

CHUNGHWA TELECOM CO LTD  
Form 6-K  
October 27, 2006

1934 Act Registration No. 1-31731

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# SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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## FORM 6-K

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REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934

Dated Oct 27, 2006

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### Chunghwa Telecom Co., Ltd.

(Translation of Registrant's Name into English)

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21-3 Hsinyi Road Sec. 1,

Taipei, Taiwan, 100 R.O.C.

(Address of Principal Executive Office)

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(Indicate by check mark whether the registrant files or will file annual reports under cover of form 20-F or Form 40-F.)

Form 20-F  Form 40-F

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No

(If "Yes" is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not applicable)



SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant Chunghwa Telecom Co., Ltd. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 2006/10/27

Chunghwa Telecom Co., Ltd.

By: /s/ Tan Ho Chen  
Name: Tan HoChen  
Title: Chairman & CEO

Exhibit

| <b>Exhibit</b> | <b>Description</b>  |
|----------------|---|
| 1.             | Financial Statements for the Nine Months Ended September 30, 2006 and 2005 and Independent Accountants' Review Report |

**Chunghwa Telecom Co., Ltd.**

**Financial Statements for the**

**Nine Months Ended September 30, 2006 and 2005 and**

**Independent Accountants' Review Report**

**INDEPENDENT ACCOUNTANTS REVIEW REPORT**

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have reviewed the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of September 30, 2006 and 2005, and the related statements of operations 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. Our responsibility is to issue a report on these financial statements based on our review.

Except for the matters described in the next paragraph, we conducted our reviews in accordance with Statement of Auditing Standards No. 36, Review of Financial Statements, issued by the Auditing Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists 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 auditing standards generally accepted 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.

As stated in Note 11 to the financial statements, we did not review the financial statements of equity-accounted investments, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The aggregate carrying values of the equity-accounted investments were NT\$1,793,109 thousand and NT\$1,427,693 thousand as of September 30, 2006 and 2005 and the equity in their net gains were NT\$591 thousand and NT\$65,500 thousand for the nine months then ended.

Based on our reviews, except for such adjustments, if any, as might have been determined to be necessary had the investment information mentioned in the preceding paragraph and related information been based on the investees' reviewed financial statements, 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 relevant regulations (applied before August 12, 2005), the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As stated in Notes 2 and 4 to the financial statements, the Company completed privatization on August 12, 2005 and the accounts before privatization were subject to examination by the Executive Yuan and by the Ministry of Audit of the Control Yuan. The accounts as of and for the year ended December 31, 2004 have been examined by these government agencies, and adjustments from this examinations have been recognized in the accompanying financial statements.

As stated in Note 3 to the financial statements, on January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, Accounting for Financial Instruments (SFAS No. 34), and No. 36, Disclosure and Presentation for Financial Instruments (SFAS No. 36), and related revisions of previously released standards.

October 20, 2006

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.*

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

**CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS****SEPTEMBER 30, 2006 AND 2005****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)****(Reviewed, Not Audited)**

|  | 2006          |     | 2005          |     |
|--|---------------|-----|---------------|-----|
|  | Amount        | %   | Amount        | %   |
| <b>ASSETS</b>  |               |     |               |     |
| <b>CURRENT ASSETS</b>  |               |     |               |     |
| Cash and cash equivalents (Notes 2 and 5)  | \$ 40,475,668 | 9   | \$ 17,154,268 | 4   |
| Available-for-sale financial assets (Notes 2, 3 and 6)   | 13,798,586    | 3   | 16,097,828    | 4   |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$3,467,076 thousand in 2006 and \$3,695,370 thousand in 2005 (Notes 2, 7 and 24) | 11,983,223    | 3   | 13,106,486    | 3   |
| Other current monetary assets (Note 8)   | 5,774,250     | 1   | 2,357,538     |     |
| Inventories (Notes 2 and 9)  | 1,730,182     | 1   | 1,890,964     |     |
| Deferred income taxes (Notes 2 and 21)   | 1,645,816     |     | 2,940,154     | 1   |
| Other current assets (Note 10)   | 3,012,427     | 1   | 10,142,667    | 2   |
| Total current assets   | 78,420,152    | 18  | 63,689,905    | 14  |
| <b>LONG-TERM INVESTMENTS</b>   |               |     |               |     |
| Investments accounted for using equity method (Notes 2 and 11)   | 1,793,109     |     | 1,427,693     |     |
| Financial assets carried at cost (Notes 2, 3 and 12)   | 1,866,280     |     | 2,605,956     | 1   |
| Other monetary assets (Notes 3,13 and 25)  | 2,000,000     | 1   | 2,000,000     |     |
| Total investment   | 5,659,389     | 1   | 6,033,649     | 1   |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14 and 24)</b>  |               |     |               |     |
| <b>Cost</b>  |               |     |               |     |
| Land   | 101,166,851   | 23  | 101,901,489   | 23  |
| Land improvements  | 1,480,695     |     | 1,462,153     |     |
| Buildings  | 58,885,494    | 13  | 56,765,074    | 13  |
| Machinery and equipment  | 21,503,972    | 5   | 21,796,868    | 5   |
| Telecommunications network facilities  | 632,376,768   | 144 | 625,308,501   | 141 |
| Miscellaneous equipment  | 1,976,665     | 1   | 2,061,694     |     |
| Total cost   | 817,390,445   | 186 | 809,295,779   | 182 |
| Revaluation increment on land  | 5,850,205     | 1   | 5,951,339     | 2   |
|  | 823,240,650   | 187 | 815,247,118   | 184 |
| Less: Accumulated depreciation   | 502,903,824   | 114 | 478,530,307   | 108 |
|  | 320,336,826   | 73  | 336,716,811   | 76  |
| Construction in progress and advances related to acquisitions of equipment   | 24,015,779    | 5   | 25,611,084    | 6   |
| Property, plant and equipment, net   | 344,352,605   | 78  | 362,327,895   | 82  |
| <b>INTANGIBLE ASSETS</b>   |               |     |               |     |
| 3G concession (Note 2)   | 9,170,457     | 2   | 9,919,067     | 2   |



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|   |                       |            |                       |            |
|---|-----------------------|------------|-----------------------|------------|
| Patents and computer software, net (Note 2) | 168,290               |            | 176,633               |            |
| Total intangible assets                     | 9,338,747             | 2          | 10,095,700            | 2          |
| <b>OTHER ASSETS</b>                         |                       |            |                       |            |
| Idle assets (Note 2)                        | 929,038               |            |                       |            |
| Refundable deposits                         | 1,554,194             | 1          | 1,474,113             | 1          |
| Deferred income taxes (Notes 2 and 21)      | 403,612               |            | 85,866                |            |
| Other                                       | 372,798               |            | 343,814               |            |
| Total other assets                          | 3,259,642             | 1          | 1,903,793             | 1          |
| <b>TOTAL</b>                                | <b>\$ 441,030,535</b> | <b>100</b> | <b>\$ 444,050,942</b> | <b>100</b> |

|   | <b>2006</b>   |          | <b>2005</b>   |          |
|---|---------------|----------|---------------|----------|
|   | <b>Amount</b> | <b>%</b> | <b>Amount</b> | <b>%</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>              |               |          |               |          |
| <b>CURRENT LIABILITIES</b>                              |               |          |               |          |
| Trade notes and accounts payable (Note 24)              | \$ 7,397,508  | 2        | \$ 12,083,002 | 3        |
| Income tax payable (Notes 2 and 21)                     | 7,226,856     | 2        | 16,550        |          |
| Accrued expenses (Notes 15 and 24)                      | 13,693,671    | 3        | 9,609,465     | 2        |
| Current portion of long-term loans (Note 17)            | 300,000       |          | 200,000       |          |
| Other current liabilities (Notes 16 and 24)             | 14,748,324    | 3        | 16,599,596    | 4        |
| Total current liabilities                               | 43,366,359    | 10       | 38,508,613    | 9        |
| <b>LONG-TERM LIABILITIES</b>                            |               |          |               |          |
| Long-term loans (Note 17)                               |               |          | 300,000       |          |
| Deferred income   | 874,789       |          | 324,029       |          |
| Total long-term liabilities                             | 874,789       |          | 624,029       |          |
| <b>RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 14)</b> | <b>94,986</b> |          | <b>94,986</b> |          |
| <b>OTHER LIABILITIES</b>                                |               |          |               |          |
| Accrued pension liabilities (Notes 2 and 23)            | 812,072       |          |               |          |
| Customers deposits                                      | 6,589,143     | 2        | 7,079,438     | 1        |
| Other   | 153,820       |          | 319,654       |          |
| Total other liabilities                                 | 7,555,035     | 2        | 7,399,092     | 1        |
| Total liabilities                                       | 51,891,169    | 12       | 46,626,720    | 10       |

|   |             |    |             |    |
|---|-------------|----|-------------|----|
| <b>STOCKHOLDERS EQUITY (Notes 2, 3, 14, 18 and 19)</b>                            |             |    |             |    |
| Common capital stock - \$10 par value;  |             |    |             |    |
| Authorized: 12,000,000 thousand shares in 2006; 9,647,725 thousand shares in 2005 |             |    |             |    |
| Issued: 9,667,845 thousand shares in 2006; 9,647,725 thousand shares in 2005      | 96,678,451  | 22 | 96,477,249  | 22 |
| Preferred stock \$10 par value  |             |    |             |    |
| <b>Capital surplus:</b>   |             |    |             |    |
| Paid-in capital in excess of par value  | 210,260,235 | 48 | 214,529,603 | 48 |
| Donations   | 13,170      |    | 13,170      |    |
| Total capital surplus   | 210,273,405 | 48 | 214,542,773 | 48 |

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|  |                       |            |                       |            |
|--|-----------------------|------------|-----------------------|------------|
| Retained earnings:                       |                       |            |                       |            |
| Legal reserve                            | 44,037,766            | 10         | 39,272,477            | 9          |
| Special reserve                          | 2,680,184             |            | 2,680,184             |            |
| Unappropriated earnings                  | 29,264,068            | 7          | 38,600,793            | 9          |
| <b>Total retained earnings</b>           | <b>75,982,018</b>     | <b>17</b>  | <b>80,553,454</b>     | <b>18</b>  |
| Other adjustments                        |                       |            |                       |            |
| Cumulative translation adjustments       | (3,683)               |            | (5,607)               |            |
| Unrealized gain on financial instruments | 358,752               |            |                       |            |
| Capital surplus from revaluation of land | 5,850,423             | 1          | 5,856,353             | 2          |
| <b>Total other adjustments</b>           | <b>6,205,492</b>      | <b>1</b>   | <b>5,850,746</b>      | <b>2</b>   |
| <b>Total stockholders' equity</b>        | <b>389,139,366</b>    | <b>88</b>  | <b>397,424,222</b>    | <b>90</b>  |
| <b>TOTAL</b>                             | <b>\$ 441,030,535</b> | <b>100</b> | <b>\$ 444,050,942</b> | <b>100</b> |

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

(With Deloitte & Touche review report dated October 20, 2006)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF OPERATIONS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**

(Amounts in Thousands of New Taiwan Dollars, Except Basic Net Income Per Share Data)

(Reviewed, Not Audited)

|  | 2006                 |           | 2005                 |           |
|--|----------------------|-----------|----------------------|-----------|
|  | Amount               | %         | Amount               | %         |
| SERVICE REVENUES (Note 24)                                 | \$ 137,494,423       | 100       | \$ 136,919,581       | 100       |
| COSTS OF SERVICES (Note 24)                                | 68,782,558           | 50        | 68,334,176           | 50        |
| <b>GROSS PROFIT</b>  | <b>68,711,865</b>    | <b>50</b> | <b>68,585,405</b>    | <b>50</b> |
| <b>OPERATING EXPENSES</b>                                  |                      |           |                      |           |
| Marketing  | 19,090,828           | 14        | 17,817,984           | 13        |
| General and administrative                                 | 2,393,959            | 1         | 2,104,308            | 1         |
| Research and development                                   | 2,406,352            | 2         | 2,282,128            | 2         |
| Total operating expenses                                   | 23,891,139           | 17        | 22,204,420           | 16        |
| <b>INCOME FROM OPERATIONS</b>                              | <b>44,820,726</b>    | <b>33</b> | <b>46,380,985</b>    | <b>34</b> |
| <b>OTHER INCOME</b>  |                      |           |                      |           |
| Penalties income   | 1,219,619            | 1         | 934,264              | 1         |
| Interest   | 563,223              | 1         | 348,139              |           |
| Income from sale of scrap inventories                      | 552,607              |           | 280,230              |           |
| Equity in earnings of equity investees                     | 591                  |           | 65,500               |           |
| Foreign exchange gain, net                                 |                      |           | 75,216               |           |
| Other  | 404,232              |           | 749,433              | 1         |
| Total other income   | 2,740,272            | 2         | 2,452,782            | 2         |
| <b>OTHER EXPENSES</b>                                      |                      |           |                      |           |
| Special termination benefit under early retirement program | 2,303,316            | 2         |                      |           |
| Losses on disposal of property, plant and equipment        | 251,790              |           | 33,087               |           |
| Foreign exchange loss, net                                 | 85,093               |           |                      |           |
| Interest   | 2,123                |           | 1,712                |           |
| Impairment loss on long-lived assets                       |                      |           | 343,463              |           |
| Other  | 814,615              | 1         | 962,239              | 1         |
| Total other expenses                                       | 3,456,937            | 3         | 1,340,501            | 1         |
| <b>INCOME BEFORE INCOME TAX</b>                            | <b>44,104,061</b>    | <b>32</b> | <b>47,493,266</b>    | <b>35</b> |
| <b>INCOME TAX (Notes 2 and 21)</b>                         | <b>9,933,109</b>     | <b>7</b>  | <b>9,327,172</b>     | <b>7</b>  |
| <b>NET INCOME</b>  | <b>\$ 34,170,952</b> | <b>25</b> | <b>\$ 38,166,094</b> | <b>28</b> |

