CHUNGHWA TELECOM CO LTD Form 6-K October 27, 2010

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 October 27, 2010

# 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)

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

Form 20-F 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: 2010/10/27

Chunghwa Telecom Co., Ltd.

By: Name: Title: /s/ SHU YEH Shu Yeh Senior Vice President CFO

# Exhibit

Exhibit	Description
1	Press Release to Report Operating Results for the Third Quarter of 2010
2	Financial Statements for the Nine Months Ended September 30, 2010 and 2009 and Independent Accountants Review Report (Stand Alone)
3	Consolidated Financial Statements for the Nine Months Ended September 30, 2010 and 2009 and Independent Accountants Review Report
4	GAAP Reconciliations of Consolidated Financial Statements for the Nine Months Ended September, 2010 and 2009

#### **Chunghwa Telecom Reports Operating Results for**

### the Third Quarter of 2010

Taipei, Taiwan, R.O.C. October 27, 2010 - Chunghwa Telecom Co., Ltd. (TAIEX: 2412; NYSE: CHT) (Chunghwa or the Company), today reported its operating results for the third quarter and first nine months of 2010. All figures are presented on a consolidated basis and were prepared in accordance with generally accepted accounting principles of the Republic of China (ROC GAAP).

Dr. Shyue-Ching Lu, Chairman of Chunghwa Telecom, said, I m pleased to report a 1.6% year-over-year rise in revenue during the third quarter of 2010, driven by the continuing economic recovery and the success of our marketing initiatives. The solid revenue mix from our core business was boosted by an increase in mobile value-added services, Internet services and broadband access revenues. Our prudent cost management initiatives resulted in stable operating income, with net income growing 9.5% year-over-year due to the tax rate reduction from 25% to 17%. Looking ahead, we expect to be able to report satisfactory performance for the full year 2010, with fourth quarter revenue projected to be NT\$46.80 billion.

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

Financial Highlights for the Third Quarter of 2010:

Total consolidated revenue increased by 1.6% to NT\$50.9 billion

Mobile communications business revenue increased by 1.0% to NT\$22.3 billion; mobile value added revenue increased by 32.3% to NT\$2.8 billion

Internet business revenue increased by 10.2% to NT\$6.4 billion

Domestic fixed communications business revenue decreased by 1.1% to NT\$17.5 billion; broadband access revenue increased by 3.0% to NT\$5.1 billion

International fixed communications business revenue decreased by 1.9% to NT\$4.0 billion

Total operating costs and expenses increased by 1.5% to NT\$36.4 billion

Net income totaled NT\$12.0 billion, representing an increase of 9.5%

Basic earnings per share (EPS) increased by 9.5% to NT\$1.23

Financial Highlights for the First Nine Months of 2010:

Total consolidated revenue increased by 2.0% to NT\$150.1 billion

Mobile communications business revenue increased by 3.1% to NT\$66.6 billion

Internet business revenue increased by 6.4% to NT\$18.3 billion

Domestic fixed communications business revenue decreased by 1.7% to NT\$52.1 billion; broadband access revenue increased by 2.0% to NT\$15.2 billion

International fixed communications business revenue increased by 1.5% to NT\$11.7 billion

Total operating costs and expenses increased by 1.8% to NT\$105.9 billion

Net income totaled NT\$36.9 billion, representing an increase of 11.3%

Basic EPS increased by 11.3% to NT\$3.81

#### Revenue

Chunghwa s total consolidated revenue for the third quarter of 2010 increased by 1.6% year-over-year to NT\$50.9 billion, of which 34.5% was from its domestic fixed business, 43.8% was from its mobile business, 12.6% was from its Internet business, 7.9% was from its international fixed business and the remainder was from other business segments. The primary reasons for the year-over-year increase were the economic recovery and the Company s marketing initiatives.

Domestic fixed line business revenue totaled NT\$17.5 billion, representing a decrease of 1.1% year-over-year. Local revenues decreased by 2.1% year-over-year to NT\$8.1 billion, mainly due to mobile and Voice over Internet Protocol (VOIP) substitution. The 17.1% decline in domestic long-distance revenues to NT\$1.7 billion was also due to mobile and VOIP substitution, and the mandated tariff reduction.

Broadband access revenue, including Asymmetric Digital Subscriber Line (ADSL) and Fiber to the x (FTTx), increased by 3.0% year-over-year to NT\$5.1 billion. Although ADSL access revenue decreased as more ADSL subscribers migrated to fiber solutions, the decrease was fully offset by growth in FTTx access revenue. Chunghwa believes that this migration will continue as customers continue to migrate to FTTx services, and that broadband revenue will therefore increase over time.

Mobile revenue increased by 1.0% year-over-year to NT\$22.3 billion, mainly due to growth in mobile VAS revenue relating to the Company s smartphone promotion and handset sales.

Internet revenue increased by 10.2% to NT\$6.4 billion, mainly attributable to Internet services growth, which was driven by the increase in broadband subscribers and the migration of ADSL subscribers to fiber solutions.

International fixed-line revenue decreased by 1.9% to NT\$4.0 billion, mainly due to VOIP substitution and market competition that was partially offset by growth in leased line revenue.

Finally, other revenue increased by 70.6% to NT\$0.6 billion in the third quarter of 2010 compared to the same period of 2009, primarily due to the consolidation of subsidiaries.

For the first nine months of 2010, total revenue was NT\$150.1 billion, a 2.0% increase from the same period last year, with the domestic fixed business accounting for 34.7%, the mobile business contributing 44.4%, the Internet business 12.2%, the international fixed business 7.8%, and the remainder from others.

### **Costs and Expenses**

Total operating costs and expenses for the third quarter of 2010 were NT36.4 billion, an increase of 1.5% year-over-year, mainly due to the increased cost of corporate Information and Communications Technology (ICT) services and corporate solutions, and the performance-based bonus accrual relating to net income growth.

Total operating costs and expenses for the first nine months of 2010 increased 1.8% year-over-year to NT\$105.9 billion, due to the increased performance-based bonus accrual and cost of sales.

#### Income Tax

Income tax expenses for the third quarter of 2010 were NT\$2.3 billion, representing a 27% decrease compared to the same period of 2009. This decrease resulted from the government s income tax rate reduction from 25% to 17% this year.

### EBITDA/Operating income/Net Income

Operating income for the third quarter of 2010 increased by 1.8% year-over-year to NT\$14.4 billion. EBITDA decreased by 1.2% to NT\$22.9 billion, primarily as a result of the mandated National Communications Commission (NCC) tariff reduction and changing cost structure. The Company s EBITDA margin and operating income margin for the third quarter of 2010 were 45.0% and 28.4%, respectively, compared to 46.3% and 28.3%, respectively, for the same period of 2009.

Net income for the third quarter of 2010 increased by 9.5% year-over-year to NT\$12.0 billion, primarily due to the revenue growth and lower income tax rate.

For the first nine months of 2010, operating income amounted to NT\$44.2 billion, a rise of 2.3% year-over-year. EBITDA decreased by 0.9% to NT\$69.9 billion. Net income reached NT\$36.9 billion, a 11.3% increase, mainly due to the revenue growth and income tax rate reduction.

## Capital Expenditure ( Capex )

Total capex for the third quarter of 2010 amounted to NT\$6.2 billion, representing a decrease of 1.4% year-over-year. Of the NT\$6.2 billion in capex, 55.4% was spent on the domestic fixed communications business, 27.4% on the mobile communications business, 7.4% on the Internet business, 7.0% on the international fixed communications business and the remainder was used for other purposes.

### **Cash Flow**

Cash flow from operating activities for the third quarter of 2010 was NT\$19.5 billion, a 28.1% increase compared to the same period of 2009.

As of September 30, 2010, the Company s cash and cash equivalents had increased 20.9% year-over year to NT\$67.4 billion.

#### Performance Highlights by Business Line:

#### Domestic Fixed/Broadband/HiNet Business

As of the end of September 2010, the Company maintained its leading fixed-line market position, with fixed-line subscribers totaling 12.3 million.

Total broadband subscribers amounted to 4.3 million as of September 30, 2010, among which 1.96 million were FTTx subscribers, accounting for 45.1% of the Company s total broadband subscriber base. During the third quarter, Chunghwa continued its efforts to migrate ADSL subscribers to FTTx solutions. By the end of the third quarter of 2010, the number of ADSL and FTTx subscribers with a service speed greater than 8 Mbps reached 2.3 million, representing 52.8% of total broadband subscribers, compared to 50.9% at the end of June 2010.

HiNet subscribers totaled 4.1 million at the end of September 2010.

The number of Multimedia-on-Demand ( MOD ) subscribers is currently over 750 thousand up to now. *Mobile Business* 

As of September 30, 2010, Chunghwa had 9.6 million mobile subscribers, an increase of 4.3% compared to 9.2 million at the end of September 2009.

Chunghwa had 5.3 million 3G subscribers at the end of September 2010, accounting for 54.9% of its total subscriber base.

Mobile VAS revenue for the first nine months of 2010 increased 29.2% year-over-year to NT\$8.0 billion; Short Message Service revenue rose 7.4% year-over-year and mobile Internet revenue increased 80% year-over-year.

Smartphone subscriptions accounted for 23% of total handsets offered by the Company during the first nine months of 2010. Smartphone Average Revenue per User ( ARPU ) was 125% higher than blended ARPU for the same period.

### **Financial Statements**

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

#### Note Concerning Forward-looking Statements

Except for statements in respect of historical matters, the statements made in this press release contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual performance, financial condition or results of operations of Chunghwa to be materially different from what may be implied by such forward-looking statements. Investors are cautioned that actual events and results could differ materially from those statements as a result of a number of factors including, among other things: extensive regulation of the telecom industry; the intensely competitive telecom industry; Chunghwa s relationship with its labor union; general economic and political conditions, including those relating 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 Severe Acute Respiratory Syndrome; and those risks identified in the section entitled Risk Factors in Chunghwa s annual reports on Form F-20 filed with the SEC.

The forward-looking statements in this press release reflect the current belief of Chunghwa as of the date of this press release. The Company undertakes no obligation to update these forward-looking statements for events or circumstances that occur subsequent to the date of this press release.

#### About Chunghwa Telecom

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

Contact: Fu-fu Shen Phone: +886 2 2344 5488 Email: chtir@cht.com.tw

Chunghwa Telecom Co., Ltd.

Financial Statements for the

Nine Months Ended September 30, 2010 and 2009 and

Independent Accountants Review Report

# INDEPENDENT ACCOUNTANTS REVIEW REPORT

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have reviewed the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of September 30, 2010 and 2009, and the related statements of operations and cash flows for the nine months then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to issue a report on these financial statements based on our review.

Except for the matters described in the next paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 36, Review of Financial Statements, issued by the Auditing Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As discussed in Note 12 to the financial statements, we did not review all financial statements of equity-accounted investments, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The aggregate carrying values of the equity method investees were NT\$9,454,916 thousand and NT\$8,942,371 thousand as of September 30, 2010 and 2009, respectively, and the equity in earnings (losses) were NT\$281,448 thousand and NT\$(7,358) thousand for the nine months ended September 30, 2010 and 2009, respectively.

Based on our reviews, except for the effects of such adjustments, if any, as might have been determined to be necessary had we reviewed financial statements of certain equity method investees referred to in the preceding paragraph, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the 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, the Company early adopted the new Statements of Financial Accounting Standards No. 41, Operating Segments (SFAS No. 41) beginning from September 1, 2009.

We have also reviewed the consolidated financial statements of the Company and its subsidiaries as of and for the nine months ended September 30, 2010 and 2009, and have issued a qualified review report.

/s/ DELOITTE & TOUCHE Deloitte & Touche Taipei, Taiwan The Republic of China October 25, 2010

#### Notice to Readers

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

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

# **BALANCE SHEETS**

# SEPTEMBER 30, 2010 AND 2009

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

# (Reviewed, Not Audited)

	2010		2009	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
	\$ 61,033,067	15	\$ 50,767,239	12
Financial assets at fair value through profit or loss (Notes 2 and 5)	24,675	15	30,039	12
Available-for-sale financial assets (Notes 2 and 6)	2,434,791	1	15,851,520	4
Held-to-maturity financial assets (Notes 2 and 7)	1,343,595	1	754,882	-
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,651,982 thousand in 2010	1,5 15,575		751,002	
and \$2,831.426 thousand in 2009 (Notes 2 and 8)	12,369,336	3	10,612,296	2
Receivables from related parties (Note 23)	428,292	5	609,230	-
Other monetary assets (Note 9)	4,621,699	1	2,566,008	1
Inventories (Notes 2, 3 and 10)	792,688	1	1,008,582	1
Deferred income tax assets (Notes 2 and 20)	60,298		72.919	
Other current assets (Note 11)	5,871,909	1	6,447,837	2
	5,671,909	1	0,++7,057	2
Total current assets	88,980,350	21	88,720,552	21
	88,980,550	21	88,720,332	21
LONG-TERM INVESTMENTS				
Investments accounted for using equity method (Notes 2 and 12)	10,716,090	2	10,140,330	2
Financial assets carried at cost (Notes 2 and 13)	2,305,354	1	2,236,048	1
		2		1
Held-to-maturity financial assets (Notes 2 and 7)	7,227,058	2	4,331,829	1
Other monetary assets (Notes 14 and 24)	1,000,000		1,000,000	
	21 249 502	5	17 709 207	4
Total long-term investments	21,248,502	5	17,708,207	4
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 23)				
Cost	101 000 070		101 050 007	
Land	101,292,063	24	101,258,906	24
Land improvements	1,538,009		1,514,307	
Buildings	65,505,978	16	62,624,721	15
Computer equipment	15,266,878	4	15,249,625	3
Telecommunications equipment	654,799,495	155	650,698,396	152
Transportation equipment	1,958,226		2,233,859	
Miscellaneous equipment	7,002,824	2	7,163,871	2
Total cost	847,363,473	201	840,743,685	196
Revaluation increment on land	5,800,909	1	5,810,342	2
	952 164 292	202	946 554 007	109
Less: Accumulated depreciation	853,164,382 566,502,963	202 134	846,554,027 551,961,588	198 129

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	286,661,419	68	294,592,439	69
Construction in progress and advances related to acquisitions of equipment	13,252,196	3	15,360,010	3
Property, plant and equipment, net	299,913,615	71	309,952,449	72
INTANGIBLE ASSETS (Note 2)				
3G concession	6,176,022	2	6,924,631	2
Other	364,501		384,396	
Total intangible assets	6,540,523	2	7,309,027	2
OTHER ASSETS				
Idle assets (Note 2)	878,896		926,422	
Refundable deposits	1,409,804		1,368,682	1
Deferred income tax assets (Notes 2 and 20)	358,143		1,198,137	
Others (Note 23)	3,336,547	1	1,061,040	
Total other assets	5,983,390	1	4,554,281	1
TOTAL	\$ 422,666,380	100	\$ 428,244,516	100
IUIAL	\$ 422,000,380	100	φ 420,244,310	100

# **BALANCE SHEETS** (Continued)

# SEPTEMBER 30, 2010 AND 2009

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

# (Reviewed, Not Audited)

	2010		2009	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES				
Trade notes and accounts payable	\$ 6,254,908	1	\$ 6,540,756	1
Payables to related parties (Note 23)	1,524,769		2,099,896	
Income tax payable (Notes 2 and 20)	2,533,663	1	2,259,422	1
Accrued expenses (Note 16)	12,457,965	3	12,476,319	3
Other current liabilities (Note 17)	15,470,146	4	15,365,263	
Total current liabilities	38,241,451	9	38,741,656	49
	00,211,101		20,711,020	.,
DEFERRED INCOME	2,549,509	1	2,414,029	1
RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)	94,986		94,986	
	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,		,	
OTHER LIABILITIES				
Accrued pension liabilities (Notes 2 and 22)	1,263,237		5,197,001	1
Customers deposits	5,815,012	2	5,993,158	2
Deferred credit - profit on intercompany transactions (Note 23)	1,485,916		1,485,916	
Others	336,708		239,778	
Total other liabilities	8,900,873	2	12,915,853	3
m	40.796.910	10	54 166 504	12
Total liabilities	49,786,819	12	54,166,524	13
STOCKHOLDERS EQUITY (Notes 2, 6, 15 and 18)				
Common capital stock - \$10 par value;				
Authorized: 12,000,000 thousand shares				
Issued: 9,696,808 thousand shares in 2010 and 10,666,489 thousand shares in 2009	96,968,082	23	106,664,890	25
Additional paid-in capital				
Capital surplus	169,496,289	40	169,496,289	39
Donated capital	13,170		13,170	
Equity in additional paid-in capital reported by equity-method investees	2,262		3	
Total additional paid-in capital	169,511,721	40	169,509,462	39
-				
Retained earnings				

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Legal reserve	61,361,255	14	56,987,241	13
Special reserve	2,675,894	1	2,675,894	1
Unappropriated earnings	36,951,097	9	33,170,864	8
Total retained earnings	100,988,246	24	92,833,999	22
Total retained carnings	100,700,240	24	12,033,777	22
Other adjustments				
Cumulative translation adjustments	34,421		14,583	
Unrecognized net loss of pension	(84,487)		(5)	
Unrealized loss on financial instruments	(341,868)		(757,816)	
Unrealized revaluation increment	5,803,446	1	5,812,879	1
Total other adjustments	5,411,512	1	5,069,641	1
Total stockholders equity	372,879,561	88	374,077,992	87
Total stockholders equity	572,079,501	00	514,011,002	07
TOTAL	\$ 422,666,380	100	\$ 428,244,516	100

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

(With Deloitte & Touche review report dated October 25, 2010)

# STATEMENTS OF INCOME

# FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

	2010 Amount	%	2009 Amount	%
NET REVENUES (Note 23)	\$ 138,602,526	100	\$ 136,596,459	100
OPERATING COSTS (Note 23)	72,143,264	52	71,095,312	52
GROSS PROFIT	66,459,262	48	65,501,147	48
OPERATING EXPENSES (Note 23)				
Marketing	18,443,267	13	18,569,125	13
General and administrative	2,526,906	2	2,461,866	2
Research and development	2,375,599	2	2,319,273	2
Total operating expenses	23,345,772	17	23,350,264	17
INCOME FROM OPERATIONS	43,113,490	31	42,150,883	31
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net	534,863	1	218,455	
Interest income	312,443	-	388,762	
Foreign exchange gain, net	29,655		62,023	
Dividend income	17,156		53,286	
Valuation gain on financial instruments, net	8,226		129,078	
Others	181,817		408,822	1
Total non-operating income and gains	1,084,160	1	1,260,426	1
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal of financial instruments, net	102,098		160,559	
Interest expense	75,472		2,775	
Impairment loss on assets	52,916		85,349	
Loss arising from natural calamities	14,152		186,271	1
Loss on disposal of property, plant and equipment, net	10,821		9,627	
Others	27,964		105,149	
Total non-operating expenses and losses	283,423		549,730	1

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INCOME BEFORE INCOME TAX	43,914,227	32	42,861,579	31
INCOME TAX EXPENSES (Notes 2 and 20)	6,970,037	5	9,682,660	7
NET INCOME	\$ 36,944,190	27	\$ 33,178,919	24

(Continued)

# STATEMENTS OF INCOME

# FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

	20	2010		010 2009		)09
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income		
EARNINGS PER SHARE (Note 21)						
Basic earnings per share	\$ 4.53	\$ 3.81	\$ 4.42	\$ 3.42		
Diluted earnings per share	\$ 4.51	\$ 3.80	\$4.41	\$ 3.41		

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

(With Deloitte & Touche review report dated October 25, 2010)

(Concluded)

# STATEMENTS OF CASH FLOWS

# FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

# (Amounts in Thousands of New Taiwan Dollars)

# (Reviewed, Not Audited)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 36,944,190	\$ 33,178,919
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	261,579	359,634
Depreciation and amortization	25,414,775	27,103,118
Valuation loss on inventory	15,789	
Valuation gain on financial instruments, net	(8,226)	(129,078)
Amortization of premium of financial assets	26,531	11,171
Loss on disposal of financial instruments, net	102,098	160,559
Loss on disposal of property, plant and equipment, net	10,821	9,627
Impairment loss on assets	52,916	85,349
Loss arising from natural calamities	14,152	186,271
Equity in earnings of equity method investees, net	(534,863)	(218,455)
Cash dividends received from equity method investees	278,677	393,115
Deferred income taxes	40,682	280,840
Changes in operating assets and liabilities:		
Financial assets held for trading	(2,712)	188,167
Trade notes and accounts receivable	(1,554,923)	(775,339)
Receivables from related parties	(45,074)	(266,214)
Other current monetary assets	(1,210,998)	(421,660)
Inventories	378,045	(15,973)
Other current assets	(2,349,101)	(2,438,631)
Trade notes and accounts payable	(1,697,982)	(2,635,281)
Payables to related parties	(330,973)	(77,413)
Income tax payable	(1,624,323)	(3,174,208)
Accrued expenses	(4,042,095)	(3,204,283)
Other current liabilities	898,710	943,460
Accrued pension liabilities	55,280	32,613
Deferred income	65,745	341,732
Net cash provided by operating activities	51,158,720	49,918,040
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(1,774,165)	(7,162,765)
Proceeds from disposal of available-for-sale financial assets	14,389,794	6,793,213
Acquisition of held-to-maturity financial assets	(4,556,071)	(1,948,505)
Proceeds from disposal of held-to-maturity financial assets	988,144	664,160
Acquisition of financial assets carried at cost	(79,306)	
Proceeds from disposal of financial assets carried at cost		285,859
Acquisition of investments accounted for using equity method	(320,740)	(1,637,615)

Acquisition of property, plant and equipment	(15,412,218)	(16,151,324)

(Continued)

# STATEMENTS OF CASH FLOWS

# FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

## (Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

		2010		2009
Proceeds from disposal of property, plant and equipment	\$	16,018	\$	2,527
Acquisition of intangible assets		(125,543)		(143,894)
Increase in other assets		(2,600,594)		(489,914)
Net cash used in investing activities		(9,474,681)		(19,788,258)
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in customers deposits		(90,096)		(59,508)
Increase (decrease) in other liabilities		111,594		(186,609)
Cash dividends paid	(	(39,369,041)	(	(37,138,775)
Cash paid to stockholders for capital reduction		(9,696,808)		(19,115,554)
Net cash used in financing activities	(	(49,044,351)		(56,500,446)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(7,360,312)	(	(26,370,664)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD		68,393,379		77,137,903
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$	61,033,067	\$	50,767,239
SUPPLEMENTAL INFORMATION Interest paid	\$	68,780	\$	36
Income tax paid	\$	8,553,678	\$	12,576,321
CASH AND NON-CASH INVESTING ACTIVITIES				
Increase in property, plant and equipment	\$	13,995,359	\$	15,048,613
Payables to suppliers		1,416,859		1,102,711
	\$	15,412,218	\$	16,151,324

(Continued)

## STATEMENTS OF CASH FLOWS

# FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

### (Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

The acquisition of InfoExplorer Co., Ltd. ( IFE ) was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values on the basis of the final data on May 7, 2009:

Cash and cash equivalents	\$ 457,990
Receivables	13,479
Other current assets	14,792
Property, plant, and equipment	40,221
Identifiable intangible assets	53,001
Refundable deposits	2,468
Other assets	2,338
Payables	(83,319)
Income tax payable	(246)
Other current liabilities	(153)
	500,571
Percentage of ownership	49.07%
	245,630
Goodwill	37,870
Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008)	\$ 283,500

(Continued)

## STATEMENTS OF CASH FLOWS

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

The acquisition of additional interest of Chunghwa Investment Co., Ltd. ( CHI ) and its subsidiaries was made on September 9, 2009. The following table presents the allocation of acquisition costs of Chunghwa Investment Co., Ltd. and its subsidiaries to assets acquired and liabilities assumed based on their fair values on the basis of the final data performed:

Cash and cash equivalents	\$ 913,593
Financial assets at fair value through profit or loss	51,357
Available-for-sale financial assets	568,377
Trade notes and accounts receivable	76,258
Inventories	60,040
Other current assets	19,429
Investments accounted for using equity method	57,339
Financial assets carried at cost	155,714
Property, plant, and equipment	90,278
Identifiable intangible assets	33,662
Other assets	22,462
Trade notes and accounts payable	(33,665)
Accrued expenses	(16,496)
Income tax payable	(1,289)
Short-term loans	(20,000)
Long-term loans	(24,238)
Other liabilities	(1,115)
Subtotal	1,951,706
Minority interests	(100,071)
Total	1,851,635
Percentage of additional ownership	40%
	740.654
Goodwill	18,055
Acquisition costs of acquired subsidiary paid in cash	\$ 758,709

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

(With Deloitte & Touche review report dated October 25, 2010)

(Concluded)

#### NOTES TO FINANCIAL STATEMENTS

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

## 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 to 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 September 30, 2010 and 2009, the Company had 24,398 and 24,434 employees, respectively.

# NOTES TO FINANCIAL STATEMENTS (Continued)

# FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

# 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 reasonable 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, etc. These estimates and assumptions are inherently uncertain and actual results may differ significantly. 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 the balance sheet date. Current liabilities are obligations expected to be settled within one year from the 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 bills 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 are 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 losses 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. Regular way purchase or sale of financial assets is accounted for using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or financial liabilities 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.

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### Available-for-sale Financial Assets

Available-for-sale financial assets are initially recognized are 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.

# NOTES TO FINANCIAL STATEMENTS (Continued)

# FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

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 acquisitions 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.

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The costs of providing services are recognized as incurred. Incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract are recognized in marketing expenses as incurred.

# NOTES TO FINANCIAL STATEMENTS (Continued)

# FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

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 including merchandise and work-in-process are stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

### Investments Accounted for using Equity Method

Investments in companies in which the Company exercises significant influence over the operating and financial policy decisions are accounted for by 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 exercises significant influence 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 equity method investees to Chunghwa are deferred in proportion to the Chunghwa s ownership percentages in the investees until they are realized through transactions with third parties.

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 to the extent available, with the balance charged to retained earnings.

### Financial Assets Carried at Cost

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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.

# NOTES TO FINANCIAL STATEMENTS (Continued)

# FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

#### 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, accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment are deducted from the corresponding accounts, and any gain or loss recorded is recorded as non-operating gains or losses in the period 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 fee is 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 to 20 years.

The Company adopted the 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 that 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.

# NOTES TO FINANCIAL STATEMENTS (Continued)

### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

#### **Pension Costs**

For defined benefit pension plans, net periodic pension benefit cost is recorded in the statement of income and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs, amortization of pension gains (losses) and curtailment or settlement gains (losses).

The Company recognizes into income, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the corridor . Amounts inside this 10% corridor are amortized over the average remaining service life of active plan participants. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the plans. Differences between the expected and actual returns on plan assets and changes in interest rate, which affect the discount rate used to value projected plan obligations, can have a significant impact on the calculation of pension net gains and losses from year to year.

The curtailments and settlement gains (losses) resulted from Chunghwa s early retirement programs. Curtailment/settlement gains or losses are equal to the changes of underfunded status plus the a pro rata portion of the unrecognized prior service cost, unrecognized net gains (losses), and unrecognized transition obligations/assets, before the settlement/curtailment event multiplied by the percentage reduction in projected benefit obligation.

The projected benefit obligation represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels.

The carrying amount of accrued pension liability should be the sum of the following amounts when the calculation is positive: (a) projected benefit obligation as of balance sheet date, (b) minus (plus) unamortized actuarial loss (gain), (c) minus unamortized prior service cost, and (d) minus the fair value of plan assets. If the amount determined by above calculation is negative, it is viewed as prepaid pension cost. The prepaid pension cost is measured at the lower of: (a) the amount determined above, and (b) the sum of the following amounts: (i) unamortized actuarial loss, (ii) unamortized prior service cost, and (iii) the present value of refunds from the plan or reductions in future contributions to the plan.

