CHUNGHWA TELECOM CO LTD
Form 6-K
March 30, 2009

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 March 30, 2009

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: 2009/03/30

Chunghwa Telecom Co., Ltd.

By:	/s/ Joseph C.P. Shieh
Name:	Joseph C.P. Shieh
Title:	Senior Vice President CFO

Exhibit

Exhibit	Description
1	Press Release to Report Operating Results for 2008 Full Year
2	Financial Statements for the Years Ended December 31, 2008 and 2007 and Independent Auditors Report (Stand Alone)
3	Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007 and Independent Auditors Report

Exhibit 1

Chunghwa Telecom Reports Operating Results for Full Year 2008

Taipei, Taiwan, R.O.C. March 30, 2009 Chunghwa Telecom Co., Ltd (TAIEX: 2412, NYSE: CHT) (Chunghwa or the Company), today reported its operating results for full year 2008. All figures are presented on consolidated basis and prepared in accordance with ROC GAAP.

(Comparisons, unless otherwise stated, are with respect to the prior year period)

Financial Highlights for Full Year 2008:

- Total revenue increased by 2.2% to NT$201.7 billion
- Internet and data revenue grew by 1.7%
- Mobile revenue decreased 1.9%; Mobile VAS revenue increased by 25.0%
- Net income totaled NT$45.0 billion, a decrease of 6.7%
- Earnings per share (EPS) decreased by 6.1% to NT$4.64, or NT$46.4 per ADS

Financial Highlights for 4Q08:

- Total revenue decreased by 0.3% to NT$49.8 billion
- Internet and data revenue grew by 2.6%
- Mobile revenue decreased 1.4%; Mobile VAS revenue increased by 19.8%
- Net income totaled NT$8.5 billion, a decrease of 18.9%
- Earnings per share (EPS) decreased by 23.7% to NT$0.82, or NT$8.2 per ADS

Management Commentary

Commenting on the fourth quarter and fiscal year 2008 results, Dr. Shyue-Ching Lu, Chunghwa s Chairman and Chief Executive Officer, said I am pleased that we were able to deliver our top-line performance and to continue to return cash to the shareholders in 2008 given the adverse economic condition. In 2009, our management s primary focus will be on maintaining market leadership for our core services, while expanding our strategic digital-converged services such as, broadband and mobile VAS and MOD/IPTV, as well as key enterprise solutions. Furthermore, we plan to continue the deployment of our next-generation networks as a foundation for our long-term growth in providing high quality total communication solutions. Finally, we will continue to focus on company-wide operational efficiency improvement to enhance our profitability. We are confident that our current strategic initiatives and the healthy financial footing position us for long-term success. As such, our Board of Directors has just approved a cash dividend, which demonstrates our confidence and our commitment to maximizing returns for our shareholders.

Revenue

Chunghwa s total revenue for 2008 increased by 2.2% year-over-year to NT$201.7 billion, of which 28.3% was from fixed-line services, 35.9% was from mobile services, 24.8% was from Internet and data services, and the remainder consisted of handset revenue, data card sales and the consolidated revenue of Senao International (Senao).

While Internet and data businesses contributed positively to the overall revenue, revenue growth was mainly driven by the full 12 months consolidation of Chunghwa s subsidiary Senao, compared to only 8.5 months of consolidated Senao s operational results for 2007.

Internet and data revenue in 2008 was 1.7% higher than in 2007, primarily driven by the increased broadband subscriber base and the successful initiatives in upgrading the customers to higher speed fiber services. However, this growth was partly offset by an ADSL tariff adjustment that took effect on April 1, 2008. For mobile business, Chunghwa made progress by increasing the subscriber numbers by 2.9% and by enhancing the VAS service revenues by 25.0% compared to 2007. However, these successes were offset by the traffic decline and the price cuts imposed by the National Communication Commission (or NCC), which resulted in an overall revenue decline of 1.9% year-over-year. Fixed-line revenue decreased by 3.4% year-over-year to NT$57.1 billion for 2008. Local and Domestic long distance revenues decreased by 3.3% and 6.8%, respectively, year-over-year for 2008, mainly due to mobile and VOIP substitution. International long distance revenues decreased by 1.4% compared to 2007. This was primarily because of the increased competition from prepaid calling card and the decrease in international direct dial traffic. Other revenue increased over 44%, mostly from the consolidation of Senao.

For the fourth quarter of 2008, total revenue was NT$49.8 billion, a 0.3% decrease over the same period last year. Internet and data revenue was 2.6% higher than the same period last year. Mobile revenue decreased by 1.4%, mainly due to the decrease in traffic. Fixed line revenue as a whole decreased by 2.4% as compared to the same period last year.

Costs and expenses

For 2008, total operating costs and expenses increased year-over-year by 4.4% to NT$143.0 billion, primarily due to the consolidation of Senao s operating costs and expenses for the full year, compared to only 8.5 months of consolidated Senao s operating costs and expenses for 2007. For the parent company, total operating costs and expenses increased by NT$2.9 billion, representing a year-over-year increase of 2.3%. This was primarily because of the increase in handset sale costs, handset subsidies and the employee bonus expenses. However, depreciation and amortization expense for the parent company was 4.3% lower than 2007.

For the fourth quarter of 2008, total operating costs and expenses increased by 1.9% to NT$38.1 billion, mainly due to the increase in personnel cost resulted from the expensing of the employee bonus.

Income tax

The Company s income tax for 2008 was NT$13.9 billion, a 6.4% increase compared to NT$13.1 billion for 2007. This was mainly due to the decrease in tax credit.

EBITDA and net income

EBITDA for 2008 decreased by 3.4% year-over-year to NT$96.8 billion, resulting in an EBITDA margin of 48.0%, down from 50.8% for 2007. The EBITDA margin decline was primarily attributed to the increase of handset subsidy, cost of handset sales for the parent company and the full year consolidation of Senao, which operates at a lower margin than the parent company.

Net income for 2008 was NT$45.0 billion, a decrease of 6.7% year-over-year. The reasons for such decline were due to the increase in operating costs and expense, as well as the NT$1.2 billion financial asset impairment in the fourth quarter 2008 and the NT$1.7 billion employee bonus which started to be expensed in 2008.

Capex

Capital expenditures totaled NT$30.1 billon for 2008 compared to NT$25.1 billion for 2007. The 20.1% increase of capex in 2008 was mainly for the deployment of the next generation network. Going forward, Chunghwa expects the capex spending to remain between NT$30billion to NT$32billion over the next 2 to 3 years.

These future capex investments will focus on core businesses and on migrating mobile and broadband customers to higher performance platforms.

Cash Flows

Cash flow from operating activities increased by 3.3% to NT$91.9 billion. The increase was primarily because of a decrease in other financial assets and an increase in accounts payable. Free cash flow for 2008 decreased by 3.4% compared with 2007 as capex increased by 20.1%. Still, the cash and cash equivalents remained solid at NT$81.3 billion as of the end of 2008.

For the fourth quarter of 2008, cash flow from operating activities increased by 12.1%. This increase was primarily due to the decrease in other financial assets and the increase in other current liabilities.

Business Performance Highlights:

Internet and Data Services

By the end of 2008, Chunghwa Telecom had 410 million HiNet subscribers, a 0.5% increase year-over-year. Overall, the Company had 4.3 million broadband subscribers (including ADSL and FTTB) at the end of 2008, a 1.4% increase as compared to the end of 2007. By the end of 2008, FTTx subscriptions with an average service speed of 10 Mbps reached 1.07 million, representing 24.8% of total broadband subscribers.

As of the end of 2008, Chunghwa had 676 thousand MOD subscribers, a solid 71.4% year-over-year increase.

Mobile Services

As of December 31, 2008, Chunghwa had 8.95 million mobile subscribers, slightly up by 0.87% quarter-over-quarter compared to 8.87 million as of September 31, 2008.

Chunghwa remained the leading mobile operator in Taiwan. According to statistics published by the NCC, at the end of 2008, the Company s total subscriber market share (including 2G, 3G and PHS) was 35.2%, while the revenue market share was 33.5%, respectively.

Chunghwa had 322 thousand net additions to its 3G subscriber base during the fourth quarter 2008, representing an increase of 9.9% quarter-over-quarter resulting in a total number of 3G subscribers of 3.56 million as of December 31, 2008.

Mobile VAS revenue for 2008 was NT$7.0 billion, representing a 25.0% increase year-over-year, including the increase of SMS revenue by 20.5% and the increase of mobile Internet revenue by 38.5%.

Fixed-line Services

As of the end of 2008, the Company maintained its leading fixed-line market position, with fixed-line subscribers totaling 12.7 million.

Recent Updates

The company has recently completed the second capital reduction program on March 20. The total cash returned to the shareholders was NT$19.1 billion.

Financial Statements

Financial statements and additional operational data can be found on the Chunghwa Telecom website at www.cht.com.tw/ir/filedownload.

About Chunghwa Telecom

Chunghwa Telecom (TAIEX 2412, NYSE: CHT) is the leading telecom service provider in Taiwan. Chunghwa Telecom provides fixed-line, mobile and Internet and data services to residential and business customers in Taiwan.

