We place a priority on providing consistently high-quality customer support, which enhances customer satisfaction and makes us more attractive to potential customers. We continuously strive to improve our customer care operations by polling customers extensively and by using focus groups.

Customer Care Center. With approximately 600 customer service representatives stationed at two separate sites, our customer care center is one of the largest of its kind in Taiwan. It operates 24 hours per day, seven days per week, with established back-up contingency plans. Our customer care center has service representatives who speak, and an interactive voice response system accessible in, five languages: Mandarin Chinese, Taiwanese, Hakka, English and Thai. Newly hired service representatives undergo a comprehensive training program and a mentoring program.

The customer care center handles an average of over 60,000 calls per day, providing customers with account balances and other billing and service information, including technical support for handset usage. Customers who call our customer care center have the option to either complete their calls using the interactive voice response system or speak to our customer service representatives. Customers are not billed for airtime for calls they make to our customer care center using our wireless voice service. Customers can also contact our representatives by e-mail, fax or short messages, or speak to them in person at our selected distribution outlets. In addition, they can access our Website on a 24 hour/seven day a week basis for answers regarding their service, activation, service plans and other service options. Customers can also view and pay their bills online. Our customer care center also has a special team dedicated exclusively to our dealers, providing support for their day-to-day operations.

Personalized Customer Support. We are equipped with an advanced customer profiling system that enables us to give personalized service to all of our customers based on their demographic information, usage patterns, service preferences and billing records. For example, when a customer calls us regarding his or her mobile phone account, information on that customer is retrieved and displayed on the computer screen of a customer service representative who serves that customer segment. This profiling system also generates information critical to our understanding of each customer's individual behavior, such as a customer's possibility of switching operators and predicted response to certain campaigns, so that we can target each customer in a personalized manner. We believe that access to this information by our service representatives enables them to offer personalized services in an efficient manner.

Corporate Customers. As part of our ongoing commitment to customer service, we have established a dedicated customer support group with industry-specific skills in our enterprise solutions division to service corporate customers using our wireless voice and enterprise solutions services.

Customer Loyalty

We have put in place a number of measures to enhance customer loyalty and manage churn.

Churn Prediction and Prevention. In an effort to keep our customers, we have built a large customer database by actively profiling the demographic characteristics, usage patterns and billing records of our customers. Our churn prediction software analyzes this database and helps us to identify those customers whom we believe may change service providers. We then proactively contact these customers and assist them in upgrading their handsets to the latest technology, in selecting suitable rate plans and in understanding how best to satisfy their connectivity needs. By proactively identifying high-value customers who may be at risk of changing service providers, we seek to manage churn among the most profitable segments of our customer base. In addition, in order to reduce the number of voluntary deactivations, our service representatives attempt to contact each customer who asks to have service deactivated, both to ascertain the reasons for deactivation and to encourage the customer to stay with us. We use the information we collect from these calls to address customer complaints and improve our service.

Customer Loyalty Programs. We seek to keep existing customers through a range of loyalty-enhancing programs, including handset upgrades and subsidies, free airtime for customers who enter into long-term contracts with us, and a discount in tariffs for credit-based customers who stay with us for a certain period of time. We communicate these programs through both individualized and general communications.

Billing and Credit Control

Customer Billing

Our credit-based billing system supports balance-brought-forward billing, a practice which shows the balance outstanding from a customer's previous invoice statement, any services and adjustments since the date of the last statement and the current outstanding balance, and flexible billing options, such as different presentations for business and personal charges.

We have eleven billing cycles per month and bill our credit-based customers on a monthly basis. We offer customers a variety of payment options, including payment by cash in selected distribution outlets, check, credit card and automatic debit of bank accounts. We also introduced an Internet bill presentment and payment service in June 2002.

Our cash-based billing system supports the use of substantially all of our value-added services by our cash-based customers, except for international roaming and GPRS services.

Credit Control

We maintain strict credit procedures to minimize our bad debt expenses. Our use of cash-based payment plans, which involve no credit risk, has also helped to minimize our bad debt expenses. For 2001 and the nine months ended September 30, 2002, our bad debt expenses were less than 6.3% and 0.6% of total service revenues, respectively. The unusually high percentage of bad debt expenses for 2001 was due to problems associated with the installation of our new credit-based billing system in late 2000. These problems were primarily caused by software defects contained in the new billing system when we migrated our customer database to a new billing system. Although we conducted a test run on the new billing system, these problems did not emerge until the billing system started operating on a full scale. These defects were remedied in May 2001.

Application Process. To apply for services using our credit-based payment plans, each applicant must provide a copy of his or her identity card and certain other mandatory information, including fixed-line telephone number and address, and if they choose to pay by direct debit, his or her credit card or bank account number as well. We sometimes require a deposit from applicants who do not have valid credit cards or debit cards. Unlike North America and most of Europe, there is no independent credit agency in Taiwan that enables us to check an applicant's credit history. Accordingly, an application is approved if the applicant complies with the procedures described above. In the case of our cash-based payment plans, each new customer must provide a copy of his or her identity card to our distribution outlet, and this information is forwarded to us.

We have a simple application and activation process. To the extent practicable, we seek to ensure that new customers may use our services within one hour.

Fraud Detection. The information we maintain on our customers allows us to track their calling frequency and usage history and to remain familiar with their calling patterns. We have installed two monitoring systems that help us to detect fraud: (i) a fraud management system, which compares call details with customer profiles and usage patterns; and (ii) an SS7 international roaming detection system, which identifies all customer handsets that are connected to the networks of our international roaming partners. If the system detects any abnormalities in the account of any customer, such as calls originating from different countries within a short period of time, we review the case carefully and disconnect the service if fraud is detected.

We also maintain a database of customers and have installed activation scoring software to check if a new applicant fits into any of their profiles. We have reserved the right to reject any applicant whom we deem to possess a high default risk.

Settlement of Interconnection Accounts and Roaming Accounts

We settle our interconnection accounts with other domestic operators monthly. Each operator prepares a monthly statement and the other operator is given fifteen days to review and validate the statement. Operators begin a reconciliation process if the discrepancies between the interconnection payables and interconnection receivables are more than one percent. Based on the exchange of settlement statements, net payments due are computed and the operator that has a net receivable will issue an invoice which the other operator must pay within one month.

We settle our roaming accounts with our roaming partners monthly. Based on the exchange of settlement statements, net payments due are computed and the operator that has a net payable must pay the other operator within 30 to 45 days. Any adjustments are contained in the next month's statement.

Marketing and Distribution

Marketing

We believe that successful marketing is critical to the success of wireless operators in Taiwan. We intend to continue marketing our services aggressively to enhance our market position. Our marketing strategy focuses on strengthening our brands through effective advertising campaigns, innovative promotional programs and a wide distribution network. According to a survey conducted on our behalf by A.C. Nielsen in December 2002, more than 73% of consumers aged between 15 and 64 recognized Far EasTone on an unaided basis as one of the wireless operators in Taiwan.

Brand-Building. We believe that our brand value is built on four pillars: value for money, network quality, customer care and innovation. We market our value-added services using the "I style, My style" logo, which uses the thumbs-up symbol, and call our cash-based SIM cards "IF" cards, as the pronunciation of "IF" sounds like "easy payment" in Chinese. We use two advertising agencies, Ogilvy & Mather and Saatchi & Saatchi, to manage our advertising campaigns and we engage celebrities to reinforce our brand image and reputation for superior customer service.

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

Enterprise Solutions. The marketing strategy of our enterprise solutions department is to position Far EasTone as the one-stop provider of wireless communications solutions by offering system development and integration, on-going account management and end-user training support. We believe that the needs of our corporate customers are different from those of our individual customers and therefore require a different marketing approach. The marketing activities of our enterprise solutions division include hosting of seminars, participation in industry forums and publication of research articles, as well as development and management of individually tailored service offerings for particular corporate customers.

Distribution Networks

Distribution is handled by our consumer sales and services division, which emphasizes sales logistics, information management and sales support. Our credit-based services can be activated through approximately 8,500 sales points, and our cash-based SIM cards can be obtained through approximately 15,000 sales points, including convenience stores. We provide extensive training and service information to our distributors and communicate with them on an ongoing basis to help them better understand the needs and focus of our business. The table below sets forth the number of direct points of sale of each distribution channel as of December 31, 2002:

Distribution Channel	Number of Points of Sale
Indirect Distribution Network[1]	
Third-party dealers	8,559
Convenience stores[2]	5,681
Direct Distribution Network	
Far EasTone stores	23
Franchised stores	153
Far EasTone-authorized stores	159

(1) Numbers of indirect distribution channels are approximate.

(2) These points of sale handle only the sale and recharge of our cash-based SIM cards and payment collection.

Indirect Distribution Network. Our indirect distribution network consists of the following; (i) four third-party dealers, Synnex, Systex, Arcoa and Tecom; and (ii) several convenience store franchises, including 7-Eleven, HiLife, Circle K, Family Mart and Watson's. These third-party distributors market our services and products through retail outlets that specialize in consumer products, computers and electronics and telecommunications equipment. Each third-party distributor has established a network of independent sub-dealers, with whom we have no contractual relationship. The master dealers are prohibited by the terms of their distribution agreements from offering any other wireless telecommunications services, but their sub-dealers and the key accounts are not subject to a similar restriction.

In addition to handset subsidies, for every new credit-based customer acquired, we pay our third-party dealers an activation commission at the time of the customer's activation. In addition, for a certain period after a customer's activation, these distributors receive a continuing service loyalty award based on the service revenues billed to that customer. This commission structure was designed in part to encourage our independent distributors to target customers with high usage potential as well as to offer a high degree of after-sales service. We reclaim activation and handset subsidies made by us if they relate to customers whose connection we later suspend or terminate due to fraud committed by the dealer. We pay all of our distributors an upfront commission for every cash-based SIM card sold. In addition, for every recharge handled by the retail outlets of these distributors, we pay a recharge commission based on the amount of recharge. Our commission structure may vary in the case of special promotional programs.

Direct Distribution Network. We have three types of authorized stores in our direct distribution network: Far EasTone stores, franchised stores and authorized outlets. We believe these retail channels are a valuable promotional vehicle for increasing brand awareness of our services and products as well as providing us with valuable marketing intelligence. Far EasTone stores are owned and operated by us. They are primarily located in centrally located high traffic areas and provide both sales and customer support services such as renewal of service contracts, distribution of handsets, sale of our cash-based SIM cards and recharge cards, payment collection and billing claims reception. To control the quality of our customer services and expand our marketing coverage, we plan to increase the number of Far EasTone stores in 2003. Franchised stores are owned and operated by independent dealers under our supervision and offer substantially the same sales and customer support services as Far EasTone stores. Far EasTone-authorized stores are owned and operated by independent dealers not under our control. These stores sell services and products of more than one wireless operator, including us, but procure handsets and accessories directly from us, as opposed to third-party dealers. To strengthen the loyalty and stabilize the sales contribution of dealers, we allow them to use the Far EasTone logos with our authorization.

The commission structure for our franchised and authorized stores is substantially similar to the structure for third-party dealers, although the amounts of commissions and continuing service loyalty payable to these stores. In addition to the regular commissions, operators of franchised stores receive transaction-based incentive payments and loyalty payments.

Enterprise Sales Force. Our enterprise sales force is primarily responsible for our sales and marketing efforts aimed at corporate customers of our wireless voice and enterprise solutions services.

Network Operations

High-Speed Trunk Line

To lower our leased-line costs and increase our network reliability, we completed the construction of a 1,080 kilometer fiber optic backbone, which is a broadband high-speed trunk line, in July 2000. The backbone runs from Taipei in the northern region of Taiwan, down the western side of the island, to Kaohsiung in the south. It is also connected to several local rings that cover the more populous areas. We expect that the backbone will provide us with sufficient capacity to handle future data and voice traffic.

Network Technology

Dual-Band Structure. Our network was designed as a dual-band network in the northern region of Taiwan. The northern region of Taiwan is the most populous region of the island, and having this dual-band network structure there enables us to handle a larger volume of calls at peak times in an efficient manner. In designing our network, we purchased our infrastructure switching and base station equipment from Ericsson. This helped us minimize compatibility and integration problems throughout the network.

GSM Technology. We operate an 1800 MHz GSM digital wireless network throughout Taiwan and a 900 MHz GSM digital wireless network in the northern region of Taiwan, including Taipei, each of which provides high quality voice transmission and extensive coverage in its respective service area.

GPRS Technology. We have completed the upgrading of our network to incorporate the use of GPRS technology to enhance our data transmission capability. GPRS technology is generally considered to be an interim step between current and 3G technologies, and GPRS standards have been developed by recognized standards-setting bodies. GPRS technology boosts data transmission speeds up to 115 kilobytes per second, compared with the maximum speed of 56 kilobytes per second for fixed-line dial-up service. It also supports an always-on-line feature and enables users to be charged based on data sent or received, rather than on connection time.

3G Network. After being awarded the 3G license, Yuan-Ze, our subsidiary, entered into a letter of intent with Ericsson in January 2003. Yuan-Ze is currently negotiating with Ericsson for a definitive agreement, pursuant to which it would subcontract the first phase of the UMTS construction project to Ericsson.

Additional Features. We have installed an intelligent network platform on our network infrastructure to support advanced services such as MVPN and advertiser-sponsored calls. The platform also gives us more flexibility in designing our cash-based payment plans, enterprise solutions and a wider range of advanced call features and value added services. In addition, we have installed on our network various Internet protocol gateways to support wireless Internet services and multimedia services. We have also installed a common service platform to enhance our ability to customize applications from various content and service providers.

Transmission Infrastructure

Transmission Network. Our network consists of home location registers connected to mobile switching centers in different locations, each of which controls the routing of calls. Each of the mobile switching centers is then connected to a varying number of base station controllers, which in turn monitor and control a varying number of base stations. A base station consists of transmitters and receivers that communicate through radio channels with wireless handsets within the coverage area. The links connecting mobile switching centers, base station controllers and base stations are either dedicated leased lines provided by fixed-line operators or our fiber optic backbone and its connected networks. We plan to construct additional base station sites to increase network capacity and deploy new technology to increase spectrum efficiency. We will also consider investing in additional equipment to improve our indoor coverage.

Base Station Sites. In urban areas, base station sites are typically located on the roofs of buildings, while in rural areas, base station sites are often located on towers we specially construct for this purpose. We have also installed microcells to improve indoor coverage and repeaters to improve radio signal strength at selected locations. We plan to construct additional base station sites to increase network capacity and deploy new technology to increase spectrum efficiency. We will also consider investing in additional equipment to improve our indoor coverage.

Network Management and Maintenance

Operations Support System. Our network operations center monitors our network quality and performance through an integrated network management platform. The operations support system highlights abnormal situations so that our operators may flag the problem to our engineers in a prompt manner. The system monitors all principal components of our network and allows us to conduct much of our network maintenance and upgrades remotely.

Maintenance Team. Day-to-day traffic management, troubleshooting and system maintenance are conducted by our engineers and technicians, and technical staff are available for emergency work 24 hours a day. Currently, most technical difficulties relating to our network are resolved by our staff, although our equipment suppliers also provide back-up maintenance and technical support.

Telecommunications Licenses

GSM 900/1800 Cellular Licenses

We were awarded a GSM 1800 license in December 1997 and a GSM 900 license in January 1998. The GSM 1800 license permits us to offer across Taiwan wireless services within the 2x11.25 MHz (or 2x13.25 MHz in the northern region) spectrum allocated at the 1800 MHz frequency band, including establishing and maintaining an island-wide network. The GSM 900 license permits us to offer in the northern region of Taiwan, which includes Taipei, wireless services within the 2x5 MHz of spectrum allocated at the 900 MHz frequency band.

The GSM 1800 license and the GSM 900 license expire in December 2012 and January 2013, respectively. Under the terms of these licenses, we were required to satisfy certain roll-out requirements, all of which we have achieved. The ROC government charges an annual license fee equal to 2% of total service revenue.

3G License

In early 2002, the ROC government sold by auction five 3G licenses, each of which will permit the licensee to offer 3G services across Taiwan upon the satisfaction of certain roll-out requirements. Yuan-Ze, our subsidiary, was awarded one of the five 3G licenses. Upon satisfaction of certain roll-out requirements, Yuan-Ze will be able to offer 3G services at the 2GHz frequency band within a spectrum of 2x15 MHz using Frequency Division Duplex data transmission technology and within a spectrum of 5MHz using Time Division Duplex data transmission technology.

The upfront cost of the license is NT$10,169 million, and Yuan-Ze is also required to pay an annual spectrum fee and to satisfy certain roll-out requirements. Among others, Yuan-Ze is required to complete the construction of a 3G network covering at least 50.0% of the population of Taiwan by mid 2006. The first phase of our 3G network construction is expected to be completed in late 2003. We plan to offer our wireless services at a higher data transmission speed in this new spectrum through W-CDMA technology.

Leased Circuit License

We were awarded a Type I local and long-distance leased circuit license in January 2003, which permits us to lease our fiber optic transmission lines and related network equipment across Taiwan to other telecommunication services providers. This license expires in January 2018. The ROC government charges an annual license fee equal to 1% of total service revenue.

Other Licenses

In December 1999, we were awarded a Type II telecommunications license, which permits us to offer Internet access service, intra-corporation communication service and electronic mail service. The ROC government charges an annual license fee of NT$90,000 except for the services of voice simple resale and Internet telephony, in which case the license fee is charged at an amount equal to 0.5% of the revenue from such services.

In December 2001, we were awarded a telecommunication resale business license, which permits us to offer telecommunications services that we procure from another operator and to offer a range of data communications services that are built on the infrastructure of others, such as voice over Internet protocol. The ROC government charges an annual license fee equal to 0.5% of total service revenue.

Competition

The wireless market in Taiwan is highly competitive. Competition in the market is based principally on network quality and coverage, the range of services offered, tariff packages and customer service. The country has six GSM operators, two of which are affiliated companies; one PHS operator; and five prospective 3G operators. Two of these prospective 3G operators are new entrants in the wireless market, and the remaining three are existing GSM operators, including us. At the same time, wireless market growth rates in Taiwan have slowed recently as customer penetration has increased and the industry has matured. In response to the increased number of players and the declining growth in the market, wireless operators have lowered tariffs, increased handset subsidies and offered other price-based concessions to customers in an effort to retain market share and minimize customer churn rates. We expect competition to remain intense for the foreseeable future.

GSM Operators

Of the six GSM operators, four offer their services island-wide, and two offer their services on a regional basis, as shown in the following table:

Operator	Standard		Spectrum (MHz)	Island-wide License	Regional License		
					Northern	Central	Southern
Chunghwa Telecom . . .	GSM	900	15.00	X			
	GSM	1800	11.25	X			
Far EasTone	GSM	900	5.00		X		
	GSM	1800	11.25 (islandwide) + 2 (only in northern area)	X			
Taiwan Cellular[1]	GSM	1800	11.25 (islandwide) + 3.75 (only in northern area)	X			
KG Telecom/Tuntex[2] .	GSM	1800	11.25 (islandwide) + 2 (only in northern area)	X			
MoBiTai	GSM	900	7.00			X	
TransAsia[1]	GSM	900	8.00				X

Source: DGT.

(1) Taiwan Cellular acquired a 97% stake in TransAsia in 2001, and the two became affiliated companies. The operations of TransAsia have remained separate from those of Taiwan Cellular.

(2) KG Telecom acquired Tuntex in 1999, subsequent to which the operations of Tuntex were combined with those of KG Telecom.

PHS Operator

Operator	Standard	Spectrum	Frequency allocation	Island-wide license
Fitel	PHS	2x5MHz	1900MHz	X

3G Operators

Yuan-Ze, our subsidiary, was awarded a 3G license in February 2002. Subject to the satisfaction of certain roll-out requirements, Yuan-Ze will have the right to offer 3G services across Taiwan.

Licensee	Standard	Frequency allocation	Spectrum		Island-wide license	Upfront license fee
			FDD[1]	TDD[2]		(NT$ in million)
Yuan-Ze Telecommunications . .	WCDMA	2GHz	2x15MHz	5MHz	X	10,169
Taiwan 3G Mobile Network Inc.	WCDMA	2GHz	2x10MHz	5MHz	X	7,700
Taiwan Cellular Corp.	WCDMA	2GHz	2x15MHz	5MHz	X	10,281
Chunghwa Telecom	WCDMA	2GHz	2x15MHz	5MHz	X	10,179
Asia Pacific Broadband Wireless Communications Inc.	cdma2000	800MHz	2x20MHz	—	X	10,570

Source: DGT.

(1) Data transmission using Frequency Division Duplex technology.

(2) Data transmission using Time Division Duplex technology.

Employees

As of December 31, 2002, we had approximately 2,300 employees. A substantial number of our employees have college or graduate degrees, and many members of our management had prior work experience in multi-national corporations.

Our employees are not covered by any collective bargaining agreements. Sales employees participate in our sales incentive plan. Non-sales employees participate in our performance incentive plan, under which the amount of the annual cash bonus awarded to them is calculated based on the company's level of performance. The company's performance is measured based on selected criteria, including customer growth, revenue, EBITDA and net income.

In compliance with ROC law, we provide health benefits to our employees under the National Universal Health Plan and the Labor Insurance Plan. We also have a retirement plan covering all regular employees. Benefits under this plan are based on length of service and average monthly pay for the six months before retirement. We currently contribute on a monthly basis 2% of the aggregate wages of our employees to a retirement fund, which is maintained with the Central Trust of China, an agency of the ROC government, as required by ROC law. In addition, we provide a range of ancillary benefits to our employees.

All of our new employees participate in an orientation program to become familiar with the company's operations and our shared values. We also offer management, professional, language and technical training for our engineers, sales and marketing staff and management team members.

Research and Development

The wireless communications industry is characterized by rapid technological advances, changes in customer requirements and frequent introductions of new products and enhancements. Our research and development focus is to develop value-added services in anticipation of future customer demand.

We conduct joint research programs with network equipment suppliers and academic institutions and sponsor research projects in academic institutions. In addition, we established Far EasTone Laboratory in 1997 to focus on the enhancement of the quality of existing wireless transmission technology. We participate in consortiums with domestic and international academic and research institutions, host conferences and publish our RD Lab Journal regularly.

Patents and Trademarks

As of January 30, 2003, we had registered 137 service marks and trademarks and 31 domain names in Taiwan and ten other countries, including the PRC, Japan, Singapore and the United States. We are also processing applications to register an additional 110 service marks and trademarks, including the "遠傳 FarEasTone" logo; the "Super I style" service mark and trademark; and the "Best Buy" service mark and trademark.

Properties

Properties used to provide our wireless communications services primarily consist of the following: (i) switching, transmission and receiving equipment and the associated software systems; (ii) connecting lines; (iii) land and buildings, or easements, on or in which our equipment is installed; and (iv) land and buildings on or in which our administration, research and development and distribution centers are located.

We own, control through long-term leases or license plant and equipment and software systems used in our network, including our convergence billing system, operations support system, base station equipment and cash-based billing system.

We lease properties that support equipment used to provide wireless communications services, including land, interior and rooftop space and space on existing structures of various types. The majority of the lines connecting our services to other telecommunications services and power sources are on or under public roads, highways and streets. Others are on or under private property.

We lease space for our principal executive offices, which are located in Neihu, Taipei, our two customer care centers, and all of our company-owned stores.

Litigation

We are not party to any litigation or other legal proceedings which we believe would, individually or taken as a whole, have a material adverse effect on our business, financial condition or results of operations.

Principal Subsidiary

Yuan-Ze is our only principal subsidiary, and we do not have any principal investee companies. We incorporated Yuan-Ze as a wholly owned subsidiary in December 2001. Yuan-Ze obtained a 3G license in February 2002 through a multi-round bidding process and issued additional shares of stock with an aggregate par value of NT$9,170,000 in March 2002. We only subscribed to shares of stock with aggregate par value NT$7,170,000 thereby diluting our equity interest to 80.71%. All amounts due from us for ownership of its capital stock held by us have been paid in full.

The following table sets forth certain information as of September 30, 2002 regarding Yuan-Ze:

Name of subsidiary	Main activities	Place of Incorporation	Investment amount in such subsidiary(1)	Direct equity interest
Yuan-Ze Telecommunications Co., Ltd.(2)	Wireless telecommunication and the wholesale/retail of telecom equipment	Taiwan	NT$8,370,000,000	80.71%

(1) The amount we invested in Yuan-Ze of NT$8,370.0 million approximates the carrying value of Yuan-Ze of NT$8,230.8 million as shown on our unaudited financial statements as of September 30, 2002.

(2) The registered office of Yuan-Ze is 28/F, No. 207, SEC 2, Tun Hua South Road, Taipei, Taiwan, ROC.

As of September 30, 2002, we had not received any dividend from Yuan-Ze since its incorporation, and we had receivable of NT$30.40 million (US$0.87 million) from Yuan-Ze.

REGULATION

The following is a summary of the significant laws and regulations of the ROC relating to us. Unless otherwise noted, all the laws and regulations referred to below are laws and regulations of the ROC and all the government authorities referred to below are government authorities of the ROC.

Overview

The Taiwan telecommunications industry is subject to extensive regulation and supervision by the Ministry of Transportation and Communications (the "**MOTC**") and the Directorate General of Telecommunications (the "**DGT**"), an agency under the MOTC, pursuant to the ROC Telecommunications Act and various other telecommunications laws and regulations, as well as regulations under various laws of general application.

Prior to 1996, the DGT, was the sole provider of telecommunications services in Taiwan. In 1996, as part of the effort to reorganize and introduce competition to the telecommunications industry in Taiwan, the ROC government began to liberalize the industry by:

- organizing a new ROC government-owned entity, Chunghwa Telecom, into which was spun off all business-related telecommunications operations previously conducted by the DGT;

- enacting legislation which set guidelines for competition in the Taiwan telecommunications industry; and

- opening the market for wireless telecommunications services, including wireless voice and data services and radio paging, to new entrants.

Further liberalization followed in 1998, when the ROC government opened the market for mobile satellite services to new entrants. In 2000, the ROC government further liberalized the telecommunications industry by granting concessions to three private enterprises for establishing fixed-line services. The market for resale of international long distance voice over Internet protocol services was opened to competition in July 2001.