The measurement of benefit obligations and net periodic cost (income) is based on estimates and assumptions approved by the company s management such as compensation, age and seniority, as well as certain assumptions, including estimates of discount rates, expected return on plan assets and rate of compensation increases.

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.

#### 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.

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

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 period end; stockholders equity - historical rates, income and expenses - average rates during the period. 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.

#### **3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE**

The Company early adopted the Statement of Financial Accounting Standards No. 41 Operating Segments (SFAS No. 41) starting from September 1, 2009. This Statement supersedes the Statement of Financial accounting Standards No. 20 Segment Reporting.

The Company adopted the newly-revised Statements of Financial Accounting Standards No. 10, Accounting for Inventories, (SFAS No. 10) beginning from January 1, 2009, which requires inventories to be stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. The inventory-related incomes and expenses shall be classified in operating cost.

# NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

# 4. CASH AND CASH EQUIVALENTS

010	2009
77,778 \$	83,616
508,258 1	10,146,655
900,000 3	38,350,000
586,036 4	48,580,271
,	
196,982	2,186,968
250,049	
447.031	2,186,968
.,	, ,,
)33.067 \$ 5	50,767,239
	900,000 3 586,036 4 196,982 250,049 147,031

As of September 30, 2010 and 2009, foreign deposits in bank were as following:

	September 30	
	2010	2009
United States of America - New York (US\$605 thousand and US\$610 thousand		
for 2010 and 2009, respectively)	\$ 18,947	\$ 19,653

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

September 30 2010 2009

Derivatives - financial assets		
Currency swap contracts	\$ 24,675	\$ 30,039

Chunghwa entered into investment management agreements with well-known financial institutions (fund managers) to manage its investment portfolios in 2006. The investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. Chunghwa terminated the investment management agreements on April 14, 2009 and asked fund managers to dispose all the investment portfolios. The fund managers had disposed all investment portfolios before June 23, 2009 and returned the proceeds to Chunghwa.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

Outstanding currency swap contracts as of September 30, 2010 and 2009 were as follows:

	Currency	Maturity Period	Contract Amount (In Thousands)
September 30, 2010	Currency	induction of the second	(III THOUSAILAS)
Currency swap contracts	US\$ /NT\$	2010.10	US\$ 30,000 /NT\$964,375
September 30, 2009			
Currency swap contracts	US\$ /NT\$	2009.10	US\$ 45,000 /NT\$1,477,195

Net gain arising from financial assets and liabilities at fair value through profit or loss for the nine months ended September 30, 2010 were \$15,286 thousand (including realized settlement loss of \$2,712 thousand and valuation gain of \$17,998 thousand) and net gain arising from financial assets and liabilities at fair value through profit or loss for the nine months ended September 30, 2009 were \$67,027 thousand (including realized settlement loss of \$54,600 thousand and valuation gain of \$121,627 thousand).

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

	Septer	September 30	
	2010	2009	
Open-end mutual funds	\$ 2,434,791	\$ 15,694,200	
Real estate investment trust fund		154,615	
Domestic listed stocks		2,705	
	\$ 2,434,791	\$ 15,851,520	

Movements of unrealized gains (loss) on available-for-sale financial assets were as follows:

		Nine Months Ended September 30		
	2010	2009		
Balance, beginning of period	\$ (466,803)	\$ (2,255,905)		
Recognized in stockholder s equity	25,232	1,426,091		
Transferred to profit or loss	99,386	69,424		
Balance, end of period	\$ (342,185)	\$ (760,390)		

As a result of the global economic and financial crisis have significantly changed, the Company determined that the impairment losses of available-for-sale financial assets is other-than-temporary in nature, and recorded impairment losses of \$85,349 thousand for the nine months ended September 30, 2009.

#### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

## 7. HELD-TO-MATURITY FINANCIAL ASSETS

	September 30	
	2010	2009
Corporate bonds, nominal interest rate ranging from 0.83%-4.75% and		
0.75%-4.75% for 2010 and 2009, respectively; effective interest rate		
ranging from 0.83%-2.95% and 0.75%-2.95% for 2010 and 2009,		
respectively	\$ 8,171,501	\$ 4,384,755
Bank debentures, nominal interest rate ranging from 1.93%-2.11% and		
1.95%-2.24% for 2010 and 2009, respectively; effective interest rate		
ranging from 2.45%-2.90% and 1.14%-2.90% for 2010 and 2009,		
respectively	399,152	697,256
Collateralized loan obligation, nominal and effective interest rates were		
2.18%		4,700
	8,570,653	5,086,711
Less: Current portion	1,343,595	754,882
	\$ 7,227,058	\$ 4,331,829

# 8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

		Nine Months Ended September 30	
	2010	2009	
Balance, beginning of period	\$ 2,774,868	\$ 2,992,143	
Provision for doubtful accounts	250,912	353,193	
Accounts receivable written off	(373,798)	(513,910)	
Balance, end of period	\$ 2,651,982	\$ 2,831,426	

#### 9. OTHER MONETARY ASSETS - CURRENT

	2010	2009
Receivables from disposal of financial instruments	\$ 1,649,419	\$ 135,780
Accrued custodial receipts from other carriers	505,572	573,121
Others	2,466,708	1,857,107
	\$ 4,621,699	\$ 2,566,008

# **10. INVENTORIES**

	Septer	September 30	
	2010	2009	
Work in process	\$ 434,550	\$ 683,324	
Merchandise	358,138	325,258	
	\$ 792,688	\$ 1,008,582	

## NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

The operating costs related to inventories were \$6,085,759 thousand (including the valuation loss on inventories of \$15,789 thousand) and \$3,711,971 thousand for the nine months ended September 30, 2010 and 2009, respectively.

# **11. OTHER CURRENT ASSETS**

	Septen	September 30	
	2010	2009	
Prepaid expenses	\$ 2,784,687	\$ 2,901,038	
Spare parts	1,988,991	2,453,230	
Prepaid rents	847,341	872,619	
Miscellaneous	250,890	220,950	
	\$ 5,871,909	\$ 6,447,837	

#### 12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	September 30			
	2010	0	2009	)
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Listed				
Senao International Co., Ltd. ( SENAO )	\$ 1,352,399	28	\$ 1,279,942	29
Non-listed				
Light Era Development Co., Ltd. (LED)	2,866,083	100	2,936,402	100
Chunghwa Investment Co., Ltd. ( CHI )	1,717,158	89	1,623,434	89
Chunghwa Telecom Singapore Pte., Ltd. ( CHTS )	1,470,709	100	1,403,076	100
Chunghwa System Integration Co., Ltd. ( CHSI )	714,093	100	721,879	100
Donghwa Telecom Co., Ltd. ( DHT )	553,763	100	226,291	100
CHIEF Telecom Inc. ( CHIEF )	507,834	69	439,382	69
Taiwan International Standard Electronics Co., Ltd. ( TISE )	476,566	40	464,265	40
Viettel-CHT Co., Ltd. ( Viettel-CHT )	265,652	30	271,002	30
InfoExploer Co., Ltd. ( IFE )	256,070	49	282,652	49
Chunghwa International Yellow Pages Co., Ltd. ( CIYP )	187,299	100	161,091	100
Skysoft Co., Ltd. (SKYSOFT)	91,094	30	88,842	30
Chunghwa Telecom Global, Inc. ( CHTG )	83,005	100	69,682	100
Spring House Entertainment Inc. ( SHE )	67,912	56	52,532	56

63,241	33	68,410	33
26,134	30	40,060	30
17,078	100	11,388	100
	100		100
	100		100
9,363,691		8,860,388	
\$ 10,716,090		\$ 10,140,330	
	26,134 17,078 9,363,691	26,134 30 17,078 100 100 9,363,691	26,134       30       40,060         17,078       100       11,388         100       100         9,363,691       8,860,388

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

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On March 27, 2009, the board of directors of Chunghwa resolved to purchase 48,000 thousand common shares of Senao International Co., Ltd. (SENAO) through SENAO s private placement. However, Chunghwa and SENAO did not complete the required procedures within the legal payment period; therefore, Chunghwa and SENAO decided to discontinue the private placement.

Chunghwa invested in Chunghwa Investment Co., Ltd. ( CHI ) in September 2009 for \$758,709 thousand. Chunghwa increased its ownership interest in CHI from 49% to 89%. CHI engages mainly in professional investing in telecommunication business and the telecommunication valued-added services.

Chunghwa increased its investment in Chunghwa Telecom Singapore Pte., Ltd. (CHTS) for \$610,659 thousand in July 2009. CHTS engages mainly in telecommunication wholesale, internet transfer services, international data, long distance call wholesales to carriers and 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. (STS) in Singapore in October 2008 in order to maintain the current service. STS will engage in the installation and the operation of ST-2 telecommunications satellite.

Chunghwa increased its investment in Donghwa Telecom Co., Ltd. ( DHT ) for \$320,740 thousand in August 2010. DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services.

Chunghwa participated in the capital increase of Viettel-CHT in September 2009, by investing \$197,088 thousand cash. Viettel-CHT engages mainly in IDC services.

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 over 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.

Chunghwa participated in So-net Entertainment Taiwan Co., Ltd. s capital increase on April 3, 2009, by investing \$60,008 thousand cash, and acquired 30% of its Taiwan shares. So-net Entertainment Taiwan Co., Ltd. engages mainly in online service and sale of computer hardware.

Chunghwa increased its investment on CHTJ by investing \$11,151 thousand cash in January 2009. CHTJ engages mainly in telecommunication business, information processing and information providing service, development and sale of software and consulting services in telecommunication.

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, but not on operation stage yet. Both holding companies are operating as investment companies and Chunghwa has 100% ownership right in an amount of US\$1 in each holding company.

Market value of the listed investment accounted for using equity method calculated at its closing prices as of September 30, 2010 and 2009 was \$3,638,899 thousand and \$3,387,693 thousand, respectively.

The equity in earnings (losses) of equity investees for the nine months ended September 30, 2010 and 2009 are based on unreviewed financial statements except the equity in earnings of SENAO.

The aggregate carrying values of the equity method investments whose financial statements have not been reviewed were \$9,454,916 thousand and \$8,942,371 thousand as of September 30, 2010 and 2009 respectively. The equity in earnings (losses) were \$281,448 thousand and \$(7,358) thousand for the nine months ended September 30, 2010 and 2009, respectively.

## NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

# 13. FINANCIAL ASSETS CARRIED AT COST

	September 30			
	2010		2009	
	Carrying Amount	% of Ownership	Carrying Amount	% of Ownership
Non-listed:		_		-
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	200,000	17
Global Mobile Corp. (GMC)	127,018	11	127,018	11
iD Branding Ventures ( iDBV )	75,000	8	75,000	8
Innovation Works Development Fund, L. P. ( IWDF )	38,035	13		
RPTI International ( RPTI )	34,500	10	34,500	10
Innovation Works Limited ( IW )	21,271	7		
CQi Energy Infocom Inc. ( CQi )	20,000	18		
Essence Technology Solution, Inc. ( ETS )		9	10,000	9
	\$ 2.305.354		\$ 2.236.048	

Chunghwa invested in IWDF for \$38,035 thousand in June 2010. IWDF invests mainly in start-up companies of E-commerce, mobile internet and cloud computing, etc.

Chunghwa invested in IW for \$10,565 thousand and \$10,706 thousand in June and July, 2010, respectively. IW invests mainly in start-up companies and mentors such companies in the E-commerce, mobile internet and cloud computing fields, etc.

Chunghwa invested in CQi for \$20,000 thousand in June 2010. CQi engages mainly in intelligent energy network management services.

After evaluating the financial assets carried at cost, Chunghwa determined the investment in ETS was impaired and recognized an impairment loss of NT\$10,000 thousand in 2009.

Chunghwa participated in TFC s capital increase in October 2008 and prepaid \$285,859 thousand. However, TFC was not expected to be able to collect enough amount of capital increase within a specific period; therefore TFC s board of directors held a meeting on April 10, 2009 and resolved to withdraw its capital increase plan from Securities and Futures Bureau of Financial Supervisory Commission, Executive Yuan (FSC). TFC returned the prepayment to Chunghwa on May 8, 2009.

The above investments do not have a quoted market price in an active market and the fair values cannot be reliably measured; therefore, these investments are carried at original cost.

#### 14. OTHER NONCURRENT MONETARY ASSETS

	Septem	September 30	
	2010	2009	
Piping Fund	\$ 1,000,000	\$ 1,000,000	

## NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

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 Fixed-Line Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects.

# **15. PROPERTY, PLANT AND EQUIPMENT**

	September 30	
	2010	2009
Cost		
Land	\$ 101,292,063	\$101,258,906
Land improvements	1,538,009	1,514,307
Buildings	65,505,978	62,624,721
Computer equipment	15,266,878	15,249,625
Telecommunications equipment	654,799,495	650,698,396
Transportation equipment	1,958,226	2,233,859
Miscellaneous equipment	7,002,824	7,163,871
	847,363,473	840,743,685
Revaluation increment on land	5,800,909	5,810,342
	0,000,202	0,010,012
	853,164,382	846,554,027
	033,104,302	040,334,027
Accumulated depreciation	001 710	
Land improvements	991,512	937,395
Buildings	18,140,831	17,063,296
Computer equipment	11,983,548	11,690,281
Telecommunications equipment	527,725,094	514,138,890
Transportation equipment	1,729,349	2,040,143
Miscellaneous equipment	5,932,629	6,091,583
	566,502,963	551,961,588
	, ,	, ,
Construction in progress and advances related to acquisition of		
equipment	13,252,196	15,360,010
equipment	13,232,190	15,500,010
	¢ 200 012 <i>(</i> 17	¢ 200 050 440
Property, plant and equipment, net	\$ 299,913,615	\$ 309,952,449

Pursuant to the related regulations, Chunghwa revalued its land owned as of April 30, 2000 based on the publicly announced values as of July 1, 1999. These revaluations which were 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 stockholder s equity - other adjustments. As of September 30, 2010, capital surplus from revaluation of land had decreased to \$5,803,446 thousand by disposal of some revaluated assets.

Depreciation on property, plant and equipment for the nine months ended September 30, 2010 and 2009 amounted to \$24,530,510 thousand and \$26,299,984 thousand, respectively. No interest expense was capitalized for the nine months ended September 30, 2010 and 2009.

Chunghwa reclassified the unused property, plant and equipment amounting to \$52,916 thousand to idle assets and recognized the impairment loss of \$52,916 thousand on those assets for the nine months ended September 30, 2010.

#### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

# **16. ACCRUED EXPENSES**

	Septen	ıber 30
	2010	2009
Accrued salary and compensation	\$ 6,879,169	\$ 6,735,762
Accrued franchise fees	1,663,281	1,681,359
Accrued employees bonus and remuneration to directors and supervisor	rs 1,642,796	1,261,057
Other accrued expenses	2,272,719	2,798,141
	\$ 12,457,965	\$ 12,476,319

#### **17. OTHER CURRENT LIABILITIES**

	September 30		
	2010	2009	
Advances from subscribers	\$ 6,901,360	\$ 6,014,455	
Amounts collected in trust for others	2,283,634	2,481,843	
Payables to equipment suppliers	1,390,268	945,640	
Refundable customers deposits	1,079,008	1,026,561	
Payables to contractors	1,003,571	1,847,980	
Miscellaneous	2,812,305	3,048,784	
	\$ 15,470,146	\$ 15,365,263	

#### 18. STOCKHOLDERS EQUITY

Under Chunghwa s Articles of Incorporation, Chunghwa s authorized capital is \$120,000,000,000 which is divided into 12,000,000,000 common shares (at \$10 par value per share), among which 9,696,808,181 shares are issued and outstanding as of September 30, 2010.

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. In accordance with the Articles of Incorporation of Chunghwa, the preferred shares would be redeemed by Chunghwa three years from the date of issuance at their par value. These preferred shares expired on April 4, 2009 and were redeemed on April 4, 2009.

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 September 30, 2010, the outstanding ADSs were 956,491 thousand common shares, which equaled approximately 95,649 thousand units and represented 9.86% of Chunghwa s total outstanding common shares.

#### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

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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.

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 NT\$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 nine months ended September 30, 2010 and 2009, 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 significantly different from the amounts proposed by the board of directors, the difference is charged to the earnings of the year making the initial estimate. Otherwise, the difference between initial accrual amounts and the

amounts resoluted in the shareholders meeting is charged to the earnings of the following year as a result of change of 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.

#### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

The appropriations and distributions of the 2009 and 2008 earnings of Chunghwa have been approved by the stockholders on June 18, 2010 and June 19, 2009 as follows:

	Appropriation a	Appropriation and Distribution		<b>Dividend Per Share</b>	
	2009	2008	2009	2008	
Legal reserve	\$ 4,374,014	\$ 4,127,675	\$	\$	
Special reserve		475			
Cash dividends	39,369,041	37,138,775	4.06	3.83	

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders meeting on June 18, 2010, were \$1,800,929 thousand and \$41,211 thousand paid by cash, respectively. There was no difference between the initial accrual amounts and the amounts resolved in stockholders meeting of the aforementioned bonuses to employees and the remuneration to directors and supervisors.

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders meeting on June 19, 2009, were \$1,629,915 thousand and \$38,807 thousand paid by cash, respectively. The aforementioned approved amounts of the bonus to employees and the remuneration to directors and supervisors were different from the accrual amounts of \$1,723,921 thousand and \$40,886 thousand, respectively, reflected in the statement of income for the year ended December 31, 2008. The differences of \$94,006 thousand and \$2,079 thousand, respectively, were treated as change in estimates and were adjusted against earnings for the nine months ended September 30, 2009.

Information on the appropriation of Chunghwa s earnings, employee bonus and remuneration to directors and supervisors resolved by the board of directors and approved by the stockholders is available at the Market Observation Post System website.

The stockholders, at the stockholders meeting held on June 18, 2010, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in the amount of \$19,393,616 thousand in order to improve the financial condition of Chunghwa and better utilize its excess funds. The stockholders further authorized the board of directors of Chunghwa to designate the record date of capital reduction. The capital reduction plan was effectively registered with FSC.

The stockholders, at a meeting held on June 19, 2009, resolved to transfer capital surplus in the amount of \$9,696,808 thousand to common capital stock. The abovementioned 2009 capital increase proposal was effectively registered with FSC. The board of directors authorized the chairman of directors to decide the ex-dividend date of the aforementioned proposal and the chairman decided the ex-dividend date as August 9, 2009.

The stockholders, at the stockholders meeting held on June 19, 2009, 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 abovementioned 2009 capital reduction proposal was effectively approved by FSC. The board of directors of Chunghwa further authorized the chairman of board of directors of Chunghwa to designate the record date of capital reduction as of October 26, 2009. Subsequently, common capital stock was reduced by \$9,696,808 thousand and the stock transfer date of capital reduction was January 28, 2010. The amount due to stockholders for capital reduction was paid in February 2010.

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 abovementioned 2008 capital increase proposal was effectively registered with FSC. The board of directors resolved the ex-dividend date of the aforementioned proposal as October 25, 2008.

### NOTES TO FINANCIAL STATEMENTS (Continued)

### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

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 FSC. Chunghwa designated December 30, 2008 as the record date and March 9, 2009 as the stock transfer date of capital reduction. Subsequently, common capital stock was reduced by \$19,115,554 thousand and a liability for the same amount of cash to be distributed to stockholders was recorded. Such cash payment to stockholders was made in March 2009.

### 19. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

	Nine Months Ended September 30, 2010		
	Cost of Services	Operating Expenses	Total
Compensation expense		•	
Salaries	\$ 9,011,084	\$ 6,294,183	\$15,305,267
Insurance	749,893	523,887	1,273,780
Pension	1,257,537	841,655	2,099,192
Other compensation	7,175,012	4,956,345	12,131,357
	\$ 18,193,526	\$ 12,616,070	\$ 30,809,596
Depreciation expense	\$ 23,263,148	\$ 1,267,362	\$ 24,530,510
Amortization expense	\$ 768,833	\$ 115,432	\$ 884,265

	Nine Months Ended September 30, 2009		
	Cost of	Operating	
	Services	Expenses	Total
Compensation expense			
Salaries	\$ 9,081,304	\$ 6,197,076	\$ 15,278,380
Insurance	719,816	499,502	1,219,318
Pension	1,210,960	861,146	2,072,106
Other compensation	6,206,061	4,184,134	10,390,195
	\$ 17,218,141	\$ 11,741,858	\$ 28,959,999
Depreciation expense	\$ 24,884,906	\$ 1,415,078	\$ 26,299,984

Amortization expense

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

# **20. INCOME TAX**

a. A reconciliation between income tax expense computed by applying the statutory income tax rate to income before income tax and income tax payable is as follows:

	Nine Mon Septen	ths Ended 1ber 30
	2010	2009
Income tax expense computed at statutory income tax rate	\$ 7,465,419	\$ 10,715,385
Add (deduct) tax effect of:		
Permanent differences	(112,380)	(141,822)
Temporary differences	614	4,445
10% undistributed earnings	1,286	6,441
Investment tax credits	(423,657)	(1,043,990)
Income tax payable	\$ 6,931,282	\$ 9,540,459

The balance of income tax payable as of September 30, 2010 and 2009 was shown net of prepaid income tax.

b. Income tax expense consists of the following:

		Nine Months Ended September 30	
	2010	2009	
Income tax payable	\$ 6,931,282	\$ 9,540,459	
Income tax - separated	3,688	55,684	
Income tax - deferred	40,682	280,840	
Adjustments of prior years income tax	(5,615)	(194,323)	
	\$ 6,970,037	\$ 9,682,660	

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces the income tax rate of profit-seeking enterprises from 20% to 17%, effective January 1, 2010. After the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, the Company recalculated its deferred income tax assets and liabilities in accordance with the amended Article and recorded

the resulting difference as an income tax expense or benefit.

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

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

	Septem	iber 30
	2010	2009
Current		
Provision for doubtful accounts	\$ 269,611	\$ 364,658
Unrealized accrued expense	71,632	64,491
Valuation gain on financial instruments, net	(9,202)	(18,574)
Unrealized foreign exchange loss (gain)	(13,443)	14,520
Other	11,311	12,482
	329,909	437,577
Valuation allowance	(269,611)	(364,658)
Net deferred income tax assets-current	\$ 60,298	\$ 72,919
	+ •••,=>•	+ ,_,,_,
Noncurrent		
Accrued pension cost	\$ 295,140	\$ 1,133,974
Impairment loss	60,597	64,163
Loss arising from natural calamities	2,406	01,105
2005 arising norm natural calamines	2,400	
Nat deferred income tay agents personnent	¢ 250 142	¢ 1 100 127
Net deferred income tax assets - noncurrent	\$ 358,143	\$ 1,198,137

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

	Septe	September 30		
	2010	2009		
Balance of Imputation Credit Account (ICA)	\$ 2,478	\$ 146,047		

The actual creditable rates distribution of Chunghwa s of 2009 and 2008 for earnings were 26.48% and 30.61%, respectively.

e. Undistributed earnings information

As of September 30, 2010 and 2009, 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 have been examined by the ROC tax authorities.

# NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

## **21. EARNINGS PER SHARE**

EPS was calculated as follows:

	Amount (Numerator)		Weighted- average	Earnings Per Share (Dollars)		
	Income Before Income Tax	Net Income	Number of Common Shares Outstanding (Denominator)	Income Before Income Tax	-	
Nine months ended September 30, 2010						
Basic EPS	¢ 42.014.227	¢ 26 044 100	0.606.000	¢ 4 50	¢	2.01
Income available to stockholders	\$ 43,914,227	\$ 36,944,190	9,696,808	\$ 4.53	\$	3.81
Effect of dilutive potential common stock	(5.411)	(5.411)				
SENAO s stock options	(5,411)	(5,411)	20.204			
Employee bonus			30,204			
Diluted EPS	+ 1 <b>2</b> 000 01 (	* * < > * * * * * * * *		<del>.</del> .	<b>.</b>	• • • •
Income available to stockholders	\$ 43,908,816	\$ 36,938,779	9,727,012	\$ 4.51	\$	3.80
Nine months ended September 30, 2009						
Basic EPS						
Income available to stockholders	\$ 42,861,579	\$ 33,178,919	9,696,808	\$4.42	\$	3.42
Effect of dilutive potential common stock						
SENAO s stock options	(4,215)	(4,215)				
Employee bonus			29,742			
Diluted EPS						
Income available to stockholders	\$ 42,857,364	\$ 33,174,704	9,726,550	\$4.41	\$	3.41

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 from January 1, 2008. 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 shares have a dilutive effect for the nine months ended September 30, 2010. 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 nine months ended September 30, 2010 and 2009 was due to the effect of potential common stock of stock options by SENAO.

### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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#### 22. 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 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.

The pension plan under the Labor Pension Act of ROC (the LPA ) 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.

The balance of Chunghwa s plan assets subject to defined benefit plan were \$12,377,459 thousand and \$6,095,935 thousand as of September 30, 2010 and 2009, respectively.

Pension costs of Chunghwa were \$2,155,022 thousand (\$2,058,648 thousand subject to defined benefit plan and \$96,374 thousand subject to defined contribution plan) and \$2,126,884 thousand (\$2,049,176 thousand subject to defined benefit plan and \$77,708 thousand subject to defined contribution plan) for the nine months ended September 30, 2010 and 2009, respectively.