(Continued)

**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF OPERATIONS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**

**(Amounts in Thousands of New Taiwan Dollars, Except Basic Net Income Per Share Data)**

**(Reviewed, Not Audited)**

|   | 2006                              |               | 2005                              |               |
|---|-----------------------------------|---------------|-----------------------------------|---------------|
|   | Income<br>Before<br>Income<br>Tax | Net<br>Income | Income<br>Before<br>Income<br>Tax | Net<br>Income |
| <b>EARNINGS PER SHARE</b>                   |                                   |               |                                   |               |
| Basic net income per share (Notes 2 and 22) | \$ 4.54                           | \$ 3.52       | \$ 4.82                           | \$ 3.87       |

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

(With Deloitte & Touche review report dated October 20, 2006)

(Concluded)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

|   | 2006          | 2005          |
|---|---------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |               |               |
| Net income  | \$ 34,170,952 | \$ 38,166,094 |
| Adjustments to reconcile net income to net cash provided by operating activities: |               |               |
| Provision for doubtful accounts   | 467,012       | 710,359       |
| Depreciation and amortization   | 30,800,015    | 31,093,996    |
| Impairment loss on long-lived assets  |               | 343,463       |
| Gain on sale of financial instruments, net  | (10,128)      | (79,380)      |
| Valuation gain on financial instruments, net                                      |               | (12,416)      |
| Losses on disposal of property, plant and equipment                               | 249,576       | 33,087        |
| Equity in earnings of equity investees  | (591)         | (65,500)      |
| Dividends received from equity investees  | 42,331        | 66,000        |
| Deferred income taxes   | 357,837       | 9,263,941     |
| Changes in operating assets and liabilities:                                      |               |               |
| Decrease (increase) in:   |               |               |
| Trade notes and accounts receivable   | 390,105       | 176,885       |
| Other current monetary assets   | (68,845)      | (844,695)     |
| Inventories   | 690,449       | (452,927)     |
| Other current assets  | (1,765,391)   | (9,478,540)   |
| Increase (decrease) in:   |               |               |
| Trade notes and accounts payable  | (3,234,957)   | (2,399,726)   |
| Income tax payable  | 7,210,306     | (5,013,108)   |
| Accrued expenses  | (1,833,276)   | (4,722,250)   |
| Other current liabilities   | 501,814       | 1,291,984     |
| Accrued pension liabilities   | 812,072       | (773,465)     |
| Deferred income   | 556,261       | (37,100)      |
| Net cash provided by operating activities   | 69,335,542    | 57,266,702    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |               |               |
| Acquisition of available-for-sale financial assets                                | (3,269,624)   | (20,295,637)  |
| Proceeds from disposal of available-for-sale financial assets                     | 4,441,935     | 13,404,118    |
| Acquisitions of investments accounted for using equity method                     | (310,652)     |               |
| Acquisitions of property, plant and equipment                                     | (18,450,545)  | (15,896,114)  |
| Proceeds from disposal of property, plant and equipment                           | 9,419         | 34,311        |
| Increase of intangible assets   | (86,974)      | (79,701)      |
| Increase in other assets  | (75,919)      | (184,054)     |
| Net cash used in investing activities   | (17,742,360)  | (23,017,077)  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |               |               |
| Payment on principal of long-term loans   | (200,000)     | (200,000)     |
| Decrease in customers deposits  | (702,767)     | (950,216)     |
| Increase (decrease) in other liabilities  | (53,465)      | 116,355       |

(Continued)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

|   | <b>2006</b>     | <b>2005</b>     |
|---|-----------------|-----------------|
| Cash dividends paid   | \$ (40,659,617) | \$ (45,344,307) |
| Increase in treasury stock  | (11,392,333)    |                 |
| Net cash used in financing activities   | (53,008,182 )   | (46,378,168 )   |
| NET DECREASE IN CASH AND CASH EQUIVALENTS                                     | (1,415,000)     | (12,128,543)    |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD                                | 41,890,668      | 29,282,811      |
| CASH AND CASH EQUIVALENTS, END OF PERIOD                                      | \$ 40,475,668   | \$ 17,154,268   |
| <b>SUPPLEMENTAL INFORMATION</b>   |                 |                 |
| Interest paid   | \$ 2,123        | \$ 1,712        |
| Income tax paid   | \$ 1,247,623    | \$ 11,400,288   |
| <b>NON-CASH FINANCING ACTIVITIES</b>  |                 |                 |
| Current portion of long-term loans  | \$ 300,000      | \$ 200,000      |
| Reclassification of reserve for land value incremental tax to capital surplus | \$              | \$ 116,196      |

Acquiring subsidiaries, the assets and liabilities, based on their fair values are as follow:

|   | <b>2006</b> |
|---|-------------|
| Cash and cash equivalents                                       | \$ 40,191   |
| Trade notes and accounts receivable                             | 64,077      |
| Inventories   | 2,505       |
| Other current assets  | 22,811      |
| Long-term investment  | 16,256      |
| Property, plant, and equipment                                  | 454,165     |
| Intangible assets   | 2,700       |
| Other assets  | 88,195      |
| Amounts payable to banks and long-term debt due within one year | (133,750)   |
| Trade notes and accounts payable                                | (80,529)    |
| Other current liabilities                                       | (62,291)    |
| Long-term debt  | (6,250)     |
| Other liabilities   | (67,738)    |
| Total   | 340,342     |
| Percentage of ownership   | 70%         |

238,240

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|  |            |
|--|------------|
| Goodwill                               | 72,412     |
| Total amount of acquiring subsidiaries | \$ 310,652 |

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

(With Deloitte & Touche review report dated October 20, 2006)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006 AND 2005**

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

**(Reviewed, Not Audited)**

**1. GENERAL**

Chunghwa Telecom Co., Ltd. ( Chunghwa or the Company ) was incorporated on July 1, 1996 in the Republic of China ( ROC ) pursuant to the Telecommunications Act No. 30. The Company is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications ( MOTC ). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications ( DGT ). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off to Chunghwa. The DGT continues to be the telecom industry regulator in the ROC.

As a telecommunications service provider of fixed-line and cellular telephone services, within the meaning of applicable telecommunications regulations of the ROC, the Company is subject to additional requirements imposed by the MOTC.

Effective August 12, 2005, the MOTC had completed the process of privatizing the Company by reducing the government ownership to below 50% in various stages. In July 2000, the Company received approval from the Securities and Futures Commission (the SFC ) for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the TSE ) on October 27, 2000. Certain of the Company's common shares had been sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of the Company's common shares had also been sold in an international offering of securities in the form of American Depository Shares ( ADS ) on July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE ). The MOTC sold 289,431 thousand common shares of the Company by auction in the ROC on August 9, 2005 and 1,350,682 thousand common shares of the Company on August 10, 2005 in an international offering. Upon completion of the share transfers associated with these offerings on August 12, 2005, the MOTC owned less than 50% of the outstanding shares of the Company and completed the privatization plan.

The numbers of employees as of September 30, 2006 and 2005 are 25,835 and 27,031, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements were prepared in conformity with relevant regulations (applied before August 12, 2005), the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC ( ROC GAAP ). The preparation of financial statements requires management to make certain estimates and assumptions that affect the recorded amounts of assets, liabilities, revenues and expenses of the Company. The Company continually evaluates these estimates, including those related to allowances for doubtful accounts, valuation allowances on inventories, useful lives of long term assets, pension plans and income tax. The Company bases its estimates on historical experience and other assumptions, which it believes to be reasonable under the circumstances. Actual results may differ from these estimates. The significant accounting policies are summarized as follows:



### **Basis of Presentation**

As a state-owned company before August 12, 2005 (privatization date), the accounts of the Company are subject to annual examinations by the Directorate General of Budget, Accounting and Statistics (the DGBAS ) of the Executive Yuan and by the Ministry of Auditing (MOA) (DGBAS and MOA are hereinafter referred to as government agencies ). The objective of these examinations is to evaluate the Company's performance against the budget approved by the Legislative Yuan. The accounts are considered final only after any adjustments based on the annual examinations are taken into account. The accounts for the year ended December 31, 2004 have been examined by these government agencies and resulting adjustments were recorded retroactively.

### **Current Assets and Liabilities**

Current assets are commonly identified as those which are reasonably expected to be realized in cash, sold or consumed within one year. Current liabilities are obligations which mature within one year. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

### **Cash Equivalents**

Cash equivalents are commercial paper purchased with maturities of three months or less from the date of acquisition. The carrying amount approximates fair value.

### **Available-for-sale Financial Assets**

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. When subsequently measured at fair value, the changes in fair value are excluded from earnings and reported as a separate component of stockholders' equity. The accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is recognized and derecognized using settlement date accounting.

The basis for determining the fair value of financial instruments is as follows: List stocks, closing prices as of balance sheet date; open-end bond mutual funds, net assets value as of balance sheet date; bonds, quotes in the OTC market as of balance sheet date; financial instruments without active market, fair value are estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.

Cash dividends are recognized as investment income upon the grant day but are accounted for as reductions to the original cost of investment if such dividends are declared on the earnings of the investees attributable to periods prior to the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new number of shares.

If there is objective evidence that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to shareholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

### **Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables**

Revenues are recognized when revenues are realized or realizable and earned. Related costs are expensed as incurred.

Service revenue is based on the fair value of the sales price, after business discount and quantity discount, between the Company and customer. The sales price of service revenue is the amount which matures within one year. The difference between fair value and maturity value is not material and the transactions occur frequently so the interest factor is not included in calculating the fair value.

Usage revenues from fixed-line services (including local, domestic long distance and international long distance), cellular services, Internet and data services, and interconnection and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based upon minutes of traffic processed when the services are provided in accordance with contract terms.

Other revenues are recognized as follows: (a) one-time subscriber connection fees (on fixed-line services) are deferred and recognized over the average expected customer service periods, (b) fixed-monthly fees (on fixed-line services, wireless and Internet and data services) are accrued every month, and (c) prepaid services (fixed line, cellular and Internet) are recognized as income based upon actual usage by customers or when the right to use those services expires.

Allowance for doubtful receivables is provided on the basis of review of the collectibility of individual receivables.

### **Inventories**

Inventories are stated at the lower of cost (weighted-average cost ) or market value (replacement cost or net realizable value).

### **Investments Accounted for Using Equity Method**

Investments in shares of stock in companies where the Company exercises significant influence in their operating and financial policy decisions are accounted for using the equity method. Under the equity method, the investment is initially stated at cost and subsequently adjusted for its proportionate share in the net earnings of the investee companies. Any cash dividends received are recognized as a reduction in the carrying value of the investments. Unrealized profits arising from downstream transactions to equity investees are deferred in the Company's portion of equity income or loss. Profits and losses arising from equipment purchases from equity investees are eliminated and recognized over the estimated remaining useful life of the equipment.

When an indication of impairment is identified in an investment, the carrying amount of the investment is reduced, with the related impairment loss charged to current income.

### **Financial Assets Carried at Cost**

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at original cost, such as non-publicly traded stocks. If there is objective evidence that a financial asset is impaired, a loss is recognized. No recording of a subsequent recovery in fair value is allowed.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost plus a revaluation increment, if any, less accumulated depreciation. The interest costs that are directly attributable to the acquisition, construction of a qualifying asset are capitalized as property, plant and equipment. Major renewals and betterments are capitalized, while maintenance and repairs are expensed currently.

The Company adopted ROC Financial Accounting Standards No. 35, Accounting for the Impairment of Long-lived Assets, on December 31, 2004.

An impairment loss is recognized when the recoverable amount of an asset is less than its carrying amount. A reversal of the impairment loss is recognized if there is a subsequent recovery in the value of the asset. The recoverable amount cannot exceed the original cost less accumulated depreciation. An impairment loss on a revalued asset is recognized directly against capital surplus from revaluation for the asset to the extent that the impairment loss does not exceed the amount in the capital surplus from revaluation for that same asset. A reversal of an impairment loss on a revalued asset is credited directly to shareholder's equity-other adjustments from revaluation under the heading shareholder's equity-other adjustments from revaluation. However, to the extent that an impairment loss on the same revalued asset was previously recognized in profit or loss, a reversal of that impairment loss is also recognized in profit or loss.

Depreciation expense is determined based upon the asset's estimated useful life using the straight-line method. The estimated useful lives are as follows: land improvements, 10 to 30 years; buildings, 10 to 60 years; machinery and equipment, 6 to 10 years; telecommunication network facilities, 6 to 15 years; and miscellaneous equipment, 3 to 10 years.

Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to income.

### **Intangible Assets**

The amount recorded for the 3G Concession is amortized upon the MOTC approval of using the straight-line method over the lower of the legal useful life or estimated useful life. Patents are amortized using the straight-line method over the estimated useful lives ranging from 10 to 20 years. Computer software costs are capitalized and amortized using the straight-line method over the estimated useful lives of three years.

An impairment loss is recognized when the recoverable amount of an intangible asset other than goodwill is less than its carrying amount. A reversal of the impairment loss is recognized if there is a subsequent recovery in the value of the asset. The recoverable amount cannot exceed the original cost less accumulated amortization.

### **Idle Assets**

Idle assets are carried at the lower of recoverable amount or carrying amount.

### **Pension Costs**

Pension costs subject to defined benefit plan are recognized according to the actuarial report. Pension costs subject to defined contribution plan are recognized according to the amount of contributions by the Company during the employees' service period.

