CHUNGHWA TELECOM CO LTD
Form 6-K
April 30, 2007

1934 Act Registration No. 1-31731

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 OF

THE SECURITIES EXCHANGE ACT OF 1934

Dated Apr 30, 2007

Chunghwa Telecom Co., Ltd.

(Translation of Registrant s Name into English)

21-3 Hsinyi Road Sec. 1,

Taipei, Taiwan, 100 R.O.C.

(Address of Principal Executive Office)

(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 __x__ 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 __x__

(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: 2007/04/30

Chunghwa Telecom Co., Ltd.

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

Exhibit

Exhibit	**Description**
1.	Financial Statements for the Three Months Ended March 31, 2007 and 2006 and Independent Accountants Review Report

Chunghwa Telecom Co., Ltd.

Financial Statements for the

Three Months Ended March 31, 2007 and 2006 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 March 31, 2007 and 2006, and the related statements of operations and cash flows for the three months then ended, all expressed in New Taiwan thousand 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 on 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 audit 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$3,077,587 thousand and NT$1,515,927 thousand as of March 31, 2007 and 2006 and the equity in their net losses were NT$8,750 thousand and NT$9,011 thousand for the three 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 the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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.

April 14, 2007

<u>*Notice to Readers*</u>

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

CHUNGHWA TELECOM CO., LTD.

BALANCE SHEETS

(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)

(Reviewed, Not Audited)

	March 31			
	2007		2006	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 78,902,427	17	$ 43,759,367	10
Financial assets at fair value through profit or loss (Notes 2 and 5)	87,123			
Available-for-sale financial assets (Notes 2, 3 and 6)	8,234,556	2	15,997,991	3
Trade notes and accounts receivable, net of allowance for doubtful accounts of $3,522,352 in 2007 and $3,469,003 in 2006 (Notes 2 and 7)	10,732,784	2	12,007,520	3
Receivables from related parties (Note 24)	72,103		32,299	
Other current monetary assets (Note 8)	5,758,962	1	5,864,817	1
Inventories, net (Notes 2 and 9)	2,622,593	1	2,432,887	1
Deferred income taxes (Notes 2 and 21)	21,947		802,987	
Other current assets (Note 10)	3,885,349	1	3,542,942	1
Total current assets	110,317,844	24	84,440,810	19
LONG-TERM INVESTMENTS				
Investments accounted for using equity method (Notes 2 and 11)	3,077,587	1	1,515,927	
Financial assets at fair value through profit or loss (Notes 2 and 5)			479,440	
Financial assets carried at cost (Notes 2 and 12)	1,941,280		1,866,280	
Other monetary assets (Notes 13 and 25)	2,000,000		2,000,000	1
Total investments	7,018,867	1	5,861,647	1
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14 and 24)				
Cost				
Land	100,929,302	22	100,892,970	22
Land improvements	1,477,705		1,477,275	
Buildings	59,069,045	13	58,584,114	13
Machinery and equipment	21,390,707	5	21,876,869	5
Telecommunications network facilities	635,472,406	136	628,711,725	138
Miscellaneous equipment	1,894,071		2,033,134	
Total cost	820,233,236	176	813,576,087	178
Revaluation increment on land	5,824,220	1	5,945,597	2
	826,057,456	177	819,521,684	180
Less: Accumulated depreciation	511,187,144	110	491,128,294	108
	314,870,312	67	328,393,390	72
Construction in progress and advances related to acquisitions of equipment	22,237,788	5	25,039,319	5
Property, plant and equipment, net	337,108,100	72	353,432,709	77
INTANGIBLE ASSETS (Note 2)				

3G concession	8,796,153	2	9,544,762	2
Patents and computer software, net	194,756		166,983	
Total intangible assets	8,990,909	2	9,711,745	2
OTHER ASSETS				
Idle assets (Note 2)	928,602		929,473	
Refundable deposits	1,436,854	1	1,631,838	1
Deferred income taxes (Notes 2 and 21)	676,949		85,866	
Other	322,324		370,952	
Total other assets	3,364,729	1	3,018,129	1
TOTAL	$ 466,800,449	100	$ 456,465,040	100
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2 and 5)	$ 34,415		$	
Trade notes and accounts payable	7,116,844	2	8,663,667	2
Payables to related parties (Note 24)	2,036,285		470,899	
Income tax payable (Notes 2 and 21)	11,888,153	3	1,524,934	1
Accrued expenses (Note 15)	10,707,354	2	14,503,720	3
Current portion of long-term loans (Note 16)			300,000	
Other current liabilities (Note 17)	12,728,022	3	15,063,442	3
Total current liabilities	44,511,073	10	40,526,662	9
DEFERRED INCOME	1,058,822		524,722	
RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 14)	94,986		94,986	
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 23)	1,905,424	1		
Customers deposits	6,442,452	1	7,061,485	2
Other	503,934		160,446	
Total other liabilities	8,851,810	2	7,221,931	2
Total liabilities	54,516,691	12	48,368,301	11
STOCKHOLDERS EQUITY (Notes 2, 14, 18 and 19)				
Common capital stock - 10 par values;				
Authorized: 12,000,000 thousand shares in 2007; 9,647,725 thousand shares in 2006				
Issued: 9,667,845 thousand shares in 2007; 9,647,725 thousand shares in 2006	96,678,451	21	96,477,249	21
Preferred stock $10 par value				
Capital surplus:				
Paid-in capital in excess of par value	210,260,235	45	214,529,603	47
Donations	13,170		13,170	
Equity in capital surplus reported by equity-method investees	3,465			
Total capital surplus	210,276,870	45	214,542,773	47
Retained earnings:				
Legal reserve	44,037,765	9	39,272,477	9
Special reserve	2,680,184	1	2,680,184	
Unappropriated earnings	52,068,006	11	58,100,093	13