The following table highlights the major initiatives undertaken by the ROC government to open the Taiwan telecommunications market for competition:

Date of opening	Type of Market Opened for Competition
Aug 1987	User terminal equipment market
June 1989	Value-added-network business
June 24, 1995	Low-powered cordless phone (CT-2) business
Dec 1995	Internet and teleconferencing business
Jan 15, 1997	Cellular phone service
Feb 5, 1997	Radio paging service
May 24, 1997	Trunked cordless phone service
May 6, 1998	Satellite broadcast TV program relay service
Aug 19, 1998	Intra-corporation network communications service
Sep 18, 1998	Mobile satellite communication service
Dec 10, 1998	Fixed satellite communication service
Nov 23, 1999	1900 MHz digital low-powered cordless phone service
Feb 14, 2000	Local and long-distance leased-circuit cable service
Mar 21, 2000	Integrated fixed network communications service
Dec 11, 2000	International submarine cable leased-circuit service
July 25, 2001	Voice resale and Voice over Internet protocol service
Feb 06, 2002	3G mobile service

Regulatory Authorities

The MOTC is the primary regulatory authority of the Taiwan telecommunications industry. It issues policy directives and licenses and oversees the activities of the DGT, which is responsible for the implementation of these directives and the day-to-day supervision of the industry. The Executive Yuan, the executive branch of the ROC government, issues overall policy objectives affecting the telecommunications sector in Taiwan, although it does not develop specific policies.

The MOTC and the DGT:

- formulate, implement and interpret telecommunications laws and regulations;
- issue licenses and regulate the operation of telecommunications industry participants;
- establish and review tariff structures and numbering plans; and
- manage and facilitate the resolution of disputes pertaining to the Taiwan telecommunications industry.

In addition to these regulatory authorities, the Legislative Yuan, the legislative branch of the ROC government, must approve any changes relating to existing telecommunications legislation and can adopt new legislation.

Telecommunications Act

The ROC Telecommunications Act and the regulations promulgated thereunder establish the framework and govern the various aspects of the Taiwan telecommunications industry, including:

- licensing of telecommunications services;
- restrictions on dominant telecommunications service providers;
- tariff control and price cap regulation;
- accounting separation systems;
- interconnection;
- spectrum allocation;
- universal service;
- number portability; and
- foreign ownership limitations.

Each of these aspects is described below. The ROC Telecommunications Act also establishes equal access to telecommunications networks and assigns radio frequencies.

Licensing of Telecommunications Services

Type I and Type II Service Providers. Under the ROC Telecommunications Act, telecommunications service providers are classified into two categories:

- *Type I.* Type I service providers are providers that install network infrastructure, such as network transmission, switching and auxiliary equipment for the provision of telecommunications services. Type I services include fixed-line services such as local, domestic long distance and international long distance; interconnection; leased-line services; and wireless services such as wireless voice, paging, wireless data, satellite communication and trunked radio, or shared two-way radio, services in GSM and 3G networks. Type I service providers are more closely regulated than Type II service providers. The ROC government has broad powers to limit the number of providers and their business scope and to ensure that they meet their facilities roll-out obligations. Under the Telecommunications Act, Type I service providers are subject to pre-licensing merit review of their business plans.

- *Type II.* Type II service providers are defined as all telecommunications service providers other than Type I service providers. Type II services include Internet access, online information exchange, managed data, electronic mail, voice (wholesale and resale), voice over Internet protocol, intra-corporation network communications, mobile virtual network operating, and electronic commerce services.

Granting of Licenses. The standards and procedures for the granting of Type I and Type II licenses differ, as described below:

- *Type I Licenses.* Licenses for Type I services are granted by the MOTC through a three-step procedure. Applicants must first obtain a concession from the MOTC. After obtaining a concession, the applicant must obtain a network construction permit, and assignment of spectrum in the case of wireless services, from the DGT or the MOTC prior to applying for an operation license. Upon completion of construction of its network and review by the DGT, the applicant may be granted a Type I operation license. The MOTC has the authority to grant Type I licenses for each of fixed-line services, wireless services and satellite services. Type I licenses have varying license durations depending on the particular type of services. The Telecommunications Act authorizes the MOTC to issue separate regulations governing each Type I service including the business scope, the method of granting special permits and the valid period of the special permits for each Type I service. Each holder of a Type I license pays to the DGT a fee ranging from 0.5% to 2% of the revenues each year from the particular Type I service for which it has a license.

- *Type II Licenses.* The Telecommunications Act was amended in 1996 to open the market for all Type II services, including X.25 packet-switched data network, Internet access, frame relay and virtual private network services. Type II services are classified into two categories. The first category includes international simple voice resale, voice over Internet protocol, telecommunication via international private leased circuit and such other services as may be determined by the MOTC. The second category includes all other Type II services. Type II licenses are valid for ten years. The policy for granting Type II service licenses has the following characteristics: (i) there is no limit on the number of licenses to be issued; (ii) licenses are granted by the DGT; and (iii) no bidding procedure is required.

Wireless Service Licenses. Under the Telecommunications Act, the Wireless Regulations adopted by the MOTC govern the issuance of wireless service licenses and the business of wireless service providers. Wireless service licenses are subdivided into the following categories:

- GSM;
- paging;
- mobile data;
- digital low-power cordless telephone;
- trunked radio; and
- 3G.

GSM licenses are granted to both regional and national service providers through review and bidding procedures.

Wireless service licenses for GSM and paging services are valid for 15 years, while licenses for mobile data, digital low-power personal communications systems and trunked radio are valid for ten years. All licenses for 3G services expire in December 2018, regardless of their date of issuance.

Restrictions on Dominant Telecommunications Service Providers

Under the ROC Telecommunications Act, the regulations governing dominant telecommunications service providers apply only to Type I service providers. A Type I service provider is deemed to be dominant if it meets any of the following criteria and is declared by the MOTC as dominant:

(1) it controls key basic telecommunications infrastructure;

(2) it has dominant power over market price; or

(3) it has more than a 25% market share in terms of customers or revenues.

Currently, Chunghwa Telecom and Taiwan Cellular Corporation have been declared as dominant Type I service providers for cellular services by the MOTC.

Under the Telecommunications Act, a dominant Type I service provider may not:

- hinder the request of interconnection with its networks by other Type I service providers;
- refuse to release to other Type I service providers the calculation methods of its interconnection fees and other relevant materials;
- improperly determine, maintain or change its tariffs or means of services;
- reject, without due cause, any request for leasing network components by other Type I service providers;
- reject, without due cause, any request for leasing lines by other service providers or users;
- reject, without due cause, any request for negotiation or testing by other service providers or users;

- reject, without due cause, any request for negotiation on co-location by other service providers;
- discriminate, without due cause, against other service providers or users; or
- abuse its position as a dominant provider, or engage in other unfair competition activities.

In addition, a dominant Type I service provider is subject to special regulations limiting its tariff changes.

Tariff Control and Price Cap Regulation

In order to promote competition in the telecommunications market, and as part of the ROC government's overall policy toward deregulation, the Telecommunications Act was amended in 1999 to abolish the former rate of return system on tariff-setting in favor of price cap regulation of Type I services.

Under the ROC Regulations Governing Tariffs of Type I Service Providers, as amended by the MOTC in May 2002, a Type I service provider that has been declared dominant by the MOTC must submit its proposed adjustments in its primary tariffs to the DGT for approval by the MOTC at least 14 days prior to the date of the proposed tariff changes.

Primary tariffs include:

(1) for fixed-line local telephone: monthly fees, usage fees, monthly rental fees of leased line and pay telephone usage fee;

(2) for fixed-line domestic long distance telephone networks: usage fees and monthly rental fees of leased line;

(3) for fixed-line international long distance telephone: usage fees and monthly rental fees of leased line;

(4) for wireless services: monthly rental fees and usage fees; and

(5) others announced by the DGT.

In comparison, all non-dominant Type I service providers (for all tariffs) and all dominant Type I service providers (for secondary tariffs) are required to notify the DGT and the public of its proposed tariff adjustment at least seven days prior to the date of their proposed tariff changes. In addition, changes in tariffs charged by Type I service providers, notwithstanding the type of their respective services, may not, in any event, be greater than the annual growth rate of the consumer price index in Taiwan adjusted by a set constant, which will be periodically determined and announced by the DGT. For example, if:

(1) the figure of annual growth rate of the consumer price index in Taiwan minus the set constant is positive, the increased percentage of tariffs must not exceed this positive figure;

(2) the figure of the annual growth rate of the consumer price index in Taiwan minus the set constant is negative, the decreased percentage of tariffs must be at least the absolute value of this negative figure, and the tariffs subsequently charged must not be higher than the tariff originally charged; and

(3) the figure of the annual growth rate of the consumer price index in Taiwan minus the set constant equals zero, no increase in tariffs is allowed to be made by any Type I service provider.

In October 2000, the DGT announced that, from the date of the announcement, the set constant to be applied for all tariff adjustments, except tariffs for Chunghwa Telecom's fixed-line local telephone services, will be equal to the annual growth rate of the consumer price index in Taiwan. Accordingly, for the time being, the adjustment as calculated in (3) above would be equal to zero and thus no increase in tariffs by Type I services providers will be allowed, except for increases in tariffs for fixed-line local telephone services.

Type II service providers are required to establish their own tariff schemes, and to notify the DGT and the public upon adoption and upon any adjustments.

Accounting Separation Systems

Under the ROC Telecommunications Act, a Type I service provider, including one who concurrently offers Type II services, is required to calculate the profits and losses for its different services. Cross-subsidization among services which will impede fair competition is prohibited.

Interconnection

The ROC Telecommunications Act requires all Type I service providers to allow other Type I service providers access to their networks. It further requires Type I service providers, within three months after an interconnection request by another service provider, to reach an agreement on relevant terms for the interconnection. Pricing of dominant Type I service providers must be based on cost. If the parties fail to reach an agreement within three months, the DGT will arbitrate and determine the interconnection terms for the parties.

Spectrum Allocation

The MOTC allocates all telecommunications related frequencies primarily according to the standards set by the International Telecommunications Union. The 900 MHz and 1800 MHz frequency bands have been allocated for GSM applications. A total of 40 MHz spectrum around the 800 MHz frequency band and a total of 130 MHz spectrum around the 2000 MHz frequency band 2000 MHz have been allocated for 3G cellular applications.

Frequency allocation for fixed wireless platforms, such as wireless local loop and local multipoint distribution services, has already been set. Of the spectrum made available for these services, only some bands are completely clear and there is partial usage in all other bands. The cost of frequency usage will be based on quantity.

Universal Service

As a result of the liberalization of the Taiwan telecommunications industry, a Type I service provider may be required by the MOTC, under the Telecommunications Act, to provide universal telecommunications services in domestic areas. Service providers designated by the MOTC will be required to contribute an amount to a universal service fund based on the amount of their annual revenues. This fund will be used to compensate the losses and management fees incurred by the relevant Type I service provider in providing the universal services. The details of these universal telecommunications services and sharing of necessary expenses for providing universal services have been determined by the DGT.

Number Portability

The MOTC requires certain Type I service providers to enable customers to keep their telephone numbers when switching to another service provider. Although this number portability requirement currently applies only to local and toll free fixed-line telephone numbers, this requirement is expected to apply to other wireless telephone numbers in early 2005.

Foreign Ownership Limitations

Under the ROC Telecommunications Act, direct foreign ownership in Type I service providers may not exceed 49%, and combined direct and indirect foreign ownership in Type I service providers may not exceed 60%. In addition, the chairman of a Type I service provider must be an ROC citizen.

So-called "indirect" foreign ownership occurs when a foreign person owns a beneficial interest in an ROC company that owns our Shares. The percentage of indirect foreign ownership of our Shares in these cases is based on the foreign person's proportionate equity interest in the ROC company. If foreign ownership of our Shares exceeds these limits, the MOTC will order us to take corrective measures within a given time frame. If we fail to do so, the MOTC may impose a fine on us of not less than NT$0.5 million (approximately US$15,000) or more than NT$2.5 million (approximately US$75,000). The MOTC will also establish another time frame within which we must take these corrective measures. If we fail again to effect corrective measures, the MOTC may revoke our licenses to operate our business.

As of December 31, 2002, 17.21% of our outstanding Shares were directly owned by foreign shareholders.

World Trade Organization and Regulatory Outlook

After the entry of Taiwan into the World Trade Organization, the ROC government has committed to further open the fixed-line telecommunications market in Taiwan to foreign participation and to transform the DGT into a fully regulatory authority independent from the MOTC.

MANAGEMENT

Directors and Supervisors

Under the ROC Company Law, a person may serve as our director or supervisor in his or her personal capacity or as the representative of another legal entity. A legal entity may be elected as a director or supervisor, in which case it must designate a natural person to act as its legal representative. Alternatively, a legal entity may designate its representative to be elected as our director or supervisor on its behalf. If several representatives are designated by the same legal entity, any or all of them may be elected. A director or supervisor who serves as the representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement of director or supervisor may serve the remainder of the term of office of the replaced director or supervisor. Currently, all but one of our directors and supervisors are representatives of legal entities that own our Shares.

The following table sets forth certain information regarding our directors and supervisors as of February 1, 2003:

Name	Age	Position
Douglas Tong Hsu(1)(8)	61	Chairman and chief executive officer
Laurence M. Yang(1)(8)	66	Vice Chairman
Champion Lee(1)	55	Director
P.Y. Lee	74	Director
Peter Hsu(1)(8)	56	Director
Jordan Roderick(2)	45	Director
Vicky Oxley(2)	48	Director
Tze-Kaing Yang(3)	48	Director
Maria Lu(4)	52	Director
Denis Koh(5)	41	Supervisor
Eli Hong(6)	57	Supervisor
Jong C. Wang(7)	57	Supervisor

(1) Representative of Yuan Ding Investment Co. Ltd., a Far Eastern Group company.

(2) Representative of Taiwan Wireless Investments, Inc., an affiliate of AT&T Wireless.

(3) Representative of China Development Industrial Bank.

(4) Representative of Chiao Tung Bank Co., Ltd.

(5) Representative of CHD Investments Holdings, Inc., an affiliate of AT&T Wireless.

(6) Representative of Far Eastern International Leasing Corp., a Far Eastern Group company.

(7) Representative of Yu-Li Investment Co., Ltd., a Far Eastern Group company.

(8) Mr. Douglas Hsu is the brother of Mr. Peter Hsu. Mr. Laurence Yang is the brother-in-law of Mr. Douglas Hsu and Mr. Peter Hsu.

Douglas Tong Hsu has served as our chairman and chief executive officer since we were founded in April 1997. He is also the chairman of Far Eastern Textile Ltd. Mr. Hsu holds a master's degree in economics from Columbia University and an honorary Ph.D degree in management from National Chiao Tung University.

Laurence M. Yang has served as our vice chairman since we were founded in April 1997. He is also the vice chairman of Far Eastern Textile. Mr. Yang holds a bachelor's degree in chemistry from National Taiwan University.

Champion Lee has served as a director since we were founded in April 1997. He is also a senior vice president and the chief financial officer of Far Eastern Textile. Mr. Lee holds a master's degree in business administration from Texas A&I University.

P.Y. Lee served as a director representing Ding Yuan International Investment Co., Ltd., a Far Eastern Group Company, from April 1997 to May 2001 and has served as a director in his individual capacity since May 2001. He once served as the director general of the DGT. Mr. Lee holds a bachelor's degree in electrical engineering from National Taiwan University.

Peter Hsu has served as a director since our incorporation in April 1997. He is also a vice president of central procurement in Far Eastern Textile Ltd. Mr. Hsu holds a master's degree in operations research from Stanford University.

Jordan Roderick has served as a director since February 2000. He is also the president of international affairs of AT&T Wireless. Mr. Roderick holds a master's degree in business administration from Dartmouth College.

Vicky Oxley has served as a director since October 2002. She is also a vice president of operations international at AT&T Wireless. Ms. Oxley holds a bachelor's degree in French (major) and Spanish (minor) from Portland State University, and she spent time in France at the L'Universite de Poitiers during certain periods of the program.

Tze-Kaing Yang has served as a director since January 2003. He is also the president of China Development Industrial Bank. Mr. Yang holds a Ph.D degree from National Cheng Chi University in Taiwan and MBA degree from University of Illinois, Urbana-Champaign in the United States.

Maria Lu has served as a director since March 2002. She is also a senior vice president and general manager of investment department of Chiao Tung Bank Co., Ltd. Ms. Lu holds a master's degree in public finance from National Cheng Chi University in Taiwan.

Denis Koh has served as a supervisor since October 2002. He is also a director of operations international at AT&T Wireless. Mr. Koh holds a MBA degree and a master's degree in accounting from Washington State University.

Eli Hong has served as a supervisor since December 2000. He is also the president of Far Eastern International Bank. Mr. Hong holds a bachelor's degree in economics from National Chung Hsing University in Taiwan.

Jong C. Wang has served as a supervisor since April 2000. He is also a professor of electrical engineering of Yuan Ze University. Mr. Wang holds a Ph.D degree in electrical engineering from the University of Pittsburgh.

The business address of all of our directors and supervisors is our registered office for purposes of the ROC Company Law, located at Taipei Metro Tower, 207 Tun Hwa South Road, Section 2, Taipei, Taiwan, ROC.

Executive Officers

The following table sets forth certain information regarding our executive officers as of February 1, 2003.

Name	Age	Position
Jan Nilsson.	50	President
Y.C. Chang	49	Chief information officer and division vice president of information technology
Yvonne Li	41	Chief financial officer and division vice president of finance and administration
Jay Shy	48	Division vice president of network management and operations
David Clarke	58	Division vice president of network and product technology
Philby Chen	41	Division vice president of sales and services

Jan Nilsson has served as our president since September 2002. Prior to Far EasTone, he spent eight years in Asia Pacific, managing several international telecommunication companies in this region, and a number of local wireless operators where key international telecommunications companies have direct shareholdings. Mr. Nilsson's previous experience also included telecommunication management in European countries such as Sweden, Switzerland and Germany. Mr. Nilsson holds a master's degree in industrial and management engineering.

Y.C. Chang has served as the division vice president of information technology since January 1999 and also as our chief information officer since May 2001. Prior to joining us, he served as the general manager of finance in Yang Ming Marine Transportation Corp. Mr. Chang holds a Ph.D in international business management from Chinese Culture University as well as a master's degree in civil engineering and a bachelor's degree in transportation and communication from National Cheng-Kung University.

Yvonne Li has served as our chief financial officer and the division vice president of finance and administration since September 2001. Prior to joining us, she spent 13 years in the banking industry, including 9 years with Citibank and 4 years with Standard Chartered Bank. She has extensive financial and operational management experiences on the consumer sectors and corporate sectors. She was also responsible for Citibank's accounting policy and compliance in North Asia region, covering Taiwan, Hong Kong, Korea, Philippine & Guam. Ms. Li holds a master's degree in accounting from University of Illinois at Urbana Champaign. She is a U.S. certified public accountant.

Jay Shy has served as the division vice president of network management and operations since May 2002. He previously served as a director of engineering and operations in the central region since August 1999. From 1997 to 1999, he served in various capacities at DBTEL, Inc., including as a director of the research and development, as well as the sales and marketing departments. Mr. Shy worked for the Simens and Honeywell during 1989 to 1997. Mr. Shy holds a bachelor's degree in computer science from Feng Chia University.

David Clarke is the division vice president of network and product technology. Prior to joining us, Mr. Clarke was a senior vice president of the technology group at TransAsia Telecommunications. His international career began in 1995 in Paris, where he was the director of operations for SFR, responsible for internalizing the operation and maintenance function for the country's eight regions. Mr. Clarke holds a bachelor's degree in geology from Phillips University, Enid, Oklahoma.

Philby Chen is currently the division vice president of sales and services, and is responsible for both enterprise and general consumer sales, sales operations, bill payments, and customer care functions. Philby is an U.S. certified public accountant with a degree in accounting. Ms. Chen graduated from Northern Arizona University. Prior to joining Far EasTone, Ms. Chen worked for Diwan, Ernst & Young as head of the professional development department and served as the chief financial officer for Taiwan Connection.

The business address of all our executive officers is our registered office for purposes of the ROC Company Law, located at Taipei Metro Tower, 207 Tun Hwa South Road, Section 2, Taipei, Taiwan, ROC.

Compensation of Directors, Supervisors and Executive Officers

Our articles of incorporation provide that one percent of our total net income, less prior years' losses, outstanding taxes and required legal reserve, will be allocated to our directors and supervisors as remuneration. See "Description of Our Share Capital — Dividends and Distributions."

Like other non-sales employees, executive officers participate in our performance incentive plan and retirement plan. See "Business — Employees." We have no outstanding service contracts with any of our directors, supervisors or executive officers that provide them with any benefits when they are no longer associated with us.

Board Practices

Our articles of incorporation require us to have nine directors. Members of our board of directors are elected by our shareholders. Our directors serve three-year terms, and the term of the current directors will expire on April 20, 2003. Our directors' powers include making of business plans, review and examination of important rules, appointment and dismissal of officers, determination of the establishment, change or revocation of any domestic or foreign branch offices, and review and examination of budget and financial reports. The chairman of the board of directors, who is elected from among the directors, presides at all board meetings and has the authority to act as our representative.

Our articles of incorporation require us to have three supervisors. In accordance with the ROC Company Law, our supervisors are elected by our shareholders and may not concurrently serve as our directors, executive officers or other staff members. The term of office for our supervisors is three years, and the term of the current supervisors will expire on April 30, 2003. Supervisors' duties and powers include investigation of our financial condition, inspection of corporate records, verification of statements by the board of directors, calling of and giving reports at shareholders' meetings, representation of us in negotiations with our directors and notification, when appropriate, to the board of directors to cease acting in contravention of applicable law or regulations or our articles of incorporation, or beyond our scope of business. Our articles of incorporation require the aggregate number of our common shares owned by all supervisors to be at least 0.5% of the total number of our common shares issued.

The ROC Company Law provides for cumulative voting for the election of directors and supervisors. Under the ROC Company Law, a person may serve as our director or supervisor in his or her personal capacity or as the representative of a legal entity that owns our common shares. A director or supervisor who serves as the representative of a legal entity may be removed or replaced at any time at the discretion of that legal entity, and the replacement director or supervisor may serve the remainder of the term of office of the replaced director or supervisor. Currently, all but one of our directors and supervisors serve as representatives of legal entities that own our common shares. Information on the ownership of our common shares by legal entities represented on our board of directors is available under "Principal Shareholders."

RELATED PARTY TRANSACTIONS

We from time to time have engaged in a variety of transactions with our affiliates. We conduct transactions with our affiliates on terms substantially as favorable to us as would be obtainable at the time in a comparable arm's-length transaction with non-affiliate.

Property Leases with the Far Eastern Group

We currently lease land and buildings from Far Eastern Textile and its affiliates. In 2000, 2001 and the nine months ended September 30, 2002, we paid these affiliated companies aggregate rental expenses equal to NT$287.0 million, NT$242.8 million (US$6.9 million) and NT$192.4 million (US$5.5 million), respectively.

We leased our principal executive offices from Far Eastern International Leasing Corp. Pursuant to terms of the lease, the parties may renew the lease subject to terms to be mutually agreed, and if the parties fail to reach an agreement to renew the lease, we will have the obligation to purchase the building for NT$1,569.5 million when the lease expires. The lease expired on January 17, 2003. We are in the process of negotiating with Far Eastern International Leasing Corp. on this matter.

Project Development with NCIC

On May 1, 1999, we entered into a Project Development Agreement with NCIC, a consortium of several ROC and international companies in which Far Eastern Textile has an ownership interest, to establish the mechanism for cooperation between the parties in prospective construction projects. We completed the construction of our fiber-optic backbone in 2001. Since the completion of this project, the ROC government has required us on several occasions to move certain sections of the backbone underground. To fulfill these requirements, we constructed subterranean conduits in selected locations jointly with NCIC. These joint projects have all been completed. As contemplated by the Project Development Agreement, NCIC has reimbursed us for its share of the cost of constructing such subterranean conduits. We have agreed to work with NCIC to evaluate the various projects that we may in the future undertake together and to determine the financial responsibilities of the parties on a case-by-case basis.

PRINCIPAL SHAREHOLDERS

The following table sets forth the number and percentage of our outstanding Shares beneficially owned by major shareholders as of December 31, 2002.

Name of shareholder or group	Shares Beneficially Owned[1] as of December 31, 2002 Number	Percentage
Far Eastern Group[2]:		
Yuan Ding Investment Co., Ltd.	1,153,919,883	50.04%
Asia Cement Corp.	44,178,840	1.92%
Far Eastern International Leasing Corp.	25,629,933	1.11%
Oriental Securities Corporation	9,648,980	0.42%
Far Eastern Department Store Co, Ltd.	5,119,120	0.22%
Ding Yuan International Investment Co., Ltd.	1,569,115	0.07%
Yu-Li Investment Co., Ltd.	1,775	0.00%
	1,240,067,646	53.78%
AT&T Wireless[3]:		
Taiwan Wireless Investments, Inc.	239,751,594	10.40%
AT&T Wireless Services of Taiwan, Inc.	237,291,666	10.29%
	477,043,260	20.69%
Cheung Hing Development:		
Cheung Hing Development Ltd.[4]	157,999,699	6.85%
CHD Investments Holdings, Inc.	1,647	0.00%
	158,001,346	6.85%
China Development Industrial Bank	153,557,146	6.66%
Chiao Tung Bank Co., Ltd.	59,645,961	2.59%

(1) Beneficial ownership includes voting and investment power with respect to Shares. Unless otherwise indicated, the shareholders named in the table have sole voting and sole investment control with respect to all Shares beneficially owned.

(2) As of December 31, 2002, Yuan Ding Investment Co., Ltd. and Ding Yuan International Investment Co., Ltd. were wholly-owned subsidiaries of Far Eastern Textile, the flagship company of the Far Eastern Group. Asia Cement Corp., Far Eastern International Leasing Corp., Oriental Securities Corporation, Far Eastern Department Co., Ltd. and Yu-Li Investment Co., Ltd. are other Far Eastern Group companies that are controlled by the Far Eastern Group.