### **Expense Recognition**

Expenses including commissions paid to agencies and incentives paid to a third party dealer that sells a handset to a customer who subscribes to the service, as an inducement to enter into a service contract, are charged to income as incurred.

### **Treasury Stock**

Cost of treasury stock is shown as a deduction to stockholders' equity. Treasury stock is recorded and is shown as a reduction to stockholders' equity. Upon cancellation of treasury stock, the accounts of common stock and treasury stock are reversed out based on the number of shares registered to be cancelled. The account of additional paid-in capital is adjusted for the difference of the repurchase price and the par value of common stock.

### **Income Tax**

The Company accounts for income tax using the asset and liability method. Under this method, deferred income tax is recognized for investment tax credits and tax consequences of differences between financial statement carrying amounts and their respective tax bases. A valuation allowance is recognized if, available evidence indicates it is more likely than not that a portion or the entire deferred tax asset will not be realized. A deferred tax asset or liability should be classified as current or non-current according to the classification of its related asset or liability. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it should be classified as current or noncurrent depending on the expected reversal date of the temporary difference.

Investment tax credits utilized are recognized as reduction of income tax expense.

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

Income taxes (10%) on undistributed earnings is recorded in the year when the stockholders have resolved that the earnings shall be retained.

### **Earnings Per Share**

Earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period.

### **Foreign-currency Transactions**

The functional currency of the Company is the local currency, the New Taiwan dollar. Thus, the transactions of the Company that are denominated in currencies other than the New Taiwan dollars (the foreign currency) are recorded in New Taiwan dollars at the exchange rates prevailing on the transaction dates. Gains or losses realized upon the settlement of a foreign currency transaction is included in the period in which the transaction is settled. The balances, at the balance sheet dates, of the foreign currency assets and liabilities are adjusted to reflect the prevailing exchange rates, and the resulting differences are recorded as follows:

- a. Long-term stock investments accounted for by the equity method as cumulative translation adjustment under stockholders' equity; and
- b. Financial assets and liabilities are credited or charged to current income.

### **3. REASON AND EFFECT OF THE CHANGES OF ACCOUNTING PRINCIPLE**

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, Accounting for Financial Instruments, (SFAS No. 34) and No. 36, Disclosure and Presentation for Financial Instruments (SFAS No. 36), and related revisions of previously released SFASs.

- a. Effect of adopting the newly released SFASs and related revisions of previously released SFASs  
The Company had categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as available-for-sale financial assets as adjustments to stockholders' equity were recognized.

The effect of adopting the newly released SFASs for the nine months ended September 30, 2006 is summarized as follows:

|                                     |                      |
|-------------------------------------|----------------------|
|                                     | <b>Recognized as</b> |
|                                     | <b>a Separate</b>    |
|                                     | <b>Component of</b>  |
|                                     | <b>Stockholders</b>  |
|                                     | <b>Equity</b>        |
|                                     | <b>(Net of Tax)</b>  |
| Available-for-sale financial assets | \$ 51,675            |

For the nine months ended September 30, 2006, the adoption of the newly released SFASs had no impact on net income before income tax, net income after income tax and basic earnings per share.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the nine months ended September 30, 2005 were reclassified to conform to the financial statements as of and for the nine months ended September 30, 2006. The previous issued financial statements as of and for the nine months ended September 30, 2005 are not required to be restated.

Certain accounting policies prior to the adoption of the newly released SFASs are summarized as follows:

Short-term investments

Short-term investments are carried at the lower of cost or market value. An allowance for decline in value is provided when the aggregate carrying value of the investments exceeds the aggregate market value. A reversal of the allowance will result from a subsequent recovery of the carrying value.

The cost of short-term investments sold are determined using the moving weighted-average method.

Certain accounts in the financial statements as of and for the nine months ended September 30, 2005 have been reclassified to conform to the classifications prescribed by the newly released and revised SFASs. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

|   | <b>Before</b>           | <b>After</b>            |
|---|-------------------------|-------------------------|
|   | <b>Reclassification</b> | <b>Reclassification</b> |
| <b>Balance sheets</b>                                 |                         |                         |
| Short-term investments                                | \$ 16,097,828           | \$                      |
| Fund  | 2,000,000               |                         |
| Long-term investments accounted for using cost method | 2,605,956               |                         |
| Available-for-sale financial assets - current         |                         | 16,097,828              |
| Financial assets carried at cost - noncurrent         |                         | 2,605,956               |
| Other noncurrent monetary assets                      |                         | 2,000,000               |
|   | \$ 20,703,784           | \$ 20,703,784           |



|   | Before           | After            |
|---|------------------|------------------|
|   | Reclassification | Reclassification |
| <b>Statements of operations</b>   |                  |                  |
| Reversal of allowance on short-term investments (included in other income - other ) | \$ 12,416        | \$               |
| Valuation gain on financial instruments, net (included in other income - other )    |                  | 12,416           |
|   | \$ 12,416        | \$ 12,416        |
| <b>Statements of cash flows</b>   |                  |                  |
| Cash flows from operating activities  |                  |                  |
| Gain on sale of short-term investments  | \$ (79,380)      | \$               |
| Unrealized valuation gain on short-term investments                                 | (12,416)         |                  |
| Valuation gain on financial instruments, net  |                  | (12,416)         |
| Gain on sale of financial instruments, net  |                  | (79,380)         |
|   | (91,796)         | (91,796)         |
| Cash flows from investing activities  |                  |                  |
| Acquisition of short-term investment, net   | (6,891,519)      |                  |
| Acquisition of available-for-sale financial assets                                  |                  | (20,295,637)     |
| Proceeds from disposal of available-for-sale financial assets                       |                  | 13,404,118       |
|   | (6,891,519)      | (6,891,519)      |
|   | \$ (6,983,315)   | \$ (6,983,315)   |

(Concluded)

#### 4. ADJUSTMENTS OF FINANCIAL STATEMENTS For the Year Ended December 31, 2004

The Company's financial statements for the year ended December 31, 2004 have been examined by the Executive Yuan and the Ministry of Audit of the Control Yuan (government agencies), and the resulting adjustments have been recorded retroactively as of December 31, 2004. The effects of these adjustments are summarized as follows:

|   | Adjustment     |             |                |
|---|----------------|-------------|----------------|
|   | As Previously  | Increase    | As Adjusted    |
|   | Reported       | (Decrease)  |                |
| <b>Balance sheet</b>                              |                |             |                |
| Assets  |                |             |                |
| Current assets                                    | \$ 67,893,025  | \$ (31,407) | \$ 67,861,618  |
| Investments in unconsolidated companies and funds | 6,034,991      |             | 6,034,991      |
| Property, plant and equipment, net                | 379,483,488    |             | 379,483,488    |
| Intangible assets                                 | 11,630,126     |             | 11,630,126     |
| Other assets                                      | 2,127,067      |             | 2,127,067      |
| Total assets                                      | \$ 467,168,697 | \$ (31,407) | \$ 467,137,290 |

(Continued)



|   | Adjustment            |                     |                       |
|---|-----------------------|---------------------|-----------------------|
|   | As Previously         | Increase            | As Adjusted           |
|   | Reported              | (Decrease)          |                       |
| <b>Liabilities</b>                                |                       |                     |                       |
| Current liabilities                               | \$ 55,213,108         | \$ 45,319,914       | \$ 100,533,022        |
| Long-term liabilities                             | 861,129               |                     | 861,129               |
| Reserve for land value incremental tax            | 211,182               |                     | 211,182               |
| Other liabilities                                 | 6,380,161             |                     | 6,380,161             |
| <b>Total liabilities</b>                          | <b>62,665,580</b>     | <b>45,319,914</b>   | <b>107,985,494</b>    |
| <b>Total stockholders' equity</b>                 | <b>404,503,117</b>    | <b>(45,351,321)</b> | <b>359,151,796</b>    |
| <b>Total liabilities and stockholders' equity</b> | <b>\$ 467,168,697</b> | <b>\$ (31,407)</b>  | <b>\$ 467,137,290</b> |
| <b>Statement of operations</b>                    |                       |                     |                       |
| Service revenues                                  | \$ 182,562,682        | \$                  | \$ 182,562,682        |
| Costs of services                                 | 92,951,836            | 7,974               | 92,959,810            |
| Operating expenses                                | 29,947,953            | 1,377               | 29,949,330            |
| Other income                                      | 2,743,037             |                     | 2,743,037             |
| Other expenses                                    | 1,644,048             |                     | 1,644,048             |
| Income before income tax                          | 60,761,882            | (9,351)             | 60,752,531            |
| Income tax  | 10,891,570            | (2,337)             | 10,889,233            |
| Net income  | 49,870,312            | (7,014)             | 49,863,298            |

(Concluded)

The adjustments made by the government agencies that decreased income before income tax of \$9,351 thousand were due to the different bases of estimates used by the MOA in determining certain accruals. Increased current liabilities of \$45,319,914 thousand and decreased total stockholders' equity of \$45,351,321 thousand were due to the appropriations of 2004 earnings recorded by the MOA.

## 5. CASH AND CASH EQUIVALENTS

|   | September 30         |                      |
|---|----------------------|----------------------|
|   | 2006                 | 2005                 |
| <b>Cash</b>   |                      |                      |
| Cash on hand  | \$ 101,441           | \$ 99,829            |
| Cash in banks   | 8,323,219            | 1,685,440            |
| Negotiable certificate of deposit, annual yield rates-ranging from 1.00-1.95% and 1.31% for 2006 and 2005, respectively | 16,152,500           | 2,050,000            |
|   | <b>24,577,160</b>    | <b>3,835,269</b>     |
| <b>Cash equivalents</b>   |                      |                      |
| Commercial paper purchased, annual yield rates-ranging from 1.52-1.55% and 1.20-1.24% for 2006 and 2005, respectively   | 15,898,508           | 13,318,999           |
|   | <b>\$ 40,475,668</b> | <b>\$ 17,154,268</b> |

**6. AVAILABLE-FOR-SALES FINANCIAL ASSETS**

|                                   | September 30         |                      |
|-----------------------------------|----------------------|----------------------|
|                                   | 2006                 | 2005                 |
| Open-end bond mutual funds        | \$ 13,675,344        | \$ 15,831,085        |
| Real estate investment trust fund | 107,400              | 100,000              |
| List stocks                       | 15,842               | 66,743               |
| Principal guarantee notes         |                      | 100,000              |
|                                   | <b>\$ 13,798,586</b> | <b>\$ 16,097,828</b> |

**7. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

|                                 | Nine Months Ended   |                     |
|---------------------------------|---------------------|---------------------|
|                                 | September 30        |                     |
|                                 | 2006                | 2005                |
| Balance, beginning of period    | \$ 3,604,605        | \$ 4,473,433        |
| Provision for doubtful accounts | 465,677             | 706,999             |
| Accounts receivable written off | (603,206)           | (1,485,062)         |
| Balance, end of period          | <b>\$ 3,467,076</b> | <b>\$ 3,695,370</b> |

**8. OTHER CURRENT MONETARY ASSETS**

|                       | September 30        |                     |
|-----------------------|---------------------|---------------------|
|                       | 2006                | 2005                |
| Tax refund receivable | \$ 3,221,136        | \$                  |
| Other receivable      | 2,553,114           | 2,357,538           |
|                       | <b>\$ 5,774,250</b> | <b>\$ 2,357,538</b> |

**9. INVENTORIES, NET**

|                      | September 30        |                     |
|----------------------|---------------------|---------------------|
|                      | 2006                | 2005                |
| Supplies             | \$ 1,419,002        | \$ 1,364,360        |
| Work in process      | 80,630              | 15,816              |
| Merchandise          | 48,445              |                     |
| Materials in transit | 182,105             | 510,788             |
|                      | <b>\$ 1,730,182</b> | <b>\$ 1,890,964</b> |

**10. OTHER CURRENT ASSETS**

|                    | September 30 |               |
|--------------------|--------------|---------------|
|                    | 2006         | 2005          |
| Prepaid expenses   | \$ 2,943,029 | \$ 3,751,968  |
| Prepaid income tax |              | 6,323,599     |
| Miscellaneous      | 69,398       | 67,100        |
|                    | \$ 3,012,427 | \$ 10,142,667 |

**11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**

|  | September 30 |        |              |        |
|--|--------------|--------|--------------|--------|
|  | 2006         | % of   | 2005         | % of   |
|  | Carrying     | Owner- | Carrying     | Owner- |
|  | Value        | ship   | Value        | Ship   |
| Equity investee:                                   |              |        |              |        |
| Chungghwa Investment ( CHI )                       | \$ 965,882   | 49     | \$ 930,341   | 49     |
| Taiwan International Standard Electronics ( TISE ) | 520,661      | 40     | 497,352      | 40     |
| CHIEF Telecom ( CHIEF )                            | 306,566      | 70     |              |        |
| New Prospect Investments Holdings, Ltd. ( NPIH )   |              | 100    |              |        |
| Prime Asia Investments Group, Ltd. ( PAIG )        |              | 100    |              |        |
|  | \$ 1,793,109 |        | \$ 1,427,693 |        |

The Company invested CHIEF Telecom in September, 2006, for a purchase price of \$310,652 thousand. CHIEF engages mainly in internet communication and internet data center ( IDC ) service.

The Company has established New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) in March, 2006. Both holding companies are operating as investment companies and Chungghwa has 100% ownership right in an amount of US \$1 in each holding company.

The carrying values of the equity investees and the equity in their net earnings as of and for the nine months ended September 30, 2006 and 2005 are based on unreviewed financial statements. The aggregate carrying values of the equity-accounted investments were \$1,793,109 thousand and \$1,427,693 thousand as of September 30, 2006 and 2005, respectively. The equity in their net gains were \$591 thousand and \$65,500 thousand for the nine months then ended.