Note Concerning Forward-looking Statements

This press release contains forward-looking statements. These statements constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as will, expects, anticipates, future, intends, plans, believes, estimates and similar statements. Chunghwa may also make written or oral forwar statements in its periodic reports to the U.S. Securities and Exchange Commission on forms 20-F and 6-K., in its annual report to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Statements that are not historical facts, including statements about Chunghwa s beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Investors are cautioned that actual events and results could differ materially from those statements as a result of a number of factors including, but not limited to: extensive regulation of telecom industry; the intensely competitive telecom industry; our relationship with our labor union; general economic and political conditions, including those related to the telecom industry; possible disruptions in commercial activities caused by natural and human induced events and disasters, including terrorist activity, armed conflict and highly contagious diseases, such as SARS; and those risks outlined in Chunghwa s filings with the U.S. Securities and Exchange Commission, including its registration statements on Form F-1, F-3, F-6 and 20-F, in each case as amended. Chunghwa does not undertake any obligation to update any forward-looking statement, except as required under applicable law.

This release is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the issuer or selling security holder and that will contain detailed information about the company and management, as well as financial statements.

SPECIAL NOTE REGARDING NON-GAAP FINANCIAL MEASURES

A body of generally accepted accounting principles is commonly referred to as GAAP . A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable U.S. GAAP measure. We disclose in this report certain non-GAAP financial measures, including EBITDA. EBITDA for any period is defined as consolidated net income (loss) excluding (i) depreciation and amortization, (ii) total net comprehensive financing cost (which is comprised of net interest expense, exchange gain or loss, monetary position gain or loss and other financing costs and derivative transactions), (iii) other expenses, net, (iv) income tax, (v) cumulative effect of change in accounting principle, net of tax and (vi) (income) loss from discontinued operations.

In managing our business we rely on EBITDA as a means of assessing our operating performance. We believe that EBITDA can be useful to facilitate comparisons of operating performance between periods and with other companies because it excludes the effect of (i) depreciation and amortization, which represents a non-cash charge to earnings, (ii) certain financing costs, which are significantly affected by external factors, including interest rates, foreign currency exchange rates and inflation rates, which have little or no bearing on our operating performance, (iii) income tax and tax on assets and statutory employee profit sharing, which is similar to a tax on income and (iv) other expenses or income not related to the operation of the business.

EBITDA is not a measure of financial performance under ROC GAAP. EBITDA should not be considered as an alternate measure of net income or operating income, as determined on a consolidated basis using amounts derived from statements of operations prepared in accordance with ROC GAAP, as an indicator of operating performance or as cash flows from operating activity or as a measure of liquidity. EBITDA has material limitations that impair its value as a measure of a company s overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses and income taxes, depreciation, pension plan reserves or capital expenditures and associated charges. These non-GAAP measures are not in accordance with or an alternative for GAAP financial data, the non-GAAP results should be reviewed together with the GAAP results and are not intended to serve as a substitute for results under GAAP, and may be different from non-GAAP measures used by other companies. For more information on these non-GAAP financial measures, please see the tables captioned set forth at the end of this release and which shall be read together with the accompanying financial statements prepared under ROC GAAP.

If you have any questions in connection with the change of accounting policy, please contact the following person:

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	21-3 Hsinyi Road, Section 1,
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	Republic of China

Exhibit 2

Chunghwa Telecom Co., Ltd.

Financial Statements for the

Years Ended December 31, 2008 and 2007 and

Independent Auditors Report

INDEPENDENT AUDITORS REPORT

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have audited the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of December 31, 2008 and 2007, and the related statements of income, changes in stockholders equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to first paragraph present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with the Securities and Exchange Act, 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 discussed in Note 3 to the financial statements starting from January 1, 2008, the Company changed its method of accounting for bonuses paid to employees, directors and supervisors upon adoption of Interpretation 96-052 issued by the Accounting and Research Development Foundation in the Republic of China.

We have also audited the consolidated financial statements of the Company and its subsidiaries as of and for the year ended December 31, 2008, and have expressed a modified unqualified opinion on those consolidated financial statements.

March 3, 2009

Notice to Readers

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

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

CHUNGHWA TELECOM CO., LTD.

BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

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

	2008 Amount	%	2007 Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 4)	$ 77,137,903	17	$ 74,752,564	16
Financial assets at fair value through profit or loss (Notes 2 and 5)	258,076		119,139	
Available-for-sale financial assets (Notes 2 and 6)	14,161,391	3	17,818,499	4
Held-to-maturity financial assets (Notes 2 and 7)	769,435		651,192	
Trade notes and accounts receivable, net of allowance for doubtful accounts of $2,992,143 thousand in 2008 and $3,290,123 thousand in 2007 (Notes 2 and 8)	10,190,150	2	10,470,802	2
Receivables from related parties (Note 24)	343,016		211,626	
Other current monetary assets (Notes 2, 9 and 26)	2,187,324	1	7,089,871	2
Inventories, net (Notes 2 and 10)	3,503,762	1	2,794,131	1
Deferred income tax assets (Notes 2 and 21)	64,211		186,730	
Other current assets (Note 11)	1,671,505		1,215,116	
Total current assets	110,286,773	24	115,309,670	25
LONG-TERM INVESTMENTS				
Investments accounted for using equity method (Notes 2, 12 and 24)	8,691,154	2	4,395,453	1
Financial assets carried at cost (Notes 2 and 13)	2,521,907		2,107,318	
Held-to-maturity financial assets (Notes 2 and 7)	3,044,102	1	498,257	
Other monetary assets (Notes 14 and 25)	1,000,000		1,000,000	
Total long-term investments	15,257,163	3	8,001,028	1
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 24)				
Cost				
Land	101,259,221	22	101,340,085	22
Land improvements	1,494,398		1,475,371	
Buildings	62,612,157	14	62,140,290	13
Computer equipment	15,751,162	3	15,365,975	3
Telecommunications equipment	648,805,525	141	638,467,018	137
Transportation equipment	2,404,125	1	2,854,880	1
Miscellaneous equipment	7,247,977	2	7,639,500	2
Total cost	839,574,565	183	829,283,119	178
Revaluation increment on land	5,810,650	1	5,822,981	1
	845,385,215	184	835,106,100	179
Less: Accumulated depreciation	540,010,369	117	522,054,190	112
	305,374,846	67	313,051,910	67
Construction in progress and advance payments	15,989,495	3	16,450,761	4

	2008 Amount	%	2007 Amount	%
Property, plant and equipment, net	321,364,341	70	329,502,671	71
INTANGIBLE ASSETS (Note 2)				
3G concession	7,486,088	2	8,234,697	2
Others	407,028		337,214	
Total intangible assets	7,893,116	2	8,571,911	2
OTHER ASSETS				
Idle assets (Note 2)	927,076		927,949	
Refundable deposits	1,282,539		1,306,847	1
Deferred income tax assets (Notes 2 and 21)	1,487,685	1	1,186,195	
Others (Note 24)	769,978		427,846	
Total other assets	4,467,278	1	3,848,837	1
TOTAL	$ 459,268,671	100	$ 465,234,117	100

	2008 Amount	%	2007 Amount	%
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES				
Financial liabilities at fair value through profit or loss (Notes 2 and 5)	$ 106,896		$ 653,214	
Trade notes and accounts payable	9,349,489	2	9,879,234	2
Payables to related parties (Note 24)	2,236,919	1	1,706,089	1
Income tax payable (Notes 2 and 21)	5,433,630	1	6,960,504	2
Accrued expenses (Note 16)	15,680,602	4	14,957,081	3
Due to stockholders for capital reduction (Note 18)	19,115,554	4	9,557,777	2
Other current liabilities (Notes 2, 17 and 26)	15,446,581	3	13,882,987	3
Total current liabilities	67,369,671	15	57,596,886	13
DEFERRED INCOME	2,072,297		1,505,150	
RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)	94,986		94,986	
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 23)	5,164,388	1	3,911,964	1
Customers deposits	6,098,605	2	6,324,712	1
Deferred credits - gain on inter-company transactions (Note 24)	1,485,916			
Others	426,387		732,711	
Total other liabilities	13,175,296	3	10,969,387	2
Total liabilities	82,712,250	18	70,166,409	15
STOCKHOLDERS EQUITY (Notes 2, 15, 18 and 19)				
Common stock - $10 par value;				
Authorized: 12,000,000 thousand shares				
Issued: 9,696,808 thousand shares in 2008 and 9,667,845 thousand shares in 2007	96,968,082	21	96,678,451	21

Preferred stock - $10 par value				
Additional paid-in capital:				
Capital surplus	179,193,097	39	200,592,390	43
Donated capital	13,170		13,170	
Equity in additional paid-in capital reported by equity-method investees	3		3	
Total additional paid-in capital	179,206,270	39	200,605,563	43
Retained earnings:				
Legal reserve	52,859,566	11	48,036,210	10
Special reserve	2,675,894	1	2,678,723	1
Unappropriated earnings	41,276,274	9	48,317,617	10
Total retained earnings	96,811,734	21	99,032,550	21
Other adjustments				
Cumulative translation adjustments	29,474		(1,980)	
Unrecognized net loss of pension	(84)		(90)	
Unrealized gain (loss) on financial instruments	(2,272,242)		37,508	
Unrealized revaluation increment	5,813,187	1	5,823,200	1
Treasury stocks - 110,068 thousand shares			(7,107,494)	(1)
Total other adjustments	3,570,335	1	(1,248,856)	
Total stockholders equity	376,556,421	82	395,067,708	85
TOTAL	$ 459,268,671	100	$ 465,234,117	100