(3) As of December 31, 2002, AT&T Wireless beneficially owned 100% of Taiwan Wireless Investments, Inc., an ROC company, and 100% of AT&T Wireless Services of Taiwan, Inc., a British Virgin Islands company.

(4) As of December 31, 2002, AT&T Wireless beneficially owned 30% of Cheung Hing Development Ltd., a British Virgin Islands company. AT&T Wireless presently appoints a majority of the board of directors of Cheung Hing Development Ltd.

As of December 31, 2002, none of our Shares were held by holders of record with addresses in the United States. Since certain of our Shares are held by brokers or other nominees, the lack of record holders in the United States may not be representative of where our beneficial holders reside.

DESCRIPTION OF OUR SHARE CAPITAL

The following statements summarize the material elements of our capital structure and the more important rights and privileges of shareholders conferred by ROC law and our articles of incorporation.

General

We were incorporated on April 11, 1997 as a company limited by Shares under the ROC Company Law. Our authorized share capital is NT$33,600,000,000 divided into 3,360,000,000 common shares, with a par value of NT$10 per Share, among which 2,305,800,000 shares have been duly issued and paid up. Our articles of incorporation only authorize Shares and do not authorize any preferred Shares. All of our Shares are in registered form. Our share registrar is Oriental Securities Corporation.

Dividends and Distributions

Except in limited circumstances, we are not permitted to distribute dividends or make other distributions to shareholders in any year in which we do not record net income. The ROC Company Law also requires that 10% of our annual net income, less prior years' losses and outstanding taxes, if any, be set aside as a legal reserve until the accumulated legal reserve equals our paid-in capital.

At each shareholders' ordinary meeting, our board of directors submits to shareholders for their approval our financial statements for the preceding year and any proposal for the distribution of a dividend or the making of any other distribution to shareholders from our net income for the preceding year. Dividends are paid to shareholders in proportion to the number of Shares they hold as listed on the shareholders' register on the date fixed for distribution of dividends. These annual dividends may be distributed either in cash or in the form of our Shares. The cash dividends for each year must not be less than 10% of the total dividends distributed that year. However, the percentage of cash dividends may be increased or decreased by a resolution adopted by shareholders.

Our articles of incorporation provide that the remaining portion of our net income, less prior years' losses, outstanding taxes, the legal reserve and any special reserve, will be distributed as follows:

(1) 2% is distributable to our employees as a bonus;

(2) 1% is set aside as remuneration to our directors and supervisors; and

(3) the balance, together with any accumulated undistributed earnings from the prior year, is distributed to shareholders or retained by us for use in our business in accordance with resolutions adopted at the shareholders' ordinary meeting.

In addition to permitting dividends to be paid out of our net income, the ROC Company Law permits us to make distributions to our shareholders in the form of additional Shares from reserves, including the legal reserve, any special reserve and any capital surplus reserve. The recapitalized portion payable from our legal reserve is limited to 50% of the total accumulated legal reserve, and such a recapitalization can only be effected when the accumulated legal reserve amounts to 50% of our paid-in capital. The recapitalized portion payable from our capital surplus reserve is limited to 10% of the total par value of our Shares.

For information as to ROC taxes on dividends and distributions, see "ROC Taxation."

Preemptive Rights

Under the ROC Company Law, when we issue new Shares for cash, existing shareholders who are listed on the shareholders' register as of the record date have preemptive rights to subscribe for the new issue in proportion to their existing shareholdings. In addition, our employees, whether or not they are existing shareholders, have rights to subscribe for 10% to 15% of the new issue. Under the ROC Securities and Exchange Law, when we issue new Shares for cash, at least 10% of the issue must also be offered to the public. This percentage can be increased by a resolution passed at a shareholders' meeting, which would diminish the number of new Shares subject to the preemptive rights of existing shareholders. The preemptive rights will also be exempted if our shareholders resolve to issue new Shares for cash through a private placement.

Meetings of Shareholders

We are required by the ROC Company Law and our articles of incorporation to hold an ordinary meeting of our shareholders within six months following the end of each fiscal year. These meetings are generally held in Taipei, Taiwan. Special shareholders' meetings may be convened by resolution of the board of directors or by the board of directors upon the written request of any shareholder or shareholders who have held 3% or more of our outstanding Shares for more than one year. Special shareholders' meetings may also be convened by a supervisor. Notice in writing of ordinary meetings of shareholders, stating the place, time and agenda must be sent to each shareholder at least thirty days, in the case of ordinary meetings, and twenty days, in the case of extraordinary meetings, before the date set for each meeting. Except in certain circumstances described below, a majority of the holders of all issued and outstanding Shares present at a shareholders' meeting constitutes a quorum for meetings of shareholders.

Voting Rights

Our articles of incorporation provide that a holder of our Shares has one vote for each Share. The ROC Company Law provides for cumulative voting for the election of directors and supervisors if our articles of incorporation do not provide otherwise.

In general, a resolution can be adopted by the holders of at least a majority of the Shares represented at a shareholders' meeting at which the holders of a majority of all issued and outstanding Shares are present. Under the ROC Company Law, the approval by at least a majority of the Shares represented at a shareholders' meeting in which a quorum of at least two-thirds of all issued and outstanding Shares are represented is required for major corporate actions, including:

- amendments to our articles of incorporation;
- transfers of the whole or substantial part of our business or assets;
- entry into, amendment or termination of any contract or lease of our business, in whole or in part, or for entrusted business, or for regular joint operation with others;
- taking over of the whole of the business or assets of any other company which would have a significant impact on our operations; or
- distributions of any share dividend.
- Dissolution or amalgamation.

Alternatively, the ROC Company Law provides that in the case of a public company, such as us, a resolution may be adopted by the holders of at least two-thirds of the Shares represented at a meeting of shareholders at which holders of at least a majority of all issued and outstanding Shares are present.

A shareholder may be represented at an ordinary or special meeting by proxy if a valid proxy form is delivered to us before the commencement of the ordinary or special shareholders' meeting. Except for trust enterprises, where one person is appointed as proxy by two or more shareholders who together hold more than 3% of our total issued Shares, the votes of those shareholders in excess of 3% of the outstanding Shares shall not be counted.

Register of Shareholders and Record Dates

Our share registrar, Oriental Securities Corporation, maintains our register of shareholders at its offices in Taipei, Taiwan, and enters transfers of Shares in our register upon presentation of, among other documents, certificates representing the Shares transferred. Under the ROC Company Law and our articles of incorporation, we may, by giving advance public notice, set a record date and close the register of shareholders for a specified period in order for us to determine the shareholders or pledgees that are entitled to rights pertaining to the Shares. No transfer of share certificates is permitted during the specified period. The specified period required is as follows:

- ordinary shareholders' meeting — 60 days;
- special shareholders' meeting — 30 days; and
- relevant record date for distribution of dividends, bonuses or other benefits — five days.

Transfer of Shares

The transfer of Shares in registered form is effected by endorsing and delivering the related share certificates. However, in order to assert shareholders' rights against us, the transferee's name and address must appear in our register of shareholders. Shareholders are required to file their respective specimen seals, also known as chops, with us. Chops are official stamps widely used in Taiwan by individuals and other entities to authenticate the execution of official and commercial documents.

Acquisition of Our Own Shares

Under the ROC Company Law, with minor exceptions, we cannot acquire our own Shares. We must sell any Shares we acquire at the current market price within six months after acquiring them. Our subsidiary is not allowed to acquire our Shares, either.

In addition, under the ROC Securities and Exchange Law, a company whose Shares are listed on the Taiwan Stock Exchange or traded on the GreTai Securities Market may, pursuant to a board resolution adopted by a majority consent at a meeting attended by more than two-thirds of the directors and pursuant to the procedures prescribed by the ROC Securities and Futures Commission, purchase its Shares for the following purposes on the Taiwan Stock Exchange, the GreTai Securities Market or by a tender offer:

(1) for transfers of Shares to its employees;

(2) for conversion into Shares from bonds with warrants, preferred Shares with warrants, convertible bonds, convertible preferred Shares or certificates of warrants issued by the company; and

(3) for maintaining its credit and its shareholders' equity, provided that the Shares so purchased are later cancelled.

The total Shares purchased by us must not exceed 10% of our total issued and outstanding Shares. In addition, the total amount for purchase of the Shares must not exceed the aggregate amount of our retained earnings, the premium from share issuances and the realized portion of the capital reserve.

Any Shares we purchase under item (1) or (2) above must be transferred to the intended transferees within three years after the purchase, or else they will be cancelled. For any Shares to be cancelled under item (3) above, we must complete amendment registration for the cancellation within six months after the purchase.

The Shares purchased by us must not be pledged or hypothecated. In addition, we may not exercise any shareholders' rights attaching to these Shares. Our affiliates (as defined in Article 369-1 of the ROC Company Law), directors, supervisors, managers and their respective spouses and minor children and/or nominees are prohibited from selling Shares held by them during the purchase period of such Shares reported by us to the ROC Securities and Futures Commission.

Liquidation Rights

In the event of our liquidation, the assets remaining after payment of all debts, liquidation expenses and taxes will be distributed pro rata to the shareholders in accordance with the relevant provisions of the ROC Company Law and our articles of incorporation.

Substantial Shareholders and Transfer Restrictions

The ROC Securities and Exchange Law (i) requires each director, supervisor, manager or shareholder (together with its spouse, minor children and nominee) holding more than 10% of the shares of a public company to report on a monthly basis, any changes in that person's shareholding to the company; and (ii) limits the number of shares that can be sold or transferred on the Taiwan Stock Exchange or on the GreTai Securities Market by that person per day. The number of Shares that can be sold or transferred on the Taiwan Stock Exchange and the GreTai Securities Market by any such person per day is either (i) for a company with no more than 30 million outstanding Shares, 0.2% of the outstanding Shares of the company; for a company with more than 30 million outstanding Shares, the aggregate amount of 0.2% of the 30 million Shares plus 0.1% of the outstanding shares exceeding 30 million Shares; or (ii) 5% of the average trading volume (number of Shares) on the Taiwan Stock Exchange or on the GreTai Securities Market for the 10 consecutive trading days preceding the reporting day on which day the director, supervisor, manager or a shareholder (together with its spouse, minor children and nominee) holding more than 10% of the shares report the intended share transfer to the ROC Securities and Future Commission.

Changes to Shareholder Rights

The ROC Company Law provides for the basic rights of holders of Shares in an ROC company. These rights cannot be altered by the ROC company's articles of incorporation. The articles of incorporation may, however, provide for rights in addition to the basic rights conferred by the ROC Company Law. Any proposed change to these additional rights requires an amendment to the company's articles of incorporation, which must be approved by shareholders.

The information presented in this section has been extracted from various government and other publicly available publications, and we take responsibility for correctly reproducing such information only. References to the ROC Securities and Futures Commission in this section include both the ROC Securities and Futures Commission and the ROC Securities and Exchange Commission, its predecessor.

The Taiwan Stock Exchange

In 1961, the ROC Securities and Futures Commission (the "**SFC**") established the Taiwan Stock Exchange (the "**TSE**") to provide a marketplace for securities trading. The TSE is a corporation owned by government-controlled and private banks and enterprises. The TSE is independent from entities transacting business through it, each of which pays a user's fee. Generally, all transactions in listed securities by brokers, traders and integrated securities firms must be made through the TSE.

The TSE commenced operations in 1962. During the early 1980s, the SFC actively encouraged new listing on the TSE and the number of listed companies grew from 119 in 1983 to 638 as of December 31, 2002. As of December 31, 2002, the market capitalization of companies listed on the TSE was approximately NT$9,091.5 billion.

Historically, Taiwan companies have listed only Shares and non-convertible bonds on the TSE. However, the SFC has encouraged companies to list other types of securities. In 1988, the SFC permitted the issuance of Taiwan's first convertible bonds. Since 1989, there have been offerings of domestic convertible bonds and convertible preferred Shares. In addition, beneficiary units evidencing beneficiary interests in closed-end investment funds and bonds issued by the Asian Development Bank and other foreign banks are also listed on the TSE or traded on the GreTai Securities Market of Taiwan (the "**GTSM**"). The SFC also has regulations which permit foreign issuers to list their equity securities directly on the TSE or through the use of depositary receipts. To date, three foreign issuers have listed their equity securities on the TSE through the use of depositary receipts in accordance with these regulations.

The TSE requirements for listing are based on the following company attributes:

- the number and distribution of shareholders;
- length of time in business;
- amount of capital; and
- profitability.

However, special listing criteria apply to technology companies and key businesses engaging in national economic development.

Listing and Trading on the GTSM

The GTSM has established specific requirements for trading securities on the GTSM based on the history of a company, the number and distribution of a company's shareholders, amount of capital, profitability and capital structure. For a company to have its shares traded on the GTSM, it must have been in existence for at least two full fiscal years, have a minimum paid-in capital of NT$50 million and at least 300 registered shareholders each holding between 1,000 to 50,000 shares. Such 300 registered shareholders must together held either 10% of the outstanding shares or five million shares. The company must be recommended in writing by at least two securities firms. The pre-tax net income and operating income of the company must have (i) more than 4% of the paid-in capital and no accumulated loss on final account in the most recent fiscal year, (ii) been not less than 2% of paid-in capital for each of the previous two fiscal years or (iii) averaged not less than 2% of paid-in capital for the previous two fiscal years with the profitability of the last fiscal year exceeding that of the preceding fiscal year. The directors and supervisors and the shareholders holding 10% or more of the outstanding shares of the company must deposit a certain portion of their shares with an institution designated by the GTSM and may not sell the deposited shares for a two-year period. A company may be exempt from the above two-year existence and profitability requirements, provided that the competent authority governing the business of such company issues an opinion confirming that the company is a technology-based enterprise and its products have been successfully developed and have marketability.

Price Limits

The GTSM has placed limits on block trading and on the range of daily price movements. Transactions that involve 500 trading lots or more must be registered and executed pursuant to certain GTSM guidelines. Fluctuations in the price of stock traded on the GTSM are currently subject to a restriction of 7% above and below the previous day closing price (or reference price set by the GTSM if the previous day closing price is not available because of lack of trading activity). However, these restrictions have been modified from time to time by the MOF based on market condition.

Regulation and Supervision

The SFC has extensive regulatory authority over public companies. Public companies are generally required to obtain approval from, or register with, the SFC for all securities offerings. The SFC requires periodic reporting of financial and operating information by all public companies. In addition, the SFC establishes standards for financial reporting and carries out licensing and supervision of participants in the Taiwan securities market.

The SFC has responsibility for implementing the Securities and Exchange Law and for overall administration of governmental policies in the Taiwan securities market. It has extensive regulatory authority over the offering, issuing and trading of securities. In addition, the Securities and Exchange Law specifically empowers the SFC to promulgate necessary rules. The Securities and Exchange Law prohibits market manipulation. For example, it permits an issuer to recover short swing trading profits made through purchases and sales within six months by directors, managerial personnel, supervisors and shareholders who (together with their spouses, minor children and nominees) hold 10% or more of the Shares of the issuer together with the spouses, minor children and nominees of these parties. The Securities and Exchange Law prohibits trading by "insiders" based on non-public information that materially affects share price movement. "Insiders" include:

- directors, supervisors, manager and shareholders who (together with their spouses, minor children and nominees) hold 10% or more of the issuing company's Shares (together with the spouses, minor children and nominees of these parties);

- any person who has learned material, non-public information due to an occupational or controlling relationship with the issuing company; and

- any person who has learned material, non-public information from any of the above.

Sanctions include imprisonment. In addition, damages may be awarded to persons injured by the transaction.

The Securities and Exchange Law also imposes criminal liability on certified public accountants and lawyers who make false certifications in their examination and audit of an issuer's contracts, reports and other documents related to securities transactions. The SFC regulations require that financial reports of listed companies be audited by accounting firms consisting of at least three certified public accountants and be signed by at least two certified public accountants.

In addition, the Securities and Exchange Law provides for civil liability for material misstatements or omissions made by issuers, and regulation of tender offers.

The SFC does not have criminal or civil enforcement powers under the Securities and Exchange Law. Criminal actions may be pursued only by the government prosecutors. Civil actions may only be brought by plaintiffs who assert that they have suffered damage. The SFC is directly empowered to curb abuses and violations of applicable laws and regulations only through administrative measures such as the issue of warnings, temporary suspension of operation, imposition of administrative fines and revocation of licenses.

In addition to providing a market for securities trading, the GTSM also reviews applications by ROC issuers to trade on the GTSM. If issuers of GTSM traded securities violate laws and regulations or encounter significant difficulties, the GTSM may, with the approval of the SFC, cancel the securities of these issuers to be traded on GTSM.

FOREIGN INVESTMENT AND EXCHANGE CONTROLS IN THE ROC

Foreign Investment

Historically, foreign investment in the ROC securities markets has been restricted. Since 1983, the ROC government has periodically enacted legislation and adopted regulations to permit foreign investment in the ROC securities market. Currently, non-ROC persons may invest in ROC securities through the following vehicles.

Depositary Receipts

In April 1992, the SFC enacted regulations permitting ROC companies with securities listed on TSE, with the prior approval of the SFC, to sponsor the issue and sale to foreign investors of depositary receipts. Depositary receipts represent deposited shares of ROC companies. In December 1994, the Ministry of Finance allowed companies whose shares are traded on the GTSM (formerly known as Over-The-Counter Securities Exchange) or listed on the TSE, upon approval of the SFC, to sponsor the issue and sale of depositary receipts. The approval will be granted (i) if the underlying shares are newly issued shares, for a fixed number of depositary receipts (which, may be decreased by the board of directors of the issuing company if such decrease has been authorized at the relevant shareholders' meeting) or (ii) if the underlying shares are not newly issued shares, for a maximum number of depositary receipts and, with limited exceptions (as described below), may not be increased without additional approvals by SFC.

A holder of depositary receipts may from three months (in the case that the underlying shares are newly issued shares) or immediately (in the case that the underlying shares are not newly issued shares) after the initial issue date for the depositary receipts, request the foreign depositary issuing the depositary receipts to cause the underlying securities to be sold in the ROC and to distribute the proceeds of the sale to the depositary receipt holder or to withdraw from the depositary receipt facility shares represented by depositary receipts and transfer the shares to the depositary receipt holder (other than citizens of the PRC and entities organized under the laws of the PRC).

Under existing laws and regulations relating to foreign exchange control, a depositary or a holder of depositary receipts may, without obtaining further approvals from the Central Bank of China or any other governmental authority or agency of the ROC, convert NT dollars into other currencies, including US dollars, in respect of the following: proceeds of the sale of shares represented by depositary receipts, proceeds of the sale of shares received as stock dividends and deposited into the depositary receipt facility and any cash dividends or cash distributions received. In addition, a depositary, also without any of these approvals, may convert inward remittances of payments into NT dollars for purchases of underlying shares for deposit into the depositary receipt facility against the creation of additional depositary receipts. However, a depositary may be required to obtain foreign exchange approval from the Central Bank of China on a payment-by-payment basis for conversion from NT dollars into other currencies relating to the sale of subscription rights for new shares. Proceeds from the sale of any underlying shares by holders of depositary receipts withdrawn from the depositary receipt facility may be converted into other currencies without obtaining Central Bank of China approval. Proceeds from the sale of the underlying shares withdrawn from the depositary receipt facility may be used for reinvestment in the TSE or the GTSM subject to limitations and restrictions applicable to Qualified Foreign Institutional Investors or General Foreign Investors (as defined below in " — Other Foreign Investment").

Overseas Corporate Bonds

Since 1989, the SFC has approved a series of overseas bonds issued by ROC companies listed on the TSE in offerings outside the ROC. Under current ROC law, subject to SFC approval, such overseas corporate bonds can be (i) converted by bondholders, other than persons of the PRC, into shares of ROC companies or (ii) converted into depositary receipts issued by the same ROC company or by the issuing company of the exchange shares, in the case of exchangeable bonds. The relevant regulations also permit public issuing companies to issue corporate debt in offerings outside the ROC. Proceeds from the sale of the shares converted from overseas convertible bonds may be used for reinvestment in securities listed on the TSE or traded on the GTSM, subject to limitations and restrictions applicable to Qualified Foreign Institutional Investors or General Foreign Investors (as applicable).

Under current ROC law, a non-ROC converting bondholder, when exercising his conversion right to convert bonds into Shares, is required to appoint a local agent (with such qualifications as are set by the SFC) to open a securities trading account with a local brokerage firm, pay ROC taxes, remit funds, exercise shareholders' rights and perform such other matters as may be designated by such converting bondholder on behalf of and as agent for such converting bondholder. Also, the converting bondholder is also required to appoint a custodian bank to hold the securities and any cash proceeds in safekeeping to make confirmation to settle trades and to report all relevant information. In addition, such converting bondholder is required to appoint a tax guarantor for filing tax returns and making tax payments.

Unless otherwise limited by the Central Bank of China, an ROC company may, without obtaining further approvals from the Central Bank of China or any other government authority of the ROC, convert NT dollars to other non-ROC currencies, including US dollars, for making payments in respect of proceed of the redemption of the bonds or repayment of principal of and interest on the bonds. A non-ROC converting bondholder may, through its local agent and without obtaining prior approval from the Central Bank of China, convert into foreign currencies net proceeds realized from the sale of converted entitlement certificates, Shares or any stock dividends relating to such shares, or any cash dividend or other cash distribution in respect of such Shares, as well as inward remittance of subscription payments in respect of rights offerings. However, a converting bondholder must obtain prior approval from the Central Bank of China on a payment-by-payment basis for conversion from NT dollars into other currencies in respect of the proceeds from the sale of subscription rights for newly issued Shares.

Qualified Foreign Institutional Investors

On December 28, 1990 the Executive Yuan approved guidelines drafted by the SFC which, since January 1, 1991, allow direct investment in ROC securities listed on the TSE or other ROC securities approved by the SFC by certain eligible foreign institutional investors. Under current guidelines, eligible foreign institutional investors include:

(i) banks which hold securities assets of at least US$100 million and have experience in custody and management of securities and assets, and international finance or trust business;

(ii) insurance companies which hold securities assets of at least US$100 million;

(iii) fund management companies which manage assets of at least US$100 million;

(iv) offshore fund management companies which are more than 50% owned by an ROC securities investment trust enterprise provided that the funds to be invested do not come from (1) the ROC, (2) self-own fund of such offshore fund management companies or (3) the PRC;

(v) general securities firms which have a net worth of at least US$50 million;

(vi) offshore securities firms which are more than 50% owned by an ROC securities firm, or other offshore securities firms which are wholly-owned by such offshore securities firms;

(vii) offshore securities firms which are wholly-owned by an ROC securities firm, or other offshore securities firms which are more than 51% owned by such offshore securities firms;

(viii) foreign government-owned investment institutions provided that the funds completely come from the government;

(ix) pension funds;

(x) mutual funds, unit trusts or investment trusts which have assets of at least US$100 million;

(xi) trust companies which hold securities assets in trust of at least US$100 million;

(xii) academic or charitable institutions, according to this articles of incorporation may invest their funds, provided those investment as managed by a third-party manager; and

(xiii) other institutional investors which hold securities assets of at least US$200 million.

Eligible foreign institutional investors who wish to qualify as Qualified Foreign Institutional Investors need to apply for and receive an investment permit from the SFC. Any investment exceeding US$50 million must also be approved by the Central Bank of China. Such application with the SFC requires the submission of, among other documents, proof of eligibility, proof of appointment of a local agent and custodian, credentials of the local agent and custodian and a copy of the custodial contract. Foreign institutional investors who receive a permit (each a "Qualified Foreign Institutional Investor" may currently invest up to US$3 billion (with certain limited exceptions, the maximum amount of US$3 billion may be exceeded). A Qualified Foreign Institutional Investor may remit the full amount into the ROC within two years, after receiving the investment permit. Capital remitted to the ROC under these guidelines may be remitted out of the ROC at any time after the date such capital is remitted to the ROC. Capital remitted out of ROC may be returned to the ROC within the approved two-year period without the SFC approval, provided that the aggregate inward remittance of the returned capital after netting off all previous outward remittance does not exceed the total investment amount previously approved by the SFC and Central Bank of China (if applicable). Except for certain specified industries, such as telecommunications, investments in ROC-listed companies by Qualified Foreign Institutional Investors are not subject to individual or aggregate foreign ownership limits. Custodians for Qualified Foreign Institutional Investors are also required to submit to the Central Bank of China and the SFC a monthly report of trading activities and status of assets under custody and other matters within the two-year period of time. Capital gains and income on investments may be remitted out of the ROC at any time.

Other Foreign Investment

In addition to Qualified Foreign Institutional Investors, under existing ROC laws and regulations relating to foreign investment, certain individual and institutional foreign investors which meet certain qualifications set by the SFC ("**General Foreign Investors**") may invest in the shares of TSE-listed or GTSM traded companies or other ROC securities approved by the SFC up to a limit of US$50 million (in the case of institutional investors) and US$5 million (in the case of individual investors) after obtaining permission from the TSE or GTSM. General Foreign Investors are also subject to the foreign ownership limitations on certain specified industries as described in the preceding paragraph.

Foreign investors (other than Qualified Foreign Institutional Investors, General Foreign Investors, and investors investing in overseas convertible bonds and depositary receipts) who wish to make direct investments in the shares of ROC companies are required to submit a Foreign Investment Approval application to the Investment Commission of the ROC Ministry of Economic Affairs or other government authority. The Investment Commission or such other government authority reviews each Foreign Investment Approval application and approves or disapproves each application after consultation with other governmental agencies (such as the Central Bank of China and the SFC).

Under current law, any non-ROC person possessing a Foreign Investment Approval may remit capital for the approved investment and is entitled to repatriate annual net profits, interest and cash dividends attributable to such investment. Dividends attributable to such investment, investment capital and capital gains attributable to such investment may be repatriated after approvals of the Investment Commission or other authorities have been obtained.