**12. FINANCIAL ASSETS CARRIED AT COST**

|   | September 30 |        |              |        |
|---|--------------|--------|--------------|--------|
|   | 2006         | % of   | 2005         | % of   |
|   | Carrying     | Owner- | Carrying     | Owner- |
|   | Value        | ship   | Value        | ship   |
| Cost investees:                               |              |        |              |        |
| Taipei Financial Center ( TFC )               | \$ 1,789,530 | 12     | \$ 2,529,206 | 12     |
| RPTI International ( RPTI )                   | 71,500       | 12     | 71,500       | 12     |
| Siemens Telecommunication Systems ( Siemens ) | 5,250        | 15     | 5,250        | 15     |
|   | \$ 1,866,280 |        | \$ 2,605,956 |        |



The above investments that do not have a quoted market price in an active market and whose fair values cannot be reliably measured are carried at original cost.

The Company identified an impairment indicator and determined the investment in TFC was impaired due to an adverse change in the market condition of the industry in which TFC operates as of December 31, 2005. The Company recognized an other-than-temporary impairment loss of \$739,676 thousand in 2005.

### 13. OTHER NONCURRENT MONETARY ASSETS

|                 | September 30        |                     |
|-----------------|---------------------|---------------------|
|                 | 2006                | 2005                |
| Fixed-Line Fund | \$ 1,000,000        | \$ 1,000,000        |
| Piping Fund     | 1,000,000           | 1,000,000           |
|                 | <b>\$ 2,000,000</b> | <b>\$ 2,000,000</b> |

As part of the government's effort to upgrade the existing telecommunications infrastructure, the Company and other public utility companies were required by the ROC government to contribute a total of \$2,000,000 thousand to a Fixed-Line Fund managed by the Ministry of Interior Affairs and a Piping Fund administered by the Taipei City Government. These funds will be used to finance various telecommunications infrastructure projects. Upon completion of the construction projects, the funds will be proportionally allocated to their contributors. If the balance of the Fixed-Line Fund is not sufficient for its operation, the above three parties will determine when to raise additional funds and the contribution amounts from each party.

### 14. PROPERTY, PLANT AND EQUIPMENT

|   | September 30       |                    |
|---|--------------------|--------------------|
|   | 2006               | 2005               |
| Cost  |                    |                    |
| Land  | \$ 101,166,851     | \$ 101,901,489     |
| Land improvements   | 1,480,695          | 1,462,153          |
| Buildings   | 58,885,494         | 56,765,074         |
| Machinery and equipment   | 21,503,972         | 21,796,868         |
| Telecommunications network facilities                                     | 632,376,768        | 625,308,501        |
| Miscellaneous equipment   | 1,976,665          | 2,061,694          |
| Total cost  | 817,390,445        | 809,295,779        |
| Revaluation increment on land   | 5,850,205          | 5,951,339          |
|   | <b>823,240,650</b> | <b>815,247,118</b> |
| Accumulated depreciation  |                    |                    |
| Land improvements   | 795,510            | 738,835            |
| Buildings   | 14,009,360         | 12,990,475         |
| Machinery and equipment   | 16,413,792         | 15,788,409         |
| Telecommunications network facilities                                     | 469,963,875        | 447,247,118        |
| Miscellaneous equipment   | 1,721,287          | 1,765,470          |
|   | <b>502,903,824</b> | <b>478,530,307</b> |
| Construction in progress and advances related to acquisition of equipment | 24,015,779         | 25,611,084         |

|                                    |                |                |
|------------------------------------|----------------|----------------|
| Property, plant and equipment, net | \$ 344,352,605 | \$ 362,327,895 |
|------------------------------------|----------------|----------------|

Pursuant to the relative regulation, the Company revalued land it owned on April 30, 2000 based on the publicly announced value on July 1, 1999. These revaluations which have been approved by MOA resulted in increases in the carrying values of property, plant and equipment of \$5,986,074 thousand, liabilities for land value incremental tax of \$211,182 thousand, and stockholder's equity-other adjustments of \$5,774,892 thousand.

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went into effect on February 1, 2005. In accordance with the lowered tax rates, the Company recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of \$116,196 thousand to stockholder's equity-other adjustments.

Because of the improvements on telecommunication technology and changes of the market, the recoverable amount of telecommunications network facilities of paging division is less than its carrying value. Therefore, an impairment loss amounted to \$343,463 thousand was recognized for the nine months ended September 30, 2005.

Depreciation on property, plant and equipment for the nine months ended September 30, 2006 and 2005 amounted to \$30,084,675 thousand and \$30,647,349 thousand, respectively. No interest expense was capitalized for the nine months ended September 30, 2006 and 2005.

#### 15. ACCRUED EXPENSES

|                                 | September 30  |              |
|---------------------------------|---------------|--------------|
|                                 | 2006          | 2005         |
| Accrued salary and compensation | \$ 8,073,034  | \$ 6,068,877 |
| Accrued franchise fees          | 1,817,370     | 1,883,192    |
| Accrued advertisement expenses  | 1,376,532     | 210,000      |
| Other accrued expenses          | 2,426,735     | 1,447,396    |
|                                 | \$ 13,693,671 | \$ 9,609,465 |

#### 16. OTHER CURRENT LIABILITIES

|                                       | September 30  |               |
|---------------------------------------|---------------|---------------|
|                                       | 2006          | 2005          |
| Advances from subscribers             | \$ 4,798,184  | \$ 4,712,257  |
| Amounts collected in trust for others | 4,272,746     | 4,410,832     |
| Payables to equipment suppliers       | 2,371,855     | 3,897,880     |
| Refundable customers' deposits        | 958,343       | 1,232,551     |
| Other payables                        | 902,221       | 808,707       |
| Payables to constructors              | 503,399       | 642,908       |
| Miscellaneous                         | 941,576       | 894,461       |
|                                       | \$ 14,748,324 | \$ 16,599,596 |

**17. LONG-TERM LOANS (INCLUDING LONG-TERM LOANS - CURRENT PORTION)**

|  | September 30 |            |
|--|--------------|------------|
|  | 2006         | 2005       |
| Loan from the Fixed-Line Fund            | \$ 300,000   | \$ 500,000 |
| Less: Current portion of long-term loans | 300,000      | 200,000    |
|  | \$           | \$ 300,000 |

The loan amount of \$0.7 billion from the Fixed-Line Fund was obtained pursuant to a long-term loan agreement with the Fixed-Line Fund managed by Ministry of Interior that allows the Company to obtain unsecured interest-free credit of \$1 billion until March 12, 2007, with a restricted lending term of five years. The outstanding principal was payable in three annual installments (\$0.2 billion, \$0.2 billion and \$0.3 billion) starting on March 12, 2005.

**18. STOCKHOLDERS EQUITY**

Under the revised Company's Articles of Incorporation dated May 30, 2006, the Company's authorized capital is \$120,000,000,020, which is divided into 12,000,000,000 common shares (at \$10 par value per share), which are issued and outstanding 9,667,845,093 shares, and 2 preferred shares (at \$10 par value per share), which are issued and approved by the board of directors on March 28, 2006, and the MOTC purchased 2 preferred shares at par value on April 4, 2006.

For the purpose of privatizing the company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of the company, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. As of September 30, 2006, the MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units, and represented 31.91% of the company's total outstanding common shares.

The ADS holders generally have the same rights and obligations as other common shareholders, subject to the provision of relevant laws. The exercise of such rights and obligations shall comply with the related regulations and deposit agreement, which stipulate, among other things, that ADS holders can, through deposit agents:

- a. Exercise their voting rights;
- b. Sell their ADSs; and
- c. Receive dividends declared and subscribe to the issuance of new shares.

The MOTC, as the holder of those preferred shares is entitled to the same rights as holders of common shares and certain additional rights as specified in the Company's Articles of Incorporation as follows:

- a. The holder of the preferred shares, or its nominated representative, will act as a director and/or supervisor during the entire period in which the preferred shares are outstanding.
- b. The holder of preferred shares has the same pre-emptive rights as holders of common shares when the Company raises capital by issuing new shares.



- c. The holder of the preferred shares will have the right to veto on any change in the name of the Company or the nature of its business and any transfer of a substantial portion of the Company's business or property.
- d. The holder of the preferred shares may not transfer the ownership. The Company must redeem all outstanding preferred shares within three years from the date of their issuance.

Under the ROC Company Law, capital surplus can only be utilized to offset deficits or be declared as stock dividends. Also, such capital surplus and donations can only be declared as a stock dividend by the Company at an amount calculated in accordance with the provisions of existing regulations.

In addition, before distributing a dividend or making any other distribution to stockholders, the Company must pay all outstanding taxes, recover any past losses and set aside a legal reserve equal to 10% of its net income, and depending on its business needs or requirements, may also set aside a special reserve. In accordance with the Articles of Incorporation, no less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed in the following order: (a) from 2% to 5% of distributable earnings shall be distributed to employees as employee bonus; (b) no more than 0.2% of distributable earnings shall be distributed to board of directors and supervisors as remuneration in the following years after privatization. During the year of privatization, the distributable earnings are limited to the earnings generated after privatization. The remaining distributable earnings can be distributed to the shareholders based on the resolution of shareholders' meeting; and (c) cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividends to be distributed is less than \$0.10 per share, such cash dividend shall be distributed in the form of common shares.

Telecommunications service is a Taiwan's capital-intensive industry and the Company requires capital expenditures to sustain its competitive position in high-growth market. Thus, the Company's dividend policy takes into account future capital expenditure outlays. In this regard, a portion of the earnings may be retained to finance these capital expenditures. The remaining earnings can then be distributed as dividends if approved by the stockholders in the following year and will be recorded in the financial statements of that year.

Under the ROC Company Law, the appropriation for legal reserve shall be made until the accumulated reserve equals the aggregate par value of the outstanding capital stock of the Company. This reserve can only be used to offset a deficit, or when reaching 50% of the aggregate par value of the outstanding capital stock of the Company, up to 50% of the reserve may, at the option of the Company, be declared as a stock dividend and transferred to capital.

The appropriations and distributions of the 2005 earnings of the company have been approved and resolved by the stockholders on May 30, 2006 as follows:

|  | Appropriation and<br>Distribution |                          |
|--|-----------------------------------|--------------------------|
|  | Amount                            | Dividend<br>Per<br>Share |
| Legal reserve                                      | \$ 4,765,288                      | \$                       |
| Cash dividends                                     | 40,659,617                        | 4.3                      |
| Stock dividends                                    | 1,891,145                         | 0.2                      |
| Employee bonus-cash                                | 230,057                           |                          |
| Employee bonus-stock                               | 230,057                           |                          |
| Remuneration to board of directors and supervisors | 15,337                            |                          |
|  | \$ 47,791,501                     | \$ 4.5                   |

The appropriation and distributions of the 2004 earnings of the Company have been approved and resolved by the stockholders on June 21, 2005, for special reserve of \$4,243 thousand, 10% legal reserve of \$4,987,031 thousand and cash dividends of \$45,344,307 thousand (\$4.7 per share). After examination by the MOA, 10% legal reserve was decreased \$701 thousand, from \$4,987,031 thousand to \$4,986,330 thousand. The appropriation and distributions adjustments have been recorded retroactively as of December 31, 2004 in accordance with the applicable government regulations. (See Note 4).

Under the Integrated Income Tax System that became effective on July 1, 1998, non-corporate stockholders are allowed a tax credit for the income tax paid by the Company on earnings generated in 1999 and onwards. An Imputation Credit Account (ICA) is maintained by the Company for such income tax and the tax credit is allocated to each stockholder.

## 19. TREASURY STOCK

(In Thousands of Shares)

| Purpose   | As of              |          | As of    |                       |
|---|--------------------|----------|----------|-----------------------|
|   | January 1,<br>2006 | Increase | Decrease | September 30,<br>2006 |
| To improve the Company's financial condition and utilize excess funds |                    | 192,000  | 192,000  |                       |

According to the Securities and Exchange Law of the ROC, total shares of treasury stock shall not exceed 10% of the Company's stock issued. The total amount of the shares bought back shall not be more than the amount of retained earnings, premium on capital stock and realized capital reserve.

Treasury stock shall not be pledged, nor may stockholder's rights be enjoyed before transfer in compliance with Securities and Exchange Law of the ROC.

The Company repurchased of treasury stock 192,000 thousand shares, from February 10, 2006 to April 7, 2006, for \$11,392,333 thousand. On June 30, 2006, the company cancelled the treasury stock by reducing common stock of \$1,920,000 thousand, capital surplus of \$4,269,368 thousand and retained earnings of \$5,202,965 thousand.

