

CHUNGHWA TELECOM CO LTD  
Form 6-K  
October 31, 2005

1934 Act Registration No. 1-31731

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# SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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## FORM 6-K

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

Dated October 31, 2005

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**Chunghwa Telecom Co., Ltd.**

(Translation of Registrant's Name into English)

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21-3 Hsinyi Road Sec. 1,

Taipei, Taiwan, 100 R.O.C.

(Address of Principal Executive Office)

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

Form 20-F  Form 40-F

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

Yes  No

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

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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: 2005/10/31

Chunghwa Telecom Co., Ltd.

By: */s/ Tan HoChen*

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Name: Tan HoChen

Title: Chairman & CEO

Exhibit

| <u>Exhibit</u> | <u>Description</u>  |
|----------------|---|
| 1.             | Financial Statements for the Nine Months Ended September 30, 2005 and 2004 and Independent Accountants Review Report- ROC GAAP  |
| 2.             | Financial Statements as of December 31, 2004 and September 30, 2005 (Unaudited) and for Three Months and Nine Months Ended September 30, 2004 and 2005 (Unaudited)- US GAAP |
| 3.             | Press Release on 2005/10/31   |

**Chunghwa Telecom Co., Ltd.**

**Financial Statements for the**

**Nine Months Ended September 30, 2005 and 2004 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, 2005 and 2004, and the related statements of operations and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

Except for the matters described in the next paragraph, we conducted our reviews in accordance with Statement 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 Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

As stated in Note 9 to the financial statements, we did not review the financial statements of equity-accounted investments, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The aggregate carrying values of the equity-accounted investments were NT\$1,427,693 thousand and NT\$1,396,750 thousand as of September 30, 2005 and 2004 and the equity in their net gains were NT\$65,500 thousand and NT\$33,268 thousand for the nine months then ended.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with relevant regulations (applied before August 12, 2005), regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China.

As stated in Notes 2 and 3 to the financial statements, the Company completed privatization on August 12, 2005 and the accounts before privatization are subject to examination by the Directorate General of Budget, Accounting and Statistics of the Executive Yuan and by the Ministry of Audit of the Control Yuan. The accounts as of and for the year ended December 31, 2004 have been examined by these government agencies, and adjustments from this examinations have been recognized in the accompanying financial statements.

October 19, 2005

Notice to Readers

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

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

**CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS****SEPTEMBER 30, 2005 AND 2004****(Amounts in New Taiwan Thousand Dollars, Except Par Value Data)****(Reviewed, Not Audited)**

|  | 2005               |            | 2004               |            |
|--|--------------------|------------|--------------------|------------|
|  | Amount             | %          | Amount             | %          |
| <b>ASSETS</b>  |                    |            |                    |            |
| <b>CURRENT ASSETS</b>  |                    |            |                    |            |
| Cash and cash equivalents (Notes 2 and 4)  | \$ 17,154,268      | 4          | \$ 9,981,407       | 2          |
| Short-term investments (Notes 2 and 5)   | 16,097,828         | 4          | 3,700,000          | 1          |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,543,439 thousand in 2005 and \$2,418,807 thousand in 2004 (Notes 2 and 6) | 12,772,978         | 3          | 15,695,252         | 4          |
| Other current monetary assets  | 2,357,538          |            | 2,073,435          |            |
| Inventories (Notes 2 and 7)  | 1,890,964          |            | 1,409,707          |            |
| Deferred income taxes (Notes 2 and 16)   | 2,940,154          | 1          | 11,999,110         | 3          |
| Other current assets (Note 8)  | 10,142,667         | 2          | 3,337,168          | 1          |
| <b>Total current assets</b>  | <b>63,356,397</b>  | <b>14</b>  | <b>48,196,079</b>  | <b>11</b>  |
| <b>INVESTMENTS IN UNCONSOLIDATED COMPANIES AND FUNDS (Notes 2, 9 and 20)</b>   |                    |            |                    |            |
| Funds  | 2,000,000          |            | 2,000,000          |            |
| Investments accounted for using the equity method  | 1,427,693          |            | 1,396,750          |            |
| Investments accounted for using the cost method  | 2,605,956          | 1          | 2,553,016          | 1          |
| <b>Investment in unconsolidated companies and funds</b>  | <b>6,033,649</b>   | <b>1</b>   | <b>5,949,766</b>   | <b>1</b>   |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10 and 19)</b>  |                    |            |                    |            |
| <b>Cost</b>  |                    |            |                    |            |
| Land   | 101,901,489        | 23         | 101,832,412        | 23         |
| Land improvements  | 1,462,153          |            | 1,447,342          |            |
| Buildings  | 56,765,074         | 13         | 54,615,356         | 12         |
| Machinery and equipment  | 21,796,868         | 5          | 21,893,015         | 5          |
| Telecommunications network facilities  | 625,308,501        | 141        | 613,666,790        | 138        |
| Miscellaneous equipment  | 2,061,694          |            | 2,113,978          | 1          |
| <b>Total cost</b>  | <b>809,295,779</b> | <b>182</b> | <b>795,568,893</b> | <b>179</b> |
| Revaluation increment on land  | 5,951,339          | 2          | 5,951,368          | 1          |
|  | <b>815,247,118</b> | <b>184</b> | <b>801,520,261</b> | <b>180</b> |
| Less: Accumulated depreciation   | 478,530,307        | 108        | 458,771,013        | 103        |
|  | <b>336,716,811</b> | <b>76</b>  | <b>342,749,248</b> | <b>77</b>  |
| Construction in progress and advances related to acquisitions of equipment   | 25,611,084         | 6          | 36,176,409         | 8          |