In addition to the general restriction against direct investment by non-ROC persons in securities of ROC companies, non-ROC persons (except in certain limited cases) are currently prohibited from investing in certain industries in the ROC pursuant to a Negative List, as amended by the Executive Yuan. The prohibition on foreign investment in the prohibited industries specified in the Negative List is absolute in the absence of specific exemption of the Negative List. Pursuant to the Negative List, certain other industries are restricted so that non-ROC persons (except in certain limited cases) may invest in such industries only up to a specified level and with the specific approval of the relevant competent authority which is responsible for enforcing the relevant legislation which the Negative List is intended to implement.

Exchange Controls

Applicable ROC law and regulations, including the Foreign Exchange Control Statute, provide that all foreign exchange transactions must be executed by banks designated to handle such business, by the Ministry of Finance and by the Central Bank of China. Current regulations favor trade-related foreign exchange transactions and Foreign Investment Approval investments. Consequently, foreign currency earned from exports of merchandise and services may now be retained and used freely by exporters, and all foreign currency needed for the importation of merchandise and services may be purchased freely from the designed foreign exchange banks.

Trade aside, ROC companies and resident individuals may, without foreign exchange approval, remit outside the ROC foreign currency of up to US$50,000,000 (or its equivalent) and US$5,000,000 (or its equivalent) respectively in each calendar year. In addition, ROC companies and resident individuals may, without foreign exchange approval, remit into the ROC foreign currency of up to US$50,000,000 (or its equivalent) and US$5,000,000 (or its equivalent) respectively in each calendar year. Furthermore, any remittance of foreign currency into the ROC by an ROC company or resident individual in a year will be offset by the amount remitted out of the ROC by the company or individual (as applicable) within its annual quota and will not use up its annual inward remittance quota to the extent of such offset. The above limits apply to remittances involving a conversion of NT dollars to a foreign currency and vice versa. A requirement is also imposed on all enterprises to register medium- and long-term foreign debt with the Central Bank of China.

In addition, foreign persons, may, subject to certain requirements, but without foreign exchange approval of the Central Bank of China, remit outside and into the ROC foreign currencies of up to US$100,000 (or its equivalent) for each remittance. The above limit applies to remittances involving a conversion of NT dollars to a foreign currency and vice versa.

ROC TAXATION

Prospective investors should consult their own advisers concerning the tax consequences of an investment in our Bonds or our Shares:

ROC Taxation of Non-Residents

The following is a summary under present law of the principal ROC tax consequences of the ownership and disposition of our Bonds or Shares to a Non-Resident Individual or Non-Resident Entity that holds the Bonds or Shares (each a "**Non-ROC Holder**"). As used in the preceding sentence, a "Non-Resident Individual" is a foreign national individual who owns our Bonds or our Shares and is not physically present in the ROC for 183 days or more during any calendar year and a "Non-Resident Entity" is a corporation or a non-corporate body that owns the Bonds or Shares and is organized under the laws of a jurisdiction other than the ROC and has no fixed place of business or other permanent establishment in the ROC. Prospective purchasers of the Bonds should consult their own tax advisers concerning the tax consequences of owning the Bonds or Shares in the ROC and any other relevant taxing jurisdiction to which they are subject.

Interests on the Bonds

Payments of interest or premium, if any, on a Non-ROC Holder are subject to ROC withholding tax at a 20% rate. We have agreed to pay additional amounts in respect of such withholding tax on the payments of interest or premium, if any. See "Descriptions of the Bonds."

Dividends on the Shares

Dividends (whether in cash or shares) declared by us out of retained earnings and paid out to holders of our Shares are normally subject to ROC income tax collected by way of withholding at the time of distribution. The current rate of withholding for Non-ROC Holders is 20% of the amount of the distribution (in the case of cash dividends) or the par value of the shares (in the case of stock dividends). It is not clear whether distributions of our Shares declared by us out of capital reserves will be subject to ROC withholding tax. In accordance with the Income Tax Law of the ROC, a 10% retained earnings tax will be imposed on the company in respect of its after-tax earnings generated after January1, 1998 which are not distributed within the following year. The retained earnings tax so paid will further reduce the retained earnings available for future distribution. When the company declares dividends out of those retained earnings, a maximum amount of up to 10% of the declared dividends will be credited against the 20% withholding tax imposed on the Non-ROC Holder.

Capital Gains

Under current ROC law, gain realized upon the sale or other disposition of securities is exempt from ROC income tax. This exemption will apply to a sale or other disposition of our Bonds or our Shares.

ROC law currently provides no specific provisions regarding the ROC income tax consequences of a conversion of the Bonds into Shares. Without further clarification from the ROC tax authorities, it is impossible to conclude definitively that gain on the conversion of our Bonds into our Shares will not be deemed as taxable gains, additional interest income (subject to the 20% withholding tax) or otherwise subject to other ROC taxes. Under current ROC law, capital gains from sale of securities issued by ROC companies are exempt from income tax. As a result, any gains derived from transfers of our Bonds by Non-ROC Holders are not subject to ROC income tax.

Securities Transaction Tax

The ROC government imposes a securities transaction tax that will apply to sales of our Shares. The transaction tax, which is payable by the seller, is generally levied on sales of shares at the rate of 0.3% of the sales proceeds. Pursuant to the amended Statute of Upgrading Industries, which came into effect on February 1, 2002, no securities transaction tax will be imposed on the transfers of corporate bonds and financial debentures (including our Bonds) until December 31, 2009.

There is no ROC transfer, stamp, issue or registration tax imposed on the issuance of our Shares upon conversion of our Bonds. However, securities transaction tax, gift tax and/or income tax may be imposed in relation to the converting Bondholder's designation of any other person to be the holder of Shares upon conversion of the Bonds.

Subscription Rights

Distribution of statutory subscription rights for the Shares in compliance with the ROC Company Law are not subject to ROC tax. Proceeds derived from sales of statutory subscription rights evidenced by securities are currently exempted from income tax but are subject to securities transaction tax, currently at the rate of 0.3% of the gross amount received. Proceeds derived from sales of statutory subscription rights that are not evidenced by securities are subject to capital gains tax at the rate of (i) 25% of the gains realized for Non-Resident Entity, and (ii) 35% of the gains realized for Non-Resident Individual. Subject to compliance with ROC law, we have the sole discretion to determine whether statutory subscription rights are evidenced by securities or not.

Estate Taxation and Gift Tax

ROC estate tax is payable on any property within the ROC of a deceased Non-Resident Individual, and ROC gift tax is payable on any property within the ROC donated by a Non-Resident Individual. Estate tax is currently imposed at rates ranging from 2% of the first NT$600,000 to 50% of amounts in excess of NT$100,000,000. Gift tax is imposed at rates ranging from 4% of the first NT$600,000 donated to 50% of amounts donated in excess of NT$45,000,000. Under ROC estate and gift tax laws, our Bonds and our Shares will be deemed to be located in the ROC without regard to the location of the owner.

Tax Treaty

At present, the ROC has income tax treaties with Indonesia, Singapore, Australia, New Zealand, Gambia, Swaziland, Malaysia, Vietnam, Macedonia, South Africa, The Netherlands and the United Kingdom. It is unclear whether a Non-ROC Holder will be considered to own our Bonds or our Shares for the purposes of such treaties. Accordingly, a holder of our Bonds or our Shares who is otherwise entitled to the benefit of a treaty should consult its own tax advisers concerning eligibility for benefit under the treaty with respect to our Bonds or our Shares. The ROC government has announced a plan to suspend or terminate the tax treaty with South Africa in reaction to South Africa's decision to discontinue diplomatic recognition of the ROC.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a Purchase Agreement dated January 27, 2003, the initial purchasers named below (the **"Initial Purchasers"**) have severally agreed to purchase, and we have agreed to sell to them, the principal amount of the Bonds set forth opposite to their respective names below, subject to the terms and conditions of the Purchase Agreement.

Initial Purchasers of Bonds	Principal Amount
Morgan Stanley Dean Witter Asia (Singapore) Pte.	US$99,000,000
Fuh-Hwa Securities Corporation	1,000,000
Total	US$100,000,000

In addition, the Initial Purchasers have the option under the Purchase Agreement, at their discretion, to purchase up to an additional US$15,000,000 of aggregate principal amount of Bonds by giving written notice to us not later than 30 days after the date of the Purchase Agreement.

The Initial Purchasers are offering the Bonds subject to their acceptance of the delivery of the Bonds from us. The Purchase Agreement provides that the several obligations of the Initial Purchasers to pay for and accept delivery of the Bonds are subject to approval of certain legal matters by their counsel and to certain other conditions and that the agreement may be terminated by the Initial Purchasers in certain circumstances prior to their payment for the Bonds to us.

The Initial Purchasers are obligated to take and pay for all of the Bonds offered by this offering memorandum if any such Bonds are taken. We have agreed to indemnify the Initial Purchasers against certain liabilities in connection with their offer and sale of the Bonds.

We have agreed that we will not, without the prior written consent of Morgan Stanley Dean Witter Asia (Singapore) Pte on behalf of the Initial Purchasers, during the period ending 90 days after the date of this offering memorandum, (i) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, publicly announce an intention to do any of the foregoing, or otherwise transfer or dispose of, directly or indirectly, any Shares or any securities convertible into or exercisable or exchangeable for Shares, or (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Shares, whether any such transaction described in clause (i) or (ii) above is to be settled by delivery of Shares or such other securities, in cash or otherwise. The foregoing restrictions, shall not apply to the (a) the sale of the Bonds to the Initial Purchasers pursuant to the Purchase Agreement and the issuance of Shares upon the conversion of the Bonds, (b) transactions relating to Shares or other securities acquired in open market transactions after the completion of the offering (c) the issuance and sale or distribution of Shares (including treasury shares) to our employees for consideration or in connection with our stock bonus plan and (d) the issuance and distribution of stock dividends to our shareholders, in each case, as permissible under ROC law and regulations. In addition, certain shareholders holding an aggregate of 53.07% of our Shares as of December 31, 2001 have agreed to comply with similar restrictions during the period commencing on the date of the Purchase Agreement and ending 90 days after the date of this offering memorandum, and certain other shareholders holding an aggregate of 20.69% of our Shares as of December 31, 2001 have agreed to comply with similar restrictions during the period commencing on the date of the Purchase Agreement and ending 90 days thereafter.

The Bonds are a new issue of securities with no established trading market. Application has been made to list the Bonds on the Luxembourg Stock Exchange. The offering and settlement of the Bonds is not conditioned on obtaining the listing.

The Bonds as well as the Shares issuable upon conversion of the Bonds have not been and will not be registered under the Securities Act, and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to another exemption from the registration requirements of the Securities Act.

Each of the Initial Purchasers has severally represented and agreed that, except as permitted by the Purchase Agreement, it will offer or sell the Bonds (i) as part of their distribution at any time or (ii) otherwise until 40 days after the later of the commencement of this offering and the latest closing date of this offering, only in accordance with Rule 903 of Regulation S; accordingly, neither such Initial Purchaser, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts (with the meaning of Regulation S) with respect to the Bonds, and any such Initial Purchaser, its affiliates and any such persons have complied and will comply with the offering restrictions requirement of Regulation S.

Each of the Initial Purchasers has severally represented and agreed that (i) it has not offered or sold and, prior to the expiry of a period of six months from the date of issue of the Bonds, will not offer or sell any Bonds to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the Public Offers of Securities Regulations 1995; (ii) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") with respect to anything done by it in relation to the Bonds or Shares in, from or otherwise involving the United Kingdom; and (iii) it will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to us.

Each of the Initial Purchasers has severally represented and agreed that the Bonds have not been and will not be registered under the Securities and Exchange Law of Japan, and represents that it has not offered or sold, and agrees not to offer or sell, directly or indirectly, any Bonds in Japan or for the account of any resident thereof except pursuant to any exemption from the registration requirements of the Securities and Exchange Law of Japan and otherwise in compliance with applicable provisions of Japanese Law.

Each of the Initial Purchasers has severally represented and agreed that (i) it has not offered or sold, and will not offer or sell in Hong Kong, by means of any document, any Bonds other than to persons whose ordinary business is to buy or sell Shares or debentures whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong; and (ii) it has not issued or had in its possession and will not issue or have in its possession any document, invitation or advertisement relating to the Bonds in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are intended to be disposed of to persons outside Hong Kong or only to persons whose business involves the acquisition, disposal, or holding of securities, whether as principal or agent.

Each of the Initial Purchasers has severally represented and agreed that it has not offered or sold or made the subject of an invitation for subscription or purchase nor circulated or distributed the offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase of the Bonds nor will it offer, sell or make the subject of an invitation for subscription or purchase or distribute the offering memorandum or any other document or material in connection with the subscription or purchase of the Bonds whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person falling within Section 274 of the Securities and Futures Act, (ii) to a sophisticated investor (as defined in Section 275 of the Securities and Futures Act) and in accordance with the conditions specified in Section 275 of the Securities and Futures Act or (iii) otherwise than pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

The Initial Purchasers have severally represented and agreed that they have not offered or sold, and have agreed not to offer or sell any Bonds, directly or indirectly, into the ROC.

In order to facilitate the offering of the Bonds, the Initial Purchasers may engage in transactions that stabilize, maintain or otherwise affect the price of the Bonds. Specifically, the Initial Purchasers may overallot the offering, creating a syndicate short position. In addition, the Initial Purchasers may bid for and purchase Bonds in the open market to cover syndicate shorts or to stabilize the price of the Bonds. Any of these activities may stabilize or maintain the market price of the Bonds above independent market levels. The Initial Purchasers are not required to engage in these activities and may end any of these activities at any time.

In connection with this offering, certain of the Initial Purchasers (or their respective affiliates) may, for their own accounts, enter into asset swaps, credit derivatives or other derivative transactions relating to the Bonds and/or the underlying Shares at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions may be entered into with our affiliates. As a result of such transactions, the Initial Purchasers may hold long or short positions in such Bonds or derivatives or in the underlying Shares. No disclosure will be made of any such positions. In addition, the Initial Purchasers (or their respective affiliates) may purchase Bonds for proprietary purposes and not with a view to distribution. Such transactions or purchases may involve a substantial portion of the Bonds.

The Initial Purchasers and their affiliates may have performed certain investment banking, commercial banking or advisory services for us from time to time for which they have received customary fees and expenses. The Initial Purchasers may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

LEGAL MATTERS

Certain legal matters with respect to the Bonds will be passed upon for the Initial Purchasers by Davis Polk & Wardwell, New York, New York. Certain legal matters with respect to the Bonds and the Shares will be passed upon for us by Lee and Li, Taipei, Taiwan, ROC. Davis Polk & Wardwell will rely upon Lee and Li with respect to certain matters of ROC law. Lee and Li will rely upon Davis Polk & Wardwell with respect to certain matters of United States law.

INDEPENDENT ACCOUNTANTS

The audited non-consolidated financial statements prepared in accordance with ROC GAAP as of and for the years ended December 31, 1999, 2000 and 2001 included in this offering memorandum have been audited by T N Soong & Co (an associate member firm of Deloitte Touche Tohmatsu effective April 22, 2002 and former member firm of Andersen Worldwide, SC), independent accountants, as indicated in their report with respect thereto, included herein. The unaudited non-consolidated financial statements prepared in accordance with ROC GAAP as of, and for the nine months ended September 30, 2001 and 2002 included in this offering memorandum have been reviewed by T N Soong & Co (an associate member firm of Deloitte Touche Tohmatsu effective April 22, 2002 and former member firm of Andersen Worldwide, SC) as indicated in their review report with respect thereto, included herein.

With respect to the unaudited interim financial statements for the nine month periods ended September 30, 2001 and 2002 included in this offering memorandum, the independent accountants have reported that they applied limited procedures in accordance with professional standards for a review of such information in accordance with the ROC Statement on Auditing Standards No. 36, "Review of Financial Statements." However, their separate review report included in this offering memorandum states that they did not audit and they do not express an opinion on such interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

GENERAL INFORMATION

1. Listing: Application has been made to list the Bonds on the Luxembourg Stock Exchange. Prior to the listing, the legal notice relating to the issue of the Bonds and our Articles of Incorporation will be registered with the Registrar of the District Court in Luxembourg *(Greffier en Chef du Tribunal d'Arrondissement de et Luxembourg)*, where such documents are available for inspection and where copies thereof can be obtained upon request. As long as the Bonds are listed on the Luxembourg Stock Exchange, an agent for making payments on and for handling, transfers, conversions and exchange of the Bonds will be maintained in Luxembourg.

2. Authorizations: We have obtained all necessary consents, approvals and authorizations in connection with the issue of the Bonds. The issue of the Bonds was authorized by resolutions of our Board of directors on January 30, 2003.

3. Material Change: Except as disclosed in this offering memorandum, there has not been any material adverse change in our financial position since December 31, 2001, the date of our latest audited non-consolidated financial statements, or any material adverse change in our financial position or prospects since December 31, 2001.

4. Litigation: Except as disclosed in this offering memorandum, neither we nor any of our subsidiaries are involved in any litigation or arbitration proceedings that may have, or have had during the 12 months preceding the date of this offering memorandum, a material adverse effect on our financial position or those of our subsidiaries. Neither we nor any of our subsidiaries are aware that any such proceedings pending or threatened.

5. Documents Available: For as long as the Bonds are listed on the Luxembourg Stock Exchange, copies of the following documents may be inspected (and in the case of financial statements, obtainable also) at the specified offices of our Paying, Conversion and Transfer Agent in Luxembourg:

- our Articles of Incorporation;
- our audited non-consolidated financial statements for the years ended December 31, 1999, 2000 and 2001;
- the Purchase Agreement; and
- the Indenture (which contains the form of the Global Certificate and the Definitive Certificates) and the Agency Agreement.

Where the documents are not in English, we will make available certified English translations, and we accept responsibility for the accuracy of all such translations, if any.

In addition, for as long as the Bonds are listed on the Luxembourg Stock Exchange, copies of our most recent annual audited non-consolidated financial statements and any semi-annual audited non-consolidated financial statements published by us will be available free of charge at the specified office of our Paying, Conversion and Transfer Agent in Luxembourg.

6. Clearing Systems: The Bonds have been accepted for clearance through the facilities of Euroclear and Clearstream. The ISIN Number for the Bonds is XS0162144694 and the Common Code is 016214469.

SUMMARY OF PRINCIPAL DIFFERENCES BETWEEN ROC GAAP AND US GAAP

The audited financial statements of the Company are prepared and presented in accordance with ROC GAAP, which differs in certain material respects from US GAAP. Certain principal differences between ROC GAAP applicable to the Company and US GAAP are summarized below. Such presentation should not be taken as inclusive of all ROC GAAP/US GAAP differences. Additionally, no attempt has been made to identify all disclosure, presentation or classification differences that would affect the manner in which events and transactions are presented in the financial statements or notes thereto. Further, no attempt has been made to identify future differences between ROC GAAP and US GAAP as a result of prescribed changes in accounting standards. Regulatory bodies that promulgate ROC GAAP and US GAAP have significant projects ongoing that could affect future comparisons such as this one.

Subject	ROC GAAP	US GAAP
Presentation of Unconsolidated Financial Statements	Under ROC GAAP, unconsolidated financial statements of the Company are presented as the primary financial statements and consolidated financial statements as supplemental financial statements.	Under US GAAP, parent-company-only unconsolidated financial statements are not allowed to be presented as the primary financial statements for any period.
Consolidation	A company is required to include in its consolidated financial statements only those subsidiaries which are 50% or more owned (directly or indirectly through its 50% or more owned subsidiaries) and of which total assets or operating revenues exceed 10% of those of such company on a non-consolidated basis. In addition, a company is required to include in its consolidated financial statements all subsidiaries whose individual total assets or operating revenues are between three percent and ten percent of such company if the aggregate total of their assets or operating revenues, as the case may be, exceeds 30 percent of those of the company. Under ROC GAAP, consolidation of the financial statements of such subsidiaries is required for annual financial statements but not for interim financial statements.	The consolidated financial statements should include the financial statements of the parent company and, as a general rule, all its subsidiaries. A subsidiary is an enterprise (including those in noncorporate form) that is controlled through the ownership of more than 50% of the enterprise's outstanding voting shares or other evidences of equity ownership. Consolidation may also be required for enterprises where ownership is less than 50% if other factors of control are present, such as significant board seats or significant influence on management decisions.

Subject	ROC GAAP	US GAAP
Investment in affiliate . . .	Under ROC GAAP, if the ownership is no more than 50% and the financial statements of investees can not be timely obtained, the company can defer the recognition of equity investment income or loss for one fiscal year from the date of acquisition.	A Company's share of investee earnings or losses should be based on the latest available financial statements, provided that the date of the financial statements does not differ by more than 93 days from the Company's year end and that the lag in reporting is consistent from period to period.
Investment in Debt and Equity Securities	Short-term investments are stated at the lower of cost or market value, investments in debt securities are stated at the lower of amortized cost or market value. Long-term investments in listed equity securities in respect of which the company does not exercise significant influence on operating and financial decisions of the investee are stated at the lower of cost or market value, and unrealized losses are deducted from stockholders' equity. Investments in non-listed equity securities in respect of which the company does not exercise significant influence on operating and financial decisions of the investee are stated at cost, subject to permanent impairment test. Stock dividends received are recorded as an increase in voting stock and not as investment income.	Investments in marketable equity securities are classified in one of three categories: trading, held-to-maturity or available-for-sale. Marketable equity securities classified as trading securities are reported at fair value with unrealized gains and losses included in earnings; debt securities classified as held-to maturity securities are reported at amortized cost; and debt and marketable equity securities classified as available-for-sale securities are reported at fair value with unrealized gains and losses reported in a separate component of stockholders' equity. Share dividends received are recorded as investment income based on the fair value of the shares.
Inventory Valuation	Under ROC GAAP, inventories should be valued at the lower of cost or market value, which is generally defined as net realizable value for finished goods and replacement cost for raw materials and work-in-process.	Under US GAAP, a write-down of inventory to the lower of cost or market value creates a new cost basis that subsequently cannot be marked up based on changes in underlying facts and circumstances.

Subject	ROC GAAP	US GAAP
Impairment of Long-Lived Assets and Long-Lived Assets to be Disposed of	ROC GAAP has no specific standards which address impairment of long-lived assets held and used by an entity, normally such assets would be carried at cost less accumulated depreciation. Property not currently used in operating are classified as other assets and are stated at the lower of cost or net realizable value. Impairment losses recognized in prior periods can be reversed up to the originally stated cost.	Under US GAAP, Statement of Financial Accounting Standard ("SFAS") No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" which is required to be applied by the entities by January 1, 2002, retains the requirement of SFAS No. 121 that an impairment loss be recognized if the carrying value of the asset is not recoverable from its undiscounted cash flow; the impairment loss is measured as the difference between fair values and carrying values of the assets. This Statement also requires long-lived assets to be disposed of other than by sale to be considered held and used until they are disposed. It also broadens the scope of APB Opinion No. 30 for the presentation of discontinued operations separately from continuing operations to include a component of an entity that either has been disposed of or is classified as held for sales. In addition, discontinued operations are no longer measured on a net realizable value basis, and expected future operating losses must be reflected in the periods incurred, rather than at the measurement date as previously required under APB Opinion No. 30.

Subject	ROC GAAP	US GAAP
Depreciation Lives of Fixed Assets	In practice, depreciation is generally provided using the guideline service lives as prescribed by ROC Internal Revenue Code plus one additional year as salvage value. ROC Securities and Futures Commission ("SFC") regulations applicable to public companies require that when fixed assets have been fully depreciated over the prescribed service life and the underlying asset continues to be used, the remaining unamortized value (i.e. the salvage value portion) is depreciated over the asset's remaining economic life.	Depreciation is provided on a straight-line basis over the asset's estimated useful life. No additional depreciation is provided on fully depreciated assets which continue to be used in the business.
Deferred Expenses.	Under ROC GAAP, deferred expenses include organization costs, start-up costs, issuance costs of bonds, testing costs of reinstallation of machinery and equipment. The deferred expenses shall be amortized by systematic charges to income over the periods estimated to be benefited. Starting 2002, organization costs should be expensed as incurred.	Under US GAAP, start-up costs are generally expensed as incurred.
Goodwill and Other Intangible Assets	Under ROC GAAP, acquired goodwill and other intangible assets, such as patents, technology transfer fees, licenses fees and the likes should be amortized by systematic charges to income over the period estimated to be benefited. The period of amortization for goodwill should not, however, exceed twenty years.	Under US GAAP, SFAS No. 142 "Goodwill and Other Intangible Assets", effective on December 15, 2001, requires that goodwill and intangible assets with indefinite useful lives will not be amortized but rather be tested for impairment at least annually by comparing the fair values of those assets with their recorded amounts (a two-step process). Intangible assets with finite useful lives will continue to be amortized over their useful lives and are required to be reviewed and assessed for impairment under SFAS No. 144.

Subject	ROC GAAP	US GAAP
Accounting for Pensions. .	ROC Statement of Financial Accounting Standards SFAS No. 18 "Accounting for Pensions", effective in January 1, 1996, is substantially similar to U.S. SFAS No. 87, except for the effect of the adoption of ROC SFAS No.18 in relation to the amortization of unrecognized net transitional obligations, and which provides accounting regulations regarding an employer's accounting for employee retirement plans, including pension of companies covered by the Labor Standards Law which require contribution of a percentage of wages and salaries costs to an independent fund. ROC SFAS No. 18 is effective for financial statements in the year ended December 31, 1995. In the year of adoption, certain additional disclosures are required related to pension-related assets and liabilities as determined pursuant to an actuarial valuation; however, net periodic pension cost is not calculated pursuant to an actuarial valuation until the year ended December 31, 1996. Prior to 1996, pension expense under ROC GAAP was generally calculated as a fixed percentage of total annual salaries and wages.	Under US GAAP, the annual pension provision is recognized as a charge to results of operations over the employees' service period in accordance with SFAS No. 87. SFAS No. 87 focuses on the plan's benefit formula as the basis for determining the benefit earned, and therefore the cost incurred, for each year. The determination of the benefit earned is actuarially determined, and includes components for service cost, time value of money, return on plan assets and gains or losses from changes in previous assumptions. In certain cases, a minimum liability is recognized through a direct charge to stockholders' equity.
Long-term Debt Classification.	Under ROC GAAP, there is no specific rule on presentation of the portion of long-term debt where certain covenants were breached. Generally, such debt will be presented as non-current as long as there are no indications that such breaches will result in the debt being accelerated.	Under US GAAP, breaches of loan covenants may require the portion of long-term debt due after one year to be classified as current liabilities.