## 20. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

|                      | Nine Months Ended September 30, 2006 |                       |               |
|----------------------|--------------------------------------|-----------------------|---------------|
|                      | Cost of<br>Services                  | Operating<br>Expenses | Total         |
| Compensation expense |                                      |                       |               |
| Salaries             | \$ 9,917,471                         | \$ 6,237,873          | \$ 16,155,344 |
| Insurance            | 459,921                              | 292,573               | 752,494       |
| Pension              | 1,486,445                            | 958,259               | 2,444,704     |
| Other compensation   | 5,662,709                            | 3,551,817             | 9,214,526     |
|                      | 17,526,546                           | 11,040,522            | 28,567,068    |
| Depreciation expense | 28,416,566                           | 1,668,109             | 30,084,675    |
| Amortization expense | 641,310                              | 74,030                | 715,340       |
|                      | \$ 46,584,422                        | \$ 12,782,661         | \$ 59,367,083 |

|                      | Nine Months Ended September 30, 2005 |               |               |
|----------------------|--------------------------------------|---------------|---------------|
|                      | Cost of                              | Operating     |               |
|                      | Services                             | Expenses      | Total         |
| Compensation expense |                                      |               |               |
| Salaries             | \$ 11,444,693                        | \$ 7,069,276  | \$ 18,513,969 |
| Insurance            | 439,356                              | 277,019       | 716,375       |
| Pension              | 845,152                              | 539,350       | 1,384,502     |
| Other compensation   | 4,348,576                            | 2,632,792     | 6,981,368     |
|                      | 17,077,777                           | 10,518,437    | 27,596,214    |
| Depreciation expense | 28,937,116                           | 1,710,233     | 30,647,349    |
| Amortization expense | 355,685                              | 78,637        | 434,322       |
|                      | \$ 46,370,578                        | \$ 12,307,307 | \$ 58,677,885 |

## 21. INCOME TAX

- a. A reconciliation between income tax expense computed by applying the statutory income tax rate of 25% to income before income tax and income tax payable shown in the statements of income is as follows:

|   | Nine Months Ended    |               |
|---|----------------------|---------------|
|   | September 30<br>2006 | 2005          |
| Income tax expense computed at statutory income tax rate of 25% to income before income tax | \$ 11,026,005        | \$ 11,873,307 |
| Deduct tax effect of:   |                      |               |
| Permanent differences   | (138,038)            | (135,083)     |
| Temporary differences   | (1,367,396)          | (12,569,495)  |
| Additional tax at 10% on undistributed earnings   | 182                  |               |
| Investment tax credits  | (1,163,833)          |               |
| Income tax payable  | \$ 8,356,920         | \$            |

- b. Income tax expense consists of the following:

|                                      | Nine Months Ended    |              |
|--------------------------------------|----------------------|--------------|
|                                      | September 30<br>2006 | 2005         |
| Income tax payable                   | \$ 8,356,920         | \$           |
| Income tax-separated                 | 100,999              | 67,981       |
| Income tax-deferred                  | 1,364,584            | 9,263,941    |
| Adjustment of prior years income tax | 110,606              | (4,750)      |
|                                      | \$ 9,933,109         | \$ 9,327,172 |

- c. Net deferred income tax assets (liabilities) consists of the following:

|   | September 30        |                     |
|---|---------------------|---------------------|
|   | 2006                | 2005                |
| <b>Current</b>                                |                     |                     |
| Deferred income tax assets:                   |                     |                     |
| Investment tax credits                        | \$ 1,562,913        | \$ 2,091,156        |
| Provision for doubtful receivables            | 234,839             | 241,954             |
| Unrealized foreign exchange losses            | 36,336              |                     |
| Loss carryforwards                            |                     | 771,512             |
| Other   | 46,567              | 111,748             |
|   | 1,880,655           | 3,216,370           |
| Less: Valuation allowance                     | (234,839)           | (241,954)           |
|   | 1,645,816           | 2,974,416           |
| Deferred income tax liability:                |                     |                     |
| Unrealized foreign exchange gain              |                     | (34,262)            |
| <b>Net deferred income tax assets</b>         | <b>\$ 1,645,816</b> | <b>\$ 2,940,154</b> |
| <b>Noncurrent deferred income tax assets:</b> |                     |                     |
| Accrued pension cost                          | \$ 317,746          | \$                  |
| Losses on impairment                          | 85,866              | 85,866              |
|   | <b>\$ 403,612</b>   | <b>\$ 85,866</b>    |

- d. As of September 30, 2006, investment tax credits consists of the following:

| Regulation                            | Items                        | Total<br>Creditable<br>Amounts | Remaining<br>Creditable<br>Amounts | Expiry<br>Year |
|---------------------------------------|------------------------------|--------------------------------|------------------------------------|----------------|
| Statute for Upgrading Industries      | Purchase of automated        | \$ 995,489                     | \$ 253,056                         | 2009           |
|                                       | machinery and equipment      | 603,690                        | 603,690                            | 2010           |
|                                       | Research and development     |                                |                                    |                |
|                                       | expenditure                  | 389,825                        | 389,825                            | 2010           |
|                                       | Personnel training           | 113,847                        | 113,847                            | 2010           |
| Statute for Upgrading Recovery of 921 | Investment in disaster areas | 146,025                        | 146,025                            | 2009           |
| Earthquake                            |                              | 56,470                         | 56,470                             | 2010           |
|                                       |                              | <b>\$ 2,305,346</b>            | <b>\$ 1,562,913</b>                |                |

- e. The related information under the Integrated Income Tax System is as follows:

|  | September 30 |            |
|--|--------------|------------|
|  | 2006         | 2005       |
| Balance of Imputation Credit Account (ICA) | \$ 65,269    | \$ 115,890 |

The actual ICA rate for the year ended December 31, 2005 and 2004 were 6.97% and 22.49%, respectively.

f. Undistributed earnings information

As of September 30, 2006 and 2005, the Company's undistributed earnings generated in June 30, 1998 and onward was zero.

Income tax returns through the year ended December 31, 2004 had been examined by the tax authorities.

## 22. EARNINGS PER SHARE

|                                      | Amount (Numerator)<br>Income |               | Weighted-<br>average<br>Number of<br>Common | Net Income              |               |
|--------------------------------------|------------------------------|---------------|---|-------------------------|---------------|
|                                      |                              |               |   | Per Share<br>(Dollars)  |               |
|                                      | Before<br>Income<br>Tax      | Net Income    | Shares<br>Outstanding<br>(Denominator)      | Before<br>Income<br>Tax | Net<br>Income |
| Nine months ended September 30, 2006 |                              |               |   |                         |               |
| Net income                           | \$ 44,104,061                | \$ 34,170,952 |   |                         |               |
| Basic net income per share           |                              |               | 9,716,366                                   | \$ 4.54                 | \$ 3.52       |
| Nine months ended September 30, 2005 |                              |               |   |                         |               |
| Net income                           | \$ 47,493,266                | \$ 38,166,094 |   |                         |               |
| Basic net income per share           |                              |               | 9,859,845                                   | \$ 4.82                 | \$ 3.87       |

The impact of stock dividends was considered in calculating basic net income per share for 2005. The basic EPS before income tax and the basic EPS after income tax in 2005 are restated from \$4.92 to \$4.82 and from \$3.96 to \$3.87, respectively.

## 23. PENSION PLAN

The Company has different pension plans for its employees depending on their classifications before privatization. In general, the employees pension entitlement was based on MOTC regulations, Labor Law and/or the private pension plan of the Company.

Before privatization, the funding of the pension plan for employees classified as staff was based on the budget approved by the Legislative Yuan and a supplementary budget approved by the Executive Yuan. The staff pension fund was administered by a pension fund committee and deposited in its name in a commercial bank. The pension plan for employees classified as workers is funded monthly at 15% or less of their wages and is also administered by a pension committee and deposited in its name in the Central Trust of China Company.

The Company completed privatization plans on August 12, 2005. The Company is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in accordance with the Statute Governing Privatization of Stated-owned Enterprises (the Privatization Fund ). After paying all pension obligations for privatization, the plan assets of the Company should be transferred to the Fund for Privatization of Government-owned Enterprises under the Executive Yuan. However, according to the instructions of MOTC, the Company would, on behalf of the MOTC pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization. As of September 30, 2006, the remaining balance of funds to be disbursed to employees has totally transferred to Privatization Fund.

The Labor Pension Act of ROC is effective beginning July 1, 2005 and this pension mechanism is considered as a defined contribution plan. The employees who were subject to the Labor Standards Law prior to the enforcement of this Act may choose to be subject to the pension mechanism under this Act or continue to remain to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and choose to be subject to the pension mechanism under this Act, their seniority as of July 1, 2005 shall be maintained. The rate of contribution by an employer to the Labor Pension Fund per month shall not be less than 6% of each employee's monthly salary or wage. The Company contributes 6% of each employee's monthly salary per month beginning July 1, 2005.

After privatization, the pension plan in accordance with the Labor Standards Law is considered as a defined benefit plan. The payments of pension are subject to the service periods and average salaries of six months of employees prior to retirement. The pension assets is funded monthly at 15% or less of their wages and is also administered by a pension committee and deposited in its name in the Central Trust of China Company.

The balance of the Company's plan assets subject to defined benefit plan were \$2,575,901 thousand and \$1,163,152 thousand as of September 30, 2006 and 2005, respectively.

Pension costs amounted to \$2,553,963 thousand (\$2,518,480 thousand subject to defined benefit plan and \$35,483 thousand subject to defined contribution plan) and \$1,533,569 thousand (\$1,533,317 thousand subject to defined benefit plan and \$252 thousand subject to defined contributed plan) for the nine months ended September 30, 2006 and 2005, respectively.

#### 24. TRANSACTIONS WITH RELATED PARTIES

The Company was a state-owned enterprise and the ROC Government is one of the Company's customers. The Company provides fixed-line services, wireless services, Internet and data and other services to the various departments and agencies of the ROC Government and other state-owned enterprises in the normal course of business and at arm's-length prices. The information on service revenues from government bodies and related organizations have not been provided because details of the type of users were not maintained by the Company. The Company believes that all costs of doing business are reflected in the financial statements and that no additional expenditures would be incurred as a result of the privatization being completed.

- a. The Company engages in business transactions with the following related parties:

| Company  | Relationship                            |
|--|---|
| CHIEF Telecom ( CHIEF )                              | Subsidiary                              |
| Taiwan International Standard Electronics ( TISE )   | Equity-accounted investee               |
| Chunghwa System Integration Co., Ltd. ( CSI )        | Subsidiary of equity-accounted investee |
| Chunghwa Precision Test Technical Co., Ltd. ( CHPT ) | Subsidiary of equity-accounted investee |
| Chunghwa Telecom Global, Inc. ( CHTG )               | Subsidiary of equity-accounted investee |

b. Significant transactions with the above related parties are summarized as follows:

|                                       | September 30 |   |            |   |
|---------------------------------------|--------------|---|------------|---|
|                                       | 2006         |   | 2005       |   |
|                                       | Amount       | % | Amount     | % |
| <b>1) Receivables</b>                 |              |   |            |   |
| Trade notes and accounts receivable   |              |   |            |   |
| CHTG                                  | \$ 30,868    |   | \$         |   |
| <b>2) Payables</b>                    |              |   |            |   |
| Trade notes and accounts payable      |              |   |            |   |
| TISE                                  | \$ 176,604   | 2 | \$ 16,427  |   |
| CSI                                   | 82,848       | 1 |            |   |
|                                       | \$ 259,452   | 3 | \$ 16,427  |   |
| <b>Accrued expense</b>                |              |   |            |   |
| TISE                                  | \$ 44,534    |   | \$ 37,791  |   |
| <b>Nine Months Ended September 30</b> |              |   |            |   |
|                                       | 2006         |   | 2005       |   |
|                                       | Amount       | % | Amount     | % |
| <b>3) Service revenues</b>            |              |   |            |   |
| CHTG                                  | \$ 82,780    |   | \$         |   |
| CHPT                                  | 12,265       |   |            |   |
|                                       | \$ 95,045    |   | \$         |   |
| <b>4) Costs of services</b>           |              |   |            |   |
| TISE                                  | \$ 298,838   |   | \$ 81,683  |   |
| CSI                                   | 250,443      |   | 27,468     |   |
| CHTG                                  | 79,580       |   |            |   |
|                                       | \$ 628,861   |   | \$ 109,151 |   |
| <b>5) Acquisition of properties</b>   |              |   |            |   |
| TISE                                  | \$ 437,152   | 2 | \$ 378,541 | 2 |
| CSI                                   | 42,935       |   | 255,912    | 2 |
| CHTG                                  | 877          |   |            |   |
|                                       | \$ 480,964   | 2 | \$ 634,453 | 4 |

The foregoing acquisitions were conducted under normal commercial terms.



**25. COMMITMENTS AND CONTINGENT LIABILITIES**

As of September 30, 2006, the Company's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of buildings of \$2,101,221 thousand.
- b. Acquisitions of telecommunications equipment of \$16,900,751 thousand.
- c. Unused letters of credit of approximately \$2,309,202 thousand.
- d. Contracts to print billing, envelopes and telephone directories of approximately \$374,571 thousand.
- e. The Company also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Minimum rental commitments under those leases are as follows:

| Year                                     | Rental Amount |
|--|---------------|
| The three months ended December 31, 2006 | \$ 351,895    |
| 2007                                     | 1,040,196     |
| 2008                                     | 717,725       |
| 2009                                     | 442,187       |
| 2010 and thereafter                      | 321,161       |

- f. A commitment to contribute \$2,500,000 thousand to a Fixed-Line Fund administered by the Ministry of Interior Affairs and Taiwan Power Company, of which \$1,000,000 thousand has been contributed by the Company on June 30, 1995. If the balance of the Fixed-Line Fund is not sufficient for its purpose, the above three parties will determine when to raise additional funds and the contribution amounts from each party.
- g. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by the Company on August 15, 1996.
- h. A portion of the land used by the Company during the period July 1, 1996 to December 31, 2004 was co-owned by the Company and Chunghwa Post Co., Ltd. (the former Directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to the Company to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of the Company's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, the Company believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, the Company has filed an appeal at the Taiwan Taipei District Court. As of October 20, 2006, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.
- i. The Company has acquired 30% shares of Spring House Entertainment Inc. ( Spring House ) totaled 2,016 thousand common shares on October 11, 2006, for a purchase price of \$20,160 thousand. The main business of Spring House is to provide internet services.