#### 23. 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		
Senao International Co	., Ltd. (	SENAO	)	

Subsidiary

Relationship

Light Era Development Co., Ltd. (LED)	Ś
Chunghwa Telecom Singapore Pte., Ltd. ( CHTS )	5
CHIEF Telecom, Inc. ( CHIEF )	5
InfoExplorer Co., Ltd. ( IFE )	5
Chunghwa Telecom Japan Co., Ltd. ( CHTJ )	5
Chunghwa International Yellow Pages Co., Ltd. ( CIYP )	5

Subsidiary Subsidiary Subsidiary Subsidiary Subsidiary Subsidiary

(Continued)

#### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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(Reviewed, Not Audited)

Company

Chunghwa System Integration Co., Ltd. ( CHSI ) Spring House Entertainment Inc. ( SHE ) Chunghwa Telecom Global, Inc. ( CHTG ) Donghwa Telecom Co., Ltd. ( DHT ) New Prospect Investments Holdings Ltd. (B.V.I.) ( New Prospect ) Prime Asia Investments Group Ltd. (B.V.I.) ( Prime Asia ) Chunghwa Investment Co., Ltd. ( CHI )

Chunghwa Investment Holding Co., Ltd. ( CIHC )

Chunghwa Precision Test Tech. Co., Ltd. ( CHPT )

Unigate Telecom Inc. ( Unigate ) CHIEF Telecom (Hong Kong) Limited ( CHK )

Chief International Corp. ( CIC ) Concord Technology Co., Ltd. ( Concord ) Glory Network System Service (Shanghai) Co., Ltd. ( Glory ) Senao International (Samoa) Holding Ltd. (SIS) Senao International HK Limited (SIHK) CHI One Investment Co., Ltd. ( COI ) Yao Yong Real Property Co., Ltd. ( YYRP ) InfoExplorer International Co., Ltd. ( IESA ) InfoExplorer (Hong Kong) Co., Ltd. ( IEHK ) Chunghwa Precision Test Tech. USA Corporation ( CHPT (US) ) Taiwan International Standard Electronics Co., Ltd. ( TISE ) So-net Entertainment Taiwan Co., Ltd. ( So-net ) Skysoft Co., Ltd. ( SKYSOFT ) Senao Networks, Inc. ( SNI ) ST-2 Satellite Ventures Pte., Ltd. ( STS )

Relationship Subsidiary Subsidiary Subsidiary Subsidiary Subsidiary Subsidiary Equity-method investee before Chunghwa obtained control over CHI on September 9, 2009 Subsidiary of CHI, which was equity-method investee before Chunghwa obtained control over CHI on September 9, 2009 Subsidiary of CHI, which was equity-method investee before Chunghwa obtained control over CHI on September 9, 2009 Subsidiary of CHIEF Subsidiary of CHIEF, which completed its liquidation procedure in September 2010 Subsidiary of CHIEF Subsidiary of CHSI Subsidiary of Concord Subsidiary of SENAO Subsidiary of SIS Subsidiary of CIHC Subsidiary of LED Subsidiary of IFE Subsidiary of IESA Subsidiary of CHPT Equity-method investee Equity-method investee Equity-method investee Equity-method investee of SENAO Equity-method investee of CHTS

(Concluded)

# NOTES TO FINANCIAL STATEMENTS (Continued)

# FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

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

		September 30		
	2010		2009	
	Amount	%	Amount	%
1) Receivables from related parties				
Trade notes, accounts receivable and other receivables				
SENAO	\$ 296,852	69	\$ 382,723	63
CHTG	28,215	7	20,973	3
CHIEF	22,250	5	21,227	4
CIYP	20,696	5	29,200	5
DHT	19,504	5	10,604	2
SHE	19,025	4	7,626	1
CHSI	3,950	1	124,623	20
Others	17,800	4	12,254	2
	\$ 428,292	100	\$ 609,230	100
2) Payables				
Trade notes payable, accounts payable and accrued expenses				
SENAO	\$ 741,574	49	\$ 674,209	32
CHSI	147,253	10	212,492	10
TISE	54,032	4	718,339	35
CHTG	48,077	3	44,941	2
CHIEF	41,079	3	45,899	2
DHT	32,994	2	46,484	2
CIYP	6,980		41,682	2
Others	58,180	4	20,974	1
	1,130,169	75	1,805,020	86
Payables to contractors				
CHSI	21,000	1		
TISE			15,412	1
Others	1,782			
	22,782	1	15,412	1
Amounts collected in trust for others	000 (10	1.5	055.005	10
SENAO	230,663	15	255,005	12

109,775 31 380	7	21,095 3 364	1
51,500	2	5,501	
371,818	24	279,464	13
\$ 1,524,769	100	\$ 2,099,896	100
	31,380 371,818	31,380         2           371,818         24	31,380         2         3,364           371,818         24         279,464

## NOTES TO FINANCIAL STATEMENTS (Continued)

## FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

	Nine Mon 2010	Nine Months Ended S 2010		
	Amount	%	Amount	%
3) Revenues				
SENAO	\$ 1,207,271	1	\$ 597,522	1
So-net	226,811		49,174	
CHIEF	186,349		178,630	
CHTG	55,121		42,552	
SKYSOFT	29,203		25,677	
LED	21,368		3,362	
CHSI	18,392		12,008	
CIYP	11,670		13,913	
DHT			18,832	
Others	28,279		29,816	
	\$ 1,784,464	1	\$ 971,486	1
4) Operating costs and expenses				
SENAO	\$ 3,736,432	4	\$ 4,067,833	5
TISE	550,367	1	764,174	1
CHSI	506,302	1	362,686	
CHIEF	217,222		228,951	
CHTG	104,406		49,560	
IFE	84,717		7,422	
SHE	39,669		45,170	
CIYP	24,446		35,621	
DHT	3,366		28,627	
Others	61,673		20,110	
	\$ 5,328,600	6	\$ 5,610,154	6
5) Acquisition of property, plant and equipment				
	¢ 216 001	2	\$ 363,175	2
CHSI TISE	\$ 316,881 234,530	2 2	\$ 363,175 780,611	2 5
IFE	234,330 54,310	2	/80,611 819	3
DHT	30,854		819	
CHTG			21.260	
CHIG	18,407		21,360	

SENAO Others	1,799 5,994		268	
	\$ 662,775	4	\$ 1,166,233	7

Chunghwa has entered into a contract with ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. This lease term is 15 years and the total contract value is approximately \$6,000,000 thousand (SG\$260,723 thousand). The Company has prepaid \$1,998,668 thousand which was classified as other assets-others. As of September 30, 2010, the ST-2 satellite is still under construction.

The Company has leased property to LED since April 2010. The leased term is 15 years and the rent is charged monthly.

Chunghwa sold the land with a carrying value of \$936,016 thousand to Light Era Development Co., Ltd. (LED) at the price of \$2,421,932 thousand in 2008. However, since the gain on disposal of land amounting to \$1,485,916 thousand is unrealized, the gain was recognized as deferred credit - profit on intercompany transactions, and will not be recognized as revenue till the gain is realized in the future.

#### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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Chunghwa sold the land with a carrying value of \$378,927 thousand to LED at price of \$207,030 thousand in 2008 and resulted in a disposal loss amounting to \$171,897 thousand. The disposal loss on land is unrealized and the unrealized loss is included in other assets - others. The unrealized loss is not recognized in earnings until it is sold to the third party and realized in the future.

The foregoing transactions with related parties were conducted as arm s length transactions, except for the transactions with SENAO, CHIEF, CIYP, LED and IFE were determined in accordance with mutual agreements.

#### 24. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of September 30, 2010, in addition to those disclosed in other notes, Chunghwa s remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of land and buildings of \$187,875 thousand.
- b. Acquisitions of telecommunications equipment of \$19,335,234 thousand.
- c. Contracts to print billing, envelopes and selling gifts \$36,924 thousand.
- d. Chunghwa also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Future lease payments were as follows:

Year	<b>Rental Amount</b>
2010 (from October 1, 2010 to December 31, 2010)	\$ 482,095
2011	1,634,686
2012	1,210,527
2013	830,756
2014 and thereafter	1,088,362

e. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by Chunghwa on August 15, 1996 (classified as long-term investment - other monetary assets). If the fund is not sufficient, Chunghwa will contribute the remaining \$1,000,000 thousand upon notification from the Taipei City Government. Based on Chunghwa s understanding of the Piping Fund terms, if the project is considered to be no longer necessary by the ROC government,

Chunghwa will receive back its proportionate share of the net equity of the Piping Fund upon its dissolution. Chunghwa does not know when its contribution to the Piping Fund will be returned; therefore, Chunghwa did not discount the face amount of its contribution on the Piping Fund.

A portion of the land used by Chunghwa during the period July 1, 1996 to December 31, 2004 was co-owned by Chunghwa and f. Chunghwa Post Co., Ltd. (the former Chunghwa Post Co., Ltd. directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to Chunghwa to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of Chunghwa s ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. Chunghwa stated that both parties have the right to use co-management land without consideration. Chunghwa Post Co., Ltd. can not request payment for land compensation. Furthermore, Chunghwa believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, Chunghwa filed an appeal at the Taiwan Taipei District Court. On March 30, 2009, the Taiwan Taipei District Court rendered its judgment that Chunghwa only need to pay \$16,870 thousand along with interest calculated at 5% per annum from July 23, 2005 and 4% of the court fees as the court judgment compensation. However, Chunghwa Post Co., Ltd. did not accept the judgment and filed an appeal at Taiwan High Court. Chunghwa also filed an appeal at the Taiwan High Court within the statutory period. On April 7, 2010, the Taiwan High Court rendered its judgment, ruling that we need to pay \$23,284 thousand as compensation in addition to the \$16,870 thousand from the Taiwan Taipei District Court judgment, along with interest calculated at 5% per annum from July 23, 2005 to the payment date and 12.5% of Chunghwa Post Co., Ltd. s court fees from its original suit and subsequent appeal as compensation. Chunghwa has filed an appeal at the Supreme Court of the Republic of China within the statutory period.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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### 25. FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Fair values of financial instruments were as follows:

	September 30 2010 2009				
	20 Carrying	10	20 Carrying	09	
	Amount	Fair Value	Amount	Fair Value	
Assets					
Cash and cash equivalents	\$61,033,067	\$61,033,067	\$ 50,767,239	\$ 50,767,239	
Financial assets at fair value through profit or loss	24,675	24,675	30,039	30,039	
Available-for-sale financial assets	2,434,791	2,434,791	15,851,520	15,851,520	
Held-to-maturity financial assets - current	1,343,595	1,343,595	754,882	754,882	
Trade notes and accounts receivable, net	12,369,336	12,369,336	10,612,296	10,612,296	
Receivables from related parties	428,292	428,292	609,230	609,230	
Other current monetary assets	4,621,699	4,621,699	2,566,008	2,566,008	
Financial assets carried at cost	2,305,354		2,236,048		
Held-to-maturity financial assets - noncurrent	7,227,058	7,227,058	4,331,829	4,331,829	
Other noncurrent monetary assets	1,000,000	1,000,000	1,000,000	1,000,000	
Refundable deposits	1,409,804	1,409,804	1,368,682	1,368,682	
Liabilities					
Trade notes and accounts payable	6,254,908	6,254,908	6,540,756	6,540,756	
Payables to related parties	1,524,769	1,524,769	2,099,896	2,099,896	
Accrued expenses	12,457,965	12,457,965	12,476,319	12,476,319	
Amounts collected in trust for others (included in other current liabilities )	2,283,634	2,283,634	2,481,843	2,481,843	
Payables to equipment suppliers (included in other current liabilities )	1,390,268	1,390,268	945,640	945,640	
Refundable customers deposits (included in other current liabilities )	1,079,008	1,079,008	1,026,561	1,026,561	
Payables to contractors (included in other current liabilities )	1,003,571	1,003,571	1,847,980	1,847,980	
Customers deposits	5,815,012	5,815,012	5,993,158	5,993,158	

#### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

- b. Methods and assumptions used in the determination of fair values of financial instruments:
  - The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. Because of the short maturities of these instruments, the carrying value represents a reasonable basis to estimate fair values. This method does not apply to the financial instruments discussed in Notes 2 and 3 below.
  - 2) If the financial instruments have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market prices of the available-for-sale financial assets are not readily available, valuation techniques are used incorporating estimates and assumptions that are consistent with prevailing market conditions.
  - 3) Financial assets carried at cost are investments in nonlisted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.
- c. Fair values of financial instruments were as follow:

	Quoted M	t Based on Iarket Price mber 30	Us Valuation	Determined ing Techniques nber 30
	2010	2009	2010	2009
Assets				
Financial assets at fair value through profit or loss	\$	\$	\$ 24,675	\$ 30,039
Available-for-sale financial assets	2,434,791	15,851,520		

#### d. Information about financial risks

#### 1) Market risk

The foreign exchange rate fluctuations would result in Chunghwa s foreign-currency-dominated assets and liabilities, outstanding currency swap contracts exposed to rate risk.

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

material market risk are anticipated.

#### 2) Credit risk

Credit risk represents the potential loss that would be incurred by Chunghwa if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties of the aforementioned financial instruments are reputable financial institutions and corporations. Management does not expect Chunghwa s exposure to default by those parties to be material.

#### 3) Liquidation risk

Chunghwa has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidation risk is low.

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

#### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

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4) Cash flow interest rate risk

Chunghwa engages in investments in fixed-interest-rate debt securities. Therefore, cash flows from such securities are not expected to fluctuate significantly due to changes in market interest rates.

In addition, Chunghwa engages in investments in floating-interest-rate debt securities. The changes in market interest rate would impact the floating-interest rate; therefore, cash flows from such securities are expected to fluctuate due to changes in market interest rates.

#### e. Fair value hedge

Chunghwa entered into currency swap contracts to hedge the fluctuation in exchange rates of beneficiary certificate denominated in foreign currency. No transaction met the criteria for hedge accounting for the nine months ended September 30, 2010. The transaction was assessed as highly effective for the nine months ended September 30, 2009. There are no hedge currency swap contracts existed as of September 30, 2009.

According to the regulations of Securities and Futures Bureau, Chunghwa should disclose the derivative transactions of Chunghwa s investees, SENAO and CHI, which was as follows:

#### 1) Holding period and contract amounts

SENAO and CHI entered into forward exchange contracts and index future contracts to reduce the exposure to foreign currency risk and price risk.

The outstanding forward exchange contracts as of September 30, 2010 and 2009 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
September 30, 2010			
Forward exchange contracts - buy	NTD/USD	2010.10	NT\$ 186,033/US\$5,880
September 30, 2009			
Forward exchange contracts - buy	NTD/USD	2009.10	NT\$ 252,968/US\$7,783

	Maturity Period	Units		t Amount ousands)
TAIEX futures	2010.10	6	NT\$	9,140
TAIEX futures	2010.12	20	NT\$	31,468

### 2) Market risk

The foreign exchange rate fluctuations would result in SENAO s foreign-currency-dominated assets and liabilities and open forward exchange contracts exposed to rate risk.

The fluctuations of market price would result in CHI s index future contracts exposed to price risk.

#### NOTES TO FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

#### 3) Credit risk

Credit risk represents the potential loss that would be incurred by SENAO and CHI if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the aforementioned financial instruments are reputable financial institutions. Management does not expect SENAO s and CHI s exposure to default by those parties to be material. The largest amount of exposure to default by those parties of the financial instruments of SENAO and CHI is the same as carrying value.

#### 4) Liquidation risk

SENAO and CHI have sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidation risk is low.

#### 26. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the SFB for Chunghwa and its investees:

- a. Financings provided: Please see Table 1.
- b. Endorsement/guarantee provided: Please see Table 2.
- c. Marketable securities held: Please see Table 3.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: None.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 5.

- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 6.
- i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 7.
- j. Financial transactions: Please see Notes 5 and 25.

#### k. Investment in Mainland China: Please see Table 8. 27. SEGMENT FINANCIAL INFORMATION

Segment information. Please see Table 9.

#### TABLE 1

#### CHUNGHWA TELECOM CO., LTD.

#### FINANCINGS PROVIDED

#### NINE MONTHS ENDED SEPTEMBER 30, 2010

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

												F	Financing		
										Col	ollateral		Limit for Each		ancing npany s
			Financial	Maximum			Type of		Reason Allo	wance for		В	orrowing		ancing
			Statement	Balance for	r End <b>ing</b> e	rest RateF	Financing	Transaction	Short-term	Bad		(	Company	Amou	int Limit
No.	Financing Company	<b>Counter-party</b>	Account	the Year	BalanceN	lote 5)	(Note 2)	Amount	Financing	Debt Iten	n Value	(	(Note 3)	(N	(ote 4)
9	Chunghwa Telecom Singapore Pte., Ltd.	ST-2 Satellite Ventures Pte.,	Other receivables	\$ 543,30	3 \$	6.38%	а	(Note 6)		\$	\$	\$	1,470,709	<b>\$</b> _!	1,470,709
		Ltd.		(SG\$ 23,91	.3)							(SG	61,621)	(SG\$	61,621)

Note 1: Significant transactions between the Company and its subsidiaries or among subsidiaries are numbered as follows:

- a. 0 for the Company.
- b. Subsidiaries are numbered from 1.

Note 2: Reasons for financing are as follows:

- a. Business relationship.
- b. For short-term financing.

Note 3: The upper limit of loans lending to any other party is no more than 100% of the net value of the latest financial statement of the lender.

Note 4: The upper limit of loans lending to all other parties is no more than 100% of the net value of the latest financial statement of the lender.

Note 6: Chunghwa Telecom Singapore Pte., Ltd. signed the joint venture contract with SingTel Sat Pte., Ltd. to establish ST-2 Satellite Ventures Pte., Ltd. which mainly engages in the installation and the operation of ST-2 telecommunications satellite. The amount was collected on April 1, 2010.

#### TABLE 2

#### CHUNGHWA TELECOM CO., LTD.

#### ENDORSEMENTS/GUARANTEES PROVIDED

#### NINE MONTHS ENDED SEPTEMBER 30, 2010

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

				Limits on				Ratio of Accumulated Endorsement	
		Guaranteed	Nature of	Endorsement/ Guarantee Amount Provided to Each			Amount of Endorsement/	Guarantee to Net Equity	Maximum Endorsement/
N	Endorsement/ Guarantee 5. Provider	Name	Relationship (Note 2)		Maximum Balance for the Year	Ending Balance	Guarantee Collateralized by	per Latest Financial Statements	Guarantee Amount Allowable (Note 3)
25	Yao Yong Real Property Co., Ltd.	Light Era Development Co., Ltd	d	\$ 3,756,752	\$ 3,360,000	\$ 2,750,000	\$ 2,750,000	0.7%	\$ 3,756,752

Note 1: Significant transactions between the Company and its subsidiaries or among subsidiaries are numbered as follows:

- a. 0 for the Company.
- b. Subsidiaries are numbered from 1.

Note 2: Relationships between the endorsement/guarantee provider and the guaranteed party:

- a. Trading partner.
- b. Majority owned subsidiary.
- c. The Company and subsidiary owns over 50% ownership of the investee company.
- d. A subsidiary jointly owned by the Company and the Company s directly-owned subsidiary.

- e. Guaranteed by the Company according to the construction contract.
- f. An investee company. The guarantees were provided based on the Company s proportionate share in the investee company.
- Note 3: The maximum amount of endorsement or guarantee amounts is up to 200% of the asset value of the latest financial statements of Yao Yong Real Property Co., Ltd.

## TABLE 3

## CHUNGHWA TELECOM CO., LTD.

#### MARKETABLE SECURITIES HELD

#### **SEPTEMBER 30, 2010**

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

September 30, 2010

		Shares							
		Marketable Securities	Relationship with the	Financial Statement	Carrying Value	Domoontogo o	Market Value f or Net Asset		
No.	Held Company Name	Type and Name	Company	Account	Units)	(Note 5)	Ownership		Note
0	Chunghwa Telecom Co., Ltd.	Stocks							
		Senao International Co., Ltd.	Subsidiary	Investments accounted for using equity method	71,773	\$ 1,352,399	9 28	\$ 3,638,899	Note 4
		Light Era Development Co., Ltd.	Subsidiary	Investments accounted for using equity method	300,000	2,866,083	3 100	2,866,403	Note 1
		Chunghwa Investment Co., Ltd.	Subsidiary	Investments accounted for using equity method	178,000	1,717,15	8 89	1,790,975	Note 1
		Chunghwa Telecom Singapore Pte., Ltd.	Subsidiary	Investments accounted for using equity method	61,869	1,470,709	9 100	1,470,709	Note 1
		Chunghwa System Integration Co., Ltd.	Subsidiary	Investments accounted for using equity method	60,000	714,093	3 100	645,421	Note 1
		Donghwa Telecom Co., Ltd.	Subsidiary	Investments accounted for using equity method	129,590	553,763	3 100	553,763	Note 1
		CHIEF Telecom Inc.	Subsidiary	Investments accounted for using equity method	37,942	507,834	4 69	454,924	Note 1
		Taiwan International Standard Electronics Co., Ltd.	Equity-method investee	Investments accounted for using equity method	1,760	476,56	6 40	681,604	Note 1
		Viettel-CHT Co., Ltd.	Equity-method investee	Investments accounted for using equity method		265,652	2 30	265,652	Note 1
		InfoExplorer Co., Ltd.	Subsidiary	Investments accounted for using equity method	22,498	256,070	0 49	213,936	Note 1
		Chunghwa International Yellow Pages Co., Ltd.	Subsidiary	Investments accounted for using equity method	15,000	187,29	9 100	187,299	Note 1
		Skysoft Co., Ltd.	Equity-method investee	Investments accounted for using equity method	4,438	91,094	4 30	51,727	Note 1

Chunghwa Telecom Global, Inc.	Subsidiary	Investments accounted for using equity method	6,000	83,005	100	105,082	Note 1
Spring House Entertainment Inc.	Subsidiary	Investments accounted for using equity method	5,996	67,912	56	52,248	Note 1
KingWaytek Technology Co., Ltd.	Equity-method investee		1,703	63,241	33	16,412	Note 1
So-net Entertainment Taiwan Co., Ltd.	Equity-method investee		3,429	26,134	30	8,280	Note 1
Chunghwa Telecom Japan Co., Ltd.	Subsidiary	Investments accounted for using equity method	1	17,078	100	18,777	Note 1
New Prospect Investments Holdings Ltd.	Subsidiary	Investments accounted for using equity method		(US\$ 1 dollar)	100	(US\$ 1 dollar)	Note 2
(B.V.I.) Prime Asia Investments Group Ltd. (B.V.I.)	Subsidiary	Investments accounted for using equity method			100		Note 2
Taipei Financial Center Corp.		Financial assets carried at cost	172,927	(US\$ 1 dollar) 1,789,530	12	(US\$ 1 dollar) 1,387,070	Note 1
Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II)		Financial assets carried at cost	20,000	200,000	17	218,661	Note 1
Global Mobile Corp.		Financial assets carried at cost	12,696	127,018	11	86,905	Note 1
iD Branding Ventures		Financial assets carried at cost	7,500	75,000	8	76,811	Note 1
Innovation Works Development Fund, L.P.		Financial assets carried at cost		38,035	13	34,240	Note 1
RPTI Intergroup International Ltd.		Financial assets carried at cost	4,765	34,500	10	34,482	Note 1
Innovation Works Limited		Financial assets carried at cost	667	21,271	7	19,961	Note 1
CQi Energy Infocom Inc.		Financial assets carried at cost	2,000	20,000	18	107	Note 1
Essence Technology Solution, Inc.		Financial assets carried at cost	2,000		9	947	Note 1
Beneficiary certificates (mutual fund)							
PineBridge Flagship Glb Bal Fund of Funds		Available-for-sale financial assets	6,000	81,778		85,020	Note 3
HSBC Glbl Emerging Markets Bd A Inc.		Available-for-sale financial assets	288	163,912		171,707	Note 3
Templeton Global Bond A Acc \$		Available-for-sale financial assets	289	210,001		224,929	Note 3

(Continued)

				September 30, 2010					
		M. L. ( LL G			Shares Market Value (Thousands <sup>C</sup> arrying or Net			arket Value	
		Marketable Securities	Relationship					or Net	
No.	Held Company Name	Type and Name	with the Company	Financial Statement Account	Thousand Units)		Percentage of Ownership	Asset Value	Note
		PIMCO Global Investment Grade Credit - Ins H Acc		Available-for-sale financial assets	398	\$ 161,575	\$	174,003	Note 3
		MFS Meridian - Global Equity Fund		Available-for-sale financial assets	253	262,293		221,553	Note 3
		Fidelity Fds International		Available-for-sale	128	163,960		121,633	Note 3
		Fidelity Fds America		financial assets Available-for-sale	656	114,772		91,578	Note 3
		JPMorgan Funds - Global		financial assets Available-for-sale	303	165,640		128,565	Note 3
		Dynamic Fund MFS Meridian -Research		financial assets Available-for-sale	173	131,920		99,877	Note 3
		International Fund Fidelity Fds Emerging		financial assets Available-for-sale	96	81,246		60,150	Note 3
		Markets Schroder ISF - BRIC Fund		financial assets Available-for-sale	31	197,071		194,065	Note 3
		- A1 Acc Aberdeen Global -World		financial assets Available-for-sale	219	130,402		85,881	Note 3
		Resources Fund Parvest Europe		financial assets Available-for-sale	28	159,512		147,863	Note 3
		Convertible Bond Fund		financial assets Available-for-sale	347	196,579			Note 3
		JPMorgan Funds -Global Convertibles Fund		financial assets		,		181,290	
		Schroder ISF Euro Corp. Bond A		Available-for-sale financial assets	260	190,098		178,953	Note 3
		Fidelity Euro Balanced Fund		Available-for-sale financial assets	230	146,360		119,328	Note 3
		Fidelity Fds Euro Blue Chip		Available-for-sale financial assets	71	63,781		41,636	Note 3
		Henderson Horizon Fund - Pan European Equity Fund		Available-for-sale financial assets	161	126,620		106,760	Note 3
		Bonds							
		Chinatrust Commercial Bank 2 <sup>nd</sup> Unsecured Subordinate Financial Debentures Issue in 2003		Held-to-maturity financial assets		199,930		199,930	Note 6
		China Development Industrial Bank 2 <sup>nd</sup> Financial Debentures Issue in 2006		Held-to-maturity financial assets		199,222		199,222	Note 6
		Mega Financial Holding Co., Ltd. 1 <sup>st</sup> Unsecured Corporate Bonds-B Issued in 2007		Held-to-maturity financial assets		200,000		200,000	Note 6
		Mega Financial Holding Co., Ltd. 2 <sup>nd</sup> Unsecured Corporate Bonds-A Issued in 2007		Held-to-maturity financial assets		300,000		300,000	Note 6
		Taiwan Power Co. 1 <sup>st</sup> Unsecured Bond-B Issue in 2001		Held-to-maturity financial assets		89,329		89,329	Note 6
		Taiwan Power Co. 5 <sup>th</sup> secured Bond - A Issue in 2008		Held-to-maturity financial assets		149,959		149,959	Note 6
		Yuanta FHC 1 <sup>St</sup> Unsecured Corporate Bonds-A Issue in 2008		Held-to-maturity financial assets		100,000		100,000	Note 6
		Taiwan Power Co. 5 <sup>th</sup> secured Bond-A Issue in 2008		Held-to-maturity financial assets		304,378		304,378	Note 6

Formosa Petrochemical Corporation 4 <sup>th</sup>	Held-to-maturity financial assets	300,307	300,307	Note 6
Unsecured Corporate Bonds Issue in 2006				
Taiwan Power Company 6 <sup>th</sup> Secured Corporated Bond-A Issue in 2008	Held-to-maturity financial assets	271,430	271,430	Note 6
Formosa Petrochemical Corporation 5 <sup>th</sup> Unsecured Corporate Bond Issue in 2006	Held-to-maturity financial assets	200,811	200,811	Note 6
Taiwan Power Company 3 <sup>rd</sup> Unsecured Bond-A Issue in 2006	Held-to-maturity financial assets	200,615	200,615	Note 6
China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2006	Held-to-maturity financial assets	201,324	201,324	Note 6

				September 30, 2010						
No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statemen Account		Garrying Value (Note 5)			rket Value or Net Asset Value	Note
		China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2006		Held-to-maturity financial assets	\$	5 201,324		\$	201,324	Note 6
		Yuanta Securities Finance Co. Ltd. 1 <sup>st</sup> Unsecured Corporate Bonds-B Issue in 2007		Held-to-maturity financial assets		403,790			403,790	Note 6
		Mega Securities Co., Ltd. 1 <sup>st</sup> Unsecured Corporate Bond Issue in 2009		Held-to-maturity financial assets		300,000			300,000	Note 6
		China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds - A Issue in 2008		Held-to-maturity financial assets		102,885			102,885	Note 6
		Formosa Petrochemical Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		99,907			99,907	Note 6
		Taiwan Power Co. 4 <sup>th</sup> secured Bond-B Issue in 2008		Held-to-maturity financial assets		51,480			51,480	Note 6
		Taiwan Power Co. 5 <sup>th</sup> secured Bond-B Issue in 2008		Held-to-maturity financial assets		208,247			208,247	Note 6
		Formosa Petrochemical Corporation 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		102,290			102,290	Note 6
		Formosa Petrochemical Corporation 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		411,893			411,893	Note 6
		Formosa Petrochemical Corporation 3 <sup>rd</sup>		Held-to-maturity financial assets		49,952			49,952	Note 6
		Unsecured Corporate Bonds Issue in 2008								
		Formosa Petrochemical Corporation 3 <sup>rd</sup>		Held-to-maturity financial assets		207,135			207,135	Note 6
		Unsecured Corporate Bonds Issue in 2008								
		NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		405,931			405,931	Note 6
		China Steel Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		102,925			102,925	Note 6
		Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured corporate Bonds - A Issue in 2008		Held-to-maturity financial assets		103,169			103,169	Note 6
		NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		203,612			203,612	Note 6