Subject	ROC GAAP	US GAAP
Bonuses to Employees, Directors and Supervisors	According to ROC regulations and the Articles of Incorporation of the Company, a portion of distributable earnings should be set aside as bonuses to employees, directors and supervisors. Bonuses to directors and supervisors are always paid in cash. However, bonuses to employees may be granted in cash or stock or both. All of these appropriations, including stock bonuses which are valued at par value of NT$10, are charged against retained earnings under ROC GAAP, after such appropriations are formally approved by the shareholders in the following year.	Under US GAAP, bonuses to employees, directors and supervisors are charged against income currently in the year earned. Shares of stock issued as part of those bonuses is recorded at fair market value. However, since the amount and form of such bonuses are not finally determinable until the shareholders' meeting in the subsequent year, the total amount of such bonuses is initially accrued based on management's estimate of the number of shares to be issued, valued at par value. Any difference between the initially accrued amount and the fair market value of the bonuses upon the issuance of shares is recognized in the year of the approval by shareholders.
Stock Dividends	Stock dividends are recorded as a reduction to retained earnings for the par value of the stock issued, and a like amount is recorded to the capital stock account.	Stock dividends are recorded as a reduction to retained earnings based on the market value of the stock on the date issued. A like amount is recorded to the capital stock and capital surplus accounts.
Gains on Disposition of Property, Plant and Equipment	Gains on the dispositions of property, plant and equipment generated before 2001 are first credited to non-operating income and then transferred, after deducting the applicable income tax, to capital surplus in the applicable fiscal year. Starting 2001, the treatment of gains on disposition of property, plant and equipment is the same under both ROC GAAP and US GAAP.	Any gains on the dispositions of property, plant and equipment are credited to income, with no transfer to capital surplus.

Subject	ROC GAAP	US GAAP
Capital Surplus	Under ROC GAAP, the following items are treated as capital surplus: (a) premium on issuance of common stocks; (b) gain, net of applicable income tax, on disposal of properties; (c) donations; (d) revaluation increment on properties, and (e) the value of assets of a company acquired in a merger in excess of assumed liabilities and the consideration paid for shares of such company in connection with the acquisition. Starting 2001, the aforementioned item (b) is treated as part of net income. The reversal of the capital surplus — gain on disposal of property and equipment occurring no later than 2000 to retained earnings can be made only one time which shall be resolved by the stockholders no later than 2003 and given effect to in the financial statements of that year.	Under U.S. GAAP, items (a) and (c) are the same as ROC GAAP; item (b) is recorded gross as part of net income and net income is then included as a component of retained earnings; items (d) and (e) are not permitted.
Treasury Stock	Under ROC GAAP, a parent company's stocks held by subsidiaries may be accounted for as an investment on the parent company's balance sheet. However, effective at the beginning of 2002, a parent's stock held by subsidiaries is treated as treasury stock on the parent company's balance sheet as a reduction in shareholders' equity.	Under US GAAP, when a subsidiary holds its parent's shares as investments, these shares should be treated as treasury stock in the consolidated balance sheet as a reduction in shareholders' equity.
Compensation expense on treasury stock sold to employees.	Under ROC GAAP, a Company does not recognize income or expense in connection with a sale of the Company's treasury stock. Instead, the capital surplus account was increased by an amount equal to the difference between the aggregate sales price and the aggregate cost of treasury stock sold.	Under US GAAP, the sale of treasury stock may result in compensation expense based on the difference between the fair market value of the shares at the time of the sale and the sale price to the employees.

Subject	ROC GAAP	US GAAP
Derivative Financial Instrument Transactions	There are no definitive accounting standards under ROC GAAP which address accounting for derivative financial instruments such as foreign options, futures, interest rate of foreign currency swaps except for forward exchange contracts. The accounting treatment of forward exchange contracts is similar to US SFAS No. 52. Therefore, companies have flexibility in choosing when to recognize derivative financial instruments and when to follow hedge accounting versus fair value accounting for such instruments.	Beginning January 1, 2001, all derivatives contracts are recognized on the balance sheet at fair value. Under SFAS No. 133, accounting for derivative financial instruments is in large part determined by the purpose for which the instrument was entered into. In general, derivative financial instruments which are entered into for speculative or trading purposes (or which do not meet the criteria for accounting for such items as hedges), rather than to hedge exposures to risk, are accounted for at fair value with all gains and losses recognized currently in earnings. Derivative financial instruments which (a) are entered into in order to hedge certain exposures and (b) meet defined criteria in order to be classified as hedges, are accounted for in a manner so as to offset the gains and losses applicable to the derivative financial instrument against the gains and losses on the transaction or commitment which is being hedged (i.e. either by recording the gains and losses on derivative financial instruments currently when they are used as hedges of existing (on-balance sheet) transactions or by deferring the gains and losses on derivative financial instruments when they are used as hedges of committed or anticipated transactions). In addition, SFAS No. 133 also defines the concept of embedded derivatives which may now exist due to a broader definition of a derivative instrument. Embedded derivatives are accounted for in the same manner as any other derivative.

Subject	ROC GAAP	US GAAP
Revenue Recognition	One-time subscriber connection fees and related direct and incremental costs from one-time subscriber connection fees are recognized when customers activate the services.	One-time subscriber connection fees and certain related direct and incremental costs associated with one-time subscriber connection fees are deferred and recognized over the expected customer service period. Deferred direct and incremental costs for a given customer are limited to the amount of deferred revenue related to that customer.
Multiple Elements Arrangements	Under ROC GAAP, there is no specific rule on the accounting treatment for multiple elements arrangements. According to the Emerging Issues Task Force ("EITF") Issue No. 00-21 "Accounting for Revenue Arrangements with Multiple Deliverables" if in an arrangement with multiple deliverables, the delivered item should be considered a separate unit of accounting if all of the prescribed criteria are met. Otherwise, the sales of delivered item together with the undelivered items should be combined and treated as a single transaction.	
Sales Incentive Costs	There are no specific rules related to accounting for certain sales incentives such as promotional handset subsidy costs, whether these costs should be recognized as marketing expense or as a reduction to sales revenue. Generally, these costs are recognized gross as a marketing expense.	Promotional handset subsidy costs are considered a sales incentive under EITF Issue No. 01-9 "Accounting for Consideration Given by a Vendor to a Customer" and are charged to revenue with the related equipment sale.

Subject	ROC GAAP	US GAAP
Stock Options	ROC GAAP has no specific accounting practice regarding stock option, or the disclosures of stock options.	Under US GAAP, APB Opinion No. 25 "Accounting for Stock Issued to Employees", SFAS No. 123 "Accounting for Stock-Based Compensation", FASB Interpretation ("FIN") No. 44 "Accounting for Certain Transactions Involving Stock Compensation" and EITF Issue No. 00-23 "Issues Related to Accounting for Stock Compensation Under APB Opinion No. 25" have outlined detailed principles on accounting for and reporting of stock-based compensation plans. In general, stock compensation is recognized under certain circumstances when stock options are granted to employees and non-employees using either the intrinsic value or fair value as determined over the service period.
Compensated Absences . .	ROC GAAP has no specific accounting practice regarding compensated absences.	Compensated absences shall be accrued for employees' future absences when the employer's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered, the obligation relates to rights that vest or accumulate the payment of the compensation is probable, and the amount can be reasonably estimated.

Subject	ROC GAAP	US GAAP
Income Tax	Under ROC SFAS No. 22 "Accounting for Income Taxes", current liabilities are recognized for estimates taxes payable for current period. ROC GAAP requires that all temporary differences between the carrying values of assets and liabilities and their respective tax bases be recognized as deferred income tax liabilities or assets. Under ROC GAAP, the criteria for determining whether a valuation allowance is required are less stringent as compared to U.S. GAAP. "Under US GAAP, if a company has experienced cumulative losses in recent years, consideration of future projected operating profits may be limited for purposes of determining the valuation allowance for deferred income tax assets." A change in tax rate or law requires an adjustment to such deferred income tax assets and liabilities in the period of enactment, and is reported as part of results of operations.	The requirements under US SFAS No. 109 "Accounting for Income Taxes" are similar to ROC SFAS No. 22. However, application of the "more likely than not", criteria related to the recognition of a deferred tax asset valuation allowance under ROC GAAP may be less stringent than US GAAP.
Retained Earnings Tax . . .	Companies in the ROC are subject to a 10% surtax on profits retained and earned after December 31, 1997. If the retained profits are distributed to the stockholders in the following fiscal year, the surtax can be avoided. Under ROC GAAP, surtax is recorded in the statement of income in the following fiscal year if the earnings are not distributed to the stockholders.	Under US GAAP, income tax expense related to the 10% retained profit tax is accrued and recorded in earnings in the year that the profits were earned based on management's estimate of the amount of profits to be retained. A subsequent adjustment is recorded to earnings based on the actual amount paid. Additionally, all temporary differences between the carrying amounts of assets and liabilities and their respective tax bases are recognized using a tax rate that includes the 10% retained profit tax.

Subject	ROC GAAP	US GAAP
Comprehensive Income . .	There is no requirement to present comprehensive income.	Comprehensive income must be presented in a full set of financial statements under US GAAP. Comprehensive income includes all changes in stockholders' equity during a period, except those resulting from investments by or distributions to owners, including certain items not included in the current results of operations. Items typically included are unrealized gains and losses on marketable securities classified as available-for-sale and foreign exchange translation gains and losses.
Classification	Under ROC GAAP, there is no specific rule on account presentation on the statement of income between cost of good sold, operating expense and non-operating expenses such as scrap income, inventory allowance, restructuring expenses, impairment loss of fixed assets and earthquake losses.	Under US GAAP, the presentation of scrap income, inventory allowance, restructuring expenses, impairment loss of fixed assets and earthquake losses are generally recorded under income from continuing operations, not as non-operating expenses.
Earnings Per Share	Under ROC GAAP, the company computes basic and diluted earnings per share based on the weighted average number of outstanding shares and is retroactively adjusted for stock dividends and new common stock issuance issued through unappropriated earnings and capital surplus.	Under US GAAP, when a simple capital structure exists, basic earnings per share is based on the weighted average number of shares outstanding. When a complex capital structure exists, diluted earnings per share is based on the weighted average number of shares outstanding plus the number of additional shares that would have been outstanding if dilutive potential common shares had been issued, with appropriate adjustments to income or loss that would result from the assumed conversions of those potential common shares. Under US GAAP basic and diluted earnings per share calculations are not retroactively adjusted for new common stock issued through unappropriated earnings and capital surplus.

Subject	ROC GAAP	US GAAP
Economic dependency . . .	ROC GAAP has no specific disclosure requirements concerning economic dependency.	Disclosure of economic dependency on one or more parties, as appropriate, including such parties as sole/ major customer, supplier, franchiser, distributor, general agent, customer or lender is required.
Segment reporting	ROC SFAS No. 20 "Disclosure of Segment information" established standards for reporting information about industry and foreign operating segments, and information on export sales and sales to major customers. SFAS No. 20 defines industry segment as a revenue generating unit of an enterprise which sells certain products or provide services to customers and a foreign operating segment as a revenue generating unit of an enterprise that operates outside Taiwan and sells products and services to customers located in its area of operation. The industry and foreign operating segments information to be provided includes primarily revenues, profits and losses, and book values of identifiable assets. Information on export sales by geographic area is required to be disclosed if it is at least 10% of the enterprise's total sales. A similar threshold applies to the disclosure of sales to major customers. The segment information should be prepared using the same standards applied to the financial statements except that inter-segment sales and transfers should be recognized based on internal transfer pricing.	US GAAP SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information" requires disclosure of revenue, operating profit or loss, and long-lived assets for operating segments. Disclosure of significant geographic sales and customer sales in excess of 10% is also required.
Functional currency	In accordance with ROC statutory requirements, the functional currency of a ROC incorporated company must be the New Taiwan dollars. In practice, ROC GAAP also follows this principle.	Under US GAAP, an entity's functional currency is the currency of the primary economic environment in which the entity operates; normally, that is the currency of the environment in which an entity primarily generates and expends cash.

Subject	ROC GAAP	US GAAP
Convertible Bonds.	When convertible bonds are issued, ROC GAAP does not recognize or account for any beneficial conversion feature embedded in the bonds.	Under US GAAP, beneficial conversion features should be recognized and measured by allocating a portion of the proceeds equal to the intrinsic value of that feature to capital surplus. The amount of the beneficial conversion feature is calculated on the date of issuance of the convertible bonds or the date in which an event triggers conversion as the difference between the conversion price and the market value of the common stock, multiplied by the number of shares into which the security is convertible.
Guarantees	ROC GAAP does not recognize a liability for the fair value of the obligations undertaken in issuing the guarantee.	US GAAP FIN No. 45 "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" requires companies to initially disclose in their fiscal 2002 financial statements their obligations under certain guarantees that it has issued. It also clarifies that beginning January 1, 2003, a guarantor is required to recognize at the inception of a guarantee, a liability for the fair value of the obligations undertaken in issuing the guarantee.

The information set forth above does not in any way attempt to quantify the effects of the aforementioned differences between ROC GAAP and US GAAP. Accordingly, there can be no assurance that net income and shareholders' equity reported in accordance with ROC GAAP would not be lower if determined in accordance with US GAAP.

INDEX TO THE FINANCIAL STATEMENTS

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English Translation of Financial Statements Originally Issued in Chinese

INDEPENDENT AUDITORS' REPORT

February 11, 2002

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, 2000 and 2001, and the related statements of income, changes in stockholders' equity and cash flows for the each of the years in the three-year period ended December 31, 2001, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Regulations for Audit of Financial Statements by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Far EasTone Telecommunications Co., Ltd. as of December 31, 2000 and 2001, and the results of its operations and its cash flows for each of the three years period ended December 31, 2001 in conformity with accounting principles generally accepted in the Republic of China.

As explained in Note 3, the U.S. dollar amounts shown in the accompanying financial statements for the year ended December 31, 2001 have been included solely for the reader's convenience. The N.T. dollar amounts were translated at the rate of NT$35.00 to US$1 prevailing on December 31, 2001. The translations should not be construed as a representation that the New Taiwan dollar amounts have been, or could be, converted into U.S. dollars at this or any other exchange rate.

T N Soong & Co
A Member Firm of Andersen Worldwide, SC
Taipei, Taiwan
The Republic of China

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Balance Sheets
December 31, 2000 and 2001
(In Thousands of New Taiwan or U.S. Dollars, Except Par Value)

	2000	2001	
	NT$	NT$	US$ (Note 3)
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents *(Notes 2 and 4)*	$ 2,048,270	$ 2,807,799	$ 80,223
Short-term investments *(Notes 2, 5 and 14)*	34,800	—	—
Accounts receivable — net of allowance for doubtful accounts of NT$573,894 in 2000 and NT$612,810 (US$17,509) in 2001 *(Note 2)*	6,885,380	4,114,428	117,555
Inventories — net *(Notes 2 and 6)*	799,658	730,559	20,873
Prepaid expenses *(Note 13)*	540,267	723,787	20,680
Other current assets *(Notes 2, 12 and 13)*	802,488	897,049	25,630
Total Current Assets	11,110,863	9,273,622	264,961
INVESTMENT IN SHARES OF STOCK *(Notes 2 and 7)*	82,191	1,078,952	30,827
PROPERTY AND EQUIPMENT *(Notes 2, 8, 13, 14 and 15)*			
Cost			
Land	106,308	148,189	4,234
Buildings and equipment	346,640	592,847	16,939
Computer equipment	2,437,847	4,163,282	118,951
Operating equipment	28,420,790	40,083,085	1,145,231
Office equipment	476,815	726,454	20,756
Leasehold improvement	1,076,172	1,578,814	45,109
Miscellaneous equipment	50,233	45,853	1,310
Total cost	32,914,805	47,338,524	1,352,530
Less — accumulated depreciation	6,050,951	11,064,374	316,125
	26,863,854	36,274,150	1,036,405
Construction in progress and advances related to acquisitions of equipment	7,070,285	4,421,380	126,325
Net Property and Equipment	33,934,139	40,695,530	1,162,730
OTHER ASSETS			
Property not currently used in operations — net *(Note 2)*	88,400	130,000	3,714
Refundable deposits *(Note 13)*	322,666	384,436	10,984
Deferred income taxes *(Notes 2 and 12)*	733,998	1,246,904	35,626
Miscellaneous	1,808	1,133	32
Total Other Assets	1,146,872	1,762,473	50,356
TOTAL ASSETS	$46,274,065	$52,810,577	$1,508,874

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Balance Sheets — Continued
December 31, 2000 and 2001
(In Thousands of New Taiwan or U.S. Dollars, Except Par Value)

	2000	2001	
	NT$	NT$	US$ (Note 3)
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Notes payable	$ 33,989	$ 28,573	$ 816
Accounts payable	862,076	504,159	14,405
Payables to related parties *(Note 13)*	621,615	619,891	17,711
Income tax payable *(Notes 2 and 12)*	299,072	671,593	19,188
Accrued expenses	3,636,555	2,361,159	67,462
Payables related to acquisitions of property and equipment	1,427,213	1,417,422	40,498
Unearned revenues *(Note 2)*	750,663	1,018,874	29,111
Current portion of long-term debts *(Notes 9 and 14)*	1,430,000	2,060,000	58,857
Other current liabilities *(Notes 2, 8 and 13)*	148,971	293,630	8,389
Total Current Liabilities	9,210,154	8,975,301	256,437
LONG-TERM LIABILITIES			
Long-term bonds payable, net of current portion *(Notes 9 and 14)*	2,200,000	1,892,000	54,057
Long-term debts, net of current portion *(Notes 9 and 14)*	5,007,678	6,581,620	188,047
Total Long-term Liabilities	7,207,678	8,473,620	242,104
OTHER LIABILITIES			
Accrued pension cost *(Notes 2 and 11)*	59,358	97,314	2,780
Guarantee deposits received	4,125,125	2,966,635	84,761
Long-term obligation under capital lease *(Notes 2 and 8)*	47,690	14,095	403
Total Other Liabilities	4,232,173	3,078,044	87,944
Total Liabilities	20,650,005	20,526,965	586,485
STOCKHOLDERS' EQUITY			
Capital stock — NT$10 (US$0.3) par value Authorized — 1,400,000 thousand shares in 2000 and 3,360,000 thousand shares in 2001 Issued — 1,400,000 thousand shares in 2000 and 1,890,000 thousand shares in 2001	14,000,000	18,900,000	540,000
Capital surplus — paid in capital in excess of par value	7,556,572	6,156,572	175,902
Retained earnings			
Legal reserve	27,752	431,718	12,335
Unappropriated earnings	4,039,736	6,791,418	194,040
Total retained earnings	4,067,488	7,223,136	206,375
Cumulative translation adjustments	—	3,904	112
Total Stockholders' Equity	25,624,060	32,283,612	922,389
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$46,274,065	$52,810,577	$1,508,874

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

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Statements of Income
For the Years Ended December 31, 1999, 2000 and 2001
(In Thousands of New Taiwan or U.S. Dollars, Except Per Share Amounts)

	1999	2000	2001	
	NT$	NT$	NT$	US$ (Note 3)
OPERATING REVENUES *(Notes 2 and 13)*				
Sales of cellular phone equipment and accessories	$ 1,865,791	$ 3,536,303	$ 2,761,226	$ 78,892
Less — sales returns and allowances	21,624	6,797	856	24
Net sales	1,844,167	3,529,506	2,760,370	78,868
Service revenue	16,774,070	28,651,010	31,760,546	907,444
Other *(Note 13)*	—	—	23,439	670
Total Operating Revenues	18,618,237	32,180,516	34,544,355	986,982
OPERATING COSTS *(Notes 2 and 13)*				
Cost of sales	1,769,490	3,443,230	2,772,903	79,226
Cost of services	7,470,456	10,421,393	12,950,226	370,007
Total Operating Costs	9,239,946	13,864,623	15,723,129	449,233
GROSS PROFIT	9,378,291	18,315,893	18,821,226	537,749
OPERATING EXPENSES *(Notes 2, 13 and 15)*				
Marketing	5,062,779	10,369,948	6,441,147	184,033
General and administrative	2,180,067	3,859,844	5,587,928	159,655
Research and development	107,646	147,006	205,909	5,883
Total Operating Expenses	7,350,492	14,376,798	12,234,984	349,571
INCOME FROM OPERATIONS	2,027,799	3,939,095	6,586,242	188,178
NON-OPERATING INCOME				
Foreign exchange gains — net *(Note 2)*	—	—	42,421	1,212
Reversal of allowance for losses on inventories *(Notes 2 and 6)*	33,000	—	31,191	891
Interest	39,716	29,088	27,290	779
Insurance claim	80,000	—	—	—
Reversal of allowance for losses on properties not currently used in operations *(Note 2)*	—	106,750	68,100	1,946
Other *(Note 13)*	89,601	79,185	118,151	3,376
Total Non-Operating Income	242,317	215,023	287,153	8,204

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Statements of Income — Continued
For the Years Ended December 31, 1999, 2000 and 2001
(In Thousands of New Taiwan or U.S. Dollars, Except Per Share Amounts)

	1999	2000	2001	
	NT$	NT$	NT$	US$ (Note 3)
NON-OPERATING EXPENSES				
Interest *(Note 8)*	141,775	130,082	239,401	6,840
Equity in net loss of investees *(Notes 2 and 7)*	—	—	166,047	4,744
Foreign exchange losses — net *(Note 2)*	—	39,206	—	—
Provision for losses on inventories *(Note 2)*	—	45,931	—	—
Provision for losses on property not currently used in operations *(Note 2)*	74,850	—	—	—
Other	50,280	16,313	78,217	2,235
Total Non-Operating Expenses	266,905	231,532	483,665	13,819
INCOME BEFORE INCOME TAX	$2,003,211	$3,922,586	$6,389,730	$182,563
INCOME TAX EXPENSE (BENEFIT) *(Notes 2 and 12)*	367,975	(117,082)	(269,554)	(7,702)
NET INCOME	$1,635,236	$4,039,668	$6,659,284	$190,265
EARNINGS PER SHARE (EXPRESSED IN NEW TAIWAN OR U.S. DOLLARS)				
Based on weighted average number of outstanding shares of 1,100,104 thousand in 1999, 1,236,724 thousand in 2000 and 1,890,000 thousand in 2001	$1.49	$3.27	$3.52	$0.10
Based on 1,601,055 thousand shares in 1999 and 1,669,577 thousand shares in 2000 — based on weighted average number of shares outstanding in 1999 and 2000 retroactively adjusted for stock dividends issued in 2000 and 2001	$1.02	$2.42		

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

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Statements of Changes in Stockholders' Equity
For the Years Ended December 31, 1999, 2000 and 2001
(In Thousands of New Taiwan Dollars or U.S. Dollars)

	CAPITAL STOCK ISSUED		CAPITAL SURPLUS	RETAINED EARNINGS (Note 10)				
	Shares (Thousand)	Amount	PAID-IN CAPITAL IN EXCESS OF PAR VALUE (Note 10)	Legal Reserve	Unappropriated Earnings (Deficit)	Total	CUMULATIVE TRANSLATION ADJUSTMENTS (Notes 2 and 7)	TOTAL STOCKHOLDERS' EQUITY
BALANCE, JANUARY 1, 1999 IN NT$	1,070,000	$10,700,000	$ —	$ —	($1,357,719)	($1,357,719)	$ —	$ 9,342,281
Issuance of common stock for cash — July 1999	67,000	670,000	2,345,000	—	—	—	—	3,015,000
Net income in 1999	—	—	—	—	1,635,236	1,635,236	—	1,635,236
BALANCE, DECEMBER 31, 1999 IN NT$.	1,137,000	11,370,000	2,345,000	—	277,517	277,517	—	13,992,517
Appropriations of 1999 earnings								
Legal reserve	—	—	—	27,752	(27,752)	—	—	—
Bonus to employees — cash	—	—	—	—	(125)	(125)	—	(125)
Cash dividend — 2.195% .	—	—	—	—	(249,572)	(249,572)	—	(249,572)
Issuance of common stock from capital surplus — 7.805% .	88,743	887,430	(887,430)	—	—	—	—	—
Issuance of common stock for cash — December 2000 . .	174,257	1,742,570	6,099,002	—	—	—	—	7,841,572
Net income in 2000	—	—	—	—	4,039,668	4,039,668	—	4,039,668
BALANCE, DECEMBER 31, 2000 IN NT$.	1,400,000	14,000,000	7,556,572	27,752	4,039,736	4,067,488	—	25,624,060
Appropriations of 2000 earnings								
Legal reserve	—	—	—	403,966	(403,966)	—	—	—
Bonus to employees — cash	—	—	—	—	(1,818)	(1,818)	—	(1,818)
Bonus to directors and supervisors	—	—	—	—	(1,818)	(1,818)	—	(1,818)
Stock dividend — 25% . .	350,000	3,500,000	—	—	(3,500,000)	(3,500,000)	—	—
Issuance of common stock from capital surplus — 10% . . .	140,000	1,400,000	(1,400,000)	—	—	—	—	—
Net income in 2001	—	—	—	—	6,659,284	6,659,284	—	6,659,284
Translation adjustments on investments in shares of stock	—	—	—	—	—	—	3,904	3,904
BALANCE, DECEMBER 31, 2001	1,890,000	$18,900,000	$6,156,572	$431,718	$6,791,418	$7,223,136	$3,904	$32,283,612
BALANCE, DECEMBER 31, 2001 IN US$ *(Note 3)* . . .	1,890,000	$ 540,000	$ 175,902	$ 12,335	$ 194,040	$ 206,375	$ 112	$ 922,389

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

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Statements of Cash Flows
For the Years Ended December 31, 1999, 2000 and 2001
(In Thousands of New Taiwan Dollars or U.S. Dollars)