**26. FAIR VALUE OF FINANCIAL INSTRUMENTS**

- a. Fair value of financial instruments were as follows:

|   | 2006            |               | September 30    |               | 2005            |            |
|---|-----------------|---------------|-----------------|---------------|-----------------|------------|
|   | Carrying Amount | Fair Value    | Carrying Amount | Fair Value    | Carrying Amount | Fair Value |
| <b>Assets</b>                                 |                 |               |                 |               |                 |            |
| Cash and cash equivalents                     | \$ 40,475,668   | \$ 40,475,668 | \$ 17,154,268   | \$ 17,154,268 |                 |            |
| Available-for-sale financial assets           | 13,798,586      | 13,798,586    | 16,097,828      | 16,220,329    |                 |            |
| Trade notes and accounts receivable, net      | 11,983,223      | 11,983,223    | 13,106,486      | 13,106,486    |                 |            |
| Other current monetary assets                 | 5,774,250       | 5,774,250     | 2,357,538       | 2,357,538     |                 |            |
| Investments accounted for using equity method | 1,793,109       | 1,926,712     | 1,427,693       | 1,686,178     |                 |            |
| Financial assets carried at cost              | 1,866,280       | 1,866,280     | 2,605,956       | 2,605,956     |                 |            |
| Other noncurrent monetary assets              | 2,000,000       | 2,000,000     | 2,000,000       | 2,000,000     |                 |            |
| Refundable deposits                           | 1,554,194       | 1,554,194     | 1,474,113       | 1,474,113     |                 |            |
| <b>Liabilities</b>                            |                 |               |                 |               |                 |            |
| Trade notes and accounts payable              | 7,397,508       | 7,397,508     | 12,083,002      | 12,083,002    |                 |            |
| Accrued expenses                              | 13,693,671      | 13,693,671    | 9,609,465       | 9,609,465     |                 |            |
| Current portion of long-term loans            | 300,000         | 300,000       | 200,000         | 200,000       |                 |            |
| Long-term loans                               |                 |               | 300,000         | 300,000       |                 |            |
| Customers deposits                            | 6,589,143       | 6,589,143     | 7,079,438       | 7,079,438     |                 |            |

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, Accounting for Financial Instruments (SFAS No. 34), and the related information refers to the Note 3 to the financial statements.

- b. Methods and assumptions used in the determination of fair values of financial instruments:

- 1) The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. This method does not apply to the financial instruments discussed in notes 2, 3, and 4 below.
- 2) If the available-for-sale financial assets have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market price of the financial assets are not immediately available, they must be calculated using standard valuation models on the basis of current market parameters.
- 3) Long-term investments are based on the net asset values of the investments in unconsolidated companies, if quoted market prices are not available.
- 4) The fair value of long-term loans (including current portion) is discounted value based on projected cash flow. The projected cash flows were discounted using the maturity dates of long-term loans.

- c. Fair value of financial instruments were as follow:

|  |   |
|--|---|
| <b>Amount Based on Quoted<br/>Market Price</b> | <b>Amount Determined<br/>Using<br/>Valuation Techniques</b> |
|--|---|

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|                                     | September 30,<br>2006 | September 30,<br>2005 | September 30,<br>2006 | September 30,<br>2005 |
|-------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| <u>Assets</u>                       |                       |                       |                       |                       |
| Available-for-sale financial assets | \$ 13,798,586         | \$ 16,220,329         | \$                    | \$                    |

d. Information about financial risks

1) Market risk

The financial instruments categorized as available-for-sale financial assets are mainly list stocks and open-end bond mutual funds. Therefore, the market risk is the fluctuations of market price. In order to manage this risk, the Company would assess the risk before investing, therefore, no material market risk are anticipated.

2) Credit risk

The Company is exposed to credit risk in the event of non-performance of the counter parties to forward contracts on maturity. Contracts with positive fair values at the balance sheet date are evaluated for credit risk. In order to manage this risk, the Company conducts transactions only with financial institutions with good credit ratings. As a result, no material losses resulting from counter party defaults are anticipated.

3) Liquidation risk

The financial instruments categorized as available-for-sale financial assets are publicly-traded, easily converted to cash. Therefore, no material liquidation risk are anticipated. The financial instruments categorized as financial assets carried at cost are investments that do not have a quoted market price in an active market. Therefore, material liquidation risk are anticipated.

**27. ADDITIONAL DISCLOSURES**

Following are the additional disclosures required by the SFC for the Company and its investees:

- a. Financing provided: Please see Table 1.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Please see Table 2.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: None.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: None.

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- i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 5.
- j. Financial transaction: Please see Note 26.
- k. Investment in Mainland China: None.

**TABLE 1****CHUNGHWA TELECOM CO., LTD.****FINANCING PROVIDED****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006****(Amounts in Thousands of New Taiwan Dollars)**

| Financing Name       | Counter-party                     | Financial Statement Account      | Maximum Balance for the |                    | Interest Rate | Type of Financing                   | Transaction Amounts | Reasons for Short-term Financing | Allowance for Doubtful Accounts | Collateral Value | Financing Limit for Each Borrowing Company | Financing Amount       |
|----------------------|-----------------------------------|----------------------------------|-------------------------|--------------------|---------------|-------------------------------------|---------------------|----------------------------------|---------------------------------|------------------|--|------------------------|
|                      |                                   |                                  | Period                  | Ending Balance     |               |                                     |                     |                                  |                                 |                  |  |                        |
| CHIEF Telecom        | CHIEF Telecom (Hong Kong) Limited | Other receivable - related party | \$ 879                  | \$ 879<br>(Note 1) |               | Necessary for short-term financing. | \$                  | \$                               | \$                              | \$               | (Note 3)                                   | \$ 274,000<br>(Note 3) |
| Vnigate Telecom Inc. | CHIEF Telecom                     | Other receivable - related party | 9,749                   | 9,222<br>(Note 2)  | 4%            | Necessary for short-term financing. | 1,506               |                                  |                                 |                  | (Note 3)                                   | 274,000<br>(Note 3)    |

Note 1: CHIEF Telecom expects to receive the payment on October 27, 2006.

Note 2: CHIEF Telecom repaid the payment on October 20, 2006.

Note 3: According to CHIEF Telecom's Operational Procedures for Loaning Funds to Others, the amount shall not exceed 2.5 times of the lender's net worth.

Note 4: According to CHIEF Telecom's Operational Procedures for Loaning Funds to Others, the amount shall not exceed 50% of CHIEF Telecom's paid-up capital.

**TABLE 2****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****SEPTEMBER 30, 2006****(Amounts in Thousands of New Taiwan Dollars)**

| No. | Held Company Name          | Marketable Securities Type and Name           | Relationship with the Company | Financial Statement Account           | Shares<br>(Thousands/<br>Thousand<br>Units) | September 30, 2006      |                         | Market Value or Net Asset Value | Note   |
|-----|----------------------------|---|-------------------------------|---------------------------------------|---|-------------------------|-------------------------|---------------------------------|--------|
|     |                            |   |                               |                                       |   | Carrying Value (Note 5) | Percentage of Ownership |                                 |        |
| 0   | Chunghwa Telecom Co., Ltd. | <u>Common stock</u>                           |                               |                                       |   |                         |                         |                                 |        |
|     |                            | Chunghwa Investment Co., Ltd.                 | Equity-accounted investee     | Long-term investments - equity method | 98,000                                      | \$ 965,882              | 49                      | \$ 965,882                      | Note 1 |
|     |                            | Taiwan International Standard Electronics     | Equity-accounted investee     | Long-term investments - equity method | 1,760                                       | 520,661                 | 40                      | 706,064                         | Note 1 |
|     |                            | CHIEF Telecom                                 | Subsidiary                    | Long-term investments - equity method | 38,370                                      | 306,566                 | 70                      | 254,766                         | Note 1 |
|     |                            | New Prospect Investments Holdings Ltd.        | Subsidiary                    | Long-term investments - equity method |   | US\$ (1)                | 100                     | US\$ (1)                        | Note 2 |
|     |                            | Prime Asia Investments Group Ltd.             | Subsidiary                    | Long-term investments - equity method |   | US\$ (1)                | 100                     | US\$ (1)                        | Note 2 |
|     |                            | Taipei Financial Center                       |                               | Financial assets carried at cost      | 288,211                                     | 1,789,530               | 12                      | 1,646,223                       | Note 1 |
|     |                            | RPTI International                            |                               | Financial assets carried at cost      | 9,234                                       | 71,500                  | 12                      | 101,482                         | Note 1 |
|     |                            | Siemens Telecommunication Systems             |                               | Financial assets carried at cost      | 75  | 5,250                   | 15                      | 189,300                         | Note 1 |
|     |                            | China Motor Corporation                       |                               | Available-for-sale financial assets   | 277   | 8,126                   |                         | 7,980                           | Note 4 |
|     |                            | D-Link Corporation                            |                               | Available-for-sale financial assets   | 200   | 6,004                   |                         | 7,007                           | Note 4 |
|     |                            | Realtek Semiconductor Corp.                   |                               | Available-for-sale financial assets   | 21  | 668                     |                         | 855                             | Note 4 |
|     |                            | <u>Beneficiary certificates (mutual fund)</u> |                               |                                       |   |                         |                         |                                 |        |
|     |                            | JF (Taiwan) First Bond Fund                   |                               | Available-for-sale financial assets   | 72,139                                      | 1,000,000               |                         | 1,010,215                       | Note 3 |
|     |                            | JF (Taiwan) Taiwan Bond Fund                  |                               | Available-for-sale financial assets   | 66,450                                      | 1,000,000               |                         | 1,010,287                       | Note 3 |
|     |                            |   |                               |                                       | 70,008                                      | 800,000                 |                         | 808,303                         | Note 3 |

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|   |                                     |        |           |           |        |
|---|-------------------------------------|--------|-----------|-----------|--------|
| Dresdner Bond DAM Fund                    | Available-for-sale financial assets |        |           |           |        |
| ABN AMRO Bond Fund                        | Available-for-sale financial assets | 60,579 | 900,000   | 909,620   | Note 3 |
| ABN AMRO Select Bond Fund                 | Available-for-sale financial assets | 89,476 | 1,000,000 | 1,010,612 | Note 3 |
| HSBC Taiwan Dragon Fund                   | Available-for-sale financial assets | 13,147 | 200,000   | 201,934   | Note 3 |
| Shinkong Chi-Shin Fund                    | Available-for-sale financial assets | 56,808 | 802,899   | 810,960   | Note 3 |
| NITC Bond Fund                            | Available-for-sale financial assets | 12,326 | 2,000,000 | 2,021,028 | Note 3 |
| Taishin Lucky Fund                        | Available-for-sale financial assets | 9,881  | 100,000   | 100,987   | Note 3 |
| TIIM High Yield Fund                      | Available-for-sale financial assets | 35,325 | 431,442   | 436,939   | Note 3 |
| NITC Taiwan Bond Fund                     | Available-for-sale financial assets | 14,385 | 200,000   | 201,955   | Note 3 |
| Prudential Financial Bond Fund            | Available-for-sale financial assets | 13,867 | 200,000   | 201,955   | Note 3 |
| Jih Sun Bond Fund                         | Available-for-sale financial assets | 14,847 | 200,000   | 201,893   | Note 3 |
| Fuh-Hwa YouLi Fund                        | Available-for-sale financial assets | 16,345 | 200,000   | 202,010   | Note 3 |
| Fuh-Hwa Heirloom No. 2 Balance Fund       | Available-for-sale financial assets | 17,659 | 240,000   | 254,842   | Note 3 |
| HSBC Taiwan Safe & Rich Fund              | Available-for-sale financial assets | 4,827  | 80,000    | 85,200    | Note 3 |
| HSBC Global Balanced Select Fund          | Available-for-sale financial assets | 5,284  | 60,000    | 63,026    | Note 3 |
| AIG Flagship Global Balance Fund of Funds | Available-for-sale financial assets | 4,274  | 50,000    | 51,752    | Note 3 |
| ING CHB Tri-Gold Balanced Portfolio       | Available-for-sale financial assets | 8,143  | 100,000   | 101,792   | Note 3 |
| Fubon Global Reit Fund                    | Available-for-sale financial assets | 12,500 | 125,000   | 140,500   | Note 3 |
| Jih Sun Navigation No. 1 Fund             | Available-for-sale financial assets | 5,000  | 50,050    | 53,850    | Note 3 |
| HSBC Trinity Balanced Fund                | Available-for-sale financial assets | 10,000 | 100,000   | 104,555   | Note 3 |

(Continued)