2 <sup>nd</sup>	1	Held-to-maturity financial assets	100,022	100,022	Note 6
Co Un		Held-to-maturity financial assets	200,939	200,939	Note 6
Co. Un		Held-to-maturity financial assets	203,379	203,379	Note 6
Un	1 2	Held-to-maturity financial assets	99,912	99,912	Note 6
	rporate Bonds Issue in	Held-to-maturity financial assets	199,757	199,757	Note 6
1 <sup>st</sup>	1 2	Held-to-maturity financial assets	201,610	201,610	Note 6
	rporate Bonds Issue in	Held-to-maturity financial assets	252,306	252,306	Note 6
Un	1 2	Held-to-maturity financial assets	200,795	200,795	Note 6

(Continued)

September 30, 2010

					September 30, 2010				
No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	(' Financial Statement Account	Shares Thousands/ Thousand Units)	Carrying Value (Note 5)	M Percentage of o Ownership	arket Value r Net Asset Value	Note
		NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2009		Held-to-maturity financial assets	\$	50,449	) \$	50,449	Note 6
		Taiwan Power Company 4 <sup>th</sup> Secured Corporate Bond-B Issue in 2009		Held-to-maturity financial assets		348,639	)	348,639	Note 6
		NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2009		Held-to-maturity financial assets		199,608	3	199,608	Note 6
		Formosa Petrochemical Corporation 3rd Unsecured Corporate Bonds Issue in 2010		Held-to-maturity financial assets		299,500	)	299,500	Note 6
		FCFC 2nd Unsecured Corporate Bonds Issue in 2010		Held-to-maturity financial assets		201,416	5	201,416	Note 6
		Taiwan Power Co. 4th Secured Corporate Bond-A issue in 2010		Held-to-maturity financial assets		299,743	3	299,743	Note 6
		Taiwan Power Company 1 <sup>st</sup> Secured Corporate Bond-A Issue in 2009		Held-to-maturity financial assets		40,733	3	40,733	Note 6
1	Senao International Co., Ltd.	Stocks							
		Senao Networks, Inc.	Equity-method investee	Investments accounted for using equity method	16,824	300,330	) 41	300,330	Note 1
		Senao International (Samoa) Holding Ltd.	Subsidiary	Investments accounted for using equity method	675	20,658	3 100	20,658	Note 1
		N.T.U. Innovation Incubation Corporation		Financial assets carried at cost	1,200	12,000	) 9	12,900	Note 1
		<u>Beneficiary</u> <u>certificates (mutual</u> fund)							
		Prudential Financial Bond Fund		Available-for-sale financial assets	3,304	50,000	)	50,102	Note 3
		IBT Bond Fund		Available-for-sale financial assets	3,691	50,000		50,133	Note 3
		Fuh Hwa Global Short-term Income Fund		Available-for-sale financial assets	4,850	50,000	)	51,777	Note 3
		Fuh Hwa Strategic High Income Fund		Available-for-sale financial assets	5,000	50,000		55,150	Note 3
		ING Investment Grade US\$ Credit Fund		Available-for-sale financial assets	4,735	50,000	)	49,903	Note 3

2	CHIEF Telecom Inc.	Stocks								
		Unigate Telecom Inc.	Subsidiary	Investments accounted for using equity method	200	1	,989 100		1,989	Note 1
		Chief International Corp.	Subsidiary	Investments accounted for using equity method	200	8	3,081 100		8,081	Note 1
		eASPNet Inc.		Financial assets carried at cost	1,000		2			Note 1
		3 Link Information Service Co., Ltd.		Financial assets carried at cost	374	3	3,450 10		6,825	Note 1
3	Chunghwa System Integration Co., Ltd.	Stocks								
		Concord Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	700	3	3,173 100		3,173	Note 1
8	Light Era	Stocks								
0	Development Co., Ltd.	Stocks								
8		Yao Yong Real Property Co., Ltd.	Subsidiary	Investments accounted for using equity method	83,290	2,814	l,901 100	2	2,814,901	Note 1
9		Yao Yong Real	Subsidiary	accounted for using	83,290	2,814	4,901 100	2	2,814,901	Note 1
	Development Co., Ltd. Chunghwa Telecom	Yao Yong Real Property Co., Ltd.	Subsidiary Equity-method investee	accounted for using equity method Investments accounted for using	83,290		4,901 100 3,742 38		2,814,901 423,742	Note 1 Note 1
	Development Co., Ltd. Chunghwa Telecom	Yao Yong Real Property Co., Ltd. Stocks ST-2 Satellite	Equity-method	accounted for using equity method Investments		423	20			
	Development Co., Ltd. Chunghwa Telecom	Yao Yong Real Property Co., Ltd. Stocks ST-2 Satellite Ventures Pte., Ltd. Stocks	Equity-method investee	accounted for using equity method Investments accounted for using equity method		423	3,742 38 7,834)	(SG\$	423,742	Note 1
9	Development Co., Ltd. Chunghwa Telecom Singapore Pte., Ltd.	Yao Yong Real Property Co., Ltd. Stocks ST-2 Satellite Ventures Pte., Ltd.	Equity-method	accounted for using equity method Investments accounted for using		423 (SG\$ 17	8,742 38	(SG\$	423,742	

(Continued)

					Change	Septem	bel 30, 2010		
No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	( Financial Statement Account	Shares Thousands/ Thousand Units)	Carrying Value (Note 5)	Percentage Ownership	Market Value of or Net Asset p Value	Note
18	Concord Technology Co., Ltd.	Stocks							
		Glory Network System Service (Shanghai) Co., Ltd.	Subsidiary	Investments accounted for using equity method	700	\$ 3,169 (US\$ 101		\$ 3,169 (US\$ 101)	Note 9
14	Chunghwa Investment Co., Ltd.	Stocks							
	C0., Ed.	Chunghwa Precision Test Tech. Co., Ltd.	Subsidiary	Investments accounted for using equity method	10,317	122,509	) 54	122,509	Note 1
		Chunghwa Investment Holding Co., Ltd.	Subsidiary	Investments accounted for using equity method	1,043	21,519		21,519	Note 1
						(US\$ 688	S)	(US\$ 688)	
		Tatung Technology Inc.	Equity-method investee	Investments accounted for using equity method	5,000	12,391	1 28	12,391	Note 1
		Panda Monium Company Ltd.	Equity-method investee	Investments accounted for using equity method	602		43		Note 1
		CHIEF Telecom Inc.	Equity-method investee	Investments accounted for using equity method	2,000	23,631	4	23,631	Note 1
		Senao International Co., Ltd.	Equity-method investee	Investments accounted for using equity method	717	35,145	5	36,352	Note 4
		Digimax Inc.		Financial assets carried at cost	2,000	36,000	) 4	15,804	Note 1
		Crystal Media Inc.		Financial assets carried at cost	1,000	15,000	) 5	6,107	Note 1
		iD Branding Ventures		Financial assets carried at cost	2,500	25,000	) 3	24,309	Note 1
		ChipSip Technology Co., Ltd.		Financial assets carried at cost	970	22,821	1 2	17,953	Note 8
		Giga Solar Materials Corporation		Financial assets carried at cost	438	48,739	) 1	276,465	Note 8
		UniDisplay Inc.		Financial assets carried at cost	4,000	46,000	) 3	35,057	Note 1
		A2peak Power Co. Ltd.		Financial assets carried at cost		27,500		12,830	Note 1
		Taimide Technology Ltd.		Financial assets carried at cost		12,161		31,353	Note 1
		CoaTronics Inc.		Financial assets carried at cost		12,000	) 9	9,744	Note 1
		VisEra Technologies Company Ltd.		Financial assets carried at cost		29,371		10,470	Note 1
		XinTec Inc.		Financial assets carried at cost		1,076		1,343	Note 8
		DelSolar Co., Ltd.		Financial assets carried at cost		6,084	1	8,208	Note 8
		Taidoc Technology Corporation		Financial assets carried at cost	. 24	2,694	1	2,031	Note 8
		Cando Corporation		Financial assets carried at cost	253	4,782	2	6,170	Note 8
		Subtron Technology Co., Ltd.		Financial assets carried at cost	376	4,937	7	5,272	Note 8
		Huga Optotech Inc.			415	12,870	)	12,591	Note 8

## September 30, 2010

at costFinancial assets carried1179,1357,336Note 8Daxon Technology Corporationat cost2819,5938,666Note 8Win Semiconductors Corp. optiVisionFinancial assets carried27010,55510,057Note 8Corp. optiVisionFinancial assets carried32510,1896,516Note 8Corp. corp. corp. corp.at cost32510,1896,516Note 8Corp. Corp. corp. corp. corp. corp. corp.at cost32510,1896,804Note 8Corp. Corp. corp. corp. corp. corp. corp. corp.at cost322,7333,453Note 8Corp. corp. corp. corp. corp. at cost322,7333,453Note 8Champion Microelectronic Corp. at costFinancial assets carried at cost322,7333,453Note 8Champion Corp. corp. financial assets carried at cost1326,8698,143Note 8Chia Chang Co., Ltd. Corporation corp.Financial assets carried at cost32514,07314,073Note 8Chia Chang Co., Ltd. CorporationPrepayments for at cost27,00027,000Note 8Chia Chang Co., Ltd. CorporationPrepayments for at cost27,0003,888Note 4Chia Chang Co., Ltd. CorporationFinancial assets1427,6736,756Note 4Chia Chang Co., Ltd. CorporationAvailable-for-sale		Financial assets carried				
Chemicals Co.at costDaxon TechnologyFinancial assets carried2819,5938,666Note 8Corporationat cost7010,55510,057Note 8CorporationFinancial assets carried37010,55510,057Note 8Corp.at cost7010,55510,057Note 8Technology Inc.at cost7210,1896,516Note 8Lextar ElectronicsFinancial assets carried29315,03918,461Note 8Corp.at cost726,804Note 8Corp.at cost726,804Note 8Co., Ld.at cost716,804Note 8Co., Ld.at cost716,8098,143Note 8Microelectronic Corp.at cost72,7333,453Note 8ChampionFinancial assets carried1326,8098,143Note 8Corporationat cost719,3669,133Note 8Corporationat cost719,3669,133Note 8Chia Chang Co., Ld.Financial assets carried32514,07314,073Note 8Corporationat cost72,00027,000Note 8CorporationFinancial assets carried32514,07314,073Note 8Corporationfinancial assets513,0693,888Note 4Chia Chang Co., Ld.Prepayments for27,00027,000Note 8Corporation <td< td=""><td><b>m</b> , <b>p</b>'</td><td>at cost</td><td>117</td><td>0.125</td><td>7.00/</td><td>N 0</td></td<>	<b>m</b> , <b>p</b> '	at cost	117	0.125	7.00/	N 0
Daxon Technology Corporation at cost at costFinancial assets carried at cost9,5938,666Note 8Win Semiconductors Corp. at costFinancial assets carried at cost37010,55510,057Note 8OptiVision Technology Inc.Financial assets carried at cost32510,1896,516Note 8Corp. at costat cost29312,03918,461Note 8Corp. co, Ltd.Financial assets carried co, Ltd.2932,7333,453Note 8Co, Ltd. DifferenceFinancial assets carried at cost322,7333,453Note 8Champion Microtelectronic Corp. at costFinancial assets carried at cost322,7333,453Note 8Champion Champion Chia Chang Co., Ltd.Financial assets carried at cost32514,073Note 8Champion CorporationFinancial assets carried at cost32514,07314,073Note 8Corporation CorporationFinancial assets carried at cost32514,07314,073Note 8Chia Chang Co., Ltd. CorporationFinancial assets carried at cost32514,07314,073Note 8Corporation Technology Co., Ltd.Financial assets carried at cost32514,07314,073Note 8Corporation Technology Co., Ltd.Financial assets27,00027,000Note 8Corporation Technology Co., Ltd.Financial assets1427,6736,756Note 4 <t< td=""><td>e</td><td></td><td>117</td><td>9,135</td><td>7,336</td><td>Note 8</td></t<>	e		117	9,135	7,336	Note 8
Corporationat costWin SemiconductorsFinancial assets carried37010.55510.057Note 8OptiVisionFinancial assets carried32510.1896.516Note 8Technology Inc.at cost32510.1896.804Note 8Corp.at cost32315.03918.461Note 8Corp.at cost322.7333.453Note 8Corp.at cost322.7333.453Note 8Co., Ltd.at cost322.7333.453Note 8Inc.at cost322.7333.453Note 8Inc.at cost322.7333.453Note 8Microelectronic Corp.at cost323.453Note 8ChampionFinancial assets carried3212.90812.126Note 8Corporationat cost32514.07314.073Note 8Chia Chang Co., Ltd.Financial assets carried32514.07314.073Note 8Chia Chang Co., Ltd.Financial assets carried32514.07314.073Note 8Corporationfinancial assets27.00027.000Note 88Corporationfinancial assets carried3.0693.888Note 4Corporationfinancial assets13.0693.888Note 4Holding Co., Ltd.financial assets13.0693.888Note 4Holding Co., Ltd.financial assets12.002<			201	0.502	0 ( ( (	Note 9
Win Semiconductors Corp.Financial assets carried at cost37010,55510,057Note 8OptiVision Technology Inc.Financial assets carried at cost32510,1896,516Note 8Lextar Electronics Corp. at costFinancial assets carried at cost29315,03918,461Note 8SuperAlloy Industrial Co., Ltd.Financial assets carried at cost322,7333,453Note 8Champion Champion Elinancial assets carried Inc.322,7333,453Note 8Champion Champion Chancial asset carried Edison Opto Corp.1326,8698,143Note 8Champion Changion Chancial assets carried at cost122,90812,126Note 8Changion Corporation at cost1479,3669,133Note 8Chia Chang Co., Ltd.Financial assets carried at cost32514,07314,073Note 8Chia Chang Co., Ltd.Financial assets carried at cost32514,07314,073Note 8Corporation Technology Co., Ltd.Prepayments for in stocks27,00027,000Note 4Holding Co., Ltd.financial assets513,0693,888Note 4Holding Co., Ltd.financial assets2619,26510,053Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets76119	27		281	9,595	8,000	Note 8
Corp.at costAt costOptifyisionFinancial assets carried32510.1896.516Note 8Technology Inc.at cost29315,03918,461Note 8Corp.at cost29315,03918,461Note 8SuperAlloy IndustrialFinancial assets carried2932,7333,453Note 8eMemory TechnologyFinancial assets carried322,7333,453Note 8inc.at cost322,7333,453Note 8Microelectronic Corp.at cost1326,8698,143Note 8ChampionFinancial assets carried1326,8698,143Note 8Corporationat cost1326,8699,133Note 8Chia Chang Co., Ltd.Financial assets carried8212,90812,126Note 8at costat cost1479,3669,133Note 8at costat cost27,00027,000Note 8Corporationfinancial assets carried32514,07314,073Note 8Corporationfinancial assetsat cost27,000Note 8Corporationfinancial assets513,0693,888Note 4Corporationfinancial assets2619,26510,053Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets	1		270	10 555	10.057	NI-4- 0
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Technology Inc.at costat costat costLextar ElectronicsFinancial assets carried29315.03918.461Note 8Corp.at cost6087,1236,804Note 8Co., Ltd.at cost322,7333,453Note 8Inc.Financial assets carried322,7333,453Note 8Microelectronic Corp.at cost1326,8698,143Note 8Edison OptoFinancial assets carried1326,8698,143Note 8ChampionFinancial assets carried8212,90812,126Note 8Corporationat cost8212,90812,126Note 8Chia Chang Co., Ltd.Financial assets carried32514,07314,073Note 8Corporationat cost32514,07314,073Note 8Ultra Fine OpticalPrepayments for financial assets27,00027,000Note 8Technology Co., Ltd.Ingerter investments in stocks30,0693,888Note 4Corporationfinancial assets2619,26510,053Note 4Holding Co., Ltd.financial assets76119Note 4CorporationAvailable-for-sale76119Note 4Corporationfinancial assets76119Note 4Internationalfinancial assets76119Note 4Corporationfinancial assets76119Note 4Corporation <td< td=""><td>1</td><td></td><td>225</td><td>10.180</td><td>6 516</td><td>Note 8</td></td<>	1		225	10.180	6 516	Note 8
Lextar Electronics Corp. at costFinancial assets carried at cost29315,03918,461Note 8SuperAlloy Industrial Co., Ltd.Financial assets carried at cost6087,1236,804Note 8eMemory Technology Inc. ChampionFinancial assets carried at cost322,7333,453Note 8Champion Microelectronic Corp. at costat cost1326,8698,143Note 8Edison Opto Chia Chang Co., Ltd.Financial assets carried at cost8212,90812,126Note 8Chia Chang Co., Ltd.Financial assets carried at cost1479,3669,133Note 8Chia Chang Co., Ltd.Financial assets carried at cost32514,07314,073Note 8Ultra Fine Optical Technology Co., Ltd.Prepayments for in stocks27,00027,000Note 8Formosa Plastics CorporationAvailable-for-sale513,0693,888Note 4Holding Co., Ltd.financial assets2619,26510,053Note 4Holding Co., Ltd.financial assets76119Note 4Logo, Ltd.financial assets76119Note 4Loc, Ltd.financial assets76 <td></td> <td></td> <td>323</td> <td>10,189</td> <td>0,510</td> <td>Note o</td>			323	10,189	0,510	Note o
Corp.at costAt costSuperAlloy Industrial Co., Ltd.Financial assets carried at cost6087,1236,804Note 8Microelectronic Corp.at cost322,7333,453Note 8Inc.at cost1326,8698,143Note 8Champion Microelectronic Corp.at cost1326,8698,143Note 8Edison Opto CorporationFinancial assets carried at cost8212,90812,126Note 8Champion CorporationFinancial assets carried at cost1479,3669,133Note 8PChome Store Inc.Financial assets carried at cost32514,07314,073Note 8Ultra Fine Optical Technology Co., Ltd.Prepayments for financial assets27,00027,000Note 8Formosa Plastics Fubon Financial Holding Co., Ltd.Available-for-sale financial assets513,0693,888Note 4Holding Co., Ltd.financial assets2619,26510,053Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets76119Note 4LARGAN Precision Corp.Available-for-sale financial assets212,0021,921Note 4Largack Holding Corp.Available-for-sale1428,638Note 4Largack Technology Corp.Tainacial assets212,0021,921Note 4Largack Technology Corp.Tainacial as			203	15.030	18 461	Note 8
SuperAlloy Industrial Co., Ltd.Financial assets carried at cost6087,1236,804Note 8eMemory Technology Inc.Financial assets carried at cost322,7333,453Note 8Champion Microelectronic Corp.Financial assets carried at cost1326,8698,143Note 8Edison Opto CorporationFinancial assets carried at cost8212,90812,126Note 8Chia Chang Co., Ltd.Financial assets carried at cost1479,3669,133Note 8PChome Store Inc.Financial assets carried at cost32514,07314,073Note 8Ultra Fine Optical Technology Co., Ltd.Prepayments for financial assets27,00027,000Note 8Formosa Plastics CorporationAvailable-for-sale513,0693,888Note 4Holding Co., Ltd.financial assets1427,6736,756Note 4Holding Co., Ltd.financial assets76119Note 4CorporationAvailable-for-sale76119Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets76119Note 4LARGAN Precision Co., Ld.Available-for-sale212,0021,921Note 4LaRGAN Precision Co., Ld.Available-for-sale212,0021,921Note 4International Technology Corp.Available-for-sale212,0021,921Note 4 <td></td> <td></td> <td>293</td> <td>15,059</td> <td>10,401</td> <td>Note o</td>			293	15,059	10,401	Note o
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eMemory Technology Inc.Financial assets carried at cost322,7333,453Note 8Champion Microelectronic Corp.Financial assets carried at cost1326,8698,143Note 8Edison Opto Corporation Chia Chang Co., Ltd.Financial assets carried at cost8212,90812,126Note 8PChome Store Inc.Financial assets carried at cost1479,3669,133Note 8Ultra Fine Optical Technology Co., Ltd.Prepayments for Inancial assets27,00027,000Note 8Vorporationfinancial assets513,0693,888Note 4Corporation at costAvailable-for-sale513,0693,888Note 4Holding Co., Ltd.Inancial assets2619,26510,053Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets			008	7,123	0,004	Note o
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Champion Microelectronic Corp.Financial assets carried at cost1326,8698,143Note 8Edison Opto Corporation Chia Chang Co., Ltd.Financial assets carried Financial assets carried at cost1479,3669,133Note 8PChome Store Inc.Financial assets carried at cost32514,07314,073Note 8Ultra Fine Optical Technology Co., Ltd.Prepayments for in stocks27,00027,000Note 8Formosa Plastics Fubon Financial Available-for-sale513,0693,888Note 4Corporation Teubon Financial Holding Co., Ltd.Available-for-sale financial assets513,0693,088Note 4Corporation Fubon Financial Holding Co., Ltd.Available-for-sale financial assets2619,26510,053Note 4Holding Co., Ltd.financial assets76119Note 4LARGAN Precision Co., Ltd.Available-for-sale financial assets76119Note 4Dynapack Technology Corp.Available-for-sale financial assets212,0021,921Note 4			52	2,755	5,455	10000
Microelectronic Corp.at costEdison Opto CorporationFinancial assets carried at cost8212,90812,126Note 8Chia Chang Co., Ltd.Financial assets carried at cost1479,3669,133Note 8PChome Store Inc.Financial assets carried at cost32514,07314,073Note 8Ultra Fine Optical Technology Co., Ltd.Prepayments for in stocks27,00027,000Note 8Formosa Plastics CorporationAvailable-for-sale financial assets513,0693,888Note 4Corporation Corporationfinancial assets2619,26510,053Note 4Holding Co., Ltd.financial assets1427,6736,756Note 4Holding Co., Ltd.financial assets76119Note 4LARGAN Precision Co., Ltd.Available-for-sale financial assets212,0021,921Note 4Dynapack International Technology Corp.Available-for-sale1428,1938,638Note 4			132	6 869	8 143	Note 8
Edison Opto CorporationFinancial assets carried at cost8212,90812,126Note 8Chia Chang Co., Ltd.Financial assets carried at cost1479,3669,133Note 8PChome Store Inc.Financial assets carried at cost32514,07314,073Note 8Ultra Fine Optical Technology Co., Ltd.Prepayments for in stocks27,00027,000Note 8Formosa Plastics CorporationAvailable-for-sale513,0693,888Note 4Formosa Plastics CorporationAvailable-for-sale2619,26510,053Note 4Holding Co., Ltd.financial assets1427,6736,756Note 4Holding Co., Ltd.financial assets76119Note 4LARGAN Precision Co., Ltd.Available-for-sale212,0021,921Note 4Dynapack International Technology Corp.Available-for-sale1428,1938,638Note 4	1		152	0,007	0,145	Note 0
Corporationat costChia Chang Co., Ltd.Financial assets carried at cost1479,3669,133Note 8PChome Store Inc.Financial assets carried at cost32514,07314,073Note 8Ultra Fine Optical Technology Co., Ltd.Prepayments for long-term investments in stocks27,00027,000Note 8Formosa Plastics Fubon Financial Holding Co., Ltd.Prepayments for financial assets2619,26510,053Note 4Gorporation Fubon Financial Holding Co., Ltd.Financial assets2619,26510,053Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets76119Note 4LARGAN Precision Co., Ltd.Available-for-sale212,0021,921Note 4Dynapack International Technology Corp.Available-for-sale1428,1938,638Note 4	1		82	12.908	12.126	Note 8
Chia Chang Co., Ltd.Financial assets carried at cost1479,3669,133Note 8PChome Store Inc.Financial assets carried at cost32514,07314,073Note 8Ultra Fine Optical Technology Co., Ltd.Prepayments for Instocks27,00027,000Note 8Formosa Plastics CorporationAvailable-for-sale513,0693,888Note 4Corporationfinancial assets2619,26510,053Note 4Holding Co., Ltd.financial assets2619,265Note 4Holding Co., Ltd.financial assets76119Note 4LARGAN Precision Co., Ltd.Available-for-sale212,0021,921Note 4International Technology Corp.financial assets212,0021,921Note 4International Technology Corp.financial assets1428,1938,638Note 4			02	12,700	12,120	11010 0
at costPChome Store Inc.Financial assets carried at cost32514,07314,073Note 8Ultra Fine Optical Technology Co., Ltd.Prepayments for long-term investments in stocks27,00027,000Note 8Formosa Plastics CorporationAvailable-for-sale financial assets513,0693,888Note 4Corporation Holding Co., Ltd.financial assets2619,26510,053Note 4Cathay Financial Holding Co., Ltd.Available-for-sale financial assets1427,6736,756Note 4LARGAN Precision Co., Ltd.Available-for-sale financial assets212,0021,921Note 4LARGAN Precision Co., Ltd.Available-for-sale financial assets212,0021,921Note 4Larga Manuel Co., Ltd.financial assets212,0021,921Note 4Technology Corp.Taiwan Hon ChuanAvailable-for-sale for-sale1428,1938,638Note 4	1		147	9,366	9.133	Note 8
at costUlltra Fine Optical Technology Co., Ltd.Prepayments for long-term investments in stocks27,000Note 8Formosa Plastics CorporationAvailable-for-sale513,0693,888Note 4Corporationfinancial assets2619,26510,053Note 4Holding Co., Ltd.financial assets1427,6736,756Note 4Holding Co., Ltd.financial assets76119Note 4Cathay Financial Holding Co., Ltd.Available-for-sale2612,0021,921Note 4International Co., Ltd.financial assets76119Note 4Cot, Ltd.financial assets76119Note 4Cot, Ltd.financial assets761,921Note 4Co., Ltd.financial assets212,0021,921Note 4International Technology Corp.Financial assets1428,1938,638Note 4	<u> </u>	at cost			- ,	
Ultra Fine Optical Technology Co., Ltd.Prepayments for long-term investments in stocks27,000Note 8Formosa Plastics CorporationAvailable-for-sale513,0693,888Note 4Corporationfinancial assets2619,26510,053Note 4Holding Co., Ltd.financial assets1427,6736,756Note 4Holding Co., Ltd.financial assets1427,6736,756Note 4LARGAN Precision Co., Ltd.financial assets76119Note 4Dynapack International Technology Corp.Available-for-sale212,0021,921Note 4Taiwan Hon ChuanAvailable-for-sale1428,1938,638Note 4	PChome Store Inc.	Financial assets carried	325	14,073	14,073	Note 8
Technology Co., Ltd.long-term investments in stocksFormosa PlasticsAvailable-for-sale513,0693,888Note 4Corporationfinancial assets2619,26510,053Note 4Holding Co., Ltd.financial assets2619,26510,053Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets76119Note 4Holding Co., Ltd.financial assets76119Note 4LARGAN PrecisionAvailable-for-sale212,0021,921Note 4Long-term investmentsfinancial assets212,0021,921Note 4International Technology Corp.financial assets1428,1938,638Note 4		at cost				
in stocks in stocks Formosa Plastics Available-for-sale 51 3,069 3,888 Note 4 Corporation financial assets Fubon Financial Available-for-sale 261 9,265 10,053 Note 4 Holding Co., Ltd. financial assets Cathay Financial Available-for-sale 142 7,673 6,756 Note 4 Holding Co., Ltd. financial assets LARGAN Precision Available-for-sale 76 119 Note 4 Co., Ltd. financial assets Dynapack Available-for-sale 21 2,002 1,921 Note 4 International financial assets Technology Corp. Taiwan Hon Chuan Available-for-sale 142 8,193 8,638 Note 4	Ultra Fine Optical	Prepayments for		27,000	27,000	Note 8
Formosa Plastics CorporationAvailable-for-sale financial assets513,0693,888Note 4Fubon Financial Holding Co., Ltd.Available-for-sale financial assets2619,26510,053Note 4Cathay Financial Holding Co., Ltd.Available-for-sale financial assets1427,6736,756Note 4LARGAN Precision Co., Ltd.Available-for-sale financial assets76119Note 4Dynapack International Technology Corp.Available-for-sale financial assets212,0021,921Note 4Taiwan Hon ChuanAvailable-for-sale for-sale1428,1938,638Note 4	Technology Co., Ltd.	long-term investments				
Corporationfinancial assetsFubon Financial Holding Co., Ltd.Available-for-sale financial assets2619,26510,053Note 4Holding Co., Ltd.financial assets1427,6736,756Note 4Holding Co., Ltd.financial assets1427,6736,756Note 4Holding Co., Ltd.financial assets76119Note 4Co., Ltd.financial assets76119Note 4Co., Ltd.financial assets7619Note 4International Technology Corp.financial assets212,0021,921Note 4Taiwan Hon ChuanAvailable-for-sale1428,1938,638Note 4		in stocks				
Fubon Financial Holding Co., Ltd.Available-for-sale financial assets2619,26510,053Note 4Holding Co., Ltd.financial assets1427,6736,756Note 4Holding Co., Ltd.financial assets1427,6736,756Note 4LARGAN Precision Co., Ltd.Available-for-sale financial assets76119Note 4Dynapack International Technology Corp.Available-for-sale financial assets212,0021,921Note 4Taiwan Hon ChuanAvailable-for-sale1428,1938,638Note 4	Formosa Plastics	Available-for-sale	51	3,069	3,888	Note 4
Holding Co., Ltd.financial assetsCathay Financial Holding Co., Ltd.Available-for-sale financial assets1427,6736,756Note 4LARGAN Precision Co., Ltd.Available-for-sale financial assets76119Note 4Dynapack International Technology Corp.Available-for-sale financial assets212,0021,921Note 4Taiwan Hon ChuanAvailable-for-sale for-sale1428,1938,638Note 4	Corporation	financial assets				
Cathay Financial Holding Co., Ltd.Available-for-sale financial assets1427,6736,756Note 4LARGAN Precision Co., Ltd.Available-for-sale financial assets76119Note 4Dynapack International Technology Corp.Available-for-sale financial assets212,0021,921Note 4Taiwan Hon ChuanAvailable-for-sale for-sale1428,1938,638Note 4	Fubon Financial	Available-for-sale	261	9,265	10,053	Note 4
Holding Co., Ltd.financial assetsLARGAN Precision Co., Ltd.Available-for-sale financial assets76119Note 4Dynapack International Technology Corp.Available-for-sale financial assets212,0021,921Note 4Taiwan Hon ChuanAvailable-for-sale for-sale1428,1938,638Note 4	Holding Co., Ltd.	financial assets				
LARGAN Precision Co., Ltd.Available-for-sale financial assets76119Note 4Dynapack International Technology Corp.Available-for-sale financial assets212,0021,921Note 4Taiwan Hon ChuanAvailable-for-sale1428,1938,638Note 4		Available-for-sale	142	7,673	6,756	Note 4
Co., Ltd.financial assetsDynapackAvailable-for-sale212,0021,921Note 4Internationalfinancial assetsTechnology Corp.1428,1938,638Note 4	Holding Co., Ltd.	financial assets				
Dynapack International Technology Corp.Available-for-sale financial assets212,0021,921Note 4Taiwan Hon ChuanAvailable-for-sale1428,1938,638Note 4				76	119	Note 4
International Technology Corp.financial assetsTaiwan Hon ChuanAvailable-for-sale1428,1938,638Note 4						
Technology Corp.Taiwan Hon ChuanAvailable-for-sale1428,1938,638Note 4			21	2,002	1,921	Note 4
Taiwan Hon ChuanAvailable-for-sale1428,1938,638Note 4		financial assets				
Enterprise Co., Ltd. financial assets			142	8,193	8,638	Note 4
	Enterprise Co., Ltd.	financial assets				