	1999	2000	2001	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$1,635,236	$4,039,668	$6,659,284	$190,265
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation and amortization	2,272,777	3,107,349	5,024,674	143,562
Provision for doubtful accounts	461,790	718,458	1,995,772	57,022
Provision (reversal of allowance) for losses on inventories	(33,000)	45,931	(31,191)	(891)
Equity in net loss of investees	—	—	166,047	4,744
Provision (reversal of allowance) for losses on properties not currently used in operations	74,850	(106,750)	(68,100)	(1,946)
Loss on disposal of property and equipment	2,696	—	5,651	162
Accrued pension cost	21,445	38,086	37,956	1,085
Deferred income taxes	216,352	(418,403)	(954,972)	(27,285)
Others	—	35,845	13,941	398
Changes in operating assets and liabilities				
Decrease (increase) in				
Short-term investments	52,420	83,616	34,800	994
Accounts receivable	(965,042)	(5,458,825)	775,180	22,148
Inventories	302,705	(666,667)	100,291	2,865
Prepaid expenses	(280,424)	17,488	(183,521)	(5,243)
Other current assets	1,709	(311,623)	384,761	10,993
Increase (decrease) in				
Notes payable	11,593	18,157	(5,416)	(155)
Accounts payable	(374,206)	488,270	(357,917)	(10,226)
Payable to related parties	(2,771)	532,016	(1,724)	(49)
Income tax payable	145,579	153,493	372,521	10,643
Accrued expenses	819,326	1,791,275	(1,277,214)	(36,491)
Unearned revenue	407,806	48,241	268,211	7,663
Other current liabilities	(6,017)	80,394	145,380	4,154
Net Cash Provided by Operating Activities	4,764,824	4,236,019	13,104,414	374,412
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of investments in shares of stock	—	(82,191)	(1,200,000)	(34,286)
Return of deposit on subscription	—	—	41,096	1,174
Acquisitions of property and equipment	(10,438,800)	(15,503,296)	(12,007,497)	(343,071)
Proceeds from sales of property and equipment	—	700	147,652	4,219
Acquisition of intangible assets	(324)	—	—	—
Increase in other assets	(61,885)	(182,000)	(61,770)	(1,765)
Net Cash Used in Investing Activities	(10,501,009)	(15,766,787)	(13,080,519)	(373,729)

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Statements of Cash Flows — Continued
For the Years Ended December 31, 1999, 2000 and 2001
(In Thousands of New Taiwan Dollars or U.S. Dollars)

	1999	2000	2001	
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term debts	$ 1,993,592	$ 1,993,129	$ 1,895,942	$ 54,170
Proceeds from issuance of long-term bonds	—	2,200,000	—	—
Increase (decrease) in guarantee deposits received	1,431,169	1,059,656	(1,158,490)	(33,100)
Proceeds from issuance of common stocks	3,015,000	7,841,572	—	—
Cash dividend paid	—	(249,572)	—	—
Bonus paid to employees	—	(125)	(1,818)	(52)
Net Cash Provided by Financing Activities	6,439,761	12,844,660	735,634	21,018
NET INCREASE IN CASH AND CASH EQUIVALENTS	703,576	1,313,892	759,529	21,701
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	30,802	734,378	2,048,270	58,522
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 734,378	$ 2,048,270	$ 2,807,799	$ 80,223
SUPPLEMENTARY INFORMATION				
Interest paid (excluding capitalized interest)	$ 144,017	$ 127,677	$ 204,183	$ 5,834
Income tax paid	$6,044	$ 150,086	$ 307,596	$ 8,788
NON-CASH FINANCING ACTIVITIES				
Long-term liabilities — within one year	$—	$ 1,430,000	$2,060,000	$ 58,857
CASH PAID FOR ACQUISITIONS OF PROPERTY AND EQUIPMENT				
Increase in property and equipment	$10,657,463	$15,689,331	$11,963,390	$341,811
Decrease (increase) in payables related to acquisitions of property and equipment	(218,663)	(107,405)	9,791	280
Decrease (increase) in long-term obligations under capital leases	—	(78,630)	34,316	980
CASH PAID FOR ACQUISITIONS OF PROPERTY AND EQUIPMENT	$10,438,800	$15,503,296	$12,007,497	$343,071
PROCEEDS FROM DISPOSAL OF PROPERTIES				
Total amount of property and equipment sold	$ —	$ 1,207	$ 184,908	$ 5,283
Increase in other receivables	—	—	(37,256)	(1,064)
Increase in receivable from properties sold	—	(507)	—	—
CASH RECEIVED FROM DISPOSAL OF PROPERTY AND EQUIPMENT	$ —	$ 700	$ 147,652	$ 4,219

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

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Notes to Financial Statements
(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

1. General

Far EasTone Telecommunications Co., Ltd., (the "Company") was incorporated in the Republic of China on April 11, 1997, and began commercial operations on January 20, 1998. The Company's shares have been listed and traded in ROC. Over-the-Counter Securities Exchange since December 10, 2001. The Company's principal stockholders are Far Eastern Textile Ltd. and its affiliates (the "Far Eastern Group"), and AT&T Wireless Group and its affiliates.

The Company provides wireless communications services pursuant to two type I licenses (GSM 900 for Northern Sector and GSM 1800 for all sectors) that were issued by the Directorate General of Telecommunications (the "DGT") of the Republic of China ("ROC"). The Company is, under those licenses, allowed to provide those services for a period of 15 years commencing in 1997 and pays an annual license fee amounting to 2% of total wireless communication service revenues.

The Company also holds a type II license issued by the DGT under which it is allowed to provide internet services for a period of 10 years commencing in 1999 for a fixed annual license fee calculated by reference to the amount of the Company's capital stock.

2. Summary of Significant Accounting Policies

The Company's significant accounting policies, which conform to accounting principles generally accepted in ROC, are summarized as follows:

Cash Equivalents

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

Short-Term Investments

Investments in government bonds are carried at the lower of aggregate cost or market value. An allowance for losses is provided when the carrying value of the investments exceeds the total market value. The allowance is charged to income for the current year. Any recovery of the market value to the extent of the original carrying value is recognized as income.

The costs of short-term investments sold or those investments that matured are determined using the specific identification method.

Allowance for Doubtful Accounts Receivable

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

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by the weighted average method, while market value is based on net realizable value.

Investments in Shares of Stock

Investments in shares of stock in companies wherein the Company exercises significant influence over their operating and financial policy decisions are accounted for using the equity method. Under this method, the investment is initially carried at cost. The investment carrying values are then subsequently adjusted with the Company's proportionate share in the investee company's net income or net loss.

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

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

Costs of stocks sold are determined using the weighted average method.

Property and Equipment

Property and equipment are stated at cost. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets. Major improvements and interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently.

Useful lives are estimated as follows:

	Useful Life Years
Building	48
Building equipment	5–8
Computer equipment	3–5
Operating equipment	5–8
Office equipment	5
Leasehold improvement	5–48
Miscellaneous equipment	5–8

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

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

Properties Not Currently Used in Operations

Properties not currently used in operations, such as telecommunication towers, are stated at the lower of cost or net realizable value.

Pension Costs

Pension costs are recognized based on actuarial calculations. Gains arising from plan curtailment due to pretermination of employees' services are recognized as an adjustment to pension gains or losses in the current year. Unrecognized net transition obligations and unrecognized pension plan gains or losses are amortized using the straight-line method over 15 years and the average remaining service life of employees, respectively.

Income Tax

The tax effects of deductible temporary difference, unused operating loss carry forwards and unused investment tax credits are recognized as deferred income tax assets, and the tax effects of taxable temporary differences are recognized as deferred income tax liabilities. A valuation allowance is recognized for deferred income tax assets of which the realization is not certain. Deferred tax assets and liabilities are classified as current or noncurrent according to the classifications of the related assets and liabilities. However, if a deferred asset or liability can not be related to an asset or a liability in the financial statements, then it is classified as current or non-current based on the expected reversal date of the temporary difference.

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

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders have resolved that the earnings shall be retained.

Revenue Recognition

Revenue is recognized when the earnings process is completed or virtually complete and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to excess of minutes of traffic included in the fixed monthly service fees) from wireless services, Internet and data services and interconnection calls, net of any applicable discount, are billed in arrears and are recognized on the basis of minutes of traffic processed. Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized in full when the services are activated; (b) fixed monthly service fees are accrued every month; and (c) prepaid call and Internet card services are recognized as income based upon customer usage.

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

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

Promotion Expenses

Commissions and cellular phone units subsidy costs (other than above-mentioned bundle contract), related to the Company's promotions, are treated as marketing expenses in the year the service to the subscriber is activated.

Foreign Currency Transactions

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

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

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

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

Financial Derivatives — Interest Rate Swap

The notional amounts of interest rate swap agreements are not recognized in the financial statements because these agreements do not require the settlement of such notional amounts. However, a memorandum entry is made to note the transaction. The amounts receivable or payable under the agreements, which result from the differences in the interest rates, are accrued as interest income or interest expense of the hedged item at the balance sheet dates and at settlement dates.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 1999 and 2000 have been reclassified to conform to the financial statements presentation as of, and for the year ended, December 31, 2001.

3. Foreign Currency Translation

The financial statements are stated in New Taiwan dollars. Solely for the reader's convenience, translations of New Taiwan dollars into U.S. dollars are included, using the noon buying rate in New York City for cable transfers in New Taiwan dollars as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2001, which was NT$35.00 to US$1.00. The translation should not be construed as a representation that the New Taiwan dollar amounts have been, or could be, converted into U.S. dollars at this or any other exchange rate.

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

4. Cash and Cash Equivalents

	December 31		
	2000	2001	
	NT$	NT$	US$
Cash			
Cash on hand	$ 6,870	$ 8,338	$ 238
Checking and demand deposits	1,814,257	406,084	11,603
Time deposits — with interest of 5.8% to 6.07% in 2000 and 1.69% in 2001	227,143	140,814	4,023
	2,048,270	555,236	15,864
Cash equivalents			
Commercial paper purchased under agreements to resell — with interest of 2.25% to 2.30%	—	2,252,563	64,359
	$2,048,270	$2,807,799	$80,223

5. Short-Term Investments

	December 31, 2000
	NT$
Certificates of deposit — with interest of 6.4%	$ 1,200
Government bonds — with interest of 7.3% to 7.75%	33,600
	$34,800

6. Inventories

	December 31		
	2000	2001	
	NT$	NT$	US$
SIM Cards	$470,955	$512,639	$14,647
Cellular phone equipment	399,070	254,045	7,259
Cellular phone accessories	2,564	5,615	160
	872,589	772,299	22,066
Less-allowance for losses	72,931	41,740	1,193
	$799,658	$730,559	$20,873

The insurance coverage on inventories as of December 31, 2001 amounts to about NT$260,000 (US$7,429).

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

7. Investment in Shares of Stock

	December 31				
	2000		2001		
	NT$	% of Ownership	NT$	US$	% of Ownership
E. World (Holdings) Ltd.	$82,191	19	$ 25,183	$ 719	19
Far EasTone 3G Telecommunications Co., Ltd.	—	—	1,053,769	30,108	100
	$82,191		$1,078,952	$30,827	

The Company incorporated Far EasTone 3G Telecommunications Co., Ltd. in December 2001 with capitalization of NT$1,200,000 (US$34,286). The total assets and total operating revenues of Far EasTone 3G Telecommunications Co., Ltd. are less than 10% of the Company's total assets and total operating revenues. Accordingly, its financial statements were not consolidated into the Company's accompanying financial statements.

The equity interest in E. World (Holdings) Ltd. was acquired in 2000. Since the combined equity interest of the Far Eastern Group in E. World (Holdings) allows the Company to exercise significant influence on its operating and financial policy decisions, this investment is accounted for using the equity method. As permitted, the Company deferred the recognition of equity in net income or net loss for one fiscal year from the date of acquisition because the investee's financial statements could not be timely obtained.

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

8. Property and Equipment

Accumulated depreciation consists of:

	December 31		
	2000	2001	
	NT$	NT$	US$
Buildings and equipment	$ 26,607	$ 58,019	$ 1,658
Computer equipment	676,725	1,174,167	33,548
Operating equipment	5,008,218	9,261,104	264,603
Office equipment	114,933	207,602	5,931
Leasehold improvement	195,532	328,489	9,385
Miscellaneous equipment	28,936	34,993	1,000
	$6,050,951	$11,064,374	$316,125

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

The Company leases Internet equipment (including software) for a period of three years with the total lease payments amounting to NT$35,686 (US$1,020). The lease agreements qualify as capital leases since: (a) the present value of the future lease payments under the agreements is more than 90% of the fair value of the leased assets, and (b) the Company has the option to purchase all the leased equipment at a bargain purchase price of NT$1. The details of these leases as of December 31, 2000 and 2001 are as follows:

	December 31		
	2000	2001	
	NT$	NT$	US$
Total future lease payments	$85,746	$50,060	$1,430
Less — imputed interest expense	7,116	5,746	164
	78,630	44,314	1,266
Less — lease payable within one year (included in other current liabilities)	30,940	30,219	863
Long-term lease obligations	$47,690	$14,095	$ 403

Depreciation on property and equipment amounted to NT$2,272,000 in 1999, NT$3,082,784 in 2000 and NT$5,023,999 (US$143,543) in 2001.

Costs of property and equipment include capitalized interest of NT$165,438 in 1999, NT$323,311 in 2000 and NT$330,165 (US$9,433) in 2001.

Insurance coverage on property and equipment as of December 31, 2001 amounted to NT$48,445,000 (US$1,384,143).

9. Long-Term Liabilities

	December 31, 2000		
	Within One Year	Others	Total
Secured bonds	$ —	$2,200,000	$2,200,000
Loan — Shin Kong Life Insurance Co.	—	1,470,000	1,470,000
Commercial paper	1,430,000	3,537,678	4,967,678
	$1,430,000	$7,207,678	$8,637,678

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

	December 31, 2001			
	Within One Year	Others	Total NT$	Total US$
Secured bonds	$ 308,000	$1,892,000	$ 2,200,000	$ 62,857
Loan — Shin Kong Life Insurance Co.	—	1,470,000	1,470,000	42,000
Commercial paper	1,752,000	4,811,620	6,563,620	187,532
Bank loans	—	300,000	300,000	8,572
	$2,060,000	$8,473,620	$10,533,620	$300,961

a. ***Secured Bonds***

On November 30, 2000, the Company issued five-year domestic secured bonds (see Note 14) totaling NT$2,200,000; with each unit having a face value of NT$1,000 and bearing 5.06% interest compounded semiannually. The holders, starting on December 1, 2002 and every six months thereafter, may redeem the bonds up to an amount equivalent to 14% to 15% of their face value each time.

b. The loan with Shin Kong Life Insurance Co. is secured by a guaranty issued by a bank consortium and bears interest at a rate of 7.825% in 2000 and 5.025% in 2001. The principal and interest payments on the loan are due on January 25, 2005.

c. (1) Commercial paper amounting to NT$4,967,678 and NT$5,863,836 (US$167,538) in 2000 and 2001 bears variable interest rates ranging from 4.79% to 6.55% as of December 31, 2000 and 2.41% to 2.57% as of December 31, 2001, and matures within one year. A consortium of banks, under a revolving credit arrangement, guarantees the commercial paper to be issued by the Company through August 30, 2005. Starting in 2001, the maximum amount of commercial paper that can be issued under the agreement will be decreased by 11% to 15% every six months.

(2) Commercial paper amounting to NT$699,784 (US$19,994), with annual interest ranging from 2.22% to 2.45%, is due on January 4, 2002. The financial institution guarantees the Company to reissue the commercial paper until June 10, 2003.

d. ***Bank Loans***

(1) The Company took a loan from First Commercial Bank in 2001 amounting to NT$100,000 (US$2,857). The loan is payable, starting in 2004 and every six months thereafter, at an amount that is equal to 16.50% to 17.00% of the principal each time with the final payment due on or before December 28, 2006. The interest rate on the balance as of December 31, 2001 was 3.94%.

(2) The Company took a loan amounting to NT$200,000 (US$5,714) from BNP Paribas. The related agreement is a revolving loan agreement that allows the Company to borrow the maximum amount of NT$200,000 until May 23, 2004. The interest on the loan was 3.22% as of December 31, 2001.

As of December 31, 2001, the Company has unused long-term and short-term credit lines that are available for long-term and short-term credit facilities of approximately NT$1,600,000 (US$45,714) and NT$4,570,000 (US$130,571), respectively.

The Company is planning to issue unsecured bond in the amount of NT$4,200,000 (US$120,000) with interest at a rate of 3.3716% to 3.4%. The Securities and Futures Commission and the Ministry of Finance had approved such plan on January 9, 2002.

10. Stockholders' Equity

Under government regulations: (a) capital surplus can only be used to offset a deficit or be capitalized; and (b) the paid-in capital in excess of par value can only be transferred to capital as stock dividend once a year and only at prescribed limits.

The Company's Articles of Incorporation provide that 10% of net income every year shall be appropriated as legal reserve after paying the income tax and offsetting any accumulated deficit. In addition, in cases where the Company decides to distribute dividends, 2% of the remaining balance shall be appropriated as bonuses to employees and 1% of the remaining balance shall be appropriated as remuneration to directors and supervisors. The disposition of the remaining distributable earnings shall be determined by the stockholders.

Under the ROC Company Law, the foregoing appropriation for legal reserve shall be made until the accumulated reserve equals the aggregate par value of the Company's outstanding capital stock. This reserve can only be used to offset a deficit, or when reaching 50% of the aggregate par value of the Company's outstanding capital stock, up to 50% of the reserve can be distributed as stock dividend.

The cash dividends shall be at least 10% of total dividends declared. Such percentage can be adjusted and approved by the stockholders depending on the cash requirement of any significant future capital expenditures plans.

A regulation issued by the Securities and Futures Commission provides that, a special reserve equivalent to the debit balance of any account shown in the stockholders' equity, other than the deficit, shall be made from unappropriated retained earnings. The special reserve shall be adjusted accordingly based on the debit balance of such accounts at year-end.

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

Non-corporate ROC-resident shareholders are allowed a tax credit for the income tax paid by the Company on earnings under the Integrated Income Tax System. An Imputation Credit Account (ICA) is maintained by the Company for such income taxes and the tax credits allocated to each shareholder. The maximum credit available for allocation to each shareholder cannot exceed the balance shown in the ICA on the date of distribution of dividends.

11. Pension Plan

The Company has a defined benefit pension plan covering all regular employees which provides benefits based on length of service and basic pay on the final month of employment.

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

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

The Company's contributions to the Fund were NT$17,419 in 1999, NT$26,114 in 2000 and NT$33,494 (US$957) in 2002, respectively. The balances of the Fund were NT$29,412 in 1999, NT$57,445 in 2000 and NT$93,922 (US$2,683) in 2001, respectively.

Certain information related to the pension plan is as follows:

a. Pension cost consists of:

	December 31			
	1999	2000	2001	
	NT$	NT$	NT$	US$
Service cost	$36,120	$60,147	$77,871	$2,225
Interest cost	2,709	5,233	8,909	254
Expected return on pension assets	(1,259)	(2,672)	(4,739)	(136)
Amortization	1,294	1,492	1,280	37
Benefit from pension plan curtailment	—	—	(11,871)	(339)
	$38,864	$64,200	$71,450	$2,041

b. Accrued pension cost:

	December 31			
	1999	2000	2001	
	NT$	NT$	NT$	US$
Benefit obligation				
Vested benefit obligation	$ 3,157	$ 4,283	$ 6,903	$ 197
Non-vested benefit obligation	23,729	41,976	68,481	1,957
Accumulated benefit obligation	26,886	46,259	75,384	2,154
Additional benefits based on projected and future salaries	53,618	99,516	98,397	2,811
Projected benefit obligation	80,504	145,775	173,781	4,965
Fair value of plan assets	(29,412)	(57,445)	(93,922)	(2,683)
Unfunded projected benefit obligation	51,092	88,330	79,859	2,282
Unrecognized net transition obligation	(16,816)	(15,522)	(13,338)	(381)
Unrecognized pension gain (loss)	(13,004)	(13,450)	30,793	879
Accrued pension cost	$21,272	$59,358	$97,314	$2,780
c. Vested benefits	$ 3,815	$ 5,157	$ 7,785	$ 222

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

d. Actuarial assumptions

	1999	2000	2001
Discount rate used in determining present value	6.5%	6.0%	5.0%
Future salary increase rate	6.0%	6.0%	5.0%
Expected rate of return on plan asset	6.5%	6.0%	5.0%

12. Income Tax Expense (Benefit)

a. The reconciliation of the income tax expense calculated based on income before income tax at statutory income tax rate and income tax expense — current is as follows:

	December 31			
	1999	2000	2001	
	NT$	NT$	NT$	US$
Income tax expense computed at statutory tax rate (25%)	$500,803	$980,646	$1,597,433	$45,641
Add (deduct) tax effects of				
Permanent differences	(6,876)	(334)	25	1
Temporary differences	190,645	126,401	521,450	14,898
Tax-exempt income	—	(605,762)	(804,737)	(22,992)
Unappropriated earnings tax	—	97,193	39,197	1,120
Investment tax credits	(146,863)	(299,072)	(676,684)	(19,334)
Loss carryforwards	(390,845)	—	—	—
Income tax payable	$146,864	$299,072	$ 676,684	$19,334

The balance of income tax payable on December 31, 2001 was net of creditable income tax of NT$5,091 (US$146).

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

b. Income tax expense (benefit) consisted of:

	December 31			
	1999	2000	2001	
	NT$	NT$	NT$	US$
Income tax expense — current	$146,864	$299,072	$676,684	$19,334
Income tax benefit — deferred	216,352	(418,403)	(954,972)	(27,285)
Prior year's adjustment	—	(117)	8,142	232
Income subject to a separate rate of 20%	4,759	2,366	592	17
Income tax expense (benefit)	$367,975	$(117,082)	$(269,554)	$(7,702)

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

c. Deferred income tax assets and liabilities as of December 31, 2000 and 2001 consist of:

	December 31		
	2000	2001	
	NT$	NT$	US$
Deferred income tax assets — current (included in other current assets)			
Deferred income tax assets			
Provision for doubtful account	$229,912	$677,822	$19,366
Employee welfare expense	13,500	9,000	257
Provision for losses on inventories	15,983	8,185	234
Unrealized exchange loss	966	4,061	116
Inventories write-off	2,250	2,250	64
Accrued research and development expenses	15,331	936	27
	277,942	702,254	20,064
Deferred income tax liabilities – insurance claim	(20,000)	(2,246)	(64)
	$257,942	$700,008	$20,000
Deferred income tax assets — noncurrent			
Investment tax credits	$489,388	$ 911,245	$26,036
Depreciation resulting from the differences in estimated service lives of property and equipment	199,810	269,776	7,708
Cumulative equity in net loss of investee companies	—	41,511	1,186
Accrue pension cost	14,883	24,372	696
Impairment loss on properties not currently used in operations	17,025	—	—
Preoperating expenses	12,892	—	—
	$733,998	$1,246,904	$35,626

d. Integrated income tax information:

	2000 NT$	2001 NT$	2001 US$
Balance of Imputation credit account (ICA)	$ 72,982	$ 12,402	$ 354

The balance of the ICA as of December 31, 2001 is equivalent to 0.21% of the unappropriated earnings as of such date and the ratio of the balance of the ICA, on the date the dividend was distributed in 2001, to the balance of the undistributed earnings as of 2000 was 9.43%.

The tax rate used in calculating deferred income tax is about 25%.

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

As of December 31, 2001, the unused investment tax credits are summarized as follows:

Expired Year	NT$	US$
2002	$184,306	$ 5,266
2003	66,516	1,901
2004	660,423	18,869

Income tax returns through 1997 have been examined by the tax authorities.

13. Significant Related Party Transactions

The Company, in addition to those disclosed in Note 15, engages in business transactions with the following related parties:

Related Party	Nature of Relationship
a. Yuang Ding Co. (YDC)	Same chairman as that of the Company
b. New Century InfoComm Tech Co., Ltd. (NCIC)	Same chairman as that of the Company
c. Far Eastern International Leasing Corp. (FEILC)	Supervisor of the Company
d. Far Eastern Department Stores (FEDS)	Same chairman as that of the Company
e. Far Eastern Enterprise Ltd. (FEEL)	Same chairman as that of the Company
f. Far Eastern Continent Company (FECC)	Same chairman as that of the Company
g. E. World Ltd. (E. World)	Same chairman as that of the Company
h. Far Eastern Textile Ltd. (FETL)	Parent company of a major stockholder
i. AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder
j. AT&T Corp. (AT&T)	Parent company of AWS
k. Far Eastern Telecom Engineering Corp. (FETEC) (formerly Far Eastern Consulting Engineers Corp.)	A subsidiary of YDC
l. Far EasTone 3G Telecommunications Co., Ltd. (FET3G)	Equity-accounted investee
m. Far Eastern Technology Developmental Foundation (FETTDF)	Donation of the foundation over one-third

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

The significant transactions with the aforementioned parties are summarized as follows:

		Years Ended December 31			
		1999	2000	2001	
		NT$	NT$	NT$	US$
During the year					
Operating revenue	i				
NCIC	ii	$ 12	$ 3,579	$195,549	$5,587
FETL		6,126	1,575	—	—
YDC		999	883	—	—
Other	xiii	5,218	2,424	2,068	59
		$12,355	$ 8,461	$197,617	$5,646
Operating cost and expenses					
Service cost					
NCIC	ii	$ —	$ —	$ 530	$ 15
Rental					
FEILC	iii	$ —	$201,447	$180,597	$5,160
FETL	iv	47,570	46,760	52,254	1,493
YDC	v	30,417	24,194	2,323	66
Other	vi and xiii	19,046	14,562	7,585	217
		$97,033	$286,963	$242,759	$6,936

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

		December 31			
		1999	2000	2001	
		NT$	NT$	NT$	US$
Management service fee					
AWS	vii	$80,000	$ 56,876	$ 90,583	$ 2,588
Trademark license fee					
AT&T	Note 15	$33,596	$ 31,898	$ 33,451	$ 956
Research and development expense					
FETTDF	xii	$ —	$ —	$ 16,702	$ 477
Non-operating income — service revenue					
E.World	x	$ —	$ 12,966	$ —	$ —
NCIC	viii	—	7,426	—	—
		$ —	$ 20,392	$ —	$ —
Purchase of property and equipment from related parties					
FETEC	viii and Note 15	$ —	$451,634	$410,552	$11,730
YDC	ix	17,275	8,044	376	11
Other	xiii	—	—	778	22
		$17,275	$459,678	$411,706	$11,763

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

		December 31		
		2000	2001	
		NT$	NT$	US$
At end of year				
Other current assets Other receivable				
FET3G	xi	$ —	$147,777	$4,222
E. World	x	100,566	—	—
NCIC	viii and Note 15	130,019	—	—
		$230,585	$147,777	$4,222
Prepaid expense				
FEILC	iii	$ 32,642	$ 6,107	$ 175
FEDS	vi	1,013	1,172	33
YDC	v	1,255	1,067	30
FETL	iv	1,782	953	27
Other	xiii	825	347	10
		$ 37,517	$ 9,646	$ 275

		December 31		
		2000	2001	
		NT$	NT$	US$
Refundable deposits				
FEILC	iii	$107,985	$145,785	$ 4,165
YDC	v	702	804	23
Other	xiii	80	—	—
		$108,767	$146,589	$ 4,188
Accounts payable				
FETEC	viii and Note 15	$494,504	$362,588	$10,360
NCIC	ii	—	143,671	4,104
AWS	vii	58,437	68,876	1,968
AT&T	Note 15	64,898	35,206	1,006
Other	xiii	3,776	9,550	273
		$621,615	$619,891	$17,711
Other current liabilities				
Other payable				
NCIC	viii and Note 15	$ —	$ 58,663	$ 1,676

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

Disposal of Properties	Sales	Cost	Book Value	Gain/Loss on Disposal
2000 (NT$)				
E. World	$3,127	$3,440	$3,127	$—
2001 (NT$)				
E. World	1,494	1,686	1,494	—
2001 (US$)				
E. World	43	48	43	—

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

i. Operating revenues (such as service revenue and revenues from sales of cellular phones units and accessories) from related parties, is based on normal service charge fees, selling prices and collection terms.