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|              |                       | September 30, 2006                           |                                  |   |        |                   |                               |                    |        |
|--------------|-----------------------|--|----------------------------------|---|--------|-------------------|-------------------------------|--------------------|--------|
|              |                       |  |                                  | Shares                                      |        |                   |                               |                    |        |
| Held Company |                       | Marketable Securities<br>Type and            |                                  | (Thousands/<br>Thousand                     |        | Carrying<br>Value |                               | Market<br>Value or |        |
| No.          | Name                  | Name   | Relationship with the<br>Company | Financial Statement<br>Account              | Units) | (Note 5)          | Percentage<br>of<br>Ownership | Net Asset<br>Value | Note   |
|              |                       | JF (Taiwan) Pacific<br>Balanced Fund         |                                  | Available-for-sale<br>financial assets      | 10,000 | \$ 100,000        |                               | \$ 104,132         | Note 3 |
|              |                       | Polaris Global Reits<br>Fund                 |                                  | Available-for-sale<br>financial assets      | 10,000 | 104,500           |                               | 124,300            | Note 3 |
|              |                       | JF (Taiwan) Global<br>Balance Fund           |                                  | Available-for-sale<br>financial assets      | 13,331 | 150,000           |                               | 159,939            | Note 3 |
|              |                       | JF (Taiwan) Wealth<br>Management Fund        |                                  | Available-for-sale<br>financial assets      | 9,362  | 100,000           |                               | 105,389            | Note 3 |
|              |                       | Shinkong Strategy<br>Balanced Fund           |                                  | Available-for-sale<br>financial assets      | 14,069 | 150,000           |                               | 155,570            | Note 3 |
|              |                       | Fuh-Hua Home Run<br>Fund                     |                                  | Available-for-sale<br>financial assets      | 9,977  | 100,000           |                               | 101,337            | Note 3 |
|              |                       | Fuh-Hua Total Return<br>Fund                 |                                  | Available-for-sale<br>financial assets      | 9,872  | 100,000           |                               | 103,060            | Note 3 |
|              |                       | Fuh-Hua Elite Angel<br>Fund                  |                                  | Available-for-sale<br>financial assets      | 947    | 10,000            |                               | 10,170             | Note 3 |
|              |                       | PCA<br>Quality-Quantity<br>Fund              |                                  | Available-for-sale<br>financial assets      | 4,514  | 50,000            |                               | 50,593             | Note 3 |
|              |                       | Capital Asset<br>Allocation                  |                                  | Available-for-sale<br>financial assets      | 7,753  | 100,000           |                               | 101,832            | Note 3 |
|              |                       | Fubon No. 1 Fund                             |                                  | Available-for-sale<br>financial assets      | 10,000 | 100,000           |                               | 107,400            | Note 3 |
|              |                       | Fidelity Euro Bond<br>Fund                   |                                  | Available-for-sale<br>financial assets      | 695    | 334,593           |                               | 341,813            | Note 3 |
|              |                       | Credit Suisse BF<br>(Lux) Euro Bond<br>Fund  |                                  | Available-for-sale<br>financial assets      | 16     | 236,233           |                               | 250,375            | Note 3 |
|              |                       | Fidelity European<br>Highyield Fund          |                                  | Available-for-sale<br>financial assets      | 1,443  | 541,806           |                               | 568,116            | Note 3 |
|              |                       | Parvest European<br>Convertible Bond<br>Fund |                                  | Available-for-sale<br>financial assets      | 65     | 324,708           |                               | 348,783            | Note 3 |
|              |                       | MFS Emerging<br>Market Debt Fund             |                                  | Available-for-sale<br>financial assets      | 622    | 354,450           |                               | 392,224            | Note 3 |
|              |                       | GAM USD Special<br>Bond Fund                 |                                  | Available-for-sale<br>financial assets      | 25     | 353,540           |                               | 385,076            | Note 3 |
|              |                       | Fidelity US High<br>Yield Fund               |                                  | Available-for-sale<br>financial assets      | 458    | 172,709           |                               | 171,862            | Note 3 |
|              |                       | Fidelity Euro<br>Balanced Fund               |                                  | Available-for-sale<br>financial assets      | 379    | 203,104           |                               | 216,558            | Note 3 |
| 1            | CHIEF<br>Telecom Inc. | Vnigate Telecom Inc.                         | Subsidiary                       | Long-term<br>investments - equity<br>method | 1,000  | 10,245            | 100                           | 10,245             | Note 1 |
|              |                       | CHIEF Telecom<br>(Hong Kong) Limited         | Subsidiary                       | Long-term<br>investments - equity<br>method | 10     |                   | 99                            |                    | Note 1 |
|              |                       | eASPNet Taiwan Inc.                          |                                  | Financial assets<br>carried at cost         | 1,000  |                   | 2                             |                    | Note 1 |
|              |                       | 3 Link Information<br>Service Co., Ltd       |                                  | Financial assets<br>carried at cost         | 374    | 3,450             | 12                            | 5,933              | Note 1 |
|              |                       | AboveNet Asia<br>Pacific Holdings, Inc.      |                                  | Financial assets<br>carried at cost         | 5,383  |                   |                               |                    | Note 1 |

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|   |   |  |                                       |        |         |     |         |        |
|---|---|--|---------------------------------------|--------|---------|-----|---------|--------|
|   | Truswell Pegasus Fund                       |  | Available-for-sale financial assets   | 6      | 49      |     | 64      | Note 3 |
| 2 | Chunghwa Investment Co., Ltd.               | <u>Common stock</u>                            |                                       |        |         |     |         |        |
|   | Chunghwa System Integration Co., Ltd.       | Subsidiary                                     | Long-term investments - equity method | 60,000 | 645,041 | 100 | 645,041 | Note 1 |
|   | Chunghwa Telecom Global, Inc.               | Subsidiary                                     | Long-term investments - equity method | 6,000  | 81,034  | 100 | 81,034  | Note 1 |
|   | Chunghwa Precision Test Technical Co., Ltd. | Subsidiary                                     | Long-term investments - equity method | 6,000  | 74,561  | 60  | 74,561  | Note 1 |
|   | Chunghwa Investment Holding Company         | Subsidiary                                     | Long-term investments - equity method | 589    | 7,133   | 100 | 7,133   | Note 1 |
|   | PandaMonium Company                         | Equity-accounted investee                      | Long-term investments - equity method | 602    | 19,951  | 43  | 19,951  | Note 1 |
|   | Wayia Com Inc.                              |  | Financial assets carried at cost      | 4,000  | 40,000  | 19  | 16,408  | Note 1 |
|   | TVbean Co., Ltd.                            |  | Financial assets carried at cost      | 1,200  | 12,000  | 6   | 10,893  | Note 1 |
|   | Vantech Software Company                    |  | Financial assets carried at cost      | 1,223  |         | 7   |         | Note 1 |
|   | Digimax Production Center                   |  | Financial assets carried at cost      | 2,000  | 60,000  | 5   | 13,641  | Note 1 |
|   | Crystal Media Incorporation                 |  | Financial assets carried at cost      | 1,000  | 15,000  | 6   | 8,550   | Note 1 |
|   | iPeer Multimedia International Ltd.         |  | Financial assets carried at cost      | 900    | 29,640  | 11  | 29,640  | Note 1 |
|   |   | <u>Beneficiary certification (mutual fund)</u> |                                       |        |         |     |         |        |
|   | Fuhwa Bond Fund                             |  | Financial assets held for trading     | 4,473  | 56,493  |     | 57,000  | Note 3 |
|   | Fuhwa Atex Bond Fund                        |  | Financial assets held for trading     | 3,791  | 44,226  |     | 44,604  | Note 3 |
|   | President James Bond Fund                   |  | Financial assets held for trading     | 2,076  | 31,609  |     | 31,914  | Note 3 |
|   | PCA Bond Fund                               |  | Financial assets held for trading     | 1,132  | 17,364  |     | 17,530  | Note 3 |
|   | Polaris De-Bao Fund                         |  | Financial assets held for trading     | 2,899  | 31,699  |     | 32,007  | Note 3 |
|   | Mega Diamond Bond Fund                      |  | Financial assets held for trading     | 3,600  | 40,866  |     | 41,270  | Note 3 |

(Continued)

|     |                                       |  |                                  |                                   | September 30, 2006      |                   |                               |  |        |
|-----|---------------------------------------|--|----------------------------------|-----------------------------------|-------------------------|-------------------|-------------------------------|--|--------|
|     |                                       |  |                                  |                                   | Shares                  |                   |                               |  |        |
|     |                                       |  |                                  |                                   | (Thousands/<br>Thousand | Carrying<br>Value | Percentage<br>of<br>Ownership | Market<br>Value or<br>Net Asset<br>Value | Note   |
| No. | Held Company<br>Name                  | Marketable<br>Securities Type and<br>Name      | Relationship with the<br>Company | Financial Statement<br>Account    | Units)                  | (Note 5)          | Ownership                     | Value                                    | Note   |
|     |                                       | NITC Bond Fund                                 |                                  | Financial assets held for trading | 124                     | \$ 20,137         |                               | \$ 20,345                                | Note 3 |
|     |                                       | JF (Taiwan) Bond Fund                          |                                  | Financial assets held for trading | 1,663                   | 25,028            |                               | 25,278                                   | Note 3 |
|     |                                       | Cash Reserves Capital fund                     |                                  | Financial assets held for trading | 3,489                   | 40,352            |                               | 40,769                                   | Note 3 |
|     |                                       | Safe Income Capital Fund                       |                                  | Financial assets held for trading | 1,514                   | 22,193            |                               | 22,455                                   | Note 3 |
|     |                                       | Grand Cathay Bond Fund                         |                                  | Financial assets held for trading | 4,100                   | 52,605            |                               | 52,909                                   | Note 3 |
|     |                                       | Jih Sun Bond Fund                              |                                  | Financial assets held for trading | 3,146                   | 42,575            |                               | 42,782                                   | Note 3 |
|     |                                       | Cathay Bond Fund                               |                                  | Financial assets held for trading | 1,747                   | 20,015            |                               | 20,081                                   | Note 3 |
|     |                                       | KGI Victory Fund                               |                                  | Financial assets held for trading | 4,675                   | 50,000            |                               | 50,080                                   | Note 3 |
|     |                                       | Cathay Global Money Market Fund                |                                  | Financial assets held for trading | 1,000                   | 10,000            |                               | 10,082                                   | Note 3 |
|     |                                       | ADAM Global Bond Fund                          |                                  | Financial assets held for trading | 1,890                   | 20,000            |                               | 20,281                                   | Note 3 |
|     |                                       | Jih Sun Navigation No. 1 Fund                  |                                  | Financial assets held for trading | 935                     | 10,010            |                               | 10,075                                   | Note 3 |
|     |                                       | NITC Europe Dynamic Balanced Fund              |                                  | Financial assets held for trading | 3,000                   | 30,000            |                               | 29,970                                   | Note 3 |
|     |                                       | HSBC New Japan Fund of Fund                    |                                  | Financial assets held for trading | 2,486                   | 24,810            |                               | 24,040                                   | Note 3 |
|     |                                       | SinoPac Global Fixed Income Portfolio Fund     |                                  | Financial assets held for trading | 2,000                   | 20,000            |                               | 20,177                                   | Note 3 |
|     |                                       | Fuhwa Global Fund of Bond Funds                |                                  | Financial assets held for trading | 2,000                   | 20,000            |                               | 19,999                                   | Note 3 |
|     |                                       | Grand Cathay World Bond Selection fund         |                                  | Financial assets held for trading | 2,000                   | 20,000            |                               | 20,000                                   | Note 3 |
|     |                                       | Cathay No. 1 REIT                              |                                  | Financial assets held for trading | 4,000                   | 40,600            |                               | 41,200                                   | Note 3 |
| 3   | Chunghwa System Integration Co., Ltd. | <u>Beneficiary certification (mutual fund)</u> |                                  |                                   |                         |                   |                               |  |        |
|     |                                       | Fuh-Hwa Bond Fund                              |                                  | Financial assets held for trading | 5,636                   | 74,410            |                               | 74,857                                   | Note 3 |
|     |                                       | Mega Diamond Bond Fund                         |                                  | Financial assets held for trading | 4,405                   | 50,004            |                               | 50,499                                   | Note 3 |
|     |                                       | Polaris Di-Po Fund                             |                                  | Financial assets held for trading | 920                     | 10,078            |                               | 10,162                                   | Note 3 |
|     |                                       | Jih Sun Bond Fund                              |                                  | Financial assets held for trading | 1,850                   | 25,000            |                               | 25,162                                   | Note 3 |
|     |                                       | Grand Cathay Bond Fund                         |                                  | Financial assets held for trading | 4,056                   | 52,025            |                               | 52,336                                   | Note 3 |

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|  |                           |            |                                       |        |        |     |        |        |
|--|---------------------------|------------|---------------------------------------|--------|--------|-----|--------|--------|
| Cathay Bond Fund                           |                           |            | Financial assets held for trading     | 2,896  | 33,026 |     | 32,281 | Note 3 |
| Cathay No. 1 REIT                          |                           |            | Financial assets held for trading     | 35,000 | 36,525 |     | 36,050 | Note 3 |
| Fuhwa Advantage Bond Fund                  |                           |            | Financial assets held for trading     | 4,844  | 50,000 |     | 50,332 | Note 3 |
| IIT Increment                              |                           |            | Financial assets held for trading     | 2,064  | 31,000 |     | 31,286 | Note 3 |
| SITC Advanced Strategy Private Fund        |                           |            | Financial assets held for trading     | 5,615  | 60,000 |     | 60,000 | Note 3 |
| SinoPac Global Fixed Income Portfolio Fund |                           |            | Financial assets held for trading     | 3,000  | 30,000 |     | 30,265 | Note 3 |
| 4 Chunghwa Investment Holding Company      |                           |            |                                       |        |        |     |        |        |
|  | Donghua Telecom Co., Ltd. | Subsidiary | Long-term investments - equity method | 4,590  | 7,091  | 100 | 7,091  | Note 1 |

Note 1: The net asset values of unconsolidated companies were based on unreviewed financial statements.

Note 2: New Prospect Investments Holdings Ltd. and Prime Asia Investments Group Ltd. were incorporated in March 2006, but not on operating stage yet.

Note 3: The net asset values of beneficiary certification (mutual fund) were base on the net asset values as of September 30, 2006.

Note 4: Market value was based on the closing price of September 30, 2006.

Note 5: Available-for-sale financial assets and financial assets at fair value through profit and loss are showed at their original carrying amounts without the adjustments of fair values.