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

(With Deloitte & Touche audit report dated March 3, 2009)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008		2007	
	Amount	%	Amount	%
NET REVENUES (Note 24)	$ 186,780,650	100	$ 186,328,955	100
OPERATING COSTS (Note 24)	95,789,726	52	94,326,091	51
GROSS PROFIT	90,990,924	48	92,002,864	49
OPERATING EXPENSES (Note 24)				
Marketing	27,306,113	14	25,878,875	14
General and administrative	3,345,977	2	3,247,337	2
Research and development	3,151,789	2	3,213,778	1
Total operating expenses	33,803,879	18	32,339,990	17
INCOME FROM OPERATIONS	57,187,045	30	59,662,874	32
NON-OPERATING INCOME AND GAINS				
Interest income	1,866,875	1	1,445,003	1
Valuation gain on financial instruments, net	550,649	1		
Equity in earnings of equity method investees, net	362,314		218,429	
Foreign exchange gain, net	329,408			
Others	397,635		767,275	
Total non-operating income and gains	3,506,881	2	2,430,707	1
NON-OPERATING EXPENSES AND LOSSES				
Impairment loss on assets	1,164,105	1	22,000	
Loss on disposal of financial instruments, net	660,331			
Loss on disposal of property, plant and equipment, net	276,710		84,386	
Valuation loss on inventory	22,208		19,165	
Interest expense	404		846	
Valuation loss on financial instruments, net			584,851	
Foreign exchange loss, net			58,011	
Loss arising from natural calamities			42,202	
Others	97,303		185,650	
Total non-operating expenses and losses	2,221,061	1	997,111	
INCOME BEFORE INCOME TAX	58,472,865	31	61,096,470	33
INCOME TAX EXPENSE (Notes 2 and 21)	13,462,523	7	12,847,151	7

NET INCOME	$	45,010,342	24	$	48,249,319	26

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	2008		2007	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
EARNINGS PER SHARE (Notes 2 and 22)				
Basic earnings per share	$ 6.03	$ 4.64	$ 6.25	$ 4.94
Diluted earnings per share	$ 6.02	$ 4.63	$ 6.25	$ 4.93

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

(With Deloitte & Touche audit report dated March 3, 2009) (Concluded)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

	Common Stock		Preferred Stock			Retained Earnings			Other Adjustments					
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Additional Paid-in Capital	Legal Reserve	Special Reserve	Un-appropriated Earnings	Cumulative Translation Adjustment	Unrecognized Net Loss of Pension	Unrealized Gain (Loss) on Financial Instruments	Unrealized Revaluation Increment	Treasury Stock	
1,	9,667,845	$ 96,678,451		$	$ 210,273,336	$ 44,037,765	$ 2,680,184	$ 39,984,454	$ (3,304)	$	$ 541,072	$ 5,824,600	$	$ 4
of aid-in														
of me al												(1,400)		
ons of gs e						3,998,445		(3,998,445)						
ve							(1,461)	1,461						
nd -								(34,610,885)						(
bonus								(1,256,619)						
on to ectors ors								(35,904)						
lus o ck	966,785	9,667,845			(9,667,845)									
ction	(966,785)	(9,667,845)											110,068	
in								48,249,319						
gain held											2,258			
in					72			(15,764)						
for ency held									1,324					

efit n of								(90)				
k - usand ares											(7,217,562)	
oss									(505,822)			
R 31,	9,667,845	96,678,451	200,605,563	48,036,210	2,678,723	48,317,617	(1,980)	(90)	37,508	5,823,200	(7,107,494)	3
of aid-in of me al										(10,013)		
ons of gs e				4,823,356		(4,823,356)						
ve					(3,304)	3,304						
nd - r						(40,716,130)						(
nd - share	95,578	955,778				(955,778)						
bonus						(1,303,605)						
bonus	43,453	434,535				(434,535)						
on to ectors ors						(43,454)						
lus o ck	1,911,555	19,115,554	(19,115,554)									
ction	(1,911,555)	(19,115,554)										(
in						45,010,342						
oss held									(18,613)			
in						(54,583)						
or ency held							31,454					
efit n of												

rve ing al of						475	(475)						
of k - usand ares	(110,068)	(1,100,682)		(2,283,739)			(3,723,073)					7,107,494	
oss										(2,291,137)			
R 31,	9,696,808	$ 96,968,082	$	$ 179,206,270	$ 52,859,566	$ 2,675,894	$ 41,276,274	$ 29,474	$ (84)	$ (2,272,242)	$ 5,813,187	$	$ 3

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

(With Deloitte & Touche audit report dated March 3, 2009)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(Amounts in Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 45,010,342	$ 48,249,319
Adjustments to reconcile net income to net cash provided by operating activities:		
Impairment loss on assets	1,164,105	22,000
Provision for doubtful accounts	503,753	595,563
Depreciation and amortization	37,968,938	39,657,560
Amortization of premium (discount) of financial assets	3,258	(183)
Loss (gain) on disposal of financial instruments, net	660,331	(92,495)
Valuation loss (gain) on financial instruments, net	(550,649)	584,851
Valuation loss on inventory	22,208	19,165
Loss on disposal of property, plant and equipment, net	276,710	84,386
Equity in earnings of equity investees	(362,314)	(218,429)
Dividends received from equity investees	435,285	107,106
Deferred income taxes	(178,971)	(802,342)
Other		(2,410)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	(207,463)	(308,132)
Trade notes and accounts receivable	(218,461)	1,476,200
Receivables from related parties	(131,390)	(163,858)
Other current monetary assets	4,860,343	(122,731)
Inventories	(807,397)	(303,017)
Other current assets	(456,389)	(199,936)
Increase (decrease) in:		
Trade notes and accounts payable	(454,187)	460,501
Payables to related parties	553,070	631,713
Income tax payable	(1,526,874)	(1,567,036)
Accrued expenses	723,521	(3,839,740)
Other current liabilities	650,762	(205,140)
Deferred income	567,147	549,731
Accrued pension liabilities	1,252,424	2,658,263
Net cash provided by operating activities	89,758,102	87,270,909
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(7,271,995)	(22,694,362)
Proceeds from disposal of available-for-sale financial assets	6,639,849	11,735,207
Acquisition of held-to-maturity financial assets	(3,326,951)	(1,198,301)
Proceeds from disposal of held-to-maturity financial assets	659,605	49,035
Acquisition of financial assets carried at cost	(485,859)	(188,038)
Proceeds from disposal of financial assets carried at cost	354,933	
Acquisition of investment accounted for using equity method	(4,461,562)	(2,268,939)
Proceeds from disposal of long-term investment	44,047	
Acquisition of property, plant and equipment	(29,660,351)	(24,909,861)

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(Amounts in Thousands of New Taiwan Dollars)

	2008	**2007**
Proceeds from disposal of property, plant and equipment	$ 2,642,439	$ 106,195
Increase in intangible assets	(258,290)	(272,784)
Decrease (increase) in other assets	(331,620)	39,447
Net cash used in investing activities	(35,455,755)	(39,602,401)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term loans		(300,000)
Decrease in customers deposits	(160,733)	(306,819)
Increase (decrease) in other liabilities	(135,309)	172,392
Cash dividends paid	(40,716,130)	(34,610,885)
Remuneration to board of directors and supervisors and bonus to employees	(1,347,059)	(1,292,523)
Purchase of treasury stock		(7,217,562)
Capital reduction	(9,557,777)	
Net cash used in financing activities	(51,917,008)	(43,555,397)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,385,339	4,113,111
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	74,752,564	70,639,453
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 77,137,903	$ 74,752,564
SUPPLEMENTAL INFORMATION		
Interest paid	$ 404	$ 846
Income tax paid	$ 15,168,368	$ 15,216,529
NON-CASH FINANCING ACTIVITIES		
Reclassification from common capital stock to due to stockholders for capital reduction	$ 19,115,554	$ 9,557,777
CASH AND NON-CASH INVESTING ACTIVITIES		
Increase in property, plant and equipment	$ 30,493,115	$ 25,302,075
Payables to suppliers	(832,764)	(392,214)
	$ 29,660,351	$ 24,909,861

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(Amounts in Thousands of New Taiwan Dollars)

The following table presents the allocation of acquisition costs of acquired subsidiaries during 2007 to assets acquired and liabilities assumed, based on their fair values:

	Senao International Co., Ltd.	Chunghwa System Integration Co., Ltd.	Chunghwa Telecom Global, Inc.	Donghwa Telecom Co., Ltd.
Cash and cash equivalents	$ 617,003	$ 96,959	$ 38,771	$ 16,751
Financial assets at fair value through profit or loss	86,796	325,742		
Trade notes and accounts receivable	2,024,443	425,113	33,395	18,044
Inventories	1,625,790	136,310		
Other current assets	334,055	127,917	2,147	5,896
Long-term investment	12,941			
Property, plant, and equipment	1,316,657	2,879	27,066	
Identifiable intangible assets	365,920	46,792		
Other assets	134,869	37,602	17,450	
Short-term loan and current portion of long-term loan	(100,000)			
Trade notes and accounts payable	(1,629,324)	(418,667)	(39,993)	(22,827)
Other current liabilities	(714,517)	(71,095)	(9,161)	(1,861)
Long-term debt	(580,000)	(1,140)	(7,263)	
Other liabilities	(92,579)			(2,163)
Total	3,402,054	708,412	62,412	13,840
Percentage of ownership	31.3285%	100%	100%	100%
	1,065,813	708,412	62,412	13,840
Goodwill (negative goodwill)		130,094	8,017	(2,410)
Acquisition costs of acquired subsidiaries	$ 1,065,813	$ 838,506	$ 70,429	$ 11,430

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

(With Deloitte & Touche audit report dated March 3, 2009) (Concluded)

CHUNGHWA TELECOM CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

1. GENERAL

Chunghwa Telecom Co., Ltd. (Chunghwa) was incorporated on July 1, 1996 in the Republic of China (ROC) pursuant to the Article 30 of the Telecommunications Act. Chunghwa 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 as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As the dominate telecommunications service provider of fixed-line and Global System for Mobile Communications (GSM) in the ROC, Chunghwa is subject to additional regulations imposed by ROC.