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

iii. The Company leased from FEILC the following: (a) its office spaces in Neihu from February 2000 to January 2003. At the end of contract period, the Company has the option to renew the contract or buy the office buildings at the price of NT$1,569,520; (b) mobile switch centers located in Neihu, Tainan and Kaohsiung from January 2000 to December 2003; (c) the land and mobile switch centers located in Taichung and Hsinchu; and (d) vehicles. The term of the lease for the land and the mobile switch center located in Taichung is from May 2000 to three years after the operating license received for the switch center while that in Hsinchu was from March 1, 2001 to three years after the completion of the construction of switch center. Rentals are in accordance with underlying contracts.

iv. The Company leased from FETL several parcels of the land and building spaces for the period from May 1997 to November 2014. The properties are located in Yatung Street and Renai Street in Panchao City; Yuantung Street in Chungli; and Wuku in Taipei County and other locations in Taiwan.

v. The Company leased certain floors at The Mall from November 2001 to December 2002 from YDC.

vi. The trade accounts receivable from FEEL, FEDS and FECC represents proceeds from sales of SIM cards and mobile phones to customers in the kiosks owned by those entities less commissions paid. The commission paid is accounted for as rental expense. Those arrangements were all terminated in 2000.

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

vii. The Company signed a Service Agreement with AWS in January 1997. AWS, pursuant to the Agreement, provides consulting services related to the construction of a wireless network and business operations. The service charges are based on the actual expenses incurred by the AWS consultants.

viii. The Company has contracts with NCIC for the construction and joint use of telecommunications network and backbone networks facilities. Those facilities were constructed by FETEC. The Company, under the terms of the agreement, pays the entire construction costs to FETEC and recognizes receivable from NCIC for its share. Also NCIC, under the terms of the agreement, pays the entire construction costs to FETEC and recognizes receivable from the Company for its share. Moreover, receivable and payable are settled by net amount. The service revenue from NCIC arose from management service provided in connection with such construction project.

ix. The Company paid construction project fee (the "Fee") to YDC for the construction of retail stores, switch centers and cell sites. The Fee is based on actual hours incurred.

x. The Company provided E. World management service and advances for its daily operating expenditures.

xi. The Company renders management service to FET3G and advances for its daily operating expenditures during its development stage.

xii. FETTDF undertakes research on telecommunication technology for the Company and communicate its results to employees of the Company.

xiii. Accounts of other related parties are less than 5% of respective accounts.

14. Assets Pledged or Mortgaged

The following assets have been pledged or mortgaged as collateral or security for a lease contract on a telecommunications transmission line and credit lines:

	December 31		
	2000	2001	
	NT$	NT$	US$
Short-term investments	$ 1,200	$ —	$ —
Property and equipment — net	8,687,909	7,446,493	212,757
	$8,689,109	$7,446,493	$212,757

15. Commitments as of December 31, 2001

In addition to those disclosed in Note 13, the Company has significant commitments as follows:

a. The Company has outstanding contracts for acquisition of telecommunications and other equipment for about NT$1,752,198 (US$50,063).

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

b. The rentals for the following five years are summarized as follows:

Year	NT$	US$
2002	$1,408,500	$40,243
2003	1,089,144	31,118
2004	1,131,375	32,325
2005	1,175,256	33,579
2006	1,220,850	34,881

c. The Company signed a Memorandum of Understanding with NCIC for the construction, joint use and sharing portion of the costs of a telecommunications network and backbone network that is being constructed by Far Eastern Telecom Engineers Corp. As of December 31, 2001, the construction costs of outstanding contracts are about NT$74,184 (US$2,120).

d. The Company signed an agreement with AT&T Corp. to use the trademark of AT&T for the purposes of marketing, advertising and promotion in the Republic of China on May 22, 1997. Under the agreement, if the Company's net cash flow from operations before payments of the trademark fee under the agreement and before capital expenditure is negative, the Company pays trademark license fees at an amount of US$1,000 every year. However, if the Company's net cash flow from operations before payments under the agreement and before capital expenditure is positive, the Company pays trademark license fees equivalent to 1% of the net service revenues from cellular and internet business up to a maximum amount of US$4,500.

16. Financial Instruments

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

a. ***Outstanding Contracts and Credit Risk***

	December 31, 2000				
Type of Transaction	Notional Amount	Fixed Rate	Market Rate	Settlement Date	Maturity
Interest rate swap	$2,000,000	6.085%–6.2%	5.15%	Quarterly	May 21, 2002 to July 2, 2002

	December 31, 2001				
Type of Transaction	Notional Amount	Fixed Rate	Market Rate	Settlement Date	Maturity
Interest rate swap	$2,000,000 (US$57,143)	6.085%–6.2%	2.5%	Quarterly	May 21, 2002 to July 2, 2002

Interest expenses on these swap contracts for the years ended December 31, 2000 and 2001 were NT$23,947 and NT$43,442 (US$1,241), respectively.

The Company is exposed to credit risk in the event of nonperformance by the counterparties of their contractual obligations. To manage this risk, the Company transacts only with selected financial institutions with good credit ratings. Thus, no material losses resulting from counter party defaults are anticipated.

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

b. ***Market Risk***

The Company is exposed to market risks in respect to interest rate fluctuations on its obligations that bear variable interest rates. Since the interest rate swap contracts are settled by net amount, management believes that the market risk is not material.

c. ***Liquidity Risk, Cash-Flow Risk and Future Cash Demand***

The interest rate swap contracts are settled by net amount and the expected cash demand is not significant. Management believes that the Company has enough operating capital to meet cash demand.

d. ***The Purpose of Derivative Financial Instruments Held or Issued/the Strategies to Meet the Purpose***

The Company entered into interest rate swap contracts to hedge fluctuations on interest rates and not for purpose of trading for profit. The overall purpose of these contracts is to hedge the Company's exposure to cash-flow risk. The Company has designated fixed interest rate swap with the hedged item and periodically evaluates the effectiveness of the instruments.

e. The estimated fair values of financial instruments are as follows:

	December 31					
	2000		2001			
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	NT$	NT$	NT$	NT$	US$	US$
Financial assets						
Cash and cash equivalents	$2,048,270	$2,048,270	$2,807,799	$2,807,799	$80,223	$80,223
Short-term investments	34,800	37,830	—	—	—	—
Accounts receivable — net	6,885,380	6,885,380	4,114,428	4,114,428	117,555	117,555
Investment in shares of stocks	82,191	82,191	1,078,952	1,078,952	30,827	30,827
Refundable deposits	322,666	297,042	384,436	368,884	10,984	10,539
Financial liabilities						
Notes payable	33,989	33,989	28,573	28,573	816	816
Accounts payable	862,076	862,076	504,159	504,159	14,405	14,405
Payables to related parties	621,615	621,615	619,891	619,891	17,711	17,711
Payables related to acquisitions of properties	1,427,213	1,427,213	1,417,422	1,417,422	40,498	40,498
Bonds payable (including within one year)	2,200,000	2,191,649	2,200,000	2,319,749	62,857	66,279
Long-term debts (including within one year)	6,437,678	6,458,274	8,333,620	8,349,965	238,104	238,570
Guarantee deposits received	4,125,125	4,125,125	2,966,635	2,966,635	84,761	84,761
Derivative financial instruments						
Interest rate swap	—	(27,504)	—	(41,247)	—	(1,178)

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

(1) The carrying values of cash and cash equivalents, accounts receivable, notes payable, accounts payable, payables to related parties, related to acquisitions of property equipment reported in the balance sheets approximate the fair values because of the short maturity of these instruments.

(2) Fair values of short-term investments are based on market prices or, if market prices are unavailable, upon the cost of investments. The fair values of long-term investment is based on market prices or, if market prices are unavailable, upon the equity in the net assets of the investee.

(3) Fair values of bonds payable and long-term debts are based on market prices or, if market prices are unavailable, upon present value of expected cash outflows. Discount rate is determined by rate of bank loans, which the Company can obtain in similar conditions (e.g. maturity date).

(4) The values of refundable deposits and guarantee deposits received are based on the present values of future payments or receipts.

(5) Fair values of derivative financial instruments are based on quoted market prices obtained from the respective counterparties.

17. Industry Segment Information

a. *Industry*

The Company is primarily a wireless communication service provider. No segment information is provided since the revenues from wireless communications services account for more than 90% of the Company's total revenues.

b. *Foreign Operations.*

The Company has no revenue-generating unit that operates outside the R.O.C.

c. *Foreign Revenues*

The Company has no foreign revenues.

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

	2000		2001		
	NT$	Percentage of Operating Revenue	NT$	US$	Percentage of Operating Revenue
Company A	$6,320,424	20	$7,781,605	$222,332	23

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English Translation of Financial Statements Originally Issued in Chinese

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

February 6, 2003

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

We have reviewed the accompanying balance sheets of Far EasTone Telecommunications Co., Ltd. as of September 30, 2001 and 2002, and the related statements of income and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with statement of auditing, standards No. 36 — "standards for review of financial statement" in the Republic of China, which consist principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with generally accepted accounting principles in the Republic of China.

As explained in Note 3, the U.S. dollar amounts shown in the accompanying financial statements for the nine months ended September 30, 2002 have been included solely for the reader's convenience. The N.T. dollar amounts were translated at the rate of NT$34.92 to US$1 prevailing on September 30, 2002. The translations should not be construed as a representation that the New Taiwan dollar amounts have been, or could be, converted into U.S. dollars at this or any other exchange rate.

T N Soong & Co
An Associate Member Firm of Deloitte Touche Tohmatsu
effective April 22, 2002
(Formerly a Member Firm of Andersen Worldwide, SC)
Taipei, Taiwan
The Republic of China

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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 review such financial statements are those generally accepted and applied in the Republic of China.

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Balance Sheets (Unaudited)
September 30, 2002 and 2001
(In Thousands of New Taiwan or U.S. Dollars, Except Par Value)

	2001	2002	
	NT$	NT$	US$ (Note 3)
ASSETS			
CURRENT ASSETS			
Cash *(Note 4)*	$ 785,699	$ 1,378,351	$ 39,472
Notes receivable and accounts receivable — net of allowance for doubtful accounts of NT$1,526,083 in 2001 and NT$363,004 in 2002 *(Note 2)*	5,261,706	3,382,598	96,867
Inventories — net *(Notes 2 and 5)*	629,730	607,692	17,402
Prepaid expenses *(Notes 2 and 14)*	787,224	1,873,417	53,649
Other current assets *(Notes 2, 13 and 14)*	670,285	924,923	26,487
Total Current Assets	8,134,644	8,166,981	233,877
INVESTMENTS IN SHARES OF STOCK *(Notes 2 and 6)*	25,184	8,241,187	236,002
PROPERTIES *(Notes 2, 7, 14 and 15)*			
Cost			
Land	128,574	151,834	4,347
Buildings and equipment	526,158	630,571	18,058
Computer equipment	3,169,415	5,035,567	144,203
Operating equipment	37,821,593	43,455,490	1,244,430
Office equipment	584,281	774,765	22,187
Leasehold improvements	1,288,692	1,659,565	47,525
Miscellaneous equipment	46,630	54,802	1,569
Total cost	43,565,343	51,762,594	1,482,319
Less — accumulated depreciation	9,651,320	15,730,637	450,476
	33,914,023	36,031,957	1,031,843
Construction in progress and advances related to acquisitions of equipment	6,930,052	3,311,804	94,840
Net Properties	40,844,075	39,343,761	1,126,683
OTHER ASSETS			
Property not currently used in operations — net *(Note 2)*	139,800	95,100	2,723
Refundable deposits *(Note 14)*	385,900	392,016	11,226
Deferred income taxes *(Notes 2 and 13)*	1,090,596	1,009,352	28,905
Miscellaneous	24,663	30,839	883
Total Other Assets	1,640,959	1,527,307	43,737
TOTAL ASSETS	$50,644,862	$57,279,236	$1,640,299

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Balance Sheets (Unaudited) — Continued
September 30, 2002 and 2001
(In Thousands of New Taiwan or U.S. Dollars, Except Par Value)

	2001	2002	
	NT$	NT$	US$ (Note 3)
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES			
Short-term bank loans *(Note 8)*	$ 650,000	$ —	$ —
Notes payable	69,395	78,463	2,247
Accounts payable	472,882	395,230	11,318
Payables to related parties *(Note 14)*	453,382	441,335	12,638
Income tax payable *(Notes 2 and 13)*	483,618	388,622	11,129
Accrued expenses	2,375,988	2,464,648	70,580
Payables related to acquisitions of properties	1,400,216	1,433,592	41,054
Unearned revenues *(Note 2)*	823,528	2,355,086	67,442
Current portion of long-term debts *(Notes 7 and 9)*	1,752,000	1,260,000	36,082
Other current liabilities *(Notes 2, 7 and 14)*	140,780	702,961	20,131
Total Current Liabilities	8,621,789	9,519,937	272,621
LONG-TERM LIABILITIES *(Notes 7 and 9)*	8,110,924	9,385,427	268,769
OTHER LIABILITIES			
Accrued pension cost *(Notes 2 and 12)*	72,561	123,049	3,524
Guarantee deposits received	3,252,947	2,193,883	62,826
Long-term obligations under capital lease *(Notes 2, 7 and 17)*	22,680	—	—
Total Other Liabilities	3,348,188	2,316,932	66,350
Total Liabilities	20,080,901	21,222,296	607,740
STOCKHOLDERS' EQUITY *(Notes 2 and 10)*			
Capital stocks — $10 par value			
Authorized — 3,360,000 thousand shares			
Issued — 1,890,000 thousand shares in 2001 and 2,305,800 thousand shares in 2002	18,900,000	23,058,000	660,309
Capital surplus:			
Capital in excess of par value	6,156,572	5,967,572	170,893
From investments in shares of stock	—	29,086	833
Total capital surplus	6,156,572	5,996,658	171,726
Retained earnings:			
Legal reserve	431,718	1,097,646	31,433
Unappropriated earnings	5,071,767	5,901,538	169,002
Total retained earnings	5,503,,485	6,999,184	200,435
Cumulative translation adjustments	3,904	3,098	89
Total Stockholders' Equity	30,563,961	36,056,940	1,032,559
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$50,644,862	$57,279,236	$1,640,299

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

(With T N Soong & Co. review report dated February 6, 2003)

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Statements of Income (Unaudited)
For the Nine Months Ended September 30, 2001 and 2002
(In Thousands of New Taiwan or U.S. Dollars, Except Per Share Amounts)

	2001	2002	
	NT$	NT$	US$ (Note 3)
OPERATING REVENUES *(Notes 2 and 14)*			
Sales of cellular phone equipment and accessories	$ 2,562,337	$ 1,006,149	$ 28,813
Less — sales returns and allowances	528	3,395	97
Net sales	2,561,809	1,002,754	28,716
Service revenues	24,282,622	24,665,495	706,343
Other	7,964	7,036	201
Total Operating Revenues	26,852,395	25,675,285	735,260
OPERATING COSTS *(Notes 2 and 14)*			
Cost of sales	2,570,650	997,223	28,557
Cost of services	9,667,460	11,373,303	325,696
Total Operating Costs	12,238,110	12,370,526	354,253
GROSS PROFIT	14,614,285	13,304,759	381,007
OPERATING EXPENSES *(Notes 2, 14 and 15)*			
Marketing	5,436,418	4,461,631	127,767
General and administrative	4,330,442	2,401,052	68,759
Research and development	111,397	170,926	4,895
Total Operating Expenses	9,878,257	7,033,609	201,421
INCOME FROM OPERATIONS	4,736,028	6,271,150	179,586
NONOPERATING INCOME			
Interest	20,852	15,243	437
Reversal of allowance for losses on inventories *(Note 2)*	25,277	34,255	981
Foreign exchange gains — net *(Note 2)*	58,421	—	—
Reversal of allowance for losses on properties not currently used in operation *(Note 2)*	68,100	—	—
Other	138,156	81,177	2,325
Total Nonoperating Income	310,806	130,675	3,743
NONOPERATING EXPENSES			
Interest *(Note 7)*	184,449	238,873	6,841
Equity in net loss of investee companies *(Notes 2 and 6)*	19,816	36,045	1,032
Other	85,614	51,704	1,481
Total Nonoperating Expenses	289,879	326,622	9,354
INCOME BEFORE INCOME TAX	4,756,955	6,075,203	173,975
INCOME TAX EXPENSE (BENEFIT) *(Notes 2 and 13)*	(182,678)	260,354	7,456
NET INCOME	$ 4,939,633	$5,814,849	$166,519
EARNINGS PER SHARE (EXPRESSED IN NEW TAIWAN OR U.S. DOLLARS) *(Note 11)*			
Primary			
Income before income tax expense (benefit)	$ 2.06	$ 2.63	$ 0.08
Net income	$ 2.14	$ 2.52	$ 0.07

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

(With T N Soong & Co review report dated February 6, 2003)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Statements of Cash Flows (Unaudited)
For the Nine Months Ended September 30, 2001 and 2002
(In Thousands of New Taiwan or U.S. Dollars)

	2001	2002	
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 4,939,633	$ 5,814,849	$ 166,519
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,598,018	4,695,696	134,470
Provision for doubtful accounts	1,563,037	148,311	4,247
Reversal of allowance for losses on inventories	(25,277)	(34,255)	(981)
Equity in net loss of investee companies	19,816	36,045	1,032
Reversal of allowance for losses on properties not currently used in operations	(68,100)	—	—
Loss on disposal of properties	6,202	27,747	795
Accrued pension cost	13,202	25,735	737
Deferred income taxes	(681,720)	71,359	2,043
Changes in operating assets and liabilities			
Decrease (increase) in			
Notes receivable and accounts receivable	60,637	583,519	16,710
Inventories	195,205	157,122	4,499
Prepaid expenses	(270,316)	(1,180,122)	(33,795)
Other current assets	457,325	139,102	3,983
Increase (decrease) in			
Notes payable	35,406	49,890	1,429
Accounts payable	(384,463)	(108,929)	(3,119)
Payable to related parties	(168,233)	(178,556)	(5,113)
Income tax payable	184,545	(282,971)	(8,103)
Accrued expenses	(1,265,298)	103,489	2,964
Unearned revenues	72,865	1,336,212	38,265
Other current liabilities	(7,519)	(111,447)	(3,191)
Net Cash Provided by Operating Activities	8,274,965	11,292,796	323,391
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in short-term investments	34,800	—	—
Return of deposit on subscription	41,096	—	—
Acquisitions of investments in shares of stock	—	(7,170,000)	(205,326)
Acquisitions of properties	(10,555,780)	(3,348,437)	(95,889)
Proceeds from sales of properties	6,150	1,694	48
Increase in refundable deposits	(63,234)	(7,580)	(217)
Net Cash Used in Investing Activities	$(10,536,968)	$(10,524,323)	$(301,384)

English Translation of Financial Statements Originally Issued in Chinese

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Statements of Cash Flows (Unaudited) — Continued
For the Nine Months Ended September 30, 2001 and 2002
(In Thousands of New Taiwan or U.S. Dollars)

	2001	2002	
	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from short-term bank loans	$ 650,000	$ —	$ —
Proceeds from long-term debts	1,225,246	111,807	3,202
Bonus paid to employees and directors	(3,636)	(167,504)	(4,797)
Cash dividend paid	—	(1,369,472)	(39,218)
Decrease in guarantee deposits received	(872,178)	(772,752)	(22,129)
Net Cash Provided by (Used in) Financing Activities	999,432	(2,197,921)	(62,942)
NET DECREASE IN CASH	(1,262,571)	(1,429,448)	(40,935)
CASH, BEGINNING OF PERIOD	2,048,270	2,807,799	80,407
CASH, END OF PERIOD	$ 785,699	$1,378,351	$39,472
SUPPLEMENTARY INFORMATION			
Interest paid (excluding capitalized interest)	$ 142,095	$ 120,531	$ 3,452
Income tax paid	$ 307,102	$ 488,628	$13,993
NONCASH FINANCING ACTIVITIES			
Long-term liabilities-within one year	$ 1,752,000	$1,260,000	$36,082
CASH PAID FOR ACQUISITIONS OF PROPERTIES			
Increase in properties	$10,503,101	$3,338,465	$95,603
Decrease (increase) in payables related to acquisitions of properties	26,997	(16,170)	(463)
Decrease in obligations under capital lease	25,682	26,142	749
CASH PAID FOR ACQUISITIONS OF PROPERTIES	$10,555,780	$3,348,437	$95,889
PROCEEDS FROM DISPOSAL OF PROPERTIES			
Total amount of properties sold	$ 6,150	$ 2,477	$ 71
Increase in receivable from properties sold	—	(783)	(23)
CASH RECEIVED FROM DISPOSAL OF PROPERTIES	$ 6,150	$ 1,694	$ 48

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

(With T N Soong & Co review report dated February 6, 2003)

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Notes to Financial Statements
(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

1. General

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 have been traded and listed on the ROC. Over-the-Counter Securities Exchange since December 10, 2001. The Company provides wireless communication, internet and international simple resale (ISR) services and also sells cellular phones units and accessories. The Company's principal stockholders are Far Eastern Textile Ltd. and its affiliates (the "Far Eastern Group") and the AT&T Wireless Group and its affiliates.

The Company provides wireless communication services under two type I licenses (GSM 900 for Northern Sector and GSM 1800 for all sectors; "GSM" means "Global System for Mobile Communications") issued by the Directorate General of Telecommunications (the "DGT") of the ROC. These licenses allow the Company to provide services for 15 years from 1997 as well as entail an annual license fee of 2% of total wireless communication service revenues.

The DGT also issued to the Company a type II license, allowing it to provide Internet services for 10 years from 1999 for a fixed annual license fee based on the amount of the Company's capital stock. In addition, the Company provides, under a type II — ISR license, ISR services for a — 10 years from December 2001 and pays an annual license fee at 0.5% of ISR service revenues.

2. Summary of Significant Accounting Policies

The Company's significant accounting policies, which conform to accounting principles generally accepted in ROC, are summarized as follows:

Allowance for Doubtful Accounts Receivable

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

Inventories

Inventories are stated at the lower of cost or market value. Cost is determined by the weighted average method, while market value is based on net realizable value.

Investments in Shares of Stock

The investments in shares of stock in companies in which the Company exercises significant influence over the operating and financial policy decisions are accounted for by the equity method. Under this method, the investment is initially carried at cost. The investment carrying values are then adjusted proportionately to the Company's share in the investee company's net income or net loss. The increase in the Company's share in the net assets of its investees resulting from its subscription to additional shares of stock issued by the investee companies at a rate not equal to its existing equity in the investees, is credited to a capital surplus account. Any decrease in the Company's share in the net asset of its investee companies is debited against the existing balance of the similar capital surplus account, with the difference debited against unappropriated earnings.

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

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

Costs of stocks sold are determined by the weighted average method.

Properties

Properties are stated at cost. Depreciation expense is computed by the straight-line method over the estimated useful lives of the assets. Major improvements as well as interest expense incurred during the construction period are capitalized, while maintenance and repairs are expensed currently.

Useful lives are estimated as follows:

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

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

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

Properties Not Currently Used in Operations

Properties not currently used in operations, such as telecommunications towers, are stated at the lower of cost or net realizable value.

Pension Costs

Pension costs are recognized on the basis of actuarial calculations. Gains arising from plan curtailment due to pretermination of employees' services are recognized as an adjustment to pension costs in the current period. Unrecognized net transition obligations and unrecognized pension gains or losses are amortized using the straight-line method over 15 years and the average remaining service lives of employees, respectively.

Income Tax

Deferred 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 tax assets that are not certain to be realized. Deferred tax assets and liabilities are classified as current or noncurrent on the basis of the classifications of the related assets and liabilities. A deferred asset or liability that cannot be related to an asset or a liability in the financial statements is classified as current or noncurrent based on the expected realization date of the temporary difference.

The tax credits on investments in eligible equipment, research and development expenses and personnel training expenses are accounted for as a reduction in current period's income tax expense.