Total retained earnings	98,785,955	21	100,052,754	22
Other adjustments				
Cumulative translation adjustments	(3,304)		(2,942)	
Unrealized gain on financial instruments	721,348			
Capital surplus from revaluation of land	5,824,438	1	5,850,610	1
Total other adjustments	6,542,482	1	5,847,668	1
Treasury stock - 149,158 thousand shares			(8,823,705)	(2)
Total stockholders equity	412,283,758	88	408,096,739	89
TOTAL	$ 466,800,449	100	$ 456,465,040	100

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

(With Deloitte & Touche review report dated April 14, 2007)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF OPERATIONS

(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)

(Reviewed, Not Audited)

	Three Months Ended March 31			
	2007		2006	
	Amount	%	Amount	%
REVENUES (Note 24)	$ 45,317,935	100	$ 44,631,942	100
OPERATING COSTS (Note 24)	22,956,438	51	22,413,931	50
GROSS PROFIT	22,361,497	49	22,218,011	50
OPERATING EXPENSES				
Marketing	5,958,426	13	5,933,819	13
General and administrative	723,291	1	911,830	2
Research and development	777,865	2	758,660	2
Total operating expenses	7,459,582	16	7,604,309	17
INCOME FROM OPERATIONS	14,901,915	33	14,613,702	33
OTHER INCOME				
Interest	305,421	1	133,051	
Penalties income	210,368	1	316,572	1
Income from sale of scrap inventories	87,326		177,049	
Gains on sale of financial instruments, net	45,524		10,392	
Foreign exchange gain, net			33,941	
Other	115,901		214,801	1
Total other income	764,540	2	885,806	2
OTHER EXPENSES				
Special termination benefit under early retirement program	36,989		2,218,940	5
Foreign exchange loss, net	16,842			
Valuation loss on financial instruments, net	13,208			
Equity in losses of equity investees	8,750		9,011	
Losses on disposal of property, plant and equipment	7,238		42,668	
Interest	117		719	
Other	206,116	1	156,418	1
Total other expenses	289,260	1	2,427,756	6
INCOME BEFORE INCOME TAX	15,377,195	34	13,071,752	29
INCOME TAX (Notes 2 and 21)	3,285,648	7	3,059,243	7
NET INCOME	$ 12,091,547	27	$ 10,012,509	22

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF OPERATIONS

(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)

(Reviewed, Not Audited)

	Three Months Ended March 31			
	2007		2006	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
EARNINGS PER SHARE				
Basic net income per share (Note 22)	$ 1.59	$ 1.25	$ 1.33	$ 1.02

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

(With Deloitte & Touche review report dated April 14, 2007) (Concluded)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31	
	2007	**2006**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 12,091,547	$ 10,012,509
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	164,745	130,815
Depreciation and amortization	9,991,326	10,329,364
Valuation loss on financial instruments, net	13,208	
Gain on sale of financial instruments, net	(45,524)	(10,392)
Losses on inventory valuation	30	161
Losses on disposal of property, plant and equipment, net	1,477	41,831
Equity in losses of equity investees	8,750	9,011
Deferred income taxes	(128,313)	1,508,139
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	(29,905)	
Trade notes and accounts receivable	1,642,096	631,323
Receivables from related parties	(24,335)	37,861
Other current monetary assets	204,518	(158,890)
Inventories	(611,825)	(129,404)
Other current assets	(2,870,169)	(2,295,906)
Increase (decrease) in:		
Trade notes and accounts payable	(1,802,408)	(1,410,894)
Payables to related parties	1,153,325	(80,127)
Income tax payable	3,360,613	1,508,384
Accrued expenses	(8,089,467)	(913,118)
Other current liabilities	(379,167)	39,346
Deferred income	103,403	206,194
Accrued pension liabilities	651,723	
Net cash provided by operating activities	15,405,648	19,456,207
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(1,730,312)	(2,172,975)
Proceeds from disposal of available-for-sale financial assets	670,458	318,225
Increase in long-term investment accounted for using equity method	(1,065,813)	
Acquisitions of property, plant and equipment	(4,554,320)	(6,271,182)
Proceeds from disposal of property, plant and equipment	10,691	4,186
Increase of intangible assets	(19,506)	(16,376)
Decrease (increase) in other assets	55,200	(120,930)
Net cash used in investing activities	(6,633,602)	(8,259,052)