Effective August 12, 2005, the MOTC had completed the process of privatizing Chunghwa by reducing the government ownership to below 50% in various stages. In July 2000, Chunghwa 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 Chunghwa 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 Chunghwa 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 common shares of Chunghwa by auction in the ROC on August 9, 2005 and completed the second international offering on August 10, 2005. 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 Chunghwa and completed the privatization plan.

As of December 31, 2008 and 2007, the Company had 24,551 and 24,138 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements were prepared in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law, Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC (ROC GAAP). The preparation of financial statements requires management to make certain estimates and assumptions on allowances for doubtful accounts, valuation allowances on inventories, depreciation of property, plant and equipment, impairment of assets, bonuses paid to employees, remuneration to board of directors and supervisors, pension plans and income tax which are inherently uncertain. Actual results may differ from these estimates. The significant accounting policies are summarized as follows:

Classification of Current and Noncurrent Assets and Liabilities

Current assets are assets expected to be converted to cash, sold or consumed within one year from balance sheet date. Current liabilities are obligations expected to be settled within one year from balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

Cash Equivalents

Cash equivalents are commercial paper and treasury bill 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 classified as financial assets or financial liabilities at fair value through profit or loss (FVTPL) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company loses control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized as expenses as incurred. Financial assets or financial liabilities at FVTPL are remeasured at fair value, subsequently with changes in fair value recognized in earnings. Cash dividends received subsequently (including those received in the period of investment) are recognized as income. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in earnings. A 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 is classified as financial assets or financial liabilities held for trading. 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.

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. Changes in fair value from subsequent remeasurement are reported as a separate component of stockholders equity. The corresponding 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 accounted for using trade date accounting.

The recognition and derecognition of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Fair values are determined as follows: Listed stocks at closing prices at the balance sheet date; open-end mutual funds at net asset values at the balance sheet date; bonds quoted at prices provided by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market at values determined using valuation techniques.

Cash dividends are recognized in earnings on the ex-dividend date, except for the dividends declared before acquisition are treated as a reduction of investment cost. Stock dividends are recorded as an increase in the number of shares and do not affect investment income. The total number of shares subsequent to the increase of stock dividends is used for recalculate cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. 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 to the decrease and recorded as an adjustment to stockholders 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.

Held-to-maturity Financial Assets

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains and losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables

Revenues are recognized when they are realized or realizable and earned. Revenues are realized or realizable and earned when the Company has persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectibility is reasonably assured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

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.

The costs of providing services are recognized as incurred. The cost includes incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract bundled with the handsets.

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) 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.

Where the Company enters into transactions which involve both the provision of air time bundled with products such as 3G data card and handset, total consideration received from handsets in these arrangements is allocated and measured using units of accounting within the arrangement based on relative fair values limited to the amount that is not contingent upon the delivery of other items or services.

Where the Company sells products to third party cellular phone stores the Company records the direct sale of the products, typically handsets, as gross revenue when the Company is the primary obligor in the arrangement and when title is passed and the products are accepted by the stores.

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivable. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of outstanding accounts receivable.

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 companies where in the Company exercises significant influence over the 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.

Gains or losses on sales from the Company to equity method investees wherein the Company does not have substantial control over these equity investees are deferred in proportion to the Company s ownership percentage in the investees until such gains or losses are realized through transactions with third parties. Gains or losses on sales from the Company to equity method investees are eliminated if the Company has substantial control over these equity investees. Gains or losses on sales from equity method investees to the Company are deferred in proportion to the Company s ownership percentages in the investees until they are realized through transactions with third parties.

Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards, the cost of an investment shall be analyzed and the difference between the cost of investment and the fair value of identifiable net assets acquired, representing goodwill, shall not be amortize and instead shall be tested for impairment annually. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of noncurrent assets except (a) financial assets other than investments accounted for using equity method, (b) assets to be disposed of by sale, (c) deferred tax assets, and (d) prepaid assets relating to pension or other postretirement benefit plans. If any excess remains after reducing the aforementioned items, the remaining excess shall be recognized as an extraordinary gain.

When the Company subscribes for additional investees shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company share of the investee s equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to additional paid-in capital the extent available, with the balance charged to retained earnings.

Financial Assets Carried at Cost

Investments in equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured such as non-publicly traded stocks are measured at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash dividends and stock dividends arising from available-for-sale financial assets.

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 as incurred.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized.

An impairment loss on a revalued asset is charged to unrealized revaluation increment under equity to the extent available, with the balance is recognized as a loss in earnings. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment loss could be reversed and recognized as a gain, with the remaining credited to unrealized revaluation increment .

Depreciation expense is computed using the straight-line method over the following estimated service lives: land improvements - 10 to 30 years; buildings - 10 to 60 years; computer equipment - 6 to 10 years; telecommunications equipment - 6 to 15 years; transportation equipment - 5 to 10 years; and miscellaneous equipment - 3 to 12 years.

Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment are deducted from the corresponding accounts, and any gain or loss recorded as non-operating gains or losses in the year of sale or disposal.

Intangible Assets

Intangible assets mainly include 3G Concession, computer software and patents.

The 3G Concession is valid through December 31, 2018. The 3G Concession and any additional licensing fees are amortized on a straight-line basis from the date operations commence through the date the license expires. Computer software costs and patents are amortized using the straight-line method over the estimated useful lives of 3-20 years.

Effective January 1, 2007, the Company adopted the newly released Statements of Financial Accounting Standards No. 37, Intangible Assets. Expenditure on research shall be expensed as incurred. Development Costs are capitalized when those costs meet relative criteria and are amortized using the straight-line method over estimated useful lives. Development costs do not meet relative criteria shall be expensed as incurred.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, as if no impairment loss had been recognized.

Idle Assets

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

Pension Costs

For employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees individual pension accounts during their service periods.

Expense Recognition

The costs of providing services are recognized as incurred. The cost includes incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract bundled with the handsets.

Treasury Stock

Treasury stock is recorded at cost and shown as a reduction to stockholders equity. Upon cancellation of treasury stock, the treasury stock account is reduced and the common stock and capital surplus are reversed on a pro rata basis. If capital surplus is not sufficient, the difference is charged to retained earnings.

Income Tax

The Company applies inter-period allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology-based enterprises are recognized using the flow-through method.

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 of stockholders approval which is the year subsequent to the year the earnings are generated.

Foreign-currency Transactions

Foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

The financial statements of foreign equity investees are translated into New Taiwan dollars at the following exchange rates. Assets and liabilities - spot rates at year-end; stockholders equity - historical rates, income and expenses - average rates during the year. The resulting translation adjustments are recorded as a separate component of stockholders equity.

Hedge Accounting

A hedging relationship qualifies for hedge accounting only if, all of the following conditions are met: (a) at the inception of the hedge, there is formal documentation of the hedging relationship and the entity s risk management objective and strategy for undertaking the hedge; (b) the hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk, consistently with the risk management strategy documented for that particular hedging relationship; (c) the effectiveness of the hedge can be reliably measured; (d) the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in earnings.

Recent Accounting Pronouncements

The ARDF of the R.O.C. revised Statement of Financial Accounting Standards No. 10, Accounting for Inventories (SFAS No. 10) in November 2007, which requires inventories to be stated at the lower of cost or net realizable value item by item. Inventories are recorded by the specific identification method, first-in, first-out method or weighted average method. The last-in, first-out method is no longer permitted. The revised SFAS No. 10 should be applied to financial statements for the fiscal years beginning on or after January 1, 2009. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ROC SFAS No. 10 will have on its results of operation and financial positions.

Reclassifications

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

3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE

In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning January 1, 2008. The adoption of this interpretation resulted in a decrease of $1,317,524 thousand (including $1,289,556 thousand recorded by Chunghwa and $27,968 thousand recorded by its equity-method investees) in net income and a decrease in basic earnings per share (after income tax) of $0.14 for the year ended December 31, 2008. For purposes of the statement of cash flows, such bonuses represent appropriations of the earning from prior years and have been classified as financing activities for 2008 and 2007. Beginning from 2009, such bonuses will be classified as an operating activity for purposes of the statement of cash flows when paid.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2008	**2007**
Cash		
Cash on hand	$ 91,441	$ 87,165
Bank deposits	10,207,252	14,561,538
Negotiable certificate of deposit, annual yield rate - ranging from 0.31%-2.45% and 2.05%-4.73% for the years ended December 31, 2008 and 2007, respectively	48,485,481	33,096,495
	58,784,174	47,745,198

(Continued)

	December 31 2008	December 31 2007
Cash equivalents		
Commercial paper, annual yield rate - ranging from 0.70%-1.55% and 1.92%-1.97% for the years ended December 31, 2008 and 2007, respectively	$ 18,353,729	$ 26,901,146
U.S. Treasury bills, annual yield rate 3.18%		106,220
	18,353,729	27,007,366
	$ 77,137,903	$ 74,752,564

(Concluded)

As of December 31, 2008 and 2007, foreign deposits in bank were as following:

	December 31 2008	December 31 2007
United States of America - New York (US$65,389 thousand and US$284,756 thousand for the years ended December 31, 2008 and 2007, respectively)	$ 2,148,690	$ 9,238,338
Hong Kong (US$30,572 thousand, EUR247 thousand, JPY27,844 thousand and GBP270 thousand for 2008 and US$32,975 thousand, EUR406 thousand, JPY26,445 thousand and GBP217 thousand for 2007)	1,039,021	1,110,885
	$ 3,187,711	$ 10,349,223

5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31 2008	December 31 2007
Derivatives - financial assets		
Index future contracts	$ 242,868	$ 91,945
Forward exchange contracts	15,208	27,194
	$ 258,076	$ 119,139
Derivatives - financial liabilities		
Forward exchange contracts	$ 95,515	$ 67,140
Index future contracts	11,381	5,915
Currency option contracts		580,159
	$ 106,896	$ 653,214

Chunghwa entered into investment management agreements with a well-known financial institution (fund managers) to manage its investment portfolios in 2006. As of December 31, 2008, Chunghwa s investment portfolios managed by these fund managers aggregated to an original amount of US$100,000 thousand. The investment portfolios included listed stocks, mutual funds and derivative instruments.