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

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

Revenue Recognition

Revenue is recognized when the earnings process is completed or virtually complete and the revenue is realizable and measurable. The costs of providing services are recognized as incurred. Usage revenues (equal to excess of minutes of traffic included in the fixed monthly service fees) from wireless services, Internet and data services and interconnection calls, net of any applicable discount, are billed in arrears and are recognized on the basis of minutes of traffic processed. Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized in full when the services are activated; (b) fixed monthly service fees are accrued every month; and (c) prepaid call and Internet card services are recognized as income based upon customer usage.

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

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

Promotion Expenses

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

Foreign Currency Transactions

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

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

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

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

Financial Derivatives

The notional amounts of interest rate swap agreements are not recognized in the financial statements because these agreements do not require the settlement of such notional amounts. However, a memorandum entry is made to note the transaction. The amounts receivable or payable under the agreements, which result from the differences in the interest rates, are accrued as interest income or interest expense of the hedged item at the balance sheet dates and at settlement dates.

The foreign currency amounts of forward exchange contracts (the "contracts") that are entered into as hedges of foreign currency commitments, are recorded in New Taiwan dollars as assets and/or liabilities using the spot rates on the starting dates of the contracts (the "starting dates"). The premium or discount, which is the foreign currency amount of the contract multiplied by the difference between the contracted forward rate and the spot rates at the starting date, is deferred and then recognized as adjustment to the carrying amounts when the hedged transactions occur. However, if the foreign currency amount of the foreign currency forward contract is in excess of the foreign currency amount of the related commitment, the amortization of the premium or discount related to the excess is recognized as gain or loss in the current period. Also, an amortization of a discount is not deferred if deferral would lead to the recognition of a loss in future periods.

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

3. Foreign Currency Translation

The financial statements are stated in New Taiwan dollars. Solely for the reader's convenience, translations of New Taiwan dollars into U.S. dollars are included, using the noon buying rate in New York City for cable transfers in New Taiwan dollars as certified for customs purposes by the Federal Reserve Bank of New York as of September 30, 2002, which was NT$34.92 to US$1.00. The translation should not be construed as a representation that the New Taiwan dollar amounts have been, or could be, converted into U.S. dollars at this or any other exchange rate.

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

4. Cash

	September 30		
	2001	2002	
	NT$	NT$ (Unaudited)	US$
Cash on hand	$ 8,088	$8,301	$ 238
Checking and demand deposits	777,611	1,125,488	32,231
Time deposits — with interest of 1.54% to 1.67%	—	244,562	7,003
	$785,699	$1,378,351	$39,472

5. Inventories

	September 30		
	2001	2002	
	NT$	NT$ (Unaudited)	US$
SIM cards	$561,134	$286,380	$ 8,201
Cellular phone units	113,097	322,799	9,244
Cellular phone accessories	3,154	5,998	172
	677,385	615,177	17,617
Less — allowance for losses	47,655	7,485	215
	$629,730	$607,692	$17,402

6. Investment in Shares of Stock

	September 30				
	2001		2002		
	NT$	% of OwnerShip	NT$ (Unaudited)	US$	% of OwnerShip
E. World (Holdings) Ltd.	$25,184	19.00	$ 10,342	$ 296	19.00
Yuan-Ze Telecommunications Co., Ltd. (formerly Far EasTone 3G Telecommunications Co., Ltd.)	—	—	8,230,845	235,706	80.71
	$25,184		$8,241,187	$236,002	

The investment in E. World (Holdings) is accounted for by the equity method since the combined equity interests of the Far Eastern Group in E. World (Holdings) allows the Company to exercise significant influence on its operating and financial policy decisions. The amount recognized as equity in the net income or net loss of E. World (Holdings) in the current year is based on the net income or net loss of E. World (Holdings) in the previous year, as the financial statements of the E. World (Holdings) could not be timely obtained.

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

The Company incorporated Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze) as a wholly owned subsidiary in December 2001. Yuan-Ze obtained a 3G license in February 2002 through a bidding process and had additional shares of stock with an aggregate par value of NT$9,170,000 in March 2002. The Company subscribed to shares of stock with aggregate par value NT$7,170,000 only, thereby diluting its equity to 80.71%.

The carrying values of the investment in E. World Holdings are based on stockholders' equity as disclosed in the most current audited financial statements.

The calculation of the carrying value of Yuan-Ze is based on its unreviewed financial statements as of September 30, 2002. The Company believes that the possible adjustments on the carrying values of the investment in Yuan-Ze are not significant if such financial statements have been reviewed.

7. Properties

Accumulated depreciation consisted of:

	September 30		
	2001	2002	
	NT$	NT$ (Unaudited)	US$
Buildings and equipment	$ 48,311	$ 92,693	$ 2,654
Computer equipment	1,010,138	1,761,274	50,437
Operating equipment	8,089,218	13,075,113	374,431
Office equipment	182,644	301,763	8,642
Leasehold improvements	290,692	461,236	13,208
Miscellaneous equipment	30,317	38,558	1,104
	$9,651,320	$15,730,637	$450,476

The Company leases Internet equipment (including software) for three years, with total lease payments amounting to NT$35,686. The lease agreements qualify as capital lease since (a) the present value of the future lease payments under the agreement is more than 90% of the fair value of the leased assets, and (b) the Company has the option to buy all the leased equipment at a bargain purchase price of NT$1. The details of the lease as of September 30, 2001 and 2002 were as follows:

	September 30		
	2001	2002	
	NT$	NT$ (Unaudited)	US$
Total future lease payments	$58,981	$23,295	$667
Less — imputed interest expense	6,032	5,123	147
	52,949	18,172	520
Less — lease payable within one year (included in other current liabilities)	30,269	18,172	520
Long-term obligations under capital lease	$22,680	$ —	$ —

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

Capitalized interest on properties was as follows:

	September 30		
	2001	2002	
	NT$	NT$ (Unaudited)	US$
Total interest expense	$449,930	$380,791	$10,905
Less — interest capitalized — interest at 5.05% to 6.48% in 2001 and 3.78% to 4.86% in 2002	265,481	141,918	4,064
Interest expense — net of amounts capitalized	$184,449	$238,873	$ 6,841

Properties amounting to NT$9,322,085 and NT$10,739,379 (US$307,542) had been pledged or mortgaged as collaterals as of September 30, 2001 and 2002, respectively.

8. Short-Term Bank Loans

The bank loans, with interest rates from 3.45% to 3.75%, were fully paid in October 2001.

9. Long-Term Liabilities

	September 30, 2001		
	Within One Year	Others	Total NT$
		(Unaudited)	
Secured bonds	$ —	$2,200,000	$2,200,000
Loan — Shin Kong Life Insurance Co.	—	1,470,000	1,470,000
Commercial paper	1,752,000	4,440,924	6,192,924
	$1,752,000	$8,110,924	$9,862,924

	September 30, 2002			
	Within One Year	Others	Total NT$	Total US$
		(Unaudited)		
Unsecured bonds	$ —	$4,200,000	$ 4,200,000	$120,275
Secured bonds	616,000	1,584,000	2,200,000	63,001
Loan — Shin Kong Life Insurance Co.	—	1,470,000	1,470,000	42,096
Commercial paper	644,000	1,931,427	2,575,427	73,752
Bank loans	—	200,000	200,000	5,727
	$1,260,000	$9,385,427	$10,645,427	$304,851

a. ***Unsecured Bonds***

These are five-year unsecured domestic bonds issued in February 2002. The total face value of the bonds is NT$4,200,000, with each bond having a face value of NT$1,000 and bearing 3.4% interest annually. Redemption is based on bond type, as follows: (i) Type I bond — 40% of the face amount in February 2006 and 60% of the face amount in February 2007 and (ii) Type II bond — 60% of the face amount in February 2006 and 40% of the face amount in February 2007.

b. ***Secured Bonds***

These are five-year secured domestic bonds issued on November 30, 2000. The total face value of the bonds is NT$2,200,000, with each bond having a face value of NT$1,000. The bonds bear interest at 5.06%, compounded semiannually. Starting on December 1, 2002 and every six months thereafter, holders may redeem the bonds for up to 14% to 15% of their face value.

c. The loan from Shin Kong Life Insurance Co. is secured by a guaranty issued by a bank consortium. The loan interest rates were 5.025% and 4.725% as of September 30, 2001 and 2002, respectively. The principal and accumulated interests on the loan are due on January 25, 2005.

d. ***Commercial Paper***

(1) Commercial paper amounting to NT$1,975,465 and with one-year maturity were issued at discounts ranging from 2.52% to 3.24% as of September 30, 2001, and 1.875% to 1.943% as of September 30, 2002. Under a Revolving Note Issuance Facility, a consortium of banks, guarantees the commercial paper issued and to be issued by the Company through August 30, 2005. Starting in 2001, the maximum amount (which is NT$7,300,000) of commercial paper that can be issued under the agreement will be decreased by 14% to 15% every six months.

(2) Commercial paper amounting to NT$599,962, with annual interest ranging from 1.72% to 1.95%, is due on October 4, 2002. The Company got guaranty from the financial institution to reissue the commercial paper until June 10, 2004.

e. ***Bank Loans***

The Company obtained a NT$200,000 loan from First Commercial Bank at interest rates ranging from 3.33% to 3.38%. The loan is payable in installment payments starting in 2004 and every six months thereafter, with payments ranging from 16.50% to 17.00% of the principal. The final payment is due on May 17, 2007.

10. Stockholders' Equity

Under government regulations: (a) capital surplus from equity-method investments cannot be used to offset a deficit or be capitalized; and (b) capital surplus — capital in excess of par value can only be used to offset a deficit or transferred to capital as stock dividend within prescribed limits only.

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

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

Under the ROC Company Law, the appropriation for legal reserve should be made until the accumulated reserve equals the aggregate par value of the Company's outstanding capital stock. This reserve can only be used to offset a deficit, or when the reserve reaches 50% of the aggregate par value of the Company's outstanding capital stock, up to 50% of the reserve can be distributed as stock dividend.

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

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

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

On June 25, 2002, the stockholders approved the following appropriations and distributions of the 2001 earnings:

	NT$
Legal reserve	$ 665,928
Bonus to employees	119,867
Remuneration to directors and supervisors	59,934
Cash dividend — 10%	1,890,000
Stock dividend — 21%	3,969,000

The stockholders also approved the capitalization of unappropriated earnings of NT$3,969,000 and capital surplus — capital in excess of par value of NT$189,000. The aggregate par value of the Company's outstanding capital stock after the foregoing stock dividend and capitalization of capital surplus increased to NT$23,058,000. The issuance of additional capital stock was registered on September 19, 2002.

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

11. Earnings Per Share

The information for calculating the earnings per share is as follows:

	Amount (Numerator)		Capital Stock	Earnings Per Share (Dollars)	
	Income before Income Tax	Net Income	(Denominator) (in Thousand Shares)	Income before Income Tax	Net Income
Nine months ended September 30, 2001 (unaudited)					
Net income	NT$4,756,955	NT$4,939,633	2,305,800	NT$2.06	NT$2.14
Nine months ended September 30, 2002 (unaudited)					
Net income	NT$6,075,203	NT$5,814,849	2,305,800	NT$2.63	NT$2.52
	(US$ 173,975)	(US$ 166,519)		US$0.08	US$0.07

For the nine months ended September 30, 2001, the earnings per share retroactively adjusted for the 2001 stock dividend declared in 2002 decreased from NT$2.52 (before tax) to NT$2.06 and from NT$2.61 (after tax) to NT$2.14.

12. Pension Plan

The Company has a pension plan for all regular employees, which provides benefits based on service years and basic pay on the final month of employment.

For the nine months ended September 30, 2001 and 2002, pension cost amounted to NT$40,491 and NT$49,303 (US$1,412), respectively.

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

The Company's contributions to the Fund were NT$23,182 and NT$23,568 (US$675) for the nine months ended September 30, 2001 and 2002, respectively. The payments of benefits from the Fund amounted to NT$7,611 (US$218) for the nine months ended September 30, 2002. Fund balances were NT$80,628 and NT$109,879 (US$3,147) as of September 30, 2001 and 2002, respectively.

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

13. Income Tax Expense (Benefit)

a. The reconciliation of income tax expense based on income before income tax at statutory income tax rate to income tax expense — current is as follows:

	Nine Months Ended September 30		
	2001	2002	
	NT$	NT$ (Unaudited)	US$
Income tax expense computed at statutory tax rate (25%)	$1,189,239	$1,518,801	$43,494
Add (deduct) tax effects of			
Permanent differences	(715)	(2,370)	(68)
Temporary differences	326,762	283,958	8,132
Tax-exempt income	(573,817)	(774,167)	(22,170)
Unappropriated earnings tax	39,197	110,001	3,150
Investment tax credits	(490,333)	(752,418)	(21,547)
Income tax payable	$ 490,333	$ 383,805	$10,991

The balances of income tax payable as of September 30, 2001 and 2002 were net of creditable income taxes of NT$6,715 and NT$312 (US$9), respectively.

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

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

b. Income tax expense (benefit) consisted of:

	Nine Months Ended September 30		
	2001	2002	
	NT$	NT$ (Unaudited)	US$
Income tax expense — current	$490,333	$383,805	$10,991
Income tax benefit — deferred	(681,720)	(117,100)	(3,353)
Prior year's adjustment	8,143	(8,321)	(238)
Income tax expense on income subjected to a separate flat rate of 20%	566	1,970	56
Income tax expense (benefit)	$(182,678)	$260,354	$ 7,456

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

c. Deferred income tax assets and liabilities as of September 30, 2001 and 2002 consisted of:

	September 30		
	2001	2002	
	NT$	NT$ (Unaudited)	US$
Current (included in other current assets)			
Deferred income tax assets			
Provision for doubtful accounts	$ 566,376	$ 855,871	$24,509
Employee welfare expense	10,125	5,625	161
Provision for losses on inventories	11,914	6,010	173
Other	936	1,224	35
	589,351	868,730	24,878
Deferred income tax liabilities			
Receivable from insurance company	(5,000)	(2,246)	(64)
Other	(1,287)	(283)	(8)
	(6,287)	(2,529)	(72)
	$ 583,064	$ 866,201	$24,806
Noncurrent			
Investment tax credits	$ 815,655	$ 599,356	$17,164
Depreciation resulting from the differences in estimated service lives of property and equipment	248,580	328,668	9,412
Cumulative equity in the net loss of investee companies	4,954	50,523	1,447
Accrued pension cost	18,184	30,805	882
Other	3,223	—	—
	$1,090,596	$1,009,352	$28,905

d. Integrated income tax information:

	September 30		
	2001	2002	
	NT$	NT$ (Unaudited)	US$
Balance of Imputation Credit Account (ICA)	$12,384	$6,713	$192

The ratio of the ICA balance, on the dividend distribution date in 2001 to the balance of the undistributed earnings as of December 31, 2000 was 9.43%. The ratio of the ICA balance on the dividend distribution date in 2002 to the balance of the undistributed earnings as of December 31, 2001 was 7.40%.

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

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

The unused investment tax credits as of September 30, 2002 are summarized as follows:

Statutes	Items	Total Investment Tax Credits		Unused Investment Tax Credits		Year of Expiry
		NT$	US$	NT$	US$	
Statute for Upgrading Industries	Research and development expenditures	$1,287,470	$36,869	$538,184	$15,412	2005
Statute for Upgrading Industries	Personnel training expenditures	61,172	1,752	61,172	1,752	2005

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

14. Significant Related Party Transactions

The Company's significant business transactions, in addition to those transactions disclosed in Note 15, were with the following related parties:

Related Party	Nature of Relationship
a. Yuang Ding Co. (YDC) (formerly Yuang Ding Construction Co.)	Same chairman as that of the Company
b. New Century InfoComm Tech Co., Ltd. (NCIC) .	Same chairman as that of the Company
c. Far Eastern International Leasing Corp. (FEILC) .	Supervisor of the Company
d. Far Eastern Department Stores (FEDS).	Same chairman as that of the Company
e. E. World Ltd. (E. World)	Same chairman as that of the Company
f. Far Eastern Textile Ltd. (FETL)	Parent company of a major stockholder
g. AT&T Wireless Service Inc. (AWS)	Parent company of a major stockholder
h. AT&T Corp. (AT&T)	Parent company of AWS
i. Far Eastern Telecom Engineering Corp. (FETEC)	A subsidiary of YDC
j. Yuan-Ze Telecommunications Co., Ltd. (Yuan-Ze) (formerly Far EasTone 3G Telecommunications Co., Ltd.)	An equity-accounted investee
k. Far Eastern Technology Developmental Foundation (FETTDF)	Donation of the foundation over one-third

FAR EASTONE TELECOMMUNICATIONS CO., LTD.
Notes to Financial Statements — Continued
(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

The significant transactions with the above parties are summarized as follows:

		2001	2002	
		NT$	NT$ (Unaudited)	US$
During the period				
Operating revenue	i.			
NCIC	ii.	$ 45,984	$560,957	$16,064
Other	xiii.	1,423	887	25
		$ 47,407	$561,844	$16,089
Operating cost and expenses				
Service cost — NCIC	ii.	$ 73	$ 2,828	$ 81
Rental				
FEILC	iii.	$153,640	$144,916	$ 4,150
FETL	iv.	38,034	42,232	1,209
Other	v. vi. and xiii	6,557	5,260	151
		$198,231	$192,408	$ 5,510
Management service fee — AWS	vii.	$ 46,800	$ 63,338	$ 1,814
Trademark license fee — AT&T	xii.	$ 24,807	$ 13,530	$ 387
Research and development expense				
FETTDF	xi.	$ 8,739	$ 21,813	$ 625
Acquisitions of properties				
FETEC	viii. and Note 15	$323,569	$541,791	$15,515
E.World	x.	9,308	—	—
Other	xiii.	4,893	961	28
		$337,770	$542,752	$15,543
At end of period				
Other current assets				
Other receivable				
Yuan-Ze	ix.	$ —	$ 30,353	$ 869
E. World	x.	17,194	—	—
		$ 17,194	$ 30,353	$ 869

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

		2001	2002	
		NT$	NT$ (Unaudited)	US$
Prepaid expenses				
FEILC	iii.	$ 11,197	$ 3,605	$ 103
FETL	iv.	1,808	548	16
Other	v. vi. and xiii.	3,160	2,580	74
		$ 16,165	$ 6,733	$193
Refundable deposits				
FEILC	iii.	$145,785	$145,785	$ 4,175
Other	v. and xiii.	782	1,167	33
		$146,567	$146,952	$ 4,208
Payable to related parties				
FETEC	viii. and Note 15	$368,737	$304,792	$ 8,728
NCIC	ii.	12,717	86,258	2,470
AWS	vii.	27,216	19,635	562
AT&T	xii.	26,562	15,914	456
Other	xiii.	18,150	14,736	422
		$453,382	$441,335	$12,638
Other current liabilities				
Other payable — NCIC	viii. and Note 15	$ —	$ 36,361	$ 1,041

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

i. Operating revenues (such as service revenue and revenues from sales of cellular phone units and accessories) from related parties are based on normal service rates, selling prices and collection terms.

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

iii. The Company leased from FEILC the following: (a) its office spaces in Neihu and Kaohsiung from February 2000 to February 2003; at the end of contact period, the Company has the option to renew the contract or buy the office buildings at the price of NT$1,569,520; (b) mobile switch centers located in Neihu and Tainan from January 2000 to February 2003; (c) the land and mobile switch centers located in Taichung and Hsinchu; and (d) vehicles. The term of the lease for the land and the mobile switch center located in Taichung is for three years from May 2000 after the operating license is received by the Company for the switch center, while the term for the Hsinchu lease was from March 1, 2001 to three years after the completion of the construction of the switch center. Rental rates are comparable to leases with unrelated parties.

iv. The Company leased from FETL several parcels of land and building spaces for the period May 1997 to November 2014. The properties are located on Yatung Street and Renai Street in Panchao City, Yuantung Street in Chungli, Wuku in Taipei County, and in other places in Taiwan.

v. The Company leased from YDC certain floors at The Mall from November 2001 to December 2002.

vi. The Company leased from FEDS several parcels of the land and building spaces from July 1997 to October 2006.

vii. The Company signed a service agreement with AWS in January 1997. Under the Agreement, AWS provides consulting services related to wireless network construction and business operations. The service charges are based on the actual expenses incurred by the AWS consultants.

viii. The Company has contracts with NCIC for the construction and joint use of telecommunications network and backbone network facilities. Those facilities were constructed by FETEC. Under the agreement, the Company, pays the entire construction costs to FETEC and recognizes receivable from NCIC for its share. Also, NCIC, pays the entire construction costs to FETEC and recognizes receivable from the Company for its share. Moreover, receivable and payable are settled at net amount.

ix. The Company renders management service and give advances to Yuan-Ze for its daily operating expenditures during its development stage.

x. The Company also renders management services and gives advances to E. World for its daily operating expenditures.

xi. FETTDF researches telecommunications technology for the Company and communicates its results to employees of the Company.

xii. The Company signed an agreement with AT&T Corp. to use the trademark of AT&T for purposes of marketing, advertising and promotion in the Republic of China on May 22, 1997. Under this agreement, which expired on May 21, 2002, the annual trademark license fee was US$1,000 when the Company had negative net cash flow from operations before payment of the trademark fee and capital expenditure. Otherwise, the trademark license fee is 1% of the net service revenues from wireless and Internet businesses, up to a maximum amount of US$4,500.

xiii. Accounts with other related parties were less than 5% of the respective transaction amounts.

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

15. Commitments as of September 30, 2002

In addition to those disclosed in Note 14, the Company has significant commitments as follows:

a. The Company had outstanding contracts amounting to NT$2,943,329 (US$84,288) for the acquisition of telecommunications and other equipment.

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

Year	NT$	US$
October 1, 2002 to September 30, 2003	$1,166,497	$33,405
October 1, 2003 to September 30, 2004	1,211,130	34,683
October 1, 2004 to September 30, 2005	1,257,489	36,011
October 1, 2005 to September 30, 2006	1,305,639	37,389
October 1, 2006 to September 30, 2007	1,355,650	38,822

c. The Company signed a Memorandum of Understanding with NCIC for the construction, joint use and sharing of the costs of telecommunications network and backbone network facilities that is being constructed by FETEC. As of September 30, 2002, the remaining unpaid amounts on outstanding contracts were NT$368,197 (US$10,544).

16. Financial Instruments

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

a. ***Open Contracts and Credit Risk***

	September 30, 2001				
Type of Transaction	Notional Amount	Fixed Rate	Market Rate (Unaudited)	Settlement Date	Maturity Date
Interest rate swap	$2,000,000 (US$57,274)	6.085% to 6.200%	2.70%	Quarterly	May 21, 2002 to July 2, 2002

There was no outstanding interest rate swap contract as of September 30, 2002.

The Company entered into interest rate swap contracts to hedge fluctuations on interest rates.

Interest expenses on these swap contracts for the nine months ended September 30, 2001 and 2002 were NT$25,798 and NT$36,674 (US$1,050), respectively.

There were no outstanding forward contracts as of September 30, 2001 and 2002, respectively. The Company entered into forward exchange contracts to hedge the effect of exchange rate fluctuations on firm commitments. The realized exchange gain and loss for the nine months ended September 30, 2001 and 2002 were NT$4,662 and NT$5,390 (US$154), respectively.

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

b. ***Market Risk***

The Company is exposed to market risks due to potential interest rate fluctuations on its obligations with floating interest rates.

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

c. ***Liquidity Risk, Cash-Flow Risk and Future Cash Demand***

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

d. ***The Purpose of Derivative Financial Instruments Held or Issued/the Strategies to Meet the Purpose***

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

(Amounts Expressed in Thousands of New Taiwan or U.S. Dollars, Unless Otherwise Stated)

e. The fair values of financial instruments were estimated as follows:

	September 30					
	2001		2002			
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
	NT$	NT$	NT$	NT$	US$	US$
			(Unaudited)			
Financial assets						
Cash	$ 785,699	$ 785,699	$1,378,351	$ 1,378,351	$ 39,472	$ 39,472
Notes receivable and accounts receivable — net	5,261,706	5,261,706	3,382,598	3,382,598	96,867	96,867
Investments in shares of stock	25,184	25,184	8,241,187	8,241,187	236,002	236,002
Refundable deposits	385,900	363,945	392,016	376,414	11,226	10,779
Financial liabilities						
Short-term bank loans	650,000	650,000	—	—	—	—
Notes payable	69,395	69,395	78,463	78,463	2,247	2,247
Accounts payable	472,882	472,882	395,230	395,230	11,318	11,318
Payables to related parties	453,382	453,382	441,335	441,335	12,638	12,638
Income tax payable	483,618	483,618	388,622	388,622	11,129	11,129
Payables related to acquisitions of properties	1,400,216	1,400,216	1,433,592	1,433,592	41,054	41,054
Long-term liabilities (including within one year)	9,862,924	10,007,724	10,645,427	10,678,519	304,851	305,800
Guarantee deposits received	3,252,947	3,252,947	2,193,883	2,193,883	62,826	62,826
Derivative financial instruments						
Interest rate swap	$ —	$ (52,101)	$ —	$ —	$ —	$ —

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

(1) Cash, notes receivable and accounts receivable, short-term bank loans, notes payable, accounts payable, payables to related parties, income tax payable and payables related to acquisitions of property and equipment reported in the balance sheets — carrying value because of the short maturity of these instruments.

(2) Investment in shares of stock — market prices or, if market prices are unavailable, equity in the net assets of the investee.

(3) Long-term liabilities — market prices or, if market prices are unavailable, upon present value of expected cash outflows. Discount rate is determined by rate of bank loans, which the Company can obtain in similar conditions (e.g. maturity date).

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

(5) Derivative financial instruments — quoted market prices obtained from the respective counterparties.

17. Subsequent Event

The Company is planning to issue a five-year overseas US$100,000 zero coupon convertible bonds in February 2003. The holders has the right to require the Company to convert all or a portion of the bonds at NT$35.955 per share which will be subject to adjustment for any diluted events or redeem 105.114% of face value on February 19, 2008. The Company also has the option at any time on or after February 19, 2006 to redeem the Bond at specific price.

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