(Continued)

						Septer	mber 30, 2010		
					Shares		M	arket Value	
			Relationship		(Thousands	Carrying		or Net	
No.	Held Company Name	Marketable Securities Type and Name	with the Company	Financial Statement Account	Thousand Units)		Percentage of Ownership	Asset Value	Note
		Asia Cement Corporation		Available-for-sale financial assets	103	\$ 3,305	\$	3,281	Note 4
		Anpec Electronics Corporation		Available-for-sale financial assets	65	2,629		2,596	Note 4
		China Steel Corporation		Available-for-sale financial assets	286	8,627		9,226	Note 4
		Wei Chuan Foods Corp.		Available-for-sale financial assets	203	8,913		7,602	Note 4
		Cyber Power Systems, Inc.		Available-for-sale financial assets	42	3,165		3,263	Note 4
		Gemtek Technology Co., Ltd.		Available-for-sale financial assets	71	3,970		3,830	Note 4
		Coxon Precise Industrial Co., Ltd.		Available-for-sale financial assets	102	7,908		6,212	Note 4
		Altek Corp.		Available-for-sale financial assets	36	1,824		1,657	Note 4
		Feng Hsin Iron & Steel Co., Ltd.		Available-for-sale financial assets	30	1,542		1,545	Note 4
		I-Chiun Precision Industry Co., Ltd.		Available-for-sale	150	7,320		6,015	Note 4
		Taiwan Semiconductor Manufacturing Co., Ltd.		Available-for-sale financial assets	90	5,342		5,580	Note 4
		Swancor. Ind. Co., Ltd.		Available-for-sale financial assets	40	2,277		2,476	Note 4
		Apex Biotechnology Corp.		Available-for-sale financial assets	48	2,674		3,358	Note 4
		Via Technologies, Inc.		Available-for-sale financial assets	96	3,217		2,436	Note 4
		Cyberlink Co.		Available-for-sale financial assets	31	4,058		3,969	Note 4
		Optotech Corporation		Available-for-sale financial assets	240	5,473		5,448	Note 4
		Sino-American Silicon Products Inc.		Available-for-sale financial assets	10	726		942	Note 4
		Solar Applied Materials Technology Corp.		Available-for-sale financial assets	1	47		49	Note 4
		Tang Eng Iron Works Co., Ltd.		Available-for-sale financial assets	225	6,614		6,548	Note 4
		Pan Jit International Inc.		Available-for-sale financial assets	26	810		989	Note 4
		Lite-On Semiconductor Corp.		Available-for-sale financial assets	235	5,114		4,430	Note 4
		Ability Enterprise Co., Ltd.		Available-for-sale financial assets	50	2,811		2,590	Note 4
		Yuanta Financial Holdings		Available-for-sale financial assets	400	8,559		7,600	Note 4
		JuTeng International Holdings Limited		Available-for-sale financial assets	160	6,708		3,496	Note 4
		Sunrex Technology Corporation		Available-for-sale financial assets	120	4,036		3,810	Note 4
		Taiwan Semiconductor Co., Ltd.		Available-for-sale financial assets	179	4,776		4,511	Note 4
		Delta Electronics, Inc.		Available-for-sale financial assets	2	185		261	Note 4
		Everlight Electronics Co., Ltd.		Available-for-sale financial assets	50	4,825		4,395	Note 4
		Visual Photonics Epitaxy Co., Ltd.		Available-for-sale financial assets		26		28	Note 4
		Ene Technology Inc.			40	2,225		2,075	Note 4

	Available-for-sale financial assets				
Realtek Semiconductor Corp.	Available-for-sale financial assets	76	5,901	5,480	Note 4
Global Unichip Corp.	Available-for-sale financial assets	45	5,699	4,995	Note 4
Far Eastern Department Stores Ltd.	Available-for-sale financial assets	21	530	811	Note 4
Green Energy Technology Inc.	Available-for-sale financial assets		31	44	Note 4
ALi Corporation	Available-for-sale financial assets	90	4,952	4,509	Note 4
Integrated Memory Logic Limited	Available-for-sale financial assets	15	2,276	1,793	Note 4
Acme Electronics Corporation	Available-for-sale financial assets	190	14,158	15,124	Note 4
Wan Hai Lines Ltd.	Available-for-sale financial assets	143	3,069	3,110	Note 4
Taiwan Mobile Cp., Ltd.	Available-for-sale financial assets	20	1,225	1,290	Note 4
UPC Tech. Corp.	Available-for-sale financial assets	45	892	896	Note 4
Richtek Technology Corp.	Available-for-sale financial assets	20	4,829	4,640	Note 4
China Airlines Ltd.	Available-for-sale financial assets	8	157	180	Note 4
Hua Nan Financial Holdings Co., Ltd.	Available-for-sale financial assets	310	6,046	6,293	Note 4
TTET Union Corporation	Available-for-sale financial assets	50	2,033	2,040	Note 4
Danen Technology Corporation	Available-for-sale financial assets	137	8,715	8,439	Note 4
Taiwan PCB Techvest Co., Ltd.	Available-for-sale financial assets	100	4,900	4,855	Note 4
Chenming Mold Industrial Corp.	Available-for-sale financial assets	115	2,849	2,921	Note 4
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(Continued)

					September 30, 2010				
					Shares	~ ·	Ma	rket Value	
			Relationship		(Thousands			or Net	
No.	Held Company Name	Marketable Securities Type and Name	with the Company	Financial Statement Account	Thousand Units)		Percentage of Ownership	Asset Value	Note
		China Synthetic Rubber Corporation		Available-for-sale financial assets	190	\$ 5,724	\$	5,653	Note 4
		ACHEM Technology Corporation		Available-for-sale financial assets	75	1,544		1,485	Note 4
		Chung Hung Steel Corporation		Available-for-sale financial assets	200	2,991		2,900	Note 4
		First Financial Holding Co. Ltd.		Available-for-sale financial assets	305	5,922		6,314	Note 4
		Chicony Electronics Co. Ltd.		Available-for-sale financial assets	15	979		990	Note 4
		Newmax Technology Co., Ltd.		Available-for-sale financial assets	40	5,854		6,000	Note 4
		Etron Technology, Inc.		Available-for-sale financial assets	73	1,704		1,752	Note 4
		Creative Sensor Inc.		Available-for-sale financial assets	30	766		762	Note 4
		Nuvoton Technology Corporation		Available-for-sale financial assets	367	18,717		21,837	Note 4
		Gigastorage Corporation		Available-for-sale financial assets	10	496		499	Note 4
		Lite-On Technology Corp.		Available-for-sale financial assets	10	247		398	Note 4
		Orise Technology Co., Ltd.		Available-for-sale financial assets	5	201		339	Note 4
		Hon Hai Precision Ind. Co., Ltd.		Available-for-sale financial assets	3	324		395	Note 4
		Chung-Hsin Electric & Machinery MFG. Corp.		Available-for-sale financial assets	50	935		913	Note 4
		AU Optronics Corp.		Available-for-sale financial assets	20	580		648	Note 4
		Wistron NeWeb Corporation		Available-for-sale financial assets	10	654		694	Note 4
		TXC Corporation		Available-for-sale financial assets	20	1,124		1,116	Note 4
		Beneficiary certificates (mutual)							
		PowerShares QQQ		Available-for-sale financial assets	4	5,017		5,360	Note 4
		Jih Sun Bond Fund		Available-for-sale financial assets	1,068	15,042		15,114	Note 3
		Fuh Hwa You Li Fund		Available-for-sale financial assets	786	10,102		10,152	Note 3
		Mega Diamond Bond Fund		Available-for-sale financial assets	4,185	50,001		50,080	Note 3
		Manulife Asia Pacific Bond Fund		Available-for-sale financial assets	3,444	35,000		36,048	Note 3
		Manulife Emerging Market High Yield Bond Fund-A		Available-for-sale financial assets	2,000	20,000		19,997	Note 3
		Cathy Mandarin Fund		Available-for-sale financial assets	1,019	10,000		10,855	Note 3
		Fuh Hwa Global Fixed Income Fund of Funds		Available-for-sale financial assets	1,899	20,757		24,653	Note 3
		Cathy Man AHL Futures Trust Fund of Funds		Available-for-sale financial assets	2,474	25,000		25,281	Note 3
		KGI EM Trend ETF Fund of Funds		Available-for-sale financial assets	1,500	15,000		14,895	Note 3
					1,000	10,000		10,040	Note 3

Fuh Hwa Emerging Market Active Allocation Fund of Funds	Available-for-sale financial assets				
iShares FTSE/ Xinhua A50 China Index ETF	Available-for-sale financial assets	85	4,156	4,214	Note
iShares CSI A-Share Consumer Staples Index ETF	Available-for-sale financial assets	20	1,733	1,695	Note
Bonds					
Hua Nan Financial Holdings Company 1st Unsecured Subordinate Corporate Bonds Issue in 2006	Available-for-sale financial assets	500	51,114	51,196	Note
AU Optronics Corporation 1st Secured Corporate Bonds Issue in 2008	Available-for-sale financial assets	500	50,892	51,341	Note
Convertible bonds Epistar Corporation Ltd. 3rd Convertible Bond	Financial assets at fair value through profit or loss	17	1,815	1,884	Note
Everlight Electronics Co., Ltd. 3rd Convertible Bonds	Financial assets at fair value through profit or loss	40	4,351	4,400	Note

(Continued)

M. J. A.				Septem	ber 30, 2010				
		Marketable						Market Value or	
		Securities Type		Financial Statement	Shares	Carrying		Net	
	Held Company	Securities Type	Relationship with the		(Thousands/ Thousand	Value	Percentage of		
No.	Name	and Name	Company	Account	Units)	(Note 5)	Ownership	Value	Note
		Asia Optical s Second Domestic Unsecured Convertible Bond		Financial assets at fair value through profit or loss	32	\$ 3,200		\$ 3,616	Note 4
		King Slide works Co., Ltd. 2nd convertible bond		Financial assets at fair value through profit or loss	50	5,000		5,225	Note 4
		Everlight Electronics Co., Ltd. 4th Convertible Bonds		Financial assets at fair value through profit or loss	50	5,000		5,225	Note 4
		Jintex Corp. 2nd Domestic Secured Convertible Bonds		Financial assets at fair value through profit or loss	10	1,000		1,380	Note 4
		Ability Enterprise Co., Ltd. 1st Unsecured Convertible Bonds		Financial assets at fair value through profit or loss	40	4,008		4,300	Note 4
		TUL the Third Security Convertible Bond		Financial assets at fair value through profit or loss	15	1,500		1,493	Note 4
		Yuanta Financial Holding Co., Ltd. 1st Domestic Convertible Bond		Financial assets at fair value through profit or loss	85	8,500		9,180	Note 4
20	Chunghwa Precision Test Tech. Co., Ltd.	<u>Stocks</u>							
		Chunghwa Precision Test Tech. USA Corporation	Subsidiary	Investment accounted for using equity method	r 400	12,504	100	(US\$ 12,504 (US\$ 400)	Note 11
22	Senao	Stocks			(	(US\$ 400)			
22	International (Samoa) Holding Ltd.	SIGCKS							
		Senao International HK Limited	Subsidiary	Investment accounted for using equity method	r		100		Note 7
	Chunghwa	HopeTech Technologies Limited <u>Stocks</u>	Equity-method investee	Investment accounted for using equity method	5,240	20,657	45	20,657	Note 1
24	Investment Holding Co., Ltd.	SICKS							
		CHI One Investment Co., Limited	Subsidiary	Investment accounted for using equity method		11,018	100	11,018 (US\$ 352)	Note 1
26	CHI One Investment	<u>Stocks</u>				(US\$ 352)			
	Co., Limited	Xiamen Sertec Business Technology Co., Ltd.	Equity-method investee	Investment accounted for using equity method		10,444 (US\$ 335)	49	10,444 (US\$ 335)	Note 1
27	InfoExplorer International Co., Ltd.	Stocks				,			
		InfoExplorer (Hong Kong) Co., Limited	Subsidiary	Prepayments for long-term investments in stocks		24,382 (US\$ 780)	100	24,382 (US\$ 780)	Note 10

- Note 1: The net asset values of investees were based on unreviewed financial statements.
- Note 2: New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) were incorporated in March 2006, but not yet begun operation as of September 30, 2010. Chunghwa has 100% ownership right in an amount of US\$1 in each holding company.
- Note 3: The net asset values of beneficiary certificates (mutual fund) were based on the net asset values on September 30, 2010.
- Note 4: Market value was based on the closing price on September 30, 2010.
- Note 5: Showing at their original carrying amounts without adjustments for fair values, except for held-to-maturity financial assets.
- Note 6: The net asset values of investees were based on amortized cost.

(Continued)

- Note 7: Senao International HK Limited (SIHK) was established by SIS in 2009. No capital is injected in SIHK yet by September 30, 2010.
- Note 8: Market value of emerging stock was based on the average trading price on September 30, 2010.
- Note 9: InfoExplorer International Co., Ltd. (IESA) was established by IFE in 2010. Prepayment for long-term investment, US\$795 thousand, was injected in IESA by September 2010, but IESA has not been registered and has not yet begun operation as of September 30, 2010.
- Note 10: InfoExplorer (Hong Kong) Co., Limited (IEHK) was established by IESA in 2010. Prepayment for long-term investment, US\$780 thousand, was injected in IEHK by September 2010, but IEHK has not been registered and has not yet begun operation as of September 30, 2010.
- Note 11: Chunghwa Precision Test Tech. USA Corporation (CHPT (US)) was established by Chunghwa Precision Test Tech. Co., Ltd. in 2010. CHPT (US) has been injected capital in an amount of US\$400 thousand and completed its registration in September 2010; however, it has not yet begun operation as of September 30, 2010.

(Concluded)

### TABLE 4

#### CHUNGHWA TELECOM CO., LTD.

# MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

#### NINE MONTHS ENDED SEPTEMBER 30, 2010

(Amounts in Thousands of New Taiwan Dollars)

	Marketable			Beginning Balance Shares		Acquisition Shares		Shares		posal	Gain		
ompany Name	Securities Type and Name	Financial Statement ( Account	( Counter-Nature of partyRelationship			(Thousands/ Thousand Units)		(Thousands/ Thousand Units)	s/ Amount	Carrying Value (Note 1)	(Loss) on Disposal	Thousand	
hunghwa elecom o., Ltd.													
	Telecom Co., Ltd.	Investments accounted for using equity method	Subsidiary	51,590	\$ 230,528 (Note 4)	, ,	\$ 320,740	)	\$	\$	\$	129,590	\$ 55: (N
	Beneficiary certificates (mutual fund)												
	PCA Well	Available-for-sa financial assets		194,181	2,500,000			194,181	2,521,514	2,500,000	21,514		
	Yuanta Wan	Available-for-sa financial assets	ale	173,683	2,500,000	0 103,616	1,500,000	0 277,299	4,013,901	4,000,000	13,901		
	Mega	Available-for-sa financial assets		126,106	1,500,000			126,106	1,504,977	1,500,000	4,977		
		Available-for-sa financial assets		129,654	2,008,787			129,654	2,022,219	2,008,787	13,432		
	Fuh-Hwa	Available-for-sa financial assets	ale	108,849	1,500,000			108,849	1,504,158	1,500,000	4,158	,	
	JPMorgan	Available-for-sa financial assets	ale	14,161	200,000			14,161	217,864	200,000	17,864		
	Fuh Hwa	Available-for-sa financial assets		17,813	234,684			17,813	223,070	234,684	(11,614	.)	
	AGI Global Quantitative Balanced Fund	Available-for-sa financial assets	ale	17,000	197,821			17,000	192,888	197,821	(4,933)	)	
		Available-for-sa financial assets		8,000	141,776			8,000	147,134	141,776	5,358	,	
	Fuh Hwa Life	Available-for-sa financial assets	ale	9,330	140,000			9,330	146,341	140,000	6,341		
	Capital	Available-for-sa financial assets	ale	15,074	200,000			15,074	213,752	200,000	13,752		

			5 5										
Fla Gl	neBridge agship obal lance FoFs	Available-for-sale financial assets	2	25,679	350,000			19,679	274,049	268,222	5,827	6,000	8
Fra Te		Available-for-sale financial assets	1	4,000	158,018	3,984	50,000	17,984	238,068	208,018	30,050		
Ca Gl Ag Fu	thay obal ggressive nd of nds	Available-for-sale financial assets	1	5,570	210,000			15,570	193,523	210,000	(16,477)		
En	laris Global nerging arket	Available-for-sale financial assets	1	3,603	200,000			13,603	206,478	200,000	6,478		
		Available-for-sale financial assets	2	2,838	250,000			22,838	274,690	250,000	24,690		
Fu Gl	h Hwa	Available-for-sale financial assets	1	1,512	140,000	4,082	50,000	15,594	201,144	190,000	11,144		
Hi	lelity US gh Yield nd	Available-for-sale financial assets		535	206,588			535	192,038	206,588	(14,550)		
Eq (L		Available-for-sale financial assets		10	130,402			10	130,402	130,402			
Gl W	oerdeen obal - orld sources nd	Available-for-sale financial assets				219	130,402					219	130
Co		Available-for-sale financial assets		71	398,787			43	218,856	239,275	(20,419)	28	15
Fu Gl	nds - obal nvertibles	Available-for-sale financial assets		868	491,450			521	262,547	294,871	(32,324)	347	19
Fic	lelity Euro lanced	Available-for-sale financial assets		476	303,683			246	127,418	157,323	(29,905)	230	14
Eu	FS eridian - ropean uity Fund	Available-for-sale financial assets		171	178,920			171	129,932	178,920	(48,988)		
Та 50	iwan Top Tracker	Available-for-sale financial assets		1,710	91,574	1,170	58,791	2,880	162,491	150,365	12,126		
Ch		Held-to-maturity financial assets					200,000		200,000	200,000			
Fin Ho Co Ur Co Bo	nancial olding orporation orporate orporate ond-AB ue in 2005	finaliciai assets					(Note 3)						
Та	iwan	Held-to-maturity					300,000						30
sec Bo	wer Co. 5th cured ond-A issue 2008	financial assets					(Note 3)						(N
Yı	ianta	Held-to-maturity financial assets					400,000						40
	nance Co. d. 1ND						(Note 3)						(N

Unsecured Corporate Bonds-B issue in 2007

(Continued)

No.	Company Name	Marketable Securities Type and Name		Beginning Balance Shares (Thousa <b>Aub</b> oufil e ofThousanNoteT nshipUnits) 1)	Thousand	(1	Shares Fhousands/ Fhousand	sposal Carrying ain Value(Loss) (Note on ' int 1) Disposa	Shares Fhousands/ Thousand	Balance Amount (Note 1)
			Held-to-maturity financial assets	\$		300,000 (Note	0 \$	\$\$		\$ 300,000 (Note 3)
		issue in 2009 Taiwan Power Co. 5th secured Bond-B issue in	Held-to-maturity financial assets			200,00	0			200,000
		2008				(Note	3)			(Note 3)
		Formosa Petrochemical Corporation	Held-to-maturity financial assets			400,00				400,000
		2nd Unsecured Corporate Bonds issue in 2008				(Note :	3)			(Note 3)
		Corporation 1st	Held-to-maturity financial assets			100,00	0			100,000
		Unsecured Corporate Bonds issue in 2008				(Note )	3)			(Note 3)
		Petroleum	Held-to-maturity financial assets			100,00	0			100,000
		Corporation 1st Unsecured Corporate Bonds - A issue in 2008				(Note )	3)			(Note 3)
		Formosa Petrochemical Corporation 4th	Held-to-maturity financial assets			200,00	0			200,000
		Unsecured Corporate Bonds issue in 2008				(Note )	3)			(Note 3)
		NAN YA Company 2nd Unsecured	Held-to-maturity financial assets			250,00	0			250,000
		Corporate Bonds Issue in 2009				(Note	3)			(Note 3)
		NAN YA Company 3rd Unsecured	Held-to-maturity financial assets			200,00	0			200,000
		Corporate Bonds issue in 2009				(Note )	3)			(Note 3)
		Petrochemical	Held-to-maturity financial assets			200,00	0			200,000
		Corporation 3rd Unsecured Corporate Bonds issue in 2008				(Note	3)			(Note 3)
		Co. 1st Secured	Held-to-maturity financial assets			240,00	0			240,000
		Corporate Bond-A issue in				(Note	3)			(Note 3)

		2009						
		FCFC 1st Unsecured	Held-to-maturity financial assets			250,000		250,000
		Corporate Bonds issue in 2009				(Note 3)		(Note 3)
		Co. 4th Secured	Held-to-maturity financial assets			350,000		350,000
		Corporate Bond-B issue in 2009				(Note 3)		(Note 3)
		Formosa Petrochemical	Held-to-maturity financial assets			300,000		300,000
		Corporation 3rd Unsecured Corporate Bonds Issue in				(Note 3)		(Note 3)
		2010 FCFC 2nd Unsecured	Held-to-maturity financial assets			200,000		200,000
		Corporate Bonds Issue in 2010				(Note 3)		(Note 3)
		Taiwan Power Co. 4th Secured Corporate	Held-to-maturity financial assets			300,000		300,000
		Bond-A issue in 2010				(Note 3)		(Note 3)
8	Light Era Development Co., Ltd.	Stocks						
		Yao Yong Real Property Co., Ltd.	Investments accounted for using equity method	Subsidiary	83,290	2,793,667	83,290	2,814,901 (Note 2)

Note 1: Showing at their original carrying amounts without adjustments for fair values.

Note 2: The ending balance includes investment gain (loss) recognized under equity method.

Note 3: Stated at its nominal amounts.

Note 4: The ending balance includes investment gain(loss) recognized under equity method and cumulative transaction adjustments.

(Concluded)

#### TABLE 5

#### CHUNGHWA TELECOM CO., LTD.

#### TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL NINE MONTHS ENDED SEPTEMBER 30, 2010

#### (Amounts in Thousands of New Taiwan Dollars)

								Abnoi	rmal	Notes/Acco Payable	
				]	Fransaction D	etails		Transa		Receivab	
			Nature of			% to			En	nding Balanc	e% to
No.	<b>Company Name</b>	<b>Related Party</b>	Relationship	Purchase/Sale	Amount	TotalP	ayment Terms	U <mark>nits Pride</mark> ay			Total
0	Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd.	Subsidiary	Sales	\$ 1,207,271	1	30 days	(Note 2)	(Note 2)	\$ 296,852	2
		C0., Liu.			(Note 4)					(Note 5)	
				Purchase	3,736,432	5	30-90 days	(Note 2)	(Note 2)	(738,891)	(10)
					(Note 3)					(Note 6)	
		Chunghwa System Integration Co.,	Subsidiary	Purchase	506,302		30 days			(147,253)	(2)
		Ltd.			(Note 8)					(Note 7)	
		CHIEF Telecom Inc.	Subsidiary	Sales	186,349		30 days	(Note 2)	(Note 2)	22,250	
		<i>c</i> i 1	<u>a 1 1 1</u>	Purchase	217,222		60 days	(Note 2)	(Note 2)	(41,079)	(1)
		Chunghwa Telecom Global, Inc.	Subsidiary	Purchase	104,406		90 days			(48,077)	(1)
		So-net Entertainment Taiwan Co., Ltd.	Equity-method investee	Sales	226,811		60 days			5,050	
		Taiwan International Standard Electronics Co., Ltd.	Equity-method investee	Purchase	550,367	1	30-90 days			(54,032)	(1)
1	Senao International Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	3,738,429	26	30-90 days	(Note 2)	(Note 2)	729,689	62
	Ltd.	Ltd.			(Note 3)					(Note 6)	
				Purchase	1,174,342	10	30 days	(Note 2)	(Note 2)	(66,197)	(5)
					(Note 4)					(Note 5)	
3	Chunghwa System Integration Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	842,068	78	30 days			168,253	72
	2.0.	2.0.			(Note 8)					(Note 7)	
2	CHIEF Telecom Inc.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	217,222	24	60 days	(Note 2)	(Note 2)	41,079	30
				Purchase	186,349	27	30 days	(Note 2)	(Note 2)	(22,250)	(30)
							,				

- 5 Chunghwa
   Chunghwa
   Parent company
   Sales
   104,406
   48
   90 days
   48,077
   55

   Telecom Global,
   Telecom Co.,
   Inc.
   Ltd.
   55
- Note 1: Excluding payment and receipts collected in trust for others.
- Note 2: Transaction terms were determined in accordance with mutual agreements.
- Note 3: The difference was because Senao International Co., Ltd. classified the amount as property, plant and equipment, inventories and other current assets.
- Note 4: The difference was because Senao International Co., Ltd. classified the amount as operating expenses.
- Note 5: The difference was because Senao International Co., Ltd. classified the amount as other payables.
- Note 6: The difference was because Senao International Co., Ltd. classified the amount as other receivables and other current assets.
- Note 7: The difference was because Chunghwa classified the amount as payables to contractors.
- Note 8: The difference was because Chunghwa classified the amount as property, plant and equipment, inventories, spare parts and intangible assets.