Chunghwa entered into forward exchange contracts and index future contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates and stock prices. However, derivatives that do not meet the criteria for hedge accounting is classified as financial assets or financial liabilities held for trading.

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Outstanding forward exchange contracts on December 31, 2008 and 2007 were as follows:

	Currency	Maturity Period	Contract Amount (in Thousands)	
December 31, 2008				
Sell	EUR/USD	2009.01	EUR	4,240
	JPY/USD	2009.01	JPY	446,200
	GBP/USD	2009.01	GBP	1,880
	USD/NTD	2009.01	USD	96,000
	USD/JPY	2009.01	USD	1,544
	USD/EUR	2009.01	USD	777
	USD/GBP	2009.01	USD	124
December 31, 2007				
Sell	EUR/USD	2008.02	EUR	19,100
	JPY/USD	2008.02	JPY	590,000
	GBP/USD	2008.02	GBP	2,370
	USD/NTD	2008.01-03	USD	385,000
	EUR/NTD	2008.02-03	EUR	40,000
	NTD/USD	2008.01	NTD	323,550

Outstanding index future contracts on December 31, 2008 and 2007 were as follows:

	Maturity Period	Units	Contract Amount (in Thousands)	
December 31, 2008				
AMSTERDAM IDX FUT	2009.01	13	EUR	642
CAC40 10 EURO FUT	2009.01	14	EUR	451
DAX INDEX FUTURE	2009.03	3	EUR	356
IBEX 35 INDX FUTR	2009.01	7	EUR	633
MINI S&P/MIB FUT	2009.03	37	EUR	712
FTSE 100 IDX FUT	2009.03	19	GBP	815
TOPIX INDEX FUTURE	2009.03	35	JPY	283,990
S&P 500 FUTURE	2009.03	16	USD	3,541
S&P 500 EMINI FUTURE	2009.03	53	USD	2,346
December 31, 2007				
AMSTERDAM IDX FUT	2008.01	14	EUR	1,419
CAC40 10 EURO FUT	2008.01	17	EUR	940
DAX INDEX FUTURE	2008.03	1	EUR	198
IBEX 35 INDX FUTR	2008.01	7	EUR	1,076
MINI S&P/MIB FUT	2008.03	35	EUR	1,366
FTSE 100 IDX FUT	2008.03	35	GBP	2,204
TOPIX INDEX FUTURE	2008.03	20	JPY	313,900
S&P 500 FUTURE	2008.03	16	USD	5,994
S&P 500 EMINI FUTURE	2008.03	23	USD	1,725

As of December 31, 2008 and 2007, the amount paid for future deposit were $242,768 thousand and $81,515 thousand, respectively.

In September 2007, Chunghwa entered into a 10-year, foreign currency derivative contract with Goldman Sachs Group Inc. (Goldman) and valuations are made biweekly starting from September 20, 2007 which are 260 valuation periods totally. Under the terms of the contract, if the NT dollar/US dollar exchange rate is less than NT$31.50 per US dollar at any two consecutive bi-weekly valuation dates during the valuation period starting from October 4, 2007 to September 5, 2017, Chunghwa is required to make a cash payment to Goldman. The settlement amount is determined by the difference between the applicable exchange rates and the base amount of US$4,000 thousand. Conversely, if the NT dollar/US dollar exchange rate is above NT$31.50 per US dollar using the same valuation methodology, Goldman would have a settlement obligation to Chunghwa determined using a base amount of US$2,000 thousand. Further, if the exchange rate is at or above NT$32.70 per US dollar starting from December 12, 2007 at any time, the contract would be terminated at that time. In accordance with the terms of the contract, Chunghwa deposited US$3,000 thousand with Goldman with annual yield rate of 8%. On October 21, 2008, the exchange rate was above NT$32.70 per US dollar, so the contract was terminated at that time.

Net gain and net loss arising from financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2008 and 2007 were $477,792 thousand (including realized settlement loss of $46,210 thousand and valuation gain of $524,002 thousand) and $876,482 thousand (including realized settlement loss of $281,474 thousand and valuation loss of $595,008 thousand, respectively).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2008	**2007**
Open-end mutual funds	$ 13,420,645	$ 16,505,794
Foreign listed stocks	546,520	958,095
Real estate investment trust fund	194,226	238,900
Listed stocks		115,710
	$ 14,161,391	$ 17,818,499

For the years ended December 31, 2008 and 2007, movements of unrealized gain or loss on financial instruments were as follows:

	Years Ended December 31	
	2008	**2007**
Balance, beginning of year	$ 35,232	$ 541,054
Recognized in stockholders equity	(3,174,015)	(131,852)
Transferred to profit or loss	882,878	(373,970)
Balance, end of year	$ (2,255,905)	$ 35,232

Global economic and financial circumstances have significantly changed. As a result, the Company determined that the impairment losses of available for sale financial assets is other-than-temporary in nature, and recorded impairment losses of $1,139,105 thousand in 2008.

7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2008	2007
Corporate bonds, nominal interest rate ranging from 0.994%-3.85% and 0%-4% for the years ended December 31, 2008 and 2007, respectively; effective interest rate ranging from 0.994%-2.95% and 0.994%-4% for 2008 and 2007, respectively	$ 3,772,177	$ 1,048,484
Collateralized loan obligation, nominal and effective interest rate were both 2.175% for 2008 and 2007	41,360	100,965
	3,813,537	1,149,449
Less: Current portion	769,435	651,192
	$ 3,044,102	$ 498,257

8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Years Ended December 31	
	2008	2007
Balance, beginning of year	$ 3,290,123	$ 3,535,141
Charge to expense for doubtful accounts	499,113	592,205
Accounts receivable written off	(797,093)	(837,223)
Balance, end of year	$ 2,992,143	$ 3,290,123

9. OTHER CURRENT MONETARY ASSETS

	December 31	
	2008	2007
Accrued custodial receipts from other carriers	$ 484,224	$ 650,791
Receivables from disposal of financial instruments	42,688	1,011,031
Tax refund receivable		3,221,136
Fixed-Line Fund		1,000,000
Other	1,660,412	1,206,913
	$ 2,187,324	$ 7,089,871

10. INVENTORIES, NET

	December 31	
	2008	2007
Supplies	$ 1,609,504	$ 1,517,233
Work in process	283,739	165,236
Merchandise	745,435	609,350
Materials in transit	906,958	521,978

	3,545,636	2,813,797
Less: Valuation allowance	41,874	19,666
	$ 3,503,762	$ 2,794,131

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11. OTHER CURRENT ASSETS

	December 31 2008	December 31 2007
Prepaid rents	$ 840,889	$ 589,075
Prepaid expenses	597,148	380,602
Miscellaneous	233,468	245,439
	$ 1,671,505	$ 1,215,116

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2008		2007	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Listed				
Senao International Co., Ltd. (SENAO)	$ 1,331,443	29	$ 1,270,190	31
Non-Listed				
Light Era Development Co., Ltd. (LED)	2,976,434	100		
Chunghwa Investment Co., Ltd. (CHI)	829,716	49	974,332	49
Chunghwa Telecom Singapore Pte., Ltd. (CHTS)	791,161	100		
Chunghwa System Integration Co., Ltd. (CHSI)	747,104	100	850,398	100
Taiwan International Standard Electronics Co., Ltd. (TISE)	593,441	40	626,078	40
CHIEF Telecom Inc. (CHIEF)	427,848	69	423,807	69
Donghwa Telecom Co., Ltd. (DHT)	221,537	100	15,408	100
Chunghwa International Yellow Pages Co., Ltd. (CIYP)	110,545	100	31,256	100
Viettel-CHT Co., Ltd. (Viettel-CHT)	95,836	33		
Skysoft Co., Ltd. (SKYSOFT)	84,992	30	69,911	30
KingWay Technology Co., Ltd. (KWT)	77,222	33		
Chunghwa Telecom Global, Inc. (CHTG)	71,097	100	73,416	100
Spring House Entertainment Inc. (SHE)	45,113	56	15,659	30
Chunghwa Telecom Japan Co., Ltd.(CHTJ)	4,165	100		
ELTA Technology Co., Ltd. (ELTA)			44,998	32
New Prospect Investments Holdings Ltd. (B.V.I.) (New Prospect)		100		100
Prime Asia Investments Group Ltd. (B.V.I.) (Prime Asia)		100		100
	8,407,654		4,395,453	
Prepayments for long-term investments - InfoExplorer Co., Ltd. (IFE)	283,500			
	$ 8,691,154		$ 4,395,453	

Chunghwa invested in Senao International Co., Ltd. (SENAO) in January 2007, for a purchase price of $1,065,813 thousand. SENAO engages mainly in telecommunication facilities sales.