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31 2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on principal of long-term loans	$ (300,000)	$ (200,000)
Decrease in customers deposits	(152,687)	(257,912)
Decrease in other liabilities	(56,385)	(46,839)
Repurchase of treasury stock		(8,823,705)
Net cash used in financing activities	(509,072)	(9,328,456)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,262,974	1,868,699
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	70,639,453	41,890,668
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 78,902,427	$ 43,759,367
SUPPLEMENTAL INFORMATION		
Interest paid	$ 117	$ 719
Income tax paid	$ 53,349	$ 42,719
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term loans	$	$ 300,000

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

(With Deloitte & Touche review report dated April 14, 2007) (Concluded)

CHUNGHWA TELECOM CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2007 AND 2006

(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 number of employees as of March 31, 2007 and 2006 are 25,838 and 27,417, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law, Guidelines Governing Business Accounting, 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:

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.

Financial Assets and Liabilities at Fair Value Through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value with fair value changes recognized in profit or loss. On initial recognition, the financial instruments are recognized at fair value plus transaction costs and are subsequently measured at fair value with fair value changes recognized in profit or loss. Once the Company becomes contractual in a financial instrument arrangement, the financial instruments are eligible for classification as assets or liabilities. If the contractual arrangement is outside the control of the Company, the financial instruments will be derecognized in assets. If the contractual arrangement gives the Company a right of redemption, cancellation or elimination upon expiration, the financial instruments will be derecognized in liabilities.

Derivatives are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value subsequently with the changes in fair value recognized in earnings. Cash dividends received (including the year of investment) is recognized in earnings. When the financial instruments are derecognized, the difference between sales proceeds or cash payment and principal amount shall be accounted for as profits and losses. For regular way purchase or sale of financial assets is accounted for using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or financial liabilities. When the fair value is positive, the derivative is recognized as a financial asset. When the fair value is negative, the derivative is recognized as a financial liability.

Hybrid instruments are designated as financial assets or financial liabilities at fair value through profit or loss. To avoid or significantly reduce inconsistencies in accounting policies, the Company will recognize financial instruments or liabilities in profits or losses based on the changes in 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 trade date accounting.

The policy for recognition and derecognition of available-for-sale financial assets are similar to financial assets and liabilities at fair value through profit or loss.

The basis for determining the fair value of financial instruments is as follows: Listed stocks, closing prices as of balance sheet date; open-end 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 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 the aging of the receivables and estimated collectibility of individual receivables. The Company periodically evaluates the collectibility of receivables in consideration of client s receivable aging analysis.

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, depending on whether the investor has controlling power over investees or not. Unrealized profits and losses on sales to investees over which the Company has a controlling power are totally eliminated. Otherwise should be deferred in proportion to the Company s ownership percentage. Profits and losses arising from equipment purchases from equity investees are eliminated and recognized over the estimated remaining useful life of the equipment.

With respect to investment purchase or adoption of the equity method of accounting, effective on January 1, 2006, in accordance with the revised accounting pronouncement, goodwill is recognized by the difference that the cost of investment is exceeding the fair value of the acquisition. Goodwill can not be amortized, but is subject to a goodwill impairment test. If there is a triggering event or change in circumstance, the goodwill impairment test will be performed. If the fair value of the identifiable net assets exceeds the cost of investment, the difference should be allocated to the noncurrent assets (with exception of non-equity financial assets, assets in the suspense accounts, deferred tax assets and liabilities, and prepaid pension costs or other expenses related to pension plans) and reduced in proportion to the amount of their fair value. If there is still a difference after the purchase price allocation, the difference will be accounted for as extraordinary profits.

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 and accumulated impairment loss. 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.

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 capital surplus from revaluation under the heading capital surplus 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.

From January 1, 2007, the Company adopted the newly released Statements of Financial Accounting Standards No. 37, Intangible Assets. Expenditure on research shall be recognized as an expense when it is incurred. Development Costs are capitalized when those costs meet relative criteria and are amortized upon the assets estimated useful life using the straight-line method. Development costs not meet relative criteria shall be recognized as expenses when it is incurred.

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 handset subsidy costs paid to a vendor 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. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated retained earnings.

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

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 are 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. Financial assets and liabilities - credited or charged to current income; and

b. Long-term stock investments accounted for by the equity method - as cumulative translation adjustment under stockholders equity.

Reclassification

Certain accounts in the financial statements as of and for the three months ended March 31, 2006 have been reclassified to conform to the presentation of financial statements as of and for the three months ended March 31, 2007.

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.

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.

4. CASH AND CASH EQUIVALENTS

	March 31	
	2007	**2006**
Cash		
Cash on hand	$ 96,921	$ 87,272
Cash in banks	6,760,300	1,167,377
Negotiable certificate of deposit, annual yield rate - ranging from 1.650%-5.383% and 1.350%-1.425% for 2007 and 2006, respectively	33,520,010	13,802,500
	40,377,231	15,057,149
Cash equivalents		