(Concluded)

**TABLE 3****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006****(Amounts in Thousands of New Taiwan Dollars)**

| Company Name          | Marketable Securities Type and Name           | Financial Statement Account         | Counter-party | Nature of Relationship | Beginning Balance                  |                 | Acquisition                        |          | Disposal                           |                 | Ending Balance |                         |        |
|-----------------------|---|-------------------------------------|---------------|------------------------|------------------------------------|-----------------|------------------------------------|----------|------------------------------------|-----------------|----------------|-------------------------|--------|
|                       |   |                                     |               |                        | Shares (Thousands/ Thousand Units) | Amount (Note 1) | Shares (Thousands/ Thousand Units) | Amount   | Shares (Thousands/ Thousand Units) | Amount (Note 1) |                | Gain (Loss) on Disposal |        |
| Chunghwa Telecom Ltd. | <u>Beneficiary certificates (mutual fund)</u> |                                     |               |                        |                                    |                 |                                    |          |                                    |                 |                |                         |        |
|                       | ADAM Global Bond Fund                         | Available-for-sale financial assets |               |                        | 9,286                              | \$ 100,000      |                                    | \$ 9,286 | \$ 98,888                          | \$ 100,000      | \$ (1,112)     | \$                      |        |
|                       | NITC Taiwan Bond Fund                         | Available-for-sale financial assets |               |                        |                                    |                 | 14,385                             | 200,000  |                                    |                 |                | 14,385                  |        |
|                       | Prudential Financial Bond Fund                | Available-for-sale financial assets |               |                        |                                    |                 | 13,867                             | 200,000  |                                    |                 |                | 13,867                  |        |
|                       | Jih Sun Bond Fund                             | Available-for-sale financial assets |               |                        |                                    |                 | 14,847                             | 200,000  |                                    |                 |                | 14,847                  |        |
|                       | INVESTCO ROC Bond Fund                        | Available-for-sale financial assets |               |                        | 45,998                             | 675,000         |                                    | 45,998   | 679,933                            | 675,000         | 4,933          |                         |        |
|                       | Barits Bond Fund                              | Available-for-sale financial assets |               |                        | 40,857                             | 490,000         |                                    | 40,857   | 494,147                            | 490,000         | 4,147          |                         |        |
|                       | FUBON Ju-I III Fund                           | Available-for-sale financial assets |               |                        | 41,413                             | 500,000         |                                    | 41,413   | 504,046                            | 500,000         | 4,046          |                         |        |
|                       | Fuhwa APEX Bond Fund                          | Available-for-sale financial assets |               |                        | 25,752                             | 300,000         |                                    | 25,752   | 302,629                            | 300,000         | 2,629          |                         |        |
|                       | Fuh-Hwa Albatross Fund                        | Available-for-sale financial assets |               |                        | 11,679                             | 130,000         |                                    | 11,679   | 131,218                            | 130,000         | 1,218          |                         |        |
|                       | Shinkong Chi-Shin Fund                        | Available-for-sale financial assets |               |                        | 77,829                             | 1,100,000       |                                    | 21,021   | 300,000                            | 297,101         | 2,899          | 56,808                  |        |
|                       | TIIM High Yield Fund                          | Available-for-sale financial assets |               |                        | 42,545                             | 519,555         | 4,907                              | 60,000   | 12,127                             | 150,000         | 148,113        | 1,887                   | 35,325 |
|                       | Fuh-Hwa YouLi Fund                            | Available-for-sale financial assets |               |                        |                                    |                 | 16,345                             | 200,000  |                                    |                 |                | 16,345                  |        |
|                       | MFS Emerging Market Debt Fund                 | Available-for-sale financial assets |               |                        | 351                                | 192,600         | 271                                | 161,850  |                                    |                 |                | 622                     |        |
|                       | GAM USD Special Bond Fund                     | Available-for-sale financial assets |               |                        | 14                                 | 191,520         | 11                                 | 162,020  |                                    |                 |                | 25                      |        |
|                       | Fidelity US High Yield                        | Available-for-sale financial assets |               |                        |                                    |                 | 458                                | 172,709  |                                    |                 |                | 458                     |        |

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|   |  |                                   |         |        |         |        |         |         |          |        |
|---|--|-----------------------------------|---------|--------|---------|--------|---------|---------|----------|--------|
| Fund  |  |                                   |         |        |         |        |         |         |          |        |
| Fuh-Hwa Heirloom No. 2 Fund                             | Available-for-sale financial assets              |                                   |         | 17,659 | 240,000 |        |         |         |          | 17,659 |
| Capital Asset Allocation                                | Available-for-sale financial assets              |                                   |         | 7,753  | 100,000 |        |         |         |          | 7,753  |
| Polaris Global Reits Fund                               | Available-for-sale financial assets              | 10,000                            | 100,000 | 10,000 | 104,500 | 10,000 | 104,500 | 100,000 | 4,500    | 10,000 |
| HSBC Taiwan Safe & Rich Fund                            | Available-for-sale financial assets              |                                   |         | 6,637  | 110,000 | 1,810  | 31,878  | 30,000  | 1,878    | 4,827  |
| ING CHB Tri-Gold Balanced Portfolio                     | Available-for-sale financial assets              |                                   |         | 8,143  | 100,000 |        |         |         |          | 8,143  |
| HSBC Trinity Balanced Fund                              | Available-for-sale financial assets              | 25,000                            | 250,000 |        |         | 15,000 | 155,146 | 150,000 | 5,146    | 10,000 |
| Fidelity Zuro Bond Fund                                 | Available-for-sale financial assets              | 1,256                             | 604,960 | 26     | 12,427  | 587    | 280,897 | 282,794 | (1,897)  | 695    |
| Credit Suisse BF (Lux) Euro Bond Fund                   | Available-for-sale financial assets              | 41                                | 601,003 |        |         | 25     | 365,907 | 364,770 | 1,137    | 16     |
| Fidelity European Highyield Fund                        | Available-for-sale financial assets              | 539                               | 193,500 | 904    | 348,306 |        |         |         |          | 1,443  |
| Pervext European Convertible Bond Fund                  | Available-for-sale financial assets              |                                   |         | 65     | 324,708 |        |         |         |          | 65     |
| Fidelity Euro Balanced Fund                             | Available-for-sale financial assets              |                                   |         | 379    | 203,104 |        |         |         |          | 379    |
| Yuanta Structured Principal Protected Private Placement | Available-for-sale financial assets - noncurrent | 50,000                            | 500,000 |        |         | 50,000 | 473,666 | 500,000 | (26,334) |        |
| Chungghwa Investment Management Ltd.                    | <u>Beneficiary certificates (mutual fund)</u>    |                                   |         |        |         |        |         |         |          |        |
|   | Cathay Capital Income Growth Bond Fund           | Financial assets held for trading | 9,130   | 98,513 | 2,816   | 30,495 | 11,946  | 129,240 | 129,008  | 232    |
| Chungghwa Investment Management Ltd.                    | <u>Beneficiary certificates</u>                  |                                   |         |        |         |        |         |         |          |        |
|   | Cathay Bond Fund                                 | Financial assets held for trading | 5,179   | 58,953 | 6,394   | 72,914 | 8,677   | 98,967  | 98,841   | 126    |

Note 1: Available-for-sale financial assets and financial assets at fair value through profit and loss are showed at their original carrying amounts without the adjustments of fair values.

**TABLE 4****CHUNGHWA TELECOM CO., LTD.****ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006****(Amounts in Thousands of New Taiwan Dollars)**

| Company Name               | Property | Transaction Date | Transaction Amount | Payment Term | Counter-party                           | Nature of Relationship | Prior Transactions with Related Counter-party |                 | Price Reference | Purpose of Acquisition | Other Terms |
|----------------------------|----------|------------------|--------------------|--------------|---|------------------------|---|-----------------|-----------------|------------------------|-------------|
|                            |          |                  |                    |              |   |                        | Transfer Date                                 | Transfer Amount |                 |                        |             |
| Chunghwa Telecom Co., Ltd. | Building | 2006.2.17        | \$ 754,444         | Paid         | Steve Lin Architect and Associates      | None                   |   |                 | Bidding         | New office             | None        |
|                            | Building | 2006.3.13        | 178,880            | Paid         | Bank of Taiwan                          | None                   |   |                 | Bidding         | New office             | None        |
|                            | Building | 2006.9.25        | 191,996            | Paid         | Joe-Team Machinery Engineering Co., Ltd | None                   |   |                 | Bidding         | Operating purpose      | None        |

**TABLE 5****CHUNGHWA TELECOM CO., LTD.****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2006****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Investor Company              | Investee Company                          | Location  | Main Businesses and Products  | Original Investment Amount       |                                  | Balance as of September 30, 2006 |                             |                                 | Net Income (Loss) of the Investee | Recognized Gain (Loss) | Note                      |
|-------------------------------|---|---|---|----------------------------------|----------------------------------|----------------------------------|-----------------------------|---------------------------------|-----------------------------------|------------------------|---------------------------|
|                               |   |   |   | September 30, 2006               | December 31, 2005                | Shares (Thou-sands)              | Percentage of Ownership (%) | Carrying Value                  |                                   |                        |                           |
| Chunghwa Telecom Co., Ltd.    | Chunghwa Investment Co., Ltd.             | 24F, No. 456, Hsinyi Rd., Sec. 4, Taipei                | Investment  | \$ 980,000                       | \$ 980,000                       | 98,000                           | 49.00                       | \$ 965,882                      | \$ 33,815                         | \$ 16,569 (Note 1)     | Equity-accounted investee |
|                               | Taiwan International Standard Electronics | No. 4, Min Sheng St., Tu-Chen Taipei Hsien              | Manufacturing, selling, designing and maintaining of telecommunications systems and equipment   | 164,000                          | 164,000                          | 1,760                            | 40.00                       | 520,661                         | (162,087)                         | (11,892) (Note 2)      | Equity-accounted investee |
|                               | CHIEF Telecom                             | 1F., No. 250, Yangguang St., Neihsu district, Taipei    | Network communication and engine room hiring  | 310,652                          |                                  | 38,370                           | 70.00                       | 306,566                         | (5,860)                           | (4,086) (Note 1)       | Subsidiary                |
|                               | New Prospect Investments Holdings Ltd.    | British Virgin Islands                                  | Investment  | US\$ (1) (Note 3)                |                                  |                                  | 100.00                      | US\$ (1) (Note 3)               |                                   | (Note 1)               | Subsidiary                |
|                               | Prime Asia Investments Group Ltd.         | British Virgin Islands                                  | Investment  | US\$ (1) (Note 3)                |                                  |                                  | 100.00                      | US\$ (1) (Note 3)               |                                   | (Note 1)               | Subsidiary                |
| CHIEF Telecom                 | Vnigate Telecom Inc.                      | 1F, No. 250, Yang Guang Street, Nei Hu District, Taipei | Telecommunication and the information software etc.   | 10,000                           | 10,000                           | 1,000                            | 100.00                      | 10,245                          | (6)                               | (6) (Note 1)           | Subsidiary                |
|                               | CHIET Telecom (Hong Kong) Limited         | Hong Kong   | Telecom and Internet Service  | 44                               | 44                               | 10                               | 99.00                       |                                 | (52)                              | (51) (Note 1)          | Subsidiary                |
| Chunghwa Investment Co., Ltd. | Chunghwa System Integration Co., Ltd.     | 24F, No. 458, Hsinyi Rd., Sec. 4, Taipei                | Integrated communication and information services   | 600,000                          | 600,000                          | 60,000                           | 100.00                      | 645,041                         | 38,729                            | 38,729 (Note 1)        | Subsidiary                |
|                               | Chunghwa Telecom Global, Inc.             | United States   | Multinational enterprise data service, Internet gateway and voice wholesale, mobile commerce value-added services, and content services | 204,271<br>US\$ (6,000) thousand | 204,271<br>US\$ (6,000) thousand | 6,000                            | 100.00                      | 81,034<br>US\$ (2,452) thousand | (20,561)<br>US\$ (634) thousand   | (20,561) (Note 1)      | Subsidiary                |



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|   |   |   |                                  |                                  |       |        |                                   |        |       |                                    |
|---|---|---|----------------------------------|----------------------------------|-------|--------|-----------------------------------|--------|-------|------------------------------------|
| Chunghwa Precision Test Technical Co., Ltd. | 2F., No. 15, Gongye 3rd., Pingjhen City, Taoyuan County | Electronics parts manufacturing industry<br><br>Computer and peripheral device manufacturing industry<br><br>Data storage manufacturing industry                                  | 60,000                           | 60,000                           | 6,000 | 60.00  | 74,561                            | 15,364 | 9,218 | Subsidiary<br>(Note 1)             |
| Chunghwa Investment Holding Company         | Brunei  | Investment  | 20,000<br>US\$ (589)<br>thousand | 20,000<br>US\$ (589)<br>thousand | 589   | 100.00 | 7,133<br>US\$ (217)<br>thousand   |        |       | Subsidiary<br>(Note 1)             |
| PandaMonium Company                         | British Virgin Islands                                  | Develop PandaMomum project and provide multimedia services  | 20,000<br>¥ (65,094)<br>thousand | 20,000<br>¥ (65,094)<br>thousand | 602   | 43.00  | 19,951                            |        |       | Equity-accounted<br>(Note 1)       |
| Chunghwa Investment Holding Company         | Donghua Telecom Co., Ltd.                               | Hong Kong<br>Engage in telecom related investments, provide international private leased circuits (IPLC), internet protocol virtual private network (IPVPN), and internet transit | 20,000<br>US\$ (589)<br>thousand | 20,000<br>US\$ (589)<br>thousand | 4,590 | 100.00 | 7,091<br>HK\$ (1,691)<br>thousand |        |       | investee<br>Subsidiary<br>(Note 1) |

(Continued)

- Note 1: The equity in net income (net loss) of long-term investment was based on unreviewed financial statements.
- Note 2: The equity in net loss of long-term investment amounted to \$64,835 thousand was calculated from unreviewed financial statements plus a gain on realized upstream transactions of \$85,186 thousand less a gain on unrealized upstream transactions of \$32,244 thousand.
- Note 3: New Prospect Investments Holdings Ltd. and Prime Asia Investments Group Ltd. were incorporated in March 2006 but not on operating stage yet.

(Concluded)