#### TABLE 6

#### CHUNGHWA TELECOM CO., LTD.

# RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

#### **SEPTEMBER 30, 2010**

#### (Amounts in Thousands of New Taiwan Dollars)

							Overdu	ie A	mounts Receive	ed
No.	Company Name	Related Party	Nature of Relationship	End	ing Balance	Turnover Rate	Amountsctio	n Taken	in Subsequent Period	Allowance for Bad Debts
0	Chunghwa	Senao	Subsidiary							
	Telecom Co., Ltd.	International								
		Co., Ltd.		\$	296,852	9.61	\$		\$ 26,778	\$
1	Senao International Co.,	Chunghwa Telecom Co.,	Parent company							
	Ltd.	Ltd.			971,336	7.47			1,334	
3	Chunghwa System Integration Co.,	Chunghwa Telecom Co.,	Parent company							
	Ltd.	Ltd.			168,253	3.79			43,442	

Note: Payments and receipts collected in trust for others are excluded from the accounts receivable for calculating the turnover rate.

#### TABLE 7

Net

#### CHUNGHWA TELECOM CO., LTD.

# NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

#### NINE MONTHS ENDED SEPTEMBER 30, 2010

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

	Investor	Investee		Main Businesses	Original I Amo September 30,	ount		2010	otember 30, e ofCarrying	Income (Loss) of the	Recognized Gain (Loss) (Notes 1	
No.	Company	Company	Location	and Products	2010	2009 (	Thousa 60 ds)	nership	(%)Value	Investee	and 2)	Note
0	Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd.	Sindian City, Taipei	Selling and maintaining mobile phones and its peripheral products	\$ 1,065,813	\$ 1,065,813	71,773	28	\$ 1,352,399	\$ 942,657	\$ 265,941	Subsidiary
		Light Era Development Co., Ltd.	Taipei	Housing, office building development, rent and sale services	3,000,000	3,000,000	300,000	100	2,866,083	(60,706)	(60,593)	Subsidiary
		Chunghwa Investment Co., Ltd.	Taipei	Telecommunications, telecommunications value-added services and other related professional investment	, 1,738,709	1,738,709	178,000	89	1,717,158	102,952	90,153	Subsidiary
		Chunghwa Telecom Singapore Pte., Ltd.	Singapore	Telecommunication wholesale, internet transfer services international data and long distance call wholesales to carriers	1,389,939	1,389,939	61,869	100	1,470,709	5,082	5,082	Subsidiary
		Chunghwa System Integration Co., Ltd.	Taipei	Providing communication and information aggregative services	838,506	838,506	60,000	100	714,093	20,519	7,668	Subsidiary
		Donghwa Telecom Co., Ltd.	Hong Kong	International telecommunications IP fictitious internet and internet transfer services	522,003	201,263	129,590	100	553,763	14,808	14,808	Subsidiary
		CHIEF Telecom Inc.	Taipei	Internet communication and internet data center ( IDC ) service	482,165	482,165	37,942	69	507,834	84,019	60,227	Subsidiary
		Taiwan International Standard Electronics Co., Ltd.	Taipei	Manufacturing, selling, designing, and maintaining of telecommunications systems and equipment	164,000	164,000	1,760	40	476,566	215,101	89,138	Equity-metho investee

Viettel-CHT Co., Ltd.	Vietnam	IDC services	288,327	288,327		30	265,652	40,539	12,167	Equity-method investee
InfoExplorer Co., Ltd.	Banqiao City, Taipei	IT solution provider, IT application consultation, system integration and package solution	283,500	283,500	22,498	49	256,070	(23,405)	(17,957)	Subsidiary
Chunghwa International Yellow Pages Co., Ltd.	Taipei	Yellow pages sales and advertisement services	150,000	150,000	15,000	100	187,299	35,100	35,100	Subsidiary
Skysoft Co., Ltd.	Taipei	Providing of music on-line, software, electronic information, and advertisement services	67,025	67,025	4,438	30	91,094	19,085	5,726	Equity-method investee
Chunghwa Telecom Global, Inc.	United States	International data and internet services and long distance call wholesales to carriers	70,429	70,429	6,000	100	83,005	23,894	21,602	Subsidiary
Spring House Entertainment Inc.	Taipei	Network services, producing digital entertainment contents and broadband visual sound terrace development	62,209	62,209	5,996	56	67,912	18,632	10,816	Subsidiary
KingWaytek Technology Co., Ltd.	Taipei	Publishing books, data processing and software services	71,770	71,770	1,703	33	63,241	(5,307)	(5,940)	Equity-method investee
So-net Entertainment Taiwan	Taipei	Online service and sale of computer hardware	60,008	60,008	3,429	30	26,134	(15,951)	(4,785)	Equity-method investee
Chunghwa Telecom Japan Co., Ltd.	Japan	Telecom business, information process and information provide service, development and sale of software and consulting services in	17,291	17,291	1	100	17,078	7,409	5,710	Subsidiary
New Prospect Investments Holdings Ltd. (B.V.I.)	British Virgin Islands	telecommunication Investment	(Note 3)	(Note 3)		100	(Note 3)		(Note 3)	Subsidiary
Prime Asia Investments Group Ltd.	British Virgin Islands	Investment	(Note 3)	(Note 3)		100	(Note 3)		(Note 3)	Subsidiary
(B.V.I.)			(	(			(		(2.2.00 0)	

(Continued)

	Investor Company Senao International Co., Ltd.	Investee Company Senao Networks, Inc.	<b>Location</b> Linkou Hsiang, Taipei	Main Businesses and Products Telecommunication facilities manufactures and sales.	Septe	inal Investi mber 30, 2010 206,190	Dece	mber 31,	Balance ShardBer ChoustOnder 16,824	20 centag	10 e of Ca (%)		In (L	Net come oss) of the vestee 107,950	(I (No	ognized Gain Loss) otes 1 nd 2) 44,262	Note Equity- method investee
		Senao International (Samoa) Holding Ltd.	Samoa Islands	International investment		21,395			675	100		20,658		(455)		(455)	Subsidiar
2	CHIEF Telecom Inc.	Unigate Telecom Inc.	Taipei	Telecommunication and internet service.		2,000		2,000	200	100		1,989		(9)		(9)	Subsidiar
		Chief International Corp.	Samoa Islands	Network communication and engine room hiring	(US\$	6,068 200)	(US§	6,068 5 200)	200	100	(US\$	8,081	(US\$	668 21)	(US\$	668 21)	Subsidiar
	Chunghwa System Integrated Co., Ltd.	Concord Technology Co., Ltd	Brunei	Providing advanced business solutions to telecommunications	(US\$	22,530 700)		16,179	700	100	(US\$	3,173	(US\$	(3,933)	(US\$	(3,933) (123))	Subsidiar
8	Light Era	Yao Yong Real Property co., Ltd.	Taipei	Real estate leasing business		2,793,667			83,290	100		2,814,901		30,707		21,234	Subsidiar
	Chunghwa Telecom Singapore Pte., Ltd.		Singapore	Operation of ST-2 telecommunication satellite	(SG\$	409,061 18,102)	(SG§	409,061 5 18,102)	18,102	38	(SG\$	423,742 17,834)	(SG\$	(2,676)	(SG\$	(1,017) (44))	Equity- method investee
	InfoExplorer Co., Ltd.	1	Samoa Islands	International investment	(US\$	24,852 795)				100	(US\$	24,852 795) (Note 5)				(Note 5)	Subsidiar
14	Chunghwa Investment Co., Ltd.	Chunghwa Precision Test Tech. Co., Ltd.		Semiconductor testing components and printed circuit board industry production and marketing of electronic products		91,875		91,875	10,317	54		122,509		24,095		12,949	Subsidiar
		Chunghwa Investment Holding Co.,	Burnei	General investment	(T * C +	34,483		20,000	1,043	100	(*****	21,519		(2,838)		(2,838)	Subsidiar
		Ltd.			(US\$	1,043)	(US\$				(US\$		((US\$		((US\$		-
		Tatung Technology Inc.	Taipei	The product of SET TOP BOX		50,000		50,000	5,000	28		12,391		(87,010)		(23,753)	Equity- method investee
		Panda Monium Company	Cayman	The production of animation	(US\$	20,000	(US§	20,000 6 602)	602	43							Equity- method investee
		Ltd. CHIEF Telecom Inc.	Taipei	Telecommunication and internet service	(USP	20,000	(US4	20,000	2,000	4		23,631		84,019		3,075	Equity- method investee
		Senao International Co., Ltd.	Sindian City, Taipei	Selling and maintaining mobile phones and its peripheral products		30,188			717			35,145		942,657		2,353	Equity- method investee
	Concord Technology Co., Ltd	Glory Network System Service (Shanghai)	Shanghai	Providing advanced business solutions to telecommunications	(US\$	22,530 700)	(US\$	16,179 5 500)	700	100	(US\$	3,169 101)	(US\$	(3,933) (123))	(US\$	(3,933) (123))	Subsidiar

Senao International	Co., Ltd. Senao International	Hong Kong	International investment				100							Subsidiar
(Samoa) Holding Ltd.	HK Limited	Rong	investment						(Note 4)				(Note 4)	
	HopeTech Technologies Limited	Hong Kong	Information technology and telecommunication		21,395	5,240	45		20,657		(1,014)		(456)	Equity- method investee
	Linned		products sales.	(US\$	675)			(US\$	660)	(US\$	(32))	(US\$	(14))	investee
Chunghwa Investment	CHI One Investment Co., Limited	Hong Kong	General investment		14,483	3,500	100		11,018		(2,761)		(2,761)	Subsidiar
Holding Co., Ltd.	CO., Lillined			(US\$	450)			(US\$	347)	(US\$	(85))	(US\$	(85))	
CHI One Investment Co., Limited	Xiamen Sertec Business	Xiamen	Customer Services and platform rental activities		13,862		49		10,444		(5,567)		(2,728)	Equity- method
Co., Linned	Technology Co., Ltd.		activities	(US\$	431)			(US\$	354)	(US\$	(174))	(US\$	(86))	investee
InfoExplorer International Co., Ltd.	InfoExplorer (Hong Kong) Co., Limited	Hong Kong	International investment		24,382		100		24,382					Subsidiar
Co., Liu.	Co., Linned			(US\$	780)			(US\$	780)				(Note 6)	
									(Note 6)					
Chunghwa Precision Test Tech. Co.,	Chunghwa Precision Test Tech. USA	United States	Semiconductor testing components and printed circuit		12,504	400	100		12,504					Subsidiar
Ltd.	Corporation		board industry production and marketing of	(US\$	400)			(US\$	400) (Note 7)				(Note 7)	
			electronic products											

(Continued)

Note 1: The equity in net income (loss) of investees was based on unreviewed financial statements, except Senao International Co., Ltd.

- Note 2: The equity in net income (loss) of investees includes amortization of differences between the investment cost and net value and elimination of unrealized transactions.
- Note 3: New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) were incorporated in March 2006, but not yet begun operation as of September 30, 2010. Chunghwa has 100% ownership right in an amount of US\$1 in each holding company.
- Note 4: Senao International Co., Ltd. established Senao International HK Limited (SIHK) by the subsidiary, SIS in 2009. No capital is injected in SIHK yet by September 30, 2010.
- Note 5: InfoExplorer International Co., Ltd. (IESA) was established by IFE in 2010. Prepayment for long-term investment, US\$795 thousand, is injected in IESA by September 2010, but IESA has not been registered and has not yet begun operation as of September 30, 2010.
- Note 6: InfoExplorer (Hong Kong) Co., Limited (IEHK) was established by IESA in 2010. Prepayment for long-term investment, US\$780 thousand, is injected in IEHK by September 2010, but IEHK has not been registered and has not yet begun operation as of September 30, 2010.
- Note 7: Chunghwa Precision Test Tech. USA Corporation (CHPT (US)) was established by Chunghwa Precision Test Tech. Co., Ltd. in 2010. CHPT (US) has been injected capital in an amount of US\$400 thousand and completed its registration in September 2010; however, it has not yet begun operation as of September 30, 2010.

(Concluded)

#### TABLE 8

#### CHUNGHWA TELECOM CO., LTD.

#### INVESTMENT IN MAINLAND CHINA

#### NINE MONTHS ENDED SEPTEMBER 30, 2010

#### (Amounts in Thousands of New Taiwan Dollars, in Thousands of U.S. Dollars)

Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2010	Investment Flows Outflow	Taiwa as of	of ent Ownershi n Of Direct or r 30,Indirect	Investment Gain (Loss)	Accumulated Inward Remittance of Earnings Carrying as Value as of of Septembe&@ptember 30, 2010 2010
Glory Network System Service (Shanghai) Co., Ltd.	Providing advanced business solutions to telecommunications	\$ 22,530 (US\$ 700)	Note 1	. ,	\$ 6,351 (US\$ 200)			\$ (3,933) ((US\$ 123))	\$ 3,169 \$ (US\$ 101)
Xiamen Sertec Business Technology Co., Ltd.	Customer Services and platform rental activities	28,282 (US\$ 880)	Note 1		13,862 (US\$ 431)	,	<ul><li>49%</li><li>431)</li></ul>	(2,728) ((US\$ 86))	

#### Accumulated Investment in

	nd China as of per 30, 2010	Authorized b Comm	it Amounts by Investment hission, DEA	Upper Limit on Investme Stipulated by Investment Commission, MOEA				
\$	22,530	\$	48,169	\$	387,253			
(US\$	700)	(US\$	1,500)		(Note 3)			
	13,862		79,882		1,270,594			
(US\$	431)	(US\$	2,500)		(Note 4)			

Note 1: Chunghwa System Integration Co., Ltd. and Chunghwa Investment Co., Ltd. indirectly owns this investee through an investment company registered in a third region.

Note 2: Recognition of investment gains (losses) was calculated based on the investee s unreviewed financial statements.

Note 3: The amount was calculated based on the net assets value of Chunghwa System Integration Co., Ltd.

Note 4: The amount was calculated based on the consolidated net assets value of Chunghwa Investment Co., Ltd.

#### TABLE 9

#### CHUNGHWA TELECOM CO., LTD.

#### SEGMENT INFORMATION

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

#### (Amount in Thousands of New Taiwan Dollars)

	Domestic Fixed Communications Business	Mobile Communications Business	Internet Business	International Fixed Communications Business	Others	Adjustment	Total
Nine months ended September 30, 2010							
Revenues from external customers	\$ 52,193,691	\$ 57,000,501	\$ 17,646,022	\$ 11,591,004	\$ 171,308	\$	\$ 138,602,526
Intersegment revenues (Note 2)	\$ 10,472,600	\$ 1,515,021	\$ 716,213	\$ 1,126,419	\$ 1,172	\$ (13,831,425)	\$
Segment income before tax	\$ 13,386,334	\$ 22,169,467	\$ 7,273,548	\$ 2,134,807	\$ (1,049,929)	\$	\$ 43,914,227
Total assets	\$ 228,273,588	\$ 57,982,993	\$ 15,875,687	\$ 20,655,176	\$ 99,878,936	\$	\$ 422,666,380
Nine months ended September 30, 2009							
Revenues from external customers	\$ 53,045,776	\$ 55,363,190	\$ 16,635,358	\$ 11,409,083	\$ 143,052	\$	\$ 136,596,459
Intersegment revenues (Note 2)	\$ 9,816,884	\$ 1,422,484	\$ 517,217	\$ 1,064,383	\$ 347	\$ (12,821,315)	\$
Segment income before tax	\$ 12,573,418	\$ 22,795,140	\$ 6,698,987	\$ 1,775,486	\$ (981,452)	\$	\$ 42,861,579
Total assets	\$ 238,275,397	\$ 59,522,255	\$ 16,103,399	\$ 18,343,343	\$ 96,000,122	\$	\$ 428,244,516

Note 1: The Company organizes its reporting segments based on types of organizational business. The five reporting segments are segregated as below: domestic fixed communications business, mobile communications business, internet business, international fixed communications business and others.

Domestic fixed communications business - the provision of local telephone services, domestic long distance telephone services, broadband access, and related services;

Mobile communications business - the provision of mobile services, sales of mobile handsets and data cards, and related services;

Internet business - the provision of HiNet services and related services;

International fixed communications business - the provision of international long distance telephone services and related services;

Others - the provision of non-Telecom Services, and the corporate related items not allocated to reportable segments.

Note 2: Represents intersegment revenues from goods and services.

Note 3: Beginning from September 1, 2009, the Company redefined its financial reporting operating segments into five operating segments: (a) domestic fixed communications business, (b) mobile communications business, (c) internet business, (d) international fixed communications business and (e) others. Prior to September 1, 2009, Chunghwa Telecom had six operating segments: (a) local operations, (b) domestic long distance operations, (c) international long distance operations, (d) cellular service operations, (e) internet and data operations and (f) all others. The redefinition of the Company s operating segments is expected to facilitate the management s ability to assess the performance of each operating segment by conforming the Company s operating segments to the international trends of other telecommunications companies in general. The Company also early adopted the Statement of Financial accounting Standards No. 41 Operating Segments (SFAS No. 41) starting from September 1, 2009.

Chunghwa Telecom Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the

Nine Months Ended September 30, 2010 and 2009 and

Independent Accountants Review Report

#### INDEPENDENT ACCOUNTANTS REVIEW REPORT

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Chunghwa Telecom Co., Ltd. and subsidiaries (the Company) as of September 30, 2010 and 2009, and the related consolidated statements of income and cash flows for the nine months then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

Except for the matters described in the next paragraph, we conducted our reviews in accordance with the Statement on of Auditing Standards No. 36, Review of Financial Statements, issued by the Auditing Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an audit opinion.

As discussed in Note 2 to the consolidated financial statements, the financial statements of certain subsidiaries as of and for the nine months ended September 30, 2010 and 2009 have not been reviewed. The total assets of these subsidiaries were 3.52% (NT\$15,186,321 thousand) and 2.53% (NT\$10,972,584 thousand), and the total liabilities of these subsidiaries were 11.19% (NT\$6,188,816 thousand) and 4.57% (NT\$2,567,970 thousand), of the related consolidated amounts as of September 30, 2010 and 2009, respectively. The total revenues of these subsidiaries were 1.80% (NT\$2,705,963 thousand) and 1.61% (NT\$2,373,528 thousand) of the related consolidated revenues for the nine months ended September 30, 2010 and 2009, respectively and their net losses were NT\$427,274 thousand and NT\$322,787 thousand for the nine months ended September 30, 2010 and 2009, respectively. Further, as discussed in Note 12 to the consolidated financial statements, the financial statements of all equity method investees as of and for the nine months ended September 30, 2010 and 2009, respectively. The aggregate carrying values of these equity method investees were NT\$1,690,251 thousand and NT\$1,678,889 thousand as of September 30, 2010 and 2009, respectively. and the equity in earnings (losses) were NT\$112,614 thousand and NT\$(30,742) thousand for the nine months ended September 30, 2010 and 2009, respectively.

Based on our reviews, except for the effects of such adjustments, if any, as might have been determined to be necessary had we reviewed financial statements of certain subsidiaries and equity method investees referred to in the preceding paragraph, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the consolidated financial statements, the Company early adopted the new Statements of Financial Accounting Standards No. 41, Operating Segments (SFAS No. 41) beginning from September 1, 2009.

/s/ DELOITTE & TOUCHE Deloitte & Touche Taipei, Taiwan The Republic of China October 25, 2010

#### Notice to Readers

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

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

#### CONSOLIDATED BALANCE SHEETS

#### **SEPTEMBER 30, 2010 AND 2009**

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

#### (Reviewed, Not Audited)

	2010 Amount	%	2009 Amount	%
ASSETS				
CURRENT ASSETS Cash and cash equivalents (Notes 2 and 4)	\$ 67,400,348	16	\$ 55,759,268	13
Financial assets at fair value through profit or loss (Notes 2 and 5)	61.377	10	\$ 55,759,208 68,800	15
Available-for-sale financial assets (Notes 2 and 6)	3,285,019	1	16,578,732	4
Held-to-maturity financial assets (Notes 2 and 7)	1,343,595	1	754,882	-
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,679,116 thousand in 2010	1,515,575		751,002	
and $$2,878,069$ thousand in 2009 (Notes 2, 8 and 21)	13,360,344	3	11,610,519	3
Receivables from related parties (Note 28)	36,559	-	118,730	-
Other monetary assets (Notes 9 and 21)	4.657.167	1	2,713,938	1
Inventories (Notes 2, 3, 10 and 21)	3,884,944	1	4,134,120	1
Deferred income tax assets (Notes 2 and 25)	94,161		108,408	
Restricted assets (Notes 21, 29 and 30)	144,936		118,949	
Other current assets (Notes 11, 21 and 28)	6,472,682	1	6,915,609	1
Total current assets	100,741,132	23	98,881,955	23
LONG-TERM INVESTMENTS				
Investments accounted for using equity method (Notes 2 and 12)	1,690,251		1,678,889	
Financial assets carried at cost (Notes 2 and 13)	2,744,402	1	2,440,313	1
Held-to-maturity financial assets (Notes 2 and 7)	7,227,058	2	4,331,829	1
Other monetary assets (Notes 14 and 30)	1,000,000		1,000,000	
Total long-term investments	12,661,711	3	9,451,031	2
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15, 28, 29 and 30)				
Cost				
Land	103,719,103	24	101,474,007	23
Land improvements	1,538,009		1,514,307	
Buildings	67,241,532	16	63,096,081	15
Computer equipment	15,882,509	4	15,874,565	4
Telecommunications equipment	656,243,444	152	652,099,994	150
Transportation equipment	1,959,406		2,235,040	1
Miscellaneous equipment	7,193,903	2	7,324,772	2
Total cost	853,777,906	198	843,618,766	195
Revaluation increment on land	5,800,909	170	5,810,342	1)5
	2,000,000	-	0,010,012	
	050 570 015	100	840 400 100	107
	859,578,815	199	849,429,108	196
Less: Accumulated depreciation	567,883,608	131	553,042,029	128

	291,695,207	68	296,387,079	68
Construction in progress and advances related to acquisition of equipment	13,244,355	3	15,330,891	4
Property, plant and equipment, net	304,939,562	71	311,717,970	72
INTANGIBLE ASSETS (Note 2)				
3G concession	6,176,022	2	6,924,631	2
Goodwill	283,054	2	278,488	2
Others	517,991		562,423	
	517,551		502,425	
Total intangible assets	6,977,067	2	7,765,542	2
OTHER ASSETS				
Leased assets	414,102		1,059,796	
Idle assets (Note 2)	907,930		957,934	
Refundable deposits	1,497,284		1,479,661	1
Deferred income tax assets (Notes 2 and 25)	446,507		1,275,299	
Restricted assets (Note 29)	60,692		59,208	
Others (Note 28)	3,293,535	1	1,087,820	
Total other assets	6,620,050	1	5,919,718	1
TOTAL	\$ 431,939,522	100	\$ 433,736,216	100

#### CONSOLIDATED BALANCE SHEETS (Continued)

#### SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

	Am	2010 ount	%	2009 Amount	%
LIABILITIES AND STOCKHOLDERS EQUITY					
CURRENT LIABILITIES					
Short-term loans (Note 16)	\$	145,686		\$ 790,000	
Short-term bills payable (Notes 17 and 21)		129,963		+ ,,,	
Financial liabilities at fair value through profit or loss (Notes 2 and 5)		3,786		2,401	
Trade notes and accounts payable (Note 21)	8,	066,803	2	8,293,481	2
Payables to related parties (Note 28)		95,747		764,241	
Income tax payable (Notes 2 and 25)	2,	629,571	1	2,351,985	
Accrued expenses (Notes 18 and 21)	13,	451,247	3	13,136,089	3
Current portion of long-term loans (Note 20)		108,869		113,426	
Other current liabilities (Notes 19, 21, and 28)	16,	964,237	4	16,244,454	4
Total current liabilities	41,	595,909	10	41,696,077	9
NONCURRENT LIABILITIES					
Long-term loans (Note 20)	3,	375,489	1	256,786	
Deferred income (Note 2)	2,	549,509		2,414,029	1
Total noncurrent liabilities	5,	924,998	1	2,670,815	1
RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)		94,986		94,986	
OTHER LIABILITIES Accrued pension liabilities (Notes 2 and 27)		271,174	2	5,205,828	1
Customers deposits		868,394	2	6,043,093	2
Others Total other liabilities		533,139 672,707	2	436,293 11,685,214	3
Total liabilities	55,	288,600	13	56,147,092	13
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT (Notes 2, 6, 15 and 22) Capital stock - \$10 par value;					
Authorized: 12,000,000 thousand shares					
Issued: 9,696,808 thousand shares in 2010 and 10,666,489 thousand shares in 2009	96,	968,082	23	106,664,890	25

Additional paid-in capital

	1 60 106 000	20	1 60 106 000	20
Capital surplus	169,496,289	39	169,496,289	39
Donated capital	13,170		13,170	
Equity in additional paid-in capital reported by equity-method investees	2,262		3	
Total additional paid-in capital	169,511,721	39	169,509,462	39
Retained earnings				
Legal reserve	61,361,255	14	56,987,241	13
Special reserve	2,675,894	1	2,675,894	
Unappropriated earnings	36,951,097	8	33,170,864	8
Total retained earnings	100,988,246	23	92,833,999	21
č				
Other adjustments				
Cumulative translation adjustments	34,421		14,583	
Unrecognized net loss of pension	(84,487)		(5)	
Unrealized loss on financial instruments	(341,868)		(757,816)	
Unrealized revaluation increment	5,803,446	1	5,812,879	1
	-,,	-	-,,,	-
Total other adjustments	5,411,512	1	5,069,641	1
Total offer adjustments	5,411,512	1	5,009,041	1
Total equity attributable to stockholders of the parent	372,879,561	86	374,077,992	86
	572,079,501	00	571,077,552	
MINORITY INTEREST IN SUBSIDIARIES	3,771,361	1	3,511,132	1
Total stockholders equity	376,650,922	87	377,589,124	87
	¢ 421.020.520	100	¢ 422 72( 01(	100
TOTAL	\$ 431,939,522	100	\$ 433,736,216	100

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

(With Deloitte & Touche review report dated October 25, 2010)