Chunghwa established 100% shares of Light Era Development Co., Ltd. (LED) by prepaying $3,000,000 thousand in January 2008. LED completed its incorporation on February 12, 2008. LED engages mainly in development of property for rent and sale.

Chunghwa established Chunghwa Telecom Singapore Pte., Ltd. (CHTS) in July 2008, for a purchase price of $200,000 thousand, and increase capital for $579,280 thousand in September 2008. CHTS engages mainly in data wholesale, IP Transit, IPLC, IP VPN, voice wholesale services, and reinvests in the world satellite business. ST-1 telecommunications satellite is expected be retired in 2011; therefore, CHTS and SingTelSat Pte., Ltd. established a joint venture, ST-2 Satellite Ventures Pte., Ltd. (SSVP) in Singapore in October 2008 in order to maintain the current service. SSVP will engage in the installation and the operation of ST-2 telecommunications satellite.

Chunghwa invested in Chunghwa System Integration Co., Ltd. (CHSI) in December 2007, for a purchase price of $838,506 thousand. CHSI engages mainly in providing communication and information integration services.

Chunghwa raised investing capital at the amount of $171,513 thousand in CHIEF Telecom Inc. in October 2007. CHIEF engages mainly in internet communication and internet data center (IDC) service.

Chunghwa invested in Donghwa Telecom Co., Ltd. (DHT) in December 2007 and September 2008 for a purchase price of $11,430 thousand and $189,833 thousand. DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services.

Chunghwa invested in Chunghwa International Yellow Pages Co., Ltd. (CIYP) in December 2006, for a purchase price of $150,000 thousand. CIYP finished registration in January 2007. CIYP engages mainly in yellow pages sales and advertisement services.

Chunghwa established Viettel-CHT Co., Ltd. (Viettel-CHT) with Viettel Co., Ltd. in Vietnam in April 2008, by investing $91,239 thousand cash at the end of 2008. Viettel-CHT engages mainly in IDC services.

Chunghwa invested in Skysoft Co., Ltd. (SKYSOFT) in October 2007, for a purchase price of $67,025 thousand. SKYSOFT engages mainly in providing of music on-line, software, electronic information and advertisement services.

Chunghwa invested in KingWay Technology Co., Ltd. (KWT) in January 2008, for a purchase price of $71,770 thousand. KWT engages mainly in publishing books, data processing and software services.

Chunghwa invested in Chunghwa Telecom Global, Inc. (CHTG) in December 2007, for a purchase price of $70,429 thousand. CHTG engages mainly in international data and internet services and long distance wholesales.

Chunghwa increased its ownership of Spring House Entertainment Inc. (SHE) from 30% to 56% in January 2008, for a purchase price of $39,800 thousand, and SHE becomes a subsidiary of Chunghwa. SHE engages mainly in network services, producing digital entertainment content and broadband visual sound terrace development.

Chunghwa established Chunghwa Telecom Japan Co., Ltd. (CHTJ), a 100% owned subsidiary in October 2008 by investing $6,140 thousand cash, and increased its investment on CHTJ by investing $11,151 thousand cash in January 2009. CHTJ engages mainly in telecommunication business, data processing and related services, development and sale of software and consulting services in telecommunication.

The Company invested in ELTA Technology Co., Ltd. in April and October 2007, for a purchase price of $27,455 thousand and $16,768 thousand, respectively. ELTA engages mainly in professional on-line and mobile value-added content aggregative services. Chunghwa sold all shares of ELTA with carrying value $51,152 thousand on July 23, 2008 for a selling price of $44,047 thousand and recognized a disposal loss of $7,105 thousand.

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

Chunghwa prepaid $283,500 thousand to invest in InfoExplorer Co., Ltd. (IFE) and the record date of capital increase of IFE was January 5, 2009. Chunghwa acquired 49% of ownership. Chunghwa has control in IFE by obtaining above half of seats of the board of directors of IFE on January 20, 2009, which was IFE s stockholder s meeting. IFE mainly engages in information system planning and maintenance, software development, and information technology consultation services.

The carrying values of the equity investees as of December 31, 2008 and 2007 and the equity in earnings for the years ended December 31, 2008 and 2007 are determined based on the audited financial statements of the investees for the same years as the Company.

All accounts of Chunghwa s subsidiaries were included in Chunghwa s consolidated financial statements.

13. FINANCIAL ASSETS CARRIED AT COST

	December 31			
	2008		2007	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Cost investees:				
Taipei Financial Center (TFC)	$ 1,789,530	12	$ 1,789,530	12
Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II)	200,000	17		
Global Mobile Corp. (GMC)	127,018	11	168,038	15
iD Branding Ventures (iDBV)	75,000	8	75,000	8
RPTI International (RPTI)	34,500	12	49,500	12
Essence Technology Solution, Inc. (ETS)	10,000	9	20,000	9
Siemens Telecommunication Systems (Siemens)			5,250	15
	2,236,048		2,107,318	
Prepayments for long-term investments in stocks-Taipei Financial Center (TFC)	285,859			
	$ 2,521,907		$ 2,107,318	

Chunghwa invested in IBT II in January 2008, for a purchase price of $200,000 thousand. IBT II engages mainly in investment. IBT II completed its incorporation on February 13, 2008.

Chunghwa invested in GMC in December 2007, for a purchase price of $168,038 thousand for 16,796 thousand shares. GMC engages mainly in wire communication services and computer software wholesale and circuit engineering. The National Communications Commission (NCC) informed Chunghwa with the Communication Letter (#0974102087) on April 1, 2008 that its investment in GMC was not authorized by NCC, and notified Chunghwa on May 5, 2008 that Chunghwa should dispose of its investment in GMC no later than June 30, 2008, otherwise, NCC would fine Chunghwa according to the Telecommunication Act. In April 2008, Chunghwa disposed of a portion of its investment in GMC (4,100 thousand shares) and filed an appeal to NCC to suspend the enforcement. In July, 2008, NCC resolved that according to the Administrative Penalty Act, Chunghwa could not divest of its investment in the short time period provided and that Chunghwa would not be subject to fines as noted above. In October 2008, NCC revoked the original decree about Chunghwa s investment in GMC, therefore, Chunghwa did not dispose of its remaining holding in GMC.

After evaluating the investment in RPTI, Chunghwa determined the investment in RPTI was impaired and recognized an impairment loss of $15,000 thousand and $22,000 thousand for the years ended December 31, 2008 and 2007, respectively.

Chunghwa invested in ETS in December 2007, for a purchase price of $20,000 thousand. ETS mainly engaged in IP-Private Branch Exchange (IP PBX) and design of voice security module. After evaluating the investment in ETS, Chunghwa determined the investment in ETS was impaired and recognized an impairment loss of $10,000 thousand for the year ended December 31, 2008.

Chunghwa disposed all shares of Siemens with carrying value $5,250 thousand in March 2008, for a selling price of $314,055 thousand and Chunghwa recognized a disposal gain of $308,805 thousand.

Chunghwa participated in TFC s capital increase in October 2008 and the prepayment was $285,859 thousand.

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.

14. OTHER NONCURRENT MONETARY ASSETS

	December 31	
	2008	2007
Piping Fund	$ 1,000,000	$ 1,000,000

As part of the government s effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute a total of $1,000,000 thousand to a Piping Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects.

15. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2008	2007
Cost		
Land	$ 101,259,221	$ 101,340,085
Land improvements	1,494,398	1,475,371
Buildings	62,612,157	62,140,290
Computer equipment	15,751,162	15,365,975
Telecommunications equipment	648,805,525	638,467,018
Transportation equipment	2,404,125	2,854,880
Miscellaneous equipment	7,247,977	7,639,500
Total cost	839,574,565	829,283,119
Revaluation increment on land	5,810,650	5,822,981
	845,385,215	835,106,100
Accumulated depreciation		
Land improvements	898,156	844,244
Buildings	16,238,529	15,181,459
Computer equipment	11,590,417	11,457,928
Telecommunications equipment	502,974,534	485,397,314

(Continued)

	December 31	
	2008	2007
Transportation equipment	$ 2,194,104	$ 2,690,767
Miscellaneous equipment	6,114,629	6,482,478
	540,010,369	522,054,190
Construction in progress and advance payments	15,989,495	16,450,761
Property, plant and equipment, net	$ 321,364,341	$ 329,502,671

(Concluded)

Pursuant to the related regulation, Chunghwa revalued its land owned as of April 30, 2000 based on the publicly announced value on July 1, 1999. These revaluations which have been approved by the Ministry of Auditing 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 effective from February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of $116,196 thousand to stockholders equity - other adjustments. As of December 31, 2008, the unrealized revaluation increment was decreased to $5,813,187 thousand by disposal revaluation assets.

Depreciation expense on property, plant and equipment for the years ended December 31, 2008 and 2007 amounted to $36,951,384 thousand and $38,691,561 thousand, respectively. No interest expense was capitalized for the years ended December 31, 2008 and 2007.