#### CONSOLIDATED STATEMENTS OF INCOME

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

	2010 Amount	%	2009 Amount	%
NET REVENUES (Note 28)	\$ 150,134,417	100	\$ 147,234,655	100
OPERATING COSTS (Note 28)	84,076,382	56	82,942,804	57
GROSS PROFIT	66,058,035	44	64,291,851	43
OPERATING EXPENSES (Note 28)				
Marketing	16,480,842	11	15,938,063	11
General and administrative	2,923,081	2	2,799,267	2
Research and development	2,424,301	2	2,322,231	1
Total operating expenses	21,828,224	15	21,059,561	14
INCOME FROM OPERATIONS	44,229,811	29	43,232,290	29
NON-OPERATING INCOME AND GAINS (Note 28)				
Interest income	333,734	1	404,157	
Equity in earnings of equity method investees, net	112,614		,	
Gain on disposal of financial instrument, net	35,102			
Foreign exchange gain, net	32,845		64,643	
Dividend income	19,944		53,816	
Valuation gain on financial instruments, net	3,324		122,848	
Others	299,304		492,110	1
Total non-operating income and gains	836,867	1	1,137,574	1
NON-OPERATING EXPENSES AND LOSSES				
Interest expense	98,490		11,578	
Impairment loss on assets	52,916		85,349	
Loss arising from natural calamities	14,152		186,271	
Loss on disposal of property, plant and equipment, net	11,057		31,706	
Loss on disposal of financial instruments, net	,		146,989	
Equity in losses of equity method investees, net			30,742	
Others	46,701		121,546	

Total non-operating expenses and losses	223,316	614,181	

(Continued)

#### CONSOLIDATED STATEMENTS OF INCOME

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

	2010		2009			
	A	mount	%	Aı	mount	%
INCOME BEFORE INCOME TAX	\$44	,843,362	30	\$ 43,	,755,683	30
INCOME TAX EXPENSE (Notes 2 and 25)	7	,186,400	5	9,	,974,950	7
CONSOLIDATED NET INCOME	\$ 37	,656,962	25	\$ 33,	,780,733	23
ATTRIBUTED TO						
Stockholders of the parent		,944,190	25		,178,919	23
Minority interests		712,772			601,814	
	\$ 37	,656,962	25	\$ 33,	,780,733	23
	2010 Income		2009 Income		2009 ncome	
	B	Sefore	Before		Before	
	Income		Income Net Inco		Income Net	
		Tax	Income		Tax	Income
EARNINGS PER SHARE (Note 26)						
Basic earnings per share	\$	4.53	\$ 3.81	\$	4.42	\$ 3.42

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

(With Deloitte & Touche review report dated October 25, 2010)

(Concluded)

#### CONSOLIDATED STATEMENTS OF CASH FLOWS

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

#### (Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

Provision for doubtful accounts         265,522         360,72           Depreciation and amortization         25,724,490         27,356,411,17           Valuation loss on inventory         20,744         11,117           Valuation gain on financial instruments, net         (3,324)         (122,84)           Loss on disposal of financial instruments, net         (35,102)         146,98           Loss on disposal of financial instruments, net         (11,057)         31,70           So and disposal of idle assets         (17,21)         20,744         11,15           Loss on disposal of idle assets         (17,21)         31,70         31,70           Gain on disposal of idle assets         (17,21)         35,862         89,27           Impairment loss on assets         52,916         85,34           Loss and ipposal of protenty investees, net         (11,2614)         30,74           Deferred income taxes         48,991         297,89           Charges in operating assets and liabilities:         20,2788         20,280           Decrease (increase) in:         11,152         186,220         154,111           Inventories         (1,448)         188,22         173,46,443         (1,23,629)         (541,11)           Inventories         (1,24,264)         (1,25,60,		2010	2009
Consolidated net income         \$ 37,656,962         \$ 33,780,73           Provision for doubtful accounts         265,522         360,72           Depreciation and amortization         25,724,440         27,356,47           Amortization of premium of financial instruments, net         26,531         11,17           Valuation loss on inventory         20,744         1,11           Valuation gain on financial instruments, net         (3,324)         (12,84           Loss of disposal of property, plant and equipment, net         11,057         31,70           Loss on disposal of ficased assets         2         2           Gain on disposal of ficased assets         11,057         31,70           Dividends received from equity investees         35,862         89,27           Inpairment loss on assets         52,916         85,34           Loss arising from natural calamities         14,152         186,27           Defered income taxes         48,991         20,780           Changes in operating assets and liabilities:         20         144,89           Decrease (increase) in:         11,057,03,04         14,152           Financial assets field for rading         (1,448, 188,22         168,22           Changes in operating assets and liabilities:         20,260,01         (1,263,00)<	CASH FLOWS FROM OPERATING ACTIVITIES		
Provision for doubtful accounts         265,522         360,72           Depreciation and amortization         25,724,490         27,356,411,17           Valuation loss on inventory         20,744         11,117           Valuation gain on financial instruments, net         (3,324)         (122,84)           Loss on disposal of financial instruments, net         (35,102)         146,98           Loss on disposal of financial instruments, net         (11,057)         31,70           So and disposal of idle assets         (17,21)         20,744         11,15           Loss on disposal of idle assets         (17,21)         31,70         31,70           Gain on disposal of idle assets         (17,21)         35,862         89,27           Impairment loss on assets         52,916         85,34           Loss and ipposal of protenty investees, net         (11,2614)         30,74           Deferred income taxes         48,991         297,89           Charges in operating assets and liabilities:         20,2788         20,280           Decrease (increase) in:         11,152         186,220         154,111           Inventories         (1,448)         188,22         173,46,443         (1,23,629)         (541,11)           Inventories         (1,24,264)         (1,25,60,	Consolidated net income	\$ 37,656,962	\$ 33,780,733
Depreciation and amortization         25,724,490         27,356,47           Amortization of premium of financial assets         26,531         11,17           Valuation loss on inventory         20,744         1,11           Valuation of sposal of financial instruments, net         (3,324)         (122,84)           Loss of aliposal of property, plant and equipment, net         11,057         31,70           Loss on disposal of fleased assets         2         2           Gain on disposal of ideased assets         12,014         30,74           Thy in loss (earnings) of equity method investees, net         (112,014)         30,74           Dividends received from equity investees         35,862         89,27           Deferred income taxes         52,916         85,34           Loss arising from natural calamities         14,152         186,27           Deferred income taxes         14,152         186,27           Deferred income taxes         (1,448)         188,22           Trade notes and accounts precivable         (1,256)         (1,436)           Receivables from related parties         (2,266)         (2,561,31           Inventories         (1445)         (185,22)         141,546           Other current assets         (2,666,463)         (2,560,13)	Provision for doubtful accounts		360,721
Valuation loss on inventory       20,744       1,11         Valuation gain on financial instruments, net       (3,324)       (122,84         Loss (gain on disposal of financial instruments, net       (3,102)       146,98         Loss on disposal of property, plant and equipment, net       11,057       31,70         Loss on disposal of leased assets       2       2         Gain on disposal of rom equity investees       35,862       89,27         Inpairment loss on assets       52,916       85,34         Loss on inoperating assets and liabilities:       24,152       186,27         Deferred income taxes       48,991       297,89         Changes in operating assets and liabilities:       2       2         Decrease (increase) in:       7       7         Financial assets held for trading       (1,448)       188,22         Trade notes and accounts receivable       (1,540,266)       (1,036,31)         Increase (increase) in:       7       7       7         Financial assets held for trading       (1,448)       188,22       7         Increase (decrease) in:       7       14,546       (17,510,66)       (1,361,68)         Invertories       (1,23,629)       (541,11)       11       146,1746       (17,213,62)       (	Depreciation and amortization		27,356,475
Valuation loss on inventory       20,744       1,11         Valuation gain on financial instruments, net       (3,324)       (122,84         Loss (gain on disposal of financial instruments, net       (3,102)       146,98         Loss on disposal of property, plant and equipment, net       11,057       31,70         Loss on disposal of leased assets       2       2         Gain on disposal of rom equity investees       35,862       89,27         Inpairment loss on assets       52,916       85,34         Loss on inoperating assets and liabilities:       24,152       186,27         Deferred income taxes       48,991       297,89         Changes in operating assets and liabilities:       2       2         Decrease (increase) in:       7       7         Financial assets held for trading       (1,448)       188,22         Trade notes and accounts receivable       (1,540,266)       (1,036,31)         Increase (increase) in:       7       7       7         Financial assets held for trading       (1,448)       188,22       7         Increase (decrease) in:       7       14,546       (17,510,66)       (1,361,68)         Invertories       (1,23,629)       (541,11)       11       146,1746       (17,213,62)       (	Amortization of premium of financial assets	26,531	11,171
Valuation gain on financial instruments, net       (3,324)       (122,84         Loss (gain) on disposal of financial instruments, net       (35,102)       146,98         Loss on disposal of leased assets       2         Gain on disposal of leased assets       2         Gain on disposal of idle assets       (17,21         Equity in loss (earnings) of equity method investees, net       (112,614)       30,74         Dividends received from equity investees       35,862       89,27         Impairment loss on assets       52,916       85,34         Loss arising from natural calamities       14,152       186,27         Decrease (increase) in:       7       7         Financial assets held for trading       (1,448)       188,22         Trade notes and accounts receivable       (1,540,266)       (1,23,629)       (54,11)         Inventories       141,554       (17,515)       (16,14,11)       145,52       (17,12)         Other current assets       (2,266,463)       (2,250,13)       (2,66,463)       (2,560,13)         Inventories       (14,148)       188,22       (14,448)       (188,22)       (14,448)       (188,22)         Trade notes and accounts receivable       (1,540,266)       (1,036,33)       (2,0580)       (42,62)       (0,44,62)<	Valuation loss on inventory	20,744	1,112
Loss on disposal of property, plant and equipment, net       11,057       31,70         Loss on disposal of leased assets       2         Gain on disposal of guity method investees, net       (112,614)       30,74         Dividends received from equity investees       35,862       89,27         Impairment loss on assets       52,916       85,34         Loss arising from natural calamities       14,152       186,27         Deferred income taxes       48,991       297,89         Changes in operating assets and liabilities:       Decrease (increase) in:       Financial assets held for trading       (1,448)       188,22         Trade notes and accounts receivable       (1,540,266)       (1,036,31)       Increase       (12,23,629)       (541,11)         Inventories       (14,52,680)       (42,62       (04,664)       (2,560), (13,63)         Other unnetary assets       (1,22,3,629)       (541,11)       Inventories       (1,448)       (188,22)         Increase (decrease) in:       Trade notes and accounts payable       (2,666,463)       (2,560), (3,260)         Increase (decrease) in:       Trade notes and accounts payable       (1,676,280)       (2,915,73)         Payables to related parties       (28,772)       148,81       (3,366,65)       (2,915,73)         Payable	Valuation gain on financial instruments, net	(3,324)	(122,848)
Loss on disposal of leased assets         2           Gain on disposal of idle assets         (17,21           Equity in loss (earnings) of equity method investees, net         (112,614)         30,74           Dividends received from equity investees         35,862         89,27           Impairment loss on assets         52,916         85,34           Loss arising from natural calamities         14,152         186,27           Deferred income taxes         48,991         297,89           Changes in operating assets and liabilities:         Decrease (increase) in:         Trade notes and accounts receivable         (1,540,266)         (1,036,31           Receivables from related parties         (20,580)         (42,62         (14,46)         188,22           Other monetary assets         (1,22,3629)         (541,11)         Inventories         (1,22,3629)         (541,11)           Inventories         (1,22,3629)         (541,11)         Inventories         (2,666,463)         (2,560,15)           Other current assets         (1,676,280)         (2,230)         6           Trade notes and accounts payable         (1,676,280)         (2,915,73           Payables to related parties         (287,772)         148,81           Income tax payable         (1,681,968)         (3,336,61	Loss (gain) on disposal of financial instruments, net	(35,102)	146,989
Loss on disposal of leased assets         2           Gain on disposal of idle assets         (17,21           Equity in loss (earnings) of equity method investees, net         (112,614)         30,74           Dividends received from equity investees         35,862         89,27           Impairment loss on assets         52,916         85,34           Loss arising from natural calamities         14,152         186,27           Deferred income taxes         48,991         297,89           Changes in operating assets and liabilities:         Decrease (increase) in:         Trade notes and accounts receivable         (1,540,266)         (1,036,31           Receivables from related parties         (20,580)         (42,62         (14,46)         188,22           Other monetary assets         (1,22,3629)         (541,11)         Inventories         (1,22,3629)         (541,11)           Inventories         (1,22,3629)         (541,11)         Inventories         (2,666,463)         (2,560,15)           Other current assets         (1,676,280)         (2,230)         6           Trade notes and accounts payable         (1,676,280)         (2,915,73           Payables to related parties         (287,772)         148,81           Income tax payable         (1,681,968)         (3,336,61	Loss on disposal of property, plant and equipment, net	11,057	31,706
Equity in loss (earnings) of equity method investees, net         (112,614)         30,74           Dividends received from equity investees         35,862         89,27           Impairment loss on assets         52,916         85,34           Loss arising from natural calamities         14,152         186,27           Deferred income taxes         48,991         297,89           Changes in operating assets and liabilities:         Decrease (increase) in:         Telenotial assets held for trading         (1,448)         188,22           Trade notes and accounts receivable         (1,23,629)         (541,11)         141,546         (175,15)           Other monetary assets         (1,23,629)         (541,11)         141,546         (175,15)           Other current assets         (2,666,463)         (2,205,01)         141,546         (175,15)           Other current assets         (2,203)         6         141,546         (175,15)           Other current assets         (2,203)         6         141,546         (133,66,62)         (2,915,73)           Payables to related parties         (2,203)         6         1,560,622         500,34         (3,366,63)         (3,383,11)           Increase (decrease) in:	Loss on disposal of leased assets		24
Dividends received from equity investees         35,862         89,27           Impairment loss on assets         52,916         85,34           Loss arising from natural calamities         14,152         186,27           Deferred income taxes         48,991         297,89           Changes in operating assets and liabilities:         200         207,89           Decrease (increase) in:         Financial assets held for trading         (1,448)         188,22           Trade notes and accounts receivable         (1,540,266)         (1,036,31)           Receivables from related parties         (20,580)         (42,62)           Other monetary assets         (1,223,629)         (541,11)           Inventories         141,546         (175,15)           Other current assets         (2,2666,463)         (2,2606,13)           Increase (decrease) in:         Financial labilities held for trading         (2,203)         6           Financial labilities         (1,676,280)         (2,915,73)         148,81           Income tax payable         (1,681,968)         (3,366,52)         500,34           Income tax payable         (1,681,968)         (3,366,52)         500,34           Deferred income         64,066         351,90         35,667         29,82      <	Gain on disposal of idle assets		(17,210)
Impairment loss on assets         52,916         85,34           Loss arising from natural calamities         14,152         186,27           Deferred income taxes         48,991         297,89           Changes in operating assets and liabilities:         200         297,89           Decrease (increase) in:         11,448         188,22           Trade notes and accounts receivable         (1,448)         188,22           Receivables from related parties         (20,580)         (42,62           Other monetary assets         (1,223,629)         (541,11           Inventories         (1,23,629)         (541,11           Inventories         (1,23,629)         (541,11           Inventories         (1,223,629)         (541,11           Inventories         (1,23,629)         (541,11           Inventories         (1,23,629)         (541,11           Inventories         (2,203)         6           Trade notes and accounts payable         (2,203)         6           Trade notes and accounts payable         (1,676,280)         (2,915,73           Payables to related parties         (28,77,72)         148,81           Income tax payable         (1,681,681)         (3,386,57           Accrued expenses         (3,9	Equity in loss (earnings) of equity method investees, net	(112,614)	30,742
Loss arising from natural calamities         14,152         186,27           Deferred income taxes         48,991         297,89           Changes in operating assets and liabilities:         Decrease (increase) in:         1           Financial assets held for trading         (1,448)         188,22           Trade notes and accounts receivable         (1,540,266)         (1,036,31           Receivables from related parties         (20,580)         (42,62           Other monetary assets         (1,223,629)         (541,11)           Inventories         141,546         (175,15           Other current assets         (2,666,463)         (2,560,13)           Increase (decrease) in:	Dividends received from equity investees	35,862	89,279
Deferred income taxes         48,991         297,89           Changes in operating assets and liabilities:	Impairment loss on assets	52,916	85,349
Changes in operating assets and liabilities:Decrease (increase) in:Financial assets held for trading(1,448)Receivables from related parties(20,580)(44,62)(20,580)Other monetary assets(1,223,629)Other urrent assets(2,666,463)Other current assets(2,666,463)Increase (decrease) in:(2,203)Financial liabilities held for trading(2,203)Other at a counts payable(1,676,280)Charles and accounts payable(1,676,280)Current inabilities(2,87,772)Payables to related parties(3,996,283)Accrued expenses(3,996,283)Other current liabilities1,560,662Source of persion liabilities53,66729,82State of the state	Loss arising from natural calamities	14,152	186,271
Decrease (increase) in:       Financial assets held for trading       (1,448)       188,22         Trade notes and accounts receivable       (1,036,31)       (1,036,31)         Receivables from related parties       (20,580)       (42,62)         Other monetary assets       (1,223,629)       (541,11)         Inventories       141,546       (175,15)         Other current assets       (2,666,463)       (2,560,13)         Increase (decrease) in:       Financial liabilities held for trading       (2,203)       6         Trade notes and accounts payable       (1,676,280)       (2,915,73)         Payables to related parties       (1,681,968)       (3,336,65)         Accrued expenses       (3,996,283)       (3,383,65)         Accrued expenses       (3,996,283)       (3,386,65)         Other current liabilities       1,560,622       500,34         Deferred income       64,066       351,900         Accrued pension liabilities       53,667       29,82         Net cash provided by operating activities       52,429,196       49,466,72         CASH FLOWS FROM INVESTING ACTIVITIES       CASH FLOWS FROM INVESTING ACTIVITIES       27,326)       (33,62	Deferred income taxes	48,991	297,892
Financial assets held for trading       (1,448)       188,22         Trade notes and accounts receivable       (1,540,266)       (1,036,31         Receivables from related parties       (20,580)       (42,62         Other monetary assets       (1,223,629)       (541,11)         Inventories       141,546       (175,15         Other current assets       (2,666,463)       (2,260,13)         Increase (decrease) in:       7       7         Financial liabilities held for trading       (2,203)       6         Trade notes and accounts payable       (1,676,280)       (2,915,73)         Payables to related parties       (1,678,180)       (2,336,65)         Accrued expenses       (3,996,283)       (3,383,11)         Other current liabilities       1,560,622       500,34         Deferred income       64,066       351,90         Accrued pension liabilities       53,667       29,82         Net cash provided by operating activities       52,429,196       49,466,72         CASH FLOWS FROM INVESTING ACTIVITIES       20,429,196       49,466,72	Changes in operating assets and liabilities:		
Trade notes and accounts receivable       (1,540,266)       (1,036,31         Receivables from related parties       (20,580)       (42,62         Other monetary assets       (1,223,629)       (541,11)         Inventories       141,546       (175,15)         Other current assets       (2,660,463)       (2,660,463)         Increase (decrease) in:       Financial liabilities held for trading       (2,203)       6         Trade notes and accounts payable       (1,676,280)       (2,915,73)         Payables to related parties       (287,772)       148,81         Income tax payable       (1,681,968)       (3,336,65)         Accrued expenses       (3,996,283)       (3,383,11)         Other current liabilities       1,560,622       500,34         Deferred income       64,066       351,90         Accrued pension liabilities       53,667       29,82         Net cash provided by operating activities       52,429,196       49,466,72         CASH FLOWS FROM INVESTING ACTIVITIES       (27,326)       (33,62         Acquisition of designated financial asset at fair value through profit or loss       (27,326)       (33,62	Decrease (increase) in:		
Receivables from related parties(20,580)(42,62)Other monetary assets(1,223,629)(541,11)Inventories141,546(175,15)Other current assets(2,666,443)(2,560,13)Increase (decrease) in:Financial liabilities held for trading(2,203)6Trade notes and accounts payable(1,676,280)(2,915,73)Payables to related parties(287,772)148,81Income tax payable(1,681,968)(3,336,65)Accrued expenses(3,996,283)(3,383,11)Other current liabilities1,560,622500,34Deferred income64,066351,900Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIES(27,326)(33,62)Acquisition of designated financial asset at fair value through profit or loss(27,326)(33,62)	Financial assets held for trading	(1,448)	188,221
Other monetary assets       (1,223,629)       (541,11)         Inventories       141,546       (175,15)         Other current assets       (2,666,463)       (2,560,13)         Increase (decrease) in:	Trade notes and accounts receivable	(1,540,266)	(1,036,319)
Inventories141,546(175,15Other current assets(2,666,463)(2,560,13)Increase (decrease) in:(2,203)6Trade notes and accounts payable(1,676,280)(2,915,73)Payables to related parties(287,772)148,81Income tax payable(1,681,968)(3,336,65)Accrued expenses(3,996,283)(3,383,11)Other current liabilities1,560,6622500,34Deferred income64,066351,90Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIES(27,326)(33,62	Receivables from related parties	(20,580)	(42,626)
Other current assets(2,666,463)(2,560,13)Increase (decrease) in:(2,203)6Financial liabilities held for trading(2,203)6Trade notes and accounts payable(1,676,280)(2,915,73)Payables to related parties(287,772)148,81Income tax payable(1,681,968)(3,336,65)Accrued expenses(3,996,283)(3,383,11)Other current liabilities1,560,622500,34Deferred income64,066351,90Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIES(27,326)(33,62	Other monetary assets	(1,223,629)	(541,119)
Increase (decrease) in:Financial liabilities held for trading(2,203)Trade notes and accounts payable(1,676,280)Payables to related parties(287,772)Income tax payable(1,681,968)(3,996,283)(3,336,65)Accrued expenses(3,996,283)(3,996,283)(3,383,11)Other current liabilities1,560,622Deferred income64,066Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIESAcquisition of designated financial asset at fair value through profit or loss(27,326)(27,326)(33,62	Inventories	141,546	(175,156)
Financial liabilities held for trading(2,203)66Trade notes and accounts payable(1,676,280)(2,915,73Payables to related parties(287,772)148,81Income tax payable(1,681,968)(3,336,65Accrued expenses(3,996,283)(3,383,11Other current liabilities1,560,622500,34Deferred income64,066351,90Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIES20,20033,62Acquisition of designated financial asset at fair value through profit or loss(27,326)(33,62	Other current assets	(2,666,463)	(2,560,131)
Trade notes and accounts payable(1,676,280)(2,915,73Payables to related parties(287,772)148,81Income tax payable(1,681,968)(3,336,65Accrued expenses(3,996,283)(3,383,11Other current liabilities1,560,622500,34Deferred income64,066351,90Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIES20,3623,362Acquisition of designated financial asset at fair value through profit or loss(27,326)(33,62	Increase (decrease) in:		
Payables to related parties(287,772)148,81Income tax payable(1,681,968)(3,336,65Accrued expenses(3,996,283)(3,383,11Other current liabilities1,560,622500,34Deferred income64,066351,90Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIES(27,326)(33,62	Financial liabilities held for trading		62
Income tax payable(1,681,968)(3,336,65Accrued expenses(3,996,283)(3,383,11Other current liabilities1,560,622500,34Deferred income64,066351,90Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIES20,32633,62Acquisition of designated financial asset at fair value through profit or loss(27,326)(33,62	Trade notes and accounts payable	(1,676,280)	(2,915,730)
Accrued expenses(3,996,283)(3,383,11Other current liabilities1,560,622500,34Deferred income64,066351,90Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIES27,326(33,62	Payables to related parties	(287,772)	148,813
Other current liabilities1,560,622500,34Deferred income64,066351,90Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIES20,32633,62Acquisition of designated financial asset at fair value through profit or loss(27,326)(33,62)	Income tax payable		(3,336,651)
Deferred income64,066351,90Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIES49,466,7249,466,72Acquisition of designated financial asset at fair value through profit or loss(27,326)(33,62)		(3,996,283)	(3,383,119)
Accrued pension liabilities53,66729,82Net cash provided by operating activities52,429,19649,466,72CASH FLOWS FROM INVESTING ACTIVITIES Acquisition of designated financial asset at fair value through profit or loss(27,326)(33,62)	Other current liabilities	1,560,622	500,344
Net cash provided by operating activities       52,429,196       49,466,72         CASH FLOWS FROM INVESTING ACTIVITIES       49,466,72         Acquisition of designated financial asset at fair value through profit or loss       (27,326)       (33,62)	Deferred income	64,066	351,904
CASH FLOWS FROM INVESTING ACTIVITIES Acquisition of designated financial asset at fair value through profit or loss (27,326) (33,62	Accrued pension liabilities	53,667	29,824
Acquisition of designated financial asset at fair value through profit or loss(27,326)(33,62)	Net cash provided by operating activities	52,429,196	49,466,723
	CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of designated financial asset at fair value through profit or loss 23,350 47,54	Acquisition of designated financial asset at fair value through profit or loss		(33,625)
	Proceeds from disposal of designated financial asset at fair value through profit or loss	23,350	47,541

Acquisition of available-for-sale financial assets	(2,598,131)	(7,376,132)
Proceeds from disposal of available-for-sale financial assets	15,232,678	6,885,292
Acquisition of held-to-maturity financial assets	(4,556,071)	(1,948,505)

(Continued)

#### CONSOLIDATED STATEMENTS OF CASH FLOWS

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2010	2009
Proceeds from disposal of held-to-maturity financial assets	\$ 988,144	\$ 664,160
Acquisition of financial assets carried at cost	(276,965)	(8,946)
Proceeds from disposal of financial assets carried at cost	171,051	285,859
Acquisition of investments accounted for using equity method	(35,257)	(559,725)
Acquisition of property, plant and equipment	(15,496,748)	(16,558,674)
Proceeds from disposal of property, plant and equipment	76,240	32,443
Increase in intangible assets	(131,455)	(148,467)
Decrease (increase) in restricted assets	37,145	(63,286)
Increase in other assets	(1,964,504)	(1,171,074)
Net cash used in investing activities	(8,557,849)	(19,953,139)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in short-term loans	(617,314)	512,000
Increase in short-term bills payable	129,963	
Repayment of long-term loans	(92,074)	(91,867)
Increase in long-term loans	3,237,854	400,000
Decrease in customers deposits	(134,767)	(77,021)
Increase (decrease) in other liabilities	141,411	(184,218)
Cash dividends paid	(39,369,041)	(37,138,775)
Capital reduction	(9,696,808)	(19,115,554)
Proceeds from exercise of employee stock option granted by subsidiary	74,301	47,618
Decrease in minority interests	(660,076)	
Net cash used in financing activities	(46,986,551)	(55,647,817)
EFFECT OF EXCHANGE RATE CHANGES	20,043	(7,538)
EFFECT OF CHANGE ON CONSOLIDATED SUBSIDIARIES	(2,763,981)	612,874
NET DECREASE IN CASH AND CASH EQUIVALENTS	(5,859,142)	(25,528,897)
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	73,259,490	81,288,165

\$ 67,400,348		55,759,268
\$ 91,289	\$	8,033
\$ 8,810,189	\$	13,011,011
\$ 81,663	\$	113,426
\$	\$ 8,810,189	\$ 91,289 \$ \$ 8,810,189 \$

(Continued)

#### CONSOLIDATED STATEMENTS OF CASH FLOWS

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2010	2009
CASH AND NON-CASH INVESTING ACTIVITIES		
Increase in property, plant and equipment	\$ 14,076,517	\$ 15,209,269
Payables to suppliers	1,419,500	1,378,149
Prepayments for equipment	731	(28,744)
	\$ 15,496,748	\$ 16,558,674

The acquisition of Yao Yong Real Property Co., Ltd. (YYRP) by Light Era Development Co., Ltd. (LED) was made on March 1, 2010. The following table presents the allocation of acquisition costs of YYRP to assets acquired and liabilities assumed based on their fair values on the basis of the final data obtained on April 12, 2010:

Cash and cash equivalents	\$ 29,686
Other monetary assets	13,439
Deferred income tax assets	5,603
Property, plant, and equipment	2,781,547
Customers deposits	(34,857)
Accrued expenses	(1,312)
Other current liabilities	(1,311)
Total	2,792,795
Percentage of ownership	100%
	2,792,795
Goodwill	872
Acquisition costs of acquired subsidiary	\$ 2,793,667

The acquisition of InfoExplorer Co., Ltd. ( IFE ) was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values on the basis of the final data on May 7, 2009:

Cash and cash equivalents	\$ 457,990
Receivables	13,479

Other current assets	14,792
Property, plant, and equipment	40,221
Identifiable intangible assets	53,001
Refundable deposits	2,468
Other assets	2,338
Payables	(83,319)
Income tax payable	(246)
Other current liabilities	(153)
Total	500,571
Percentage of ownership	49.07%
	245,630
Goodwill	37,870
	,
Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008)	\$ 283,500
requisition costs of acquired substance (cash prepare for folg-term investments in Determoet 2006)	\$ 285,500

(Continued)

#### CONSOLIDATED STATEMENTS OF CASH FLOWS

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

The acquisition of Chunghwa Investment Co., Ltd. ( CHI ) and its subsidiaries was made on September 9, 2009. The following table presents the allocation of acquisition costs of Chunghwa Investment Co., Ltd. and its subsidiaries to assets acquired and liabilities assumed based on their fair values on the basis of the final data performed:

Cash and cash equivalents	\$ 913,593
Financial assets at fair value through profit or loss	51,357
Available-for-sale financial assets	568,377
Trade notes and accounts receivable	76,258
Inventories	60,040
Other current assets	19,429
Investments accounted for using equity method	57,339
Financial assets carried at cost	155,714
Property, plant, and equipment	90,278
Identifiable intangible assets	33,662
Other assets	22,462
Trade notes and accounts payable	(33,665)
Accrued expense	(16,496)
Income tax payable	(1,289)
Short-term loans	(20,000)
Long-term loans	(24,238)
Other liabilities	(1,115)
Subtotal	1,951,706
Minority interests	(100,071)
Total	1,851,635
Percentage of additional ownership	40%
	740,654
Goodwill	18,055
O O O O O O O O O O O O O O O O O O O	10,055
A aquisition spate of acquired subsidiary maid in each	¢ 750 700
Acquisition costs of acquired subsidiary paid in cash	\$ 758,709

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

(With Deloitte & Touche review report dated October 25, 2010)

(Concluded)

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

#### 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 to 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.

Senao International Co., Ltd. (SENAO) was incorporated in 1979. SENAO engages mainly in selling and maintaining mobile phones and its peripheral products. Chunghwa acquired 31.33% shares of SENAO on January 15, 2007 and has substantial control in SENAO by obtaining half of the seats of the board of directors of SENAO on April 12, 2007. On March 27, 2009, the board of directors of Chunghwa resolved to purchase 48,000 thousand common shares of SENAO through SENAO s private placement. However, Chunghwa and SENAO did not complete the required procedures within the legal payment period; therefore, Chunghwa and SENAO decided to discontinue the private placement.

Senao International (Samoa) Holding Ltd. (SIS) was established by SENAO in 2009. SIS will engage mainly in international investment activities.

Senao International HK Limited (SIHK) was established by SIS in 2009. SIHK will engage mainly in international investment activities; however, no capital is injected in SIHK and SIHK is not on operation stage yet by September 30, 2010.

Chunghwa established Chunghwa International Yellow Pages Co., Ltd. ( CIYP ) in January 2007. CIYP engages mainly in yellow pages sales and advertisement services.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

CHIEF Telecom Inc. ( CHIEF ) was incorporated in 1991. CHIEF engages mainly in internet communication and internet data center ( IDC ) service. Chunghwa acquired 70% of the shares of CHIEF on September 2006.

Unigate Telecom Inc. ( Unigate ) was established by CHIEF in 1999. Unigate engages mainly in telecommunication and information software service.

CHIEF Telecom (Hong Kong) Limited (CHIEF (HK)) was established by CHIEF in 2003. CHIEF (HK) engages mainly in internet communication and internet data center (IDC) service. On August 20, 2009, the stockholders of CHIEF (HK) resolved to dissolve CHIEF (HK). CHIEF (HK) completed the liquidation procedures and obtained the required approval from local government on September 24, 2010.

Chief International Corp. ( CIC ) was established by CHIEF in 2008. CIC engages mainly in internet communication and internet data center ( IDC ) services.

Chunghwa System Integration Co., Ltd. ( CHSI ) was incorporated in 2002. CHSI engages mainly in providing communication and information integration services. Chunghwa has acquired 100% shares of CHSI in December 2007.

Concord Technology Co., Ltd. ( Concord ), a subsidiary of CHSI, was incorporated in 2006. Concord engages mainly in investment.

Glory Network System Service (Shanghai) Co., Ltd. (GNSS (Shanghai)), a subsidiary of Concord, was incorporated in 2006. GNSS (Shanghai) engages mainly in planning and designing of systems and communications and information integration services. On March 20, 2009, the stockholders of CHSI resolved to dissolve GNSS (Shanghai). On July 23, 2009, the board of directors of CHSI revoked the original resolution of dissolution.

Chunghwa Telecom Global, Inc. ( CHTG ) was incorporated in 2004. CHTG engages mainly in international data and internet services and long distance call wholesales to carriers. Chunghwa acquired 100% shares of CHTG in December 2007.

Donghwa Telecom Co., Ltd. ( DHT ) was incorporated in 2004. DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services. Chunghwa acquired 100% shares of DHT in December 2007.

Spring House Entertainment Inc. (SHE) was incorporated in 2000. SHE engages mainly in network services, producing digital entertainment contents and broadband visual sound terrace development. SHE was an equity method investee before Chunghwa obtained control interest over it in January 2008.

Chunghwa established Light Era Development Co., Ltd. ( LED ) in January 2008. LED engages mainly in development of property for rent and sale.

Yao Yong Real Property Co., Ltd. ( YYRP ) was incorporated in 2002. YYRP engages mainly in real estate management and leasing business. LED acquired 100% ownership interest of Yao Yong Real Property on March 1, 2010.

Chunghwa established Chunghwa Telecom Singapore Pte. Ltd. ( CHTS ) in July 2008. CHTS engages mainly in telecommunication wholesale, internet transfer services, international data, long distance call wholesales to carriers and the world satellite business.

Chunghwa established Chunghwa Telecom Japan Co., Ltd. ( CHTJ ) in October 2008. CHTJ engages mainly in telecommunication business, information processing and information providing service, development and sale of software and consulting services in telecommunication.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

InfoExplorer Co., Ltd. ( IFE ) was incorporated in 2008. IFE engages mainly in information system planning and maintenance, software development, and information technology consultation services. Chunghwa acquired 49% shares of IFE on January 5, 2009 and has control over IFE by obtaining half of seats of the board of directors of IFE on January 20, 2009.

InfoExplorer International Co., Ltd. (IESA) was established by IFE in 2010. IESA will engage mainly in international investment activities; however, no capital is injected in IESA and IESA has not yet begun operation as of September 30, 2010.

InfoExplorer (Hong Kong) Co., Limited (IEHK) was established by IESA in 2010. IESA will engage mainly in international investment activities; however, no capital is injected in IEHK and IEHK has not yet begun operation as of September 30, 2010.

Chunghwa Investment Co., Ltd. ( CHI ) was established in 2002. CHI engages mainly in professional investing in telecommunication business, and telecommunication valued-added services. Chunghwa acquired additional 40% shares of CHI on September 9, 2009 for \$758,709 thousand. Chunghwa increased its ownership interest in CHI from 49% to 89% and became the parent company of CHI. As a result of additional acquisition of CHI, the accounts of CHI and its subsidiaries are included in the consolidated financial statements starting from September 9, 2009.

Chunghwa Precision Test Tech. Co., Ltd. ( CHPT ) was established in 2005 as the subsidiary of CHI. CHPT engages mainly in production and marketing of semiconductor testers and printed circuit board.

Chunghwa Precision Test Tech. USA Corporation (CHPT(US)) was established by CHPT in 2010. CHPT(US) engages mainly in production and marketing in semiconductor testers and printed circuit board, but has not yet begun operation as of September 30, 2010.

Chunghwa Investment Holding Company ( CIHC ) was established by CHI in 2004. CIHC engages mainly in general investment activities.

CHI One Investment Co., Ltd. (COI) was established by CHI in 2009. COI engages mainly in investment activities.

Chunghwa has established New Prospect Investments Holdings Ltd. (New Prospect) and Prime Asia Investments Group Ltd. (Prime Asia) in March 2006, but not on operation stage yet. Both holding companies are operating as investment companies and Chunghwa has 100% ownership right in an amount of US\$1 in each holding company as of September 30, 2010.

As of September 30, 2010 and 2009, Chunghwa and its subsidiaries ( the Company ) had 27,880 and 27,397 employees, respectively.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of September 30, 2010:

Chunghwa together with its subsidiaries are hereinafter referred to collectively as the Company . Minority interests in the aforementioned subsidiaries are presented as a separate component of stockholders equity.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements were prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC ( ROC GAAP ). The preparation of consolidated financial statements requires management to make reasonable 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, directors and supervisors, pension plans and income tax, etc. These estimates and assumptions are inherently uncertain and actual results may differ significantly. The significant accounting policies are summarized as follows:

#### Principle of Consolidation

The Company accounts for business combinations in accordance with the requirements of the Statement of Financial Accounting Standards No. 25, Business Combinations .

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of Chunghwa, and the accounts of investees in which Chunghwa s ownership percentage is less than 50% but over which Chunghwa has a controlling interest. All significant intercompany transactions and balances are eliminated upon consolidation.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

The consolidated financial statements for the nine months ended September 30, 2010 include the accounts of Chunghwa, SENAO, SIS, SIHK, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, YYRP, CHTS, CHTJ, IFE, IESA, IEHK, CHI, CHPT, CHPT (US), CIHC, COI, New Prospect and Prime Asia. The consolidated financial statements for the nine months ended September 30, 2009 include the accounts of Chunghwa, SENAO, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, YYRP, CHTS, CHTJ, IFE, CHI, CHPT, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, CHTS, CHTJ, IFE, CHI, CHPT, CIHC, New Prospect and Prime Asia.

For foreign subsidiaries using their local currency as their functional currency, assets and liabilities are translated into New Taiwan dollars at the exchange rates in effect on the balance sheet date; stockholders equity accounts are translated into New Taiwan dollars at historical exchange rates and income statement accounts are translated into New Taiwan dollars at average exchange rates during the period.

The financial statements as of and for the nine months ended September 30, 2010 and 2009 for the following subsidiaries have not been reviewed: SIS, SIHK, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, YYRP, CHTS, CHTJ, IFE, IESA, IEHK, CHI, CHPT, CHPT (US), CIHC, COI, New Prospect and Prime Asia, as of and for the nine months ended September 30, 2010. CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), GHTG, DHT, SHE, LED, CHTS, CHTJ, IFE, CHI, CHPT, CIHC, New Prospect and Prime Asia, as of and for the nine months ended September 30, 2009. The total assets of the above subsidiaries were 3.52 % (NT\$15,186,321 thousand) and 2.53% (NT\$10,972,584 thousand), and the total liabilities of the above subsidiaries were 11.19% (NT\$6,188,816 thousand) and 4.57% (NT\$2,567,970 thousand), of the related consolidated amounts as of September 30, 2010 and 2009, respectively. The aggregate total revenues for these subsidiaries were 1.80 % (NT\$2,705,963 thousand) and 1.61% (NT\$2,373,528 thousand), respectively, of the related consolidated amounts for the nine months ended September 30, 2010 and 2009 and their net losses were NT\$427,274 thousand and NT\$322,787 thousand for the nine months ended September 30, 2010 and 2009, respectively.

#### 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 the balance sheet date. Current liabilities are obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

LED engages mainly in development of property for rent and sale. The assets and liabilities of LED related to property development within its operating cycle, which is over one year, are classified as current items. Assets and liabilities related to property development over its operating cycle are classified as noncurrent items.

### Cash Equivalents

Cash equivalents are commercial paper and treasury bills 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 Chunghwa 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.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

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 are 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 acquisitions 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 recalculating cost per share. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

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 of 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.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

#### 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. Incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract are recognized in marketing expenses as incurred.

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 are 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 including merchandise and work-in-process are stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. The calculation of the cost of inventory is derived using the weighted-average method.

Inventories of LED are stated at the lower of cost or net realizable value. Prepayments for licensing and other miscellaneous costs have been capitalized as part of inventory. Profit shall be recognized in full when the land is sold, provided (a) the profit is determinable, that is, the collectability of the sales price is reasonably assured or the amount that will not be collectible can be estimated, and (b) the earnings process is virtually completed.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

(Reviewed, Not Audited)

#### Investments Accounted for using Equity Method

Investments in companies in which the Company exercises significant influence over the operating and financial policy decisions are accounted for by 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 Chunghwa exercises significant influence 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 equity method investees to Chunghwa are deferred in proportion to Chunghwa s ownership percentages in the investees until they are realized through transactions with third parties.

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 - 3 to 10 years; telecommunication equipment - 5 to 30 years; transportation equipment - 5 to 10 years; and miscellaneous equipment - 2 to 12 years.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

#### Intangible Assets

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

The 3G license is valid through December 31, 2018. The 3G Concession fees is 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 2 to 20 years.

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 that do not meet relative criteria shall be expensed as incurred.

When an indication of impairment is identified for intangible assets other than goodwill, 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.

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Goodwill is tested for impairment annually. If an event occurs or circumstances change which indicates that the fair value of goodwill is below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

#### Idle Assets

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

#### **Pension Costs**

For defined benefit pension plans, net periodic pension benefit cost is recorded in the consolidated statement of income and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs, amortization of pension gains (losses) and curtailment or settlement gains (losses).

The Company recognizes into income, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the corridor. Amounts inside this 10% corridor are amortized over the average remaining service life of active plan participants. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the plans. Differences between the expected and actual returns on plan assets and changes in interest rate, which affect the discount rate used to value projected plan obligations, can have a significant impact on the calculation of pension net gains and losses from year.

The curtailments and settlement gains (losses) resulted from the Chunghwa s early retirement programs. Curtailment/settlement gains or losses are equal to the changes of underfunded status plus a pro rata portion of the unrecognized prior service cost, unrecognized net gains (losses), and unrecognized transition obligations/assets, before the settlement/curtailment event multiplied by the percentage reduction in projected benefit obligation.

The projected benefit obligation represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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The carrying amount of accrued pension liability should be the sum of the following amounts when the calculation is positive: (a) projected benefit obligation as of balance sheet date, (b) minus (plus) unamortized actuarial loss (gain), (c) minus unamortized prior service cost, and (d) minus the fair value of plan assets. If the amount determined by above calculation is negative, it is viewed as prepaid pension cost. The prepaid pension cost is measured at the lower of: (a) the amount determined above, and (b) the sum of the following amounts: (i) unamortized actuarial loss, (ii) unamortized prior service cost, and (iii) the present value of refunds from the plan or reductions in future contributions to the plan.

The measurement of benefit obligations and net periodic cost (income) is based on estimates and assumptions approved by the company s management such as compensation, age and seniority, as well as certain assumptions, including estimates of discount rates, expected return on plan assets and rate of compensation increases.

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.

#### Share-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for using fair value method in accordance with under SFAS No. 39, Accounting for Share-based Payment. The adoption of SFAS No. 39 did not have any impact on the Company.

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation (the ARDF). The Company adopted the intrinsic value method, under which compensation cost was amortized over the vesting period.

#### 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 are recorded in the year of stockholders approval which are the year subsequent to the year the earnings are generated.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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#### 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 period-end; stockholders equity - historical rates, income and expenses - average rates during the period. 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 gains or losses 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.

The hedging items that do not meet the criteria for hedge accounting were classified as financial assets or financial liabilities at fair value through profit or loss.

#### 3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

The Company early adopted the Statement of Financial Accounting Standards No. 41 Operating Segments (SFAS No. 41) starting from September 1, 2009. This Statement supersedes the Statement of Financial accounting Standards No. 20 Segment Reporting.

The Company adopted the newly-revised Statements of Financial Accounting Standards No. 10, Accounting for Inventories, (SFAS No. 10) beginning from January 1, 2009, which requires inventories to be stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. The inventory-related incomes and expenses shall be classified as operating cost.

### 4. CASH AND CASH EQUIVALENTS

	September 30	
	2010	2009
Cash		
Cash on hand	\$ 128,648	\$ 901,800
Bank deposits	6,647,848	13,221,351
Negotiable certificate of deposit, annual yield rate - ranging from 0.17%-1.07% and 0.15%-1.08% for 2010 and 2009, respectively	56,067,542	38,450,635
	62,844,038	52,573,786

(Continued)

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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	September 30	
	2010	2009
Cash equivalents		
Commercial paper, annual yield rate - ranging from 0.32%-0.43% and		
0.12%-0.95% for 2010 and 2009, respectively	\$ 4,306,261	\$ 3,185,482
Treasury bills, annual yield rate - 0.32 %	250,049	
	4,556,310	3,185,482
	, ,	, ,
	\$67,400,348	\$ 55,759,268

(Concluded)

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

	Septer 2010	nber 30 2009
Derivatives - financial assets		
Currency swap contracts	\$ 24,675	\$ 30,039
Designated financial asset at fair value through profit or loss		
Convertible bonds	36,702	38,761
	\$61,377	\$ 68,800
Derivatives - financial liabilities		
Index future contracts	\$ 1,959	\$ 14
Forward exchange contracts	1,827	2,387
	\$ 3,786	\$ 2,401

Chunghwa entered into investment management agreements with well-known financial institutions (fund managers) to manage its investment portfolios in 2006. The investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. Chunghwa terminated the investment management agreements on March 2, 2009 and asked fund managers to dispose all the investment portfolios. The fund managers had disposed all investment portfolios before June 23, 2009 and returned the proceeds to Chunghwa.

The Company entered into currency swap contracts, 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, these derivatives do not meet the criteria for hedge accounting and were classified as financial assets or financial liabilities held for trading.

Outstanding currency swap contracts and forward exchange contracts on September 30, 2010 and 2009 were as follows:

<u>September 30, 2010</u>	Currency	Maturity Period	Contract Amount (In Thousands)
Currency swap contracts Forward exchange contracts - buy	US\$ /NT\$ NT\$ /US\$	2010.10 2010.10	US\$ 30,000/NT\$964,375 NT\$ 186,033/US\$5,880
September 30, 2009			
Currency swap contracts	US\$ /NT\$	2009.10	US\$ 45,000/NT\$1,477,195
Forward exchange contracts - buy	NT\$ /US\$	2009.10	NT\$ 252,968/US\$7,783

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

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Outstanding index future contracts as of September 30, 2010 and 2009 were as follows:

			ntract 10unt
Maturity Period	Units	(In Th	ousands)
2010.10	6	NT\$	9,140
2010.12	20	NT\$	31,468
2009.11	1	NT\$	1,481
	2010.10 2010.12	2010.10 6 2010.12 20	An Maturity Period Units (In Th 2010.10 6 NT\$ 2010.12 20 NT\$ 2009.11 1 NT\$

As of September 30, 2010 and 2009, the deposits paid for outstanding index future contracts were \$1,664 thousand and \$77 thousand, respectively.

The convertible bonds owned by CHI are hybrid financial instruments that are measured and designated as fair value through profit or loss.

Net gains arising from financial assets and liabilities at fair value through profit or loss for the nine months ended September 30, 2010 and 2009 were \$12,349 thousand (including realized settlement loss of \$2,823 thousand and valuation gain of \$15,172 thousand) and \$64,677 thousand (including realized settlement loss of \$50,720 thousand and valuation gain of \$115,397 thousand), respectively.

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

	Septer	September 30	
	2010	2009	
Open-end mutual funds	\$ 2,920,774	\$ 16,097,463	
Domestic listed stocks	261,708	224,479	
Corporate bonds	102,537	103,175	
Real estate investment trust fund		153,615	
	\$ 3.285.019	\$ 16.578.732	

Movements of unrealized gain (loss) on available-for-sale financial assets were as follows:

	Nine Months Ended September 30	
	2010	2009
Balance, beginning of period	\$ (447,129)	\$ (2,264,932)
Impact on acquisition of subsidiaries		(2,147)
Recognized in stockholders equity	5,875	1,439,839
Transferred to profit or loss	99,386	69,424
Balance, end of period	\$ (341,868)	\$ (757,816)

As a result of global economic and financial crisis, Chunghwa determined that the impairment losses of available-for-sale financial assets was other-than-temporary in nature, and recorded impairment losses of \$85,349 thousand for the nine months ended September 30, 2009.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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

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### 7. HELD-TO-MATURITY FINANCIAL ASSETS

	September 30	
	2010	2009
Corporate bonds, nominal interest rate ranging from 0.83%-4.75% and 0.75%-4.75% for 2010 and 2009, respectively; effective interest rate ranging from 0.83%-2.95% and 0.75%-2.95% for 2010 and 2009,		
respectively	\$ 8,171,501	\$ 4,384,755
Bank debentures, nominal interest rate ranging from 1.93%-2.11% and 1.95%-2.24% for 2010 and 2009,		
respectively; effective interest rate ranging from 2.45%-2.90% and 1.14%-2.90%, respectively	399,152	697,256
Collateralized loan obligation, nominal and effective interest rates were both 2.18% for 2009		4,700
	8,570,653	5,086,711
Less: Current portion	1,343,595	754,882
	\$ 7,227,058	\$ 4,331,829

#### 8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Nine Months End 2010	ed September 30 2009
Balance, beginning of period	\$ 2,798,679	\$ 3,050,691
Provision for doubtful accounts	254,855	354,280
Impact on acquisition of subsidiaries		630
Accounts receivable written off	(374,418)	(527,532)
Balance, end of period	\$ 2,679,116	\$ 2,878,069

# 9. OTHER MONETARY ASSETS - CURRENT

Receivables from disposal of financial instruments	\$ 1,658,724	\$ 135,780
Accrued custodial receipts from other carriers	505,572	573,121
Others	2,492,871	2,005,037

\$4,657,167 \$2,713,938

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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#### **10. INVENTORIES**

	September 30	
	2010	2009
Merchandise	\$ 1,582,791	\$ 2,109,190
Work in process	885,957	741,619
•		
	2,468,748	2,850,809
Land held under development	803,620	706,177
Land held for development	469,874	531,502
Payment for construction	142,702	45,632
•		
	\$ 3,884,944	\$ 4,134,120

The operating costs related to inventories were \$18,622,481 thousand (including valuation loss on inventories of \$20,744 thousand) and \$14,799,500 thousand (including the valuation loss on inventories of \$1,112 thousand) for the nine months ended September 30, 2010 and 2009, respectively.

Land held under development on September 30, 2010 was for Guang-Diang, Wan-Xi and Li-Shui (B) projects. Wan-Xi Project is expected to be completed in 2011. Guang-Diang and Li-Shui (B) projects are expected to be completed in 2012. Land held under development on September 30, 2009 was for Wan-Xi project.

#### **11. OTHER CURRENT ASSETS**

	Septen	September 30	
	2010	2009	
Prepaid expenses	\$ 2,932,571	\$ 3,036,875	
Spare parts	1,988,991	2,453,230	
Prepaid rents	849,817	876,379	
Miscellaneous	701,303	549,125	
	\$ 6,472,682	\$ 6,915,609	

#### 12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

September 30					
201	200	9			
		% of			
Carrying Owner-		Carrying	Owner-		
Amount	ship	Amount	ship		
\$476,566	40	\$464,265	40		
423,742	38	410,549	38		
300,330	41	284,073	42		
265,652	30	271,002	30		
91,094	30	88,842	30		
63,241	33	68,410	33		
	Carrying Amount \$ 476,566 423,742 300,330 265,652 91,094	2010 % of Carrying Amount \$ 476,566 40 423,742 38 300,330 41 265,652 30 91,094 30	2010         200           % of Carrying Amount         Owner- ship         Carrying Amount           \$476,566         40         \$464,265           423,742         38         410,549           300,330         41         284,073           265,652         30         271,002           91,094         30         88,842		

(Continued)

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

#### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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		September 30					
	2010			2009			
		% of				% of	
		Carrying Owner- Amount ship		Carrying Amount		Owner- ship	
So-net Entertainment Taiwan Co., Ltd. ( So-net )	\$	26,134	30	\$	40,060	30	
HopeTech Technologies Limited		20,657	45				
Tatung Technology Inc.		12,391	28		37,043	28	
Xiamen Sertec Business Technology Co., Ltd. (Sertec)		10,444	49				
PandaMonium Company Ltd.			43		14,645	43	
	\$ 1	,690,251		\$ 1	1,678,889		

(Concluded)

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. (STS) in Singapore in October 2008 in order to maintain the current service. By September 30, 2010, Chunghwa has invested \$409,061 thousand. STS will engage in the installation and the operation of ST-2 telecommunications satellite.

Chunghwa participated in the capital increase of Viettel-CHT in September, 2009, by investing \$197,088 thousand cash. Viettel-CHT engages mainly in IDC services.

Chunghwa participated in So-net Entertainment Taiwan Co., Ltd s capital increase on April 3, 2009, by investing \$60,008 thousand cash, and acquired 30% of its shares. So-net Entertainment Taiwan Co., Ltd. engages mainly in online service and sale of computer hardware.

Senao International (Samoa) Holding Ltd. invested in HopeTech Technologies Limited on September 2010 by investing \$21,395 thousand cash, and acquired 45% of its shares. HopeTech Technologies Limited engages mainly in sales of information technology and communication products.

Tatung Technology Inc. and PandaMonium Company Ltd. are the subsidiaries of Chunghwa Investment Co., Ltd. They engage mainly in selling the product of SET TOP BOX and making animations, respectively.

COI established Xiamen Sertec Business Technology Co., Ltd. (Sertec) with Xiamen Information Investment Co., Ltd. in 2010, by investing \$13,862 thousand cash and held 49% of Sertec shares. Sertec engages mainly in customer services and platform rental activities.

The aggregate carrying values of the equity method investments whose financial statements have not been reviewed were \$1,690,251 thousand and \$1,678,889 thousand as of September 30, 2010 and 2009, respectively. The net equity in earnings (losses) of such equity investees were \$112,614 thousand and (\$30,742) thousand for the nine months ended September 30, 2010 and 2009, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

# FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2010 AND 2009

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# 13. FINANCIAL ASSETS CARRIED AT COST

		September 30				
	2010		2009			
		% of		% of		
	Carrying	Owner-	Carrying	Owner-		
	Amount	ship	Amount	ship		
Non-listed:						
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	200,000	17		
Global Mobile Corp. (GMC)	127,018	11	127,018	11		
iD Branding Ventures ( iDBV )	99,504	11	100,000	11		
Giga Solar Materials Corp.	48,675	1	60,000	2		
UniDisplay Inc.	46,000	3				
Innovation Works Development Fund, L.P. ( IWDF )	38,035	13				
RPTI Intergroup International Ltd. ( RPTI )	34,500	10	34,500	10		
VisEra Technologies Company Ltd.	29,371					
A2peak Power Co., Ltd.	27,500	3				
Digimax Inc. ( DIG )	23,935	4	34,218	4		
Innovation Works Limited ( IW )	21,271	7				
ChipSip Technology Co., Ltd.	20,560	2	25,508	3		
CQi Energy Infocom Inc. ( CQi )	20,000	18				
Lextar Electronics Corp.	15,039					
PChome Store Inc.	14,073					
Edison Opto Corporation	12,908					
Huga Optotech Inc.	12,870		1,415			
Taimide Technology Ltd.	12,161	1				
N.T.U. Innovation Incubation Corporation	12,000	9	12,000	9		
CoaTronics Inc.	12,000	9				
Crystal Media Inc.	11,642	5	11,668	5		
Win Semiconductors Corp.	10,555					
Optivision Technology Inc.						