16. ACCRUED EXPENSES

	December 31	
	2008	2007
Accrued salary and compensation	$ 10,664,953	$ 9,594,195
Accrued franchise fees	2,368,996	2,159,399
Other accrued expenses	2,646,653	3,203,487
	$ 15,680,602	$ 14,957,081

17. OTHER CURRENT LIABILITIES

	December 31	
	2008	2007
Advances from subscribers	$ 5,624,497	$ 5,037,430
Amounts collected in trust for others	2,446,647	2,804,891
Payables to equipment suppliers	2,250,041	1,786,351
Payables to contractors	1,546,234	1,065,972
Refundable customers deposits	980,622	915,248
Miscellaneous	2,598,540	2,273,095
	$ 15,446,581	$ 13,882,987

18. STOCKHOLDERS EQUITY

Under Chunghwa s Articles of Incorporation, Chunghwa 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 9,696,808,181 shares, Chunghwa s Articles of Incorporation and the Republic of China Telecommunications Act provide that the MOTC has the right to purchase two redeemable preferred shares at $10 (par value) in the event its ownership of Chunghwa falls below 50% of the outstanding common shares. On March 28, 2006, the board of directors approved the issuance of the 2 preferred shares, and the MOTC purchased the 2 preferred shares at par value on April 4, 2006.

For the purpose of privatizing Chunghwa, the MOTC sold 1,109,750 thousand common shares of Chunghwa 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 Chunghwa, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 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. As of December 31, 2008, the outstanding ADSs were 1,780,568 thousand common shares, which equaled approximately 178,057 thousand units and represented 18.36% of Chunghwa s total outstanding common shares.

The ADS holders generally have the same rights and obligations as other common stockholders, 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 Chunghwa 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 Chunghwa 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 Chunghwa or the nature of its business and any transfer of a substantial portion of Chunghwa s business or property.

d. The holder of the preferred shares may not transfer the ownership. Chunghwa must redeem all outstanding preferred shares with par value within three years from the date of their issuance.

Under the ROC Company Law, additional paid-in capital may only be utilized to offset deficits. For those companies having no deficits, additional paid-in capital arising from capital surplus can be used to increase capital stock and distribute to stockholders in proportion to their ownership at the ex-dividend date. Also, such amounts can only be declared as a stock dividend by Chunghwa at an amount calculated in accordance with the provisions of existing regulations. The combined amount of any portions capitalized each year may not exceed 10 percent of common stock issued. However, where a company undergoes an organizational change (such as a merger, acquisition, or reorganization) that results in the capitalization of undistributed earnings after the organizational change, the above restriction does not apply.

In addition, before distributing a dividend or making any other distribution to stockholders, Chunghwa 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; 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.

Chunghwa operates in a capital-intensive and technology-intensive industry and requires capital expenditures to sustain its competitive position in high-growth market. Thus, Chunghwa 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.

For the year ended December 31, 2008, the accrual amounts for bonuses to employees and remuneration to directors and supervisors is based on management estimates including past experience and probable amount to be paid in accordance with Chunghwa s Articles of Incorporation and Implementation Guidance for the Employee s Bonus Distribution of Chunghwa Telecom Co., Ltd.

If the initial accrual amounts of the aforementioned bonus are different from the amounts resoluted in the stockholders meeting, the difference is charged to the earnings of the following year as a result of change in accounting estimate.

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 Chunghwa. 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 Chunghwa, up to 50% of the reserve may, at the option of Chunghwa, be declared as a stock dividend and transferred to capital.

The appropriations and distributions of the 2007 and 2006 earnings of the company have been approved and resolved by the stockholders on June 19, 2008 and June 15, 2007 as follows:

	Appropriation of Earnings		Dividend Per Share	
	2007	**2006**	**2007**	**2006**
Legal reserve	$ 4,823,356	$ 3,998,445	$	$
Reversal of special reserve	3,304	1,461		
Cash dividends	40,716,130	34,610,885	4.26	3.58
Stock dividends	955,778		0.10	
Employee bonus - cash	1,303,605	1,256,619		
Employee bonus - stock	434,535			
Remuneration to board of directors and supervisors	43,454	35,904		

The amounts of the appropriations of earnings for 2007 and 2006 were consistent with the resolutions of the meetings of the Board of Directors held on April 25, 2008 and April 24, 2007, respectively.

The stockholders, at a special meeting held on August 14, 2008, resolved to transfer capital surplus in the amount of $19,115,554 thousand to common capital stock.

The above mentioned 2008 capital increase proposal was effectively registered with Securities and Futures Bureau of Financial Supervisory Commission, Executive Yuan (SFC). The board of directors resolved the ex- dividend date of the aforementioned proposal as October 25, 2008.

The stockholders, at the stockholders meeting held on August 14, 2008, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of $19,115,554 thousand to common capital stock and was effectively registered with SFC. Chunghwa designated December 30, 2008 as the record date and March 9, 2009 as the stock transfer date of capital reduction.

The stockholders, at a meeting held on June 15, 2007, resolved to transfer capital surplus in the amount of $9,667,845 thousand to common capital stock.

The above 2007 capital increase proposal was effectively registered with SFC. The board of directors resolved the ex-dividend date of aforementioned proposal as August 1, 2007.

The stockholders, at the stockholders meeting held on June 15, 2007, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of $9,667,845 thousand to common capital stock and effectively registered with SFC. Chunghwa decided October 19, 2007 and December 29, 2007 as the record date and stock transfer date of capital reduction, respectively. Subsequently, common capital stock was reduced by $9,667,845 thousand and a liability for the actual amount of cash to be distributed to stockholders of $9,557,777 thousand was recorded. The difference between the reduction in common capital stock and the distribution amount represents treasury stock of $110,068 thousand held by Chunghwa and concurrently cancelled. Such cash payments to stockholder s was made in January 2008.

The appropriation of Chunghwa s 2008 earnings has not been resolved by the board of directors as of the report date. Information on the appropriation of 2008 earnings, employee bonus and remuneration to board of directors and supervisors proposed by the board of directors and resolved by the stockholders is available at the Market Observation Post System website.

19. TREASURY STOCK

	Years Ended December 31	
	2008	**2007**
Balance, beginning of year	110,068	
Increase		121,075
Decrease	(110,068)	(11,007)
Balance, end of year		110,068

According to the Securities and Exchange Act of the ROC, total shares of treasury stock shall not exceed 10% of Chunghwa s stock issued. The total amount of the repurchased shares shall not be more than the total amount of retained earnings, capital surplus and realized additional paid-in capital. The Company shall neither pledge treasury stock nor exercise stockholders rights on these shares, such as rights to dividends and to vote.

In order to maintain its credit and stockholders equity, Chunghwa repurchased 121,075 thousand shares of treasury stock for $7,217,562 thousand from August 29, 2007 to October 25, 2007. On December 29, 2007, Chunghwa cancelled 11,007 thousand shares of treasury stock by reducing common stock of $110,068 thousand. The remaining of 110,068 thousand shares of treasury stock amounted to $7,107,494 thousand was cancelled on February 21, 2008.

20. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31, 2008		
	Cost of Services	Operating Expenses	Total
Compensation expense			
Salaries	$ 12,108,552	$ 8,282,400	$ 20,390,952
Insurance	900,020	617,331	1,517,351
Pension	1,606,127	1,181,250	2,787,377
Other compensation	8,472,465	5,766,107	14,238,572
	$ 23,087,164	$ 15,847,088	$ 38,934,252
Depreciation expense	$ 34,925,146	$ 2,026,238	$ 36,951,384
Amortization expense	$ 880,086	$ 136,596	$ 1,016,682

	Year Ended December 31, 2007		
	Cost of Services	Operating Expenses	Total
Compensation expense			
Salaries	$ 12,212,562	$ 8,092,151	$ 20,304,713
Insurance	665,350	839,133	1,504,483
Pension	1,749,411	1,238,306	2,987,717
Other compensation	9,201,910	5,497,585	14,699,495
	$ 23,829,233	$ 15,667,175	$ 39,496,408
Depreciation expense	$ 36,512,666	$ 2,178,895	$ 38,691,561
Amortization expense	$ 866,946	$ 98,182	$ 965,128

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:

	Years Ended December 31	
	2008	2007
Income tax expense computed at statutory income tax rate of 25% to income before income tax	$ 14,618,206	$ 15,274,107
Add (deduct) tax effects of:		
Permanent differences	(135,085)	(446,237)
Temporary differences	325,840	910,583
Additional tax at 10% on undistributed earnings		8,260
Investment tax credits	(1,502,112)	(2,401,319)

Income tax payable	$ 13,306,849	$ 13,345,394

The tax liabilities of December 31, 2008 and 2007 are the net amount from deducting income tax payables by prepaid income tax.

b. Income tax expense consists of the following:

	Years Ended December 31	
	2008	2007
Income tax payable	$ 13,306,849	$ 13,345,394
Income tax- separated	296,901	242,733
Income tax - deferred	(178,971)	(802,342)
Adjustments of prior years income tax	37,744	61,366
	$ 13,462,523	$ 12,847,151

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

	December 31	
	2008	2007
Current		
Provision for doubtful accounts	$ 478,196	$ 331,328
Abandonment of equipment not approved by National Tax Administration	40,239	
Unrealized accrued expense	22,384	
Valuation loss on financial instruments, net	13,696	151,358
Unrealized foreign exchange loss (gain)	(35,568)	9,634
Other	23,460	25,738
	542,407	518,058
Valuation allowance	(478,196)	(331,328)
Net deferred income tax assets-current	$ 64,211	$ 186,730
Noncurrent		
Accrued pension cost	$ 1,407,460	$ 1,092,701
Impairment loss	80,225	80,524
Loss on disposal of property, plant and equipment		12,970
Net deferred income tax assets-noncurrent	$ 1,487,685	$ 1,186,195

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

	December 31	
	2008	2007
Balance of Imputation Credit Account (ICA)	$ 7,285,595	$ 6,528,877

The estimated and the actual creditable ratios distribution of Chunghwa s of 2008 and 2007 for earnings were 30.81% and 28.81%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

e. Undistributed earnings information

As of December 31, 2008 and 2007, there is no earnings generated prior to June 30, 1998 in Chunghwa s undistributed earnings.

Income tax returns through the year ended December 31, 2005 had been examined by the ROC tax authorities.

22. EARNINGS PER SHARE

	Amount (Numerator)		Weighted-average Number of Common Shares Outstanding (Thousand) (Denominator)	Earning Per Share (Dollars)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
Year ended December 31, 2008					
EPS was calculated as follows:					
Basic EPS					
Income available to stockholders	$ 58,472,865	$ 45,010,342	9,696,808	$ 6.03	$ 4.64
SENAO s stock-based compensation	(13,775)	(13,775)			
Employee bonus			20,681		
Diluted EPS					
Income available to stockholders (including effect of dilutive potential common stock)	$ 58,459,090	$ 44,996,567	9,717,489	$ 6.02	$ 4.63
Year ended December 31, 2007					
EPS was calculated as follows:					
Basic EPS					
Income available to stockholders	$ 61,096,470	$ 48,249,319	9,776,237	$ 6.25	$ 4.94
SENAO s stock-based compensation	(8,099)	(8,099)			
Diluted EPS					
Income available to stockholders (including effect of dilutive potential common stock)	$ 61,088,371	$ 48,241,220	9,776,237	$ 6.25	$ 4.93

According to the Interpretation 97-169 issued by ARDF in May 2008, Chunghwa presumed that the employees bonuses to be paid will be settled in shares and takes those shares into consideration when calculating the weighted average number of outstanding shares used in the calculation of diluted EPS if the share have a dilutive effect for the year ended December 31, 2008. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa s shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The diluted earnings per share for the years ended December 31, 2008 and 2007 was due to the effect of potential common stock of stock options by SENAO.

23. PENSION PLAN

Chunghwa completed privatization plans on August 12, 2005. Chunghwa 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. After paying all pension obligations for privatization, the plan assets of Chunghwa should be transferred to the Fund for Privatization of Government-owned Enterprises (the Privatization Fund) under the Executive Yuan. On August 7, 2006, Chunghwa transferred the remaining balance of fund to the Privatization Fund. However, according to the instructions of MOTC, Chunghwa 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.

The pension plan under the Labor Pension Act of ROC (the LPA) is effective beginning July 1, 2005 and this pension mechanism is considered as a defined contribution plan. Based on the LPA, Chunghwa makes monthly contributions to employees individual pension accounts at 6% of monthly salaries and wages.

Chunghwa s pension plan is considered as a defined benefit plan under the Labor Standards Law that provide benefits based on an employee s length of service and average six-month salary prior to retirement. Chunghwa contributes an amount at 15% or less of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the names of the Committees in the Bank of Taiwan.

Pension costs of Chunghwa were $2,871,428 thousand ($2,774,274 thousand subject to defined benefit plan and $97,154 thousand subject to defined contribution plan) and $3,101,497 thousand ($3,023,558 thousand subject to defined benefit plan and $77,939 thousand subject to defined contribution plan) for the years ended December 31, 2008 and 2007, respectively.

Pension information of the defined benefit plan was summarized as follows:

a. Components of net periodic pension cost for the year

	Years Ended December 31	
	2008	**2007**
Service cost	$ 2,658,562	$ 2,807,927
Interest cost	185,873	107,931
Expected return on plan assets	(82,006)	(78,198)
Amortization of unrecognized loss	(2,529)	7,003
Curtailment/settlement loss to be recognized	14,374	178,895
	$ 2,774,274	$ 3,023,558

b. Reconciliation between the fund status and accrued pension cost is summarized as follows:

	December 31	
	2008	2007
Benefit obligation		
Vested benefit obligation	$ (5,658,116)	$ (3,526,887)
Non-vested benefit obligation	(2,832,135)	(2,150,100)
Accumulated benefit obligation	(8,490,251)	(5,676,987)
Additional benefit obligation	(930,915)	(970,516)
Projected benefit obligation	(9,421,166)	(6,647,503)
Fair values of plan assets	4,282,694	2,754,779
Funded status	(5,138,472)	(3,892,724)
Unrecognized prior service cost effect	(49,776)	
Amortization of unrecognized net loss (gain)	23,860	(19,240)
Accrued pension liabilities	$ (5,164,388)	$ (3,911,964)

		2008	2007
c.	Vested benefit	$ 7,664,921	$ 5,009,083
d.	Actuarial assumptions		
	Discount rate used in determining present value	2.00%	2.50%
	Rate of compensation increase	1.00%	1.50%
	Rate of return on plan assets	2.50%	2.75%

e. Contributions and payments of the Fund

	Years Ended December 31	
	2008	2007
Contributions	$ 1,515,234	$ 365,368
Payments	$ 105,910	$ 600,239

24. TRANSACTIONS WITH RELATED PARTIES

The ROC Government, one of Chunghwa s customers held significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, Internet and data and other services to the various departments and institutions 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 transactions were not summarized by Chunghwa. Chunghwa believes that all costs of doing business are reflected in the financial statements.

a. Chunghwa engages in business transactions with the following related parties:

Company	Relationship
Senao International Co., Ltd. (SENAO)	Subsidiary (it was the equity-method investee in January 2007, and has control in April 2007)
Chunghwa International Yellow Pages Co., Ltd. (CIYP)	Subsidiary
CHIEF Telecom, Inc. (CHIEF)	Subsidiary
Chunghwa System Integration Co., Ltd. (CHSI)	Subsidiary (it was the subsidiary of equity-method investee, Chunghwa Investment Co., Ltd., and it becomes to Chunghwa s subsidiary since December 2007)
Chunghwa Telecom Global, Inc. (CHTG)	Subsidiary (it was the subsidiary of equity-method investee, Chunghwa Investment Co., Ltd., and it becomes to Chunghwa s subsidiary since December 2007)
Donghwa Telecom Co., Ltd. (DHT)	Subsidiary (it was the indirect owned subsidiary of equity-method investee, Chunghwa Investment Co., Ltd., and it becomes to Chunghwa s subsidiary since December 2007)
Spring House Entertainment Inc. (SHE)	Subsidiary (it was the equity-method investee, and it becomes to Chunghwa s subsidiary since January 2008)
Light Era Development Co., Ltd. (LED)	Subsidiary
Chunghwa Telecom Singapore Pte., Ltd. (CHTS)	Subsidiary
Chunghwa Telecom Japan Co., Ltd. (CHTJ)	Subsidiary
New Prospect Investments Holdings Ltd. (B.V.I.) (New Prospect)	Subsidiary
Prime Asia Investments Group Ltd. (B.V.I.) (Prime Asia)	Subsidiary
Uni-Gate Telecom Inc. (Uni-Gate)	Subsidiary of CHIEF
CHIEF Telecom (Hong Kong) Limited (CHK)	Subsidiary of CHIEF
Chief International Corp. (CIC)	Subsidiary of CHIEF
Concord Technology Co., Ltd. (Concord)	Subsidiary of CHSI
Glory Network System Service (Shanghai) Co., Ltd. (Glory)	Subsidiary of Concord
Chunghwa Investment Co., Ltd. (CHI)	Equity-method investee
Taiwan International Standard Electronics Co., Ltd. (TISE)	Equity-method investee
Skysoft Co., Ltd. (SKYSOFT)	Equity-method investee
ELTA Technology Co., Ltd. (ELTA)	Equity-method investee before Chunghwa sold all shares in July 2008
Senao Networks, Inc. (SNI)	Equity-method investee of SENAO
Chunghwa Precision Test Technical Co., Ltd. (CHPT)	Subsidiary of CHI
Chunghwa Investment Holding Company (CIHC)	Subsidiary of CHI

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

	December 31			
	2008		2007	
	Amount	%	Amount	%
1) Receivables				
Trade notes and accounts receivable				
SENAO	$ 178,878	52	$ 156,861	74
CHSI	41,256	12		
CIYP	38,782	11	16,909	8
LED	22,566	7		
CHIEF	20,906	6	17,612	9
CHTG	18,618	5	17,345	8
SHE	10,863	3		
DHT	9,155	3		
Others	1,992	1	2,899	1
	$ 343,016	100	$ 211,626	100
2) Payables				
Trade notes payable, accounts payable and accrued expenses				
CHSI	$ 628,485	28	$ 344,032	20
SENAO	606,990	27	584,198	34
TISE	492,883	22	141,192	8
CIYP	35,198	2	8,039	
CHIEF	34,215	2	8,599	1
DHT	17,063	1	9,113	1
CHTG	14,867	1	9,520	1
SHE	14,782			
Others	2,947		5,344	
	1,847,430	83	1,110,037	65
Payable to construction supplier				
CHSI	53,502	2		
TISE	26,188	1	191,218	11
	79,690	3	191,218	11
Amounts collected in trust for others				
SENAO	244,291	11	398,019	24
CIYP	61,273	3		
Others	4,235		6,815	
	309,799	14	404,834	24
	$ 2,236,919	100	$ 1,706,089	100

	Years Ended December 31			
	2008		2007	
	Amount	%	Amount	%
3) Revenues				
SENAO	$ 1,634,017	1	$ 1,107,649	1
CHIEF	208,227		189,083	
CHTG	140,416		91,217	
CHSI	32,865		17,950	
SKYSOFT				