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|  |                       |            |                       |            |
|--|-----------------------|------------|-----------------------|------------|
| Property, plant and equipment, net   | 362,327,895           | 82         | 378,925,657           | 85         |
| <b>INTANGIBLE ASSETS</b>   |                       |            |                       |            |
| 3G concession (Note 2)   | 9,919,067             | 2          | 10,179,000            | 2          |
| Deferred pension cost (Notes 2 and 18)   |                       |            | 205,261               |            |
| Patents and computer software, net (Note 2)  | 176,633               |            | 206,090               |            |
| Total intangible assets  | 10,095,700            | 2          | 10,590,351            | 2          |
| <b>OTHER ASSETS</b>  |                       |            |                       |            |
| Refundable deposits  | 1,474,113             | 1          | 1,220,402             | 1          |
| Overdue receivables, net of allowance for doubtful accounts of \$1,151,931 thousand in 2005 and \$2,708,406 thousand in 2004 (Notes 2 and 6) | 333,508               |            | 647,460               |            |
| Deferred income taxes - non-current (Notes 2 and 16)   | 85,866                |            | 14,256                |            |
| Other  | 343,814               |            | 442,905               |            |
| Total other assets   | 2,237,301             | 1          | 2,325,023             | 1          |
| <b>TOTAL</b>   | <b>\$ 444,050,942</b> | <b>100</b> | <b>\$ 445,986,876</b> | <b>100</b> |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |                       |            |                       |            |
| <b>CURRENT LIABILITIES</b>   |                       |            |                       |            |
| Trade notes and accounts payable (Note 19)   | \$ 12,083,002         | 3          | \$ 12,105,238         | 3          |
| Income tax payable (Notes 2 and 16)  | 16,550                |            | 2,585,080             | 1          |
| Accrued expenses (Notes 11 and 19)   | 9,609,465             | 2          | 10,269,416            | 2          |
| Accrued pension liabilities (Notes 2 and 18)   |                       |            | 1,278,534             |            |
| Long-term loans payable - current portion (Note 13)  | 200,000               |            | 200,000               |            |
| Other current liabilities (Notes 12 and 19)  | 16,599,596            | 4          | 18,349,115            | 4          |
| Total current liabilities  | 38,508,613            | 9          | 44,787,383            | 10         |
| <b>LONG-TERM LIABILITIES</b>   |                       |            |                       |            |
| Long-term loans (Note 13)  | 300,000               |            | 500,000               |            |
| Deferred income  | 324,029               |            | 369,396               |            |
| Total long-term liabilities  | 624,029               |            | 869,396               |            |
| RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 10)   | 94,986                |            | 211,182               |            |
| <b>OTHER LIABILITIES</b>   |                       |            |                       |            |
| Customers deposits   | 7,079,438             | 1          | 6,014,518             | 2          |
| Other  | 319,654               |            | 182,903               |            |
| Total other liabilities  | 7,399,092             | 1          | 6,197,421             | 2          |
| Total liabilities  | 46,626,720            | 10         | 52,065,382            | 12         |
| <b>STOCKHOLDERS EQUITY (Notes 2, 10 and 14)</b>  |                       |            |                       |            |
| Common capital stock - \$10 par value; authorized, issued and outstanding - 9,647,725 thousand shares  | 96,477,249            | 22         | 96,477,249            | 22         |
| Capital surplus:   |                       |            |                       |            |
| Paid-in capital in excess of par value   | 214,529,603           | 48         | 214,538,597           | 48         |

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|  |                             |                             |                             |                             |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Capital surplus from revaluation of land | 5,856,353                   | 2                           | 5,740,185                   | 1                           |
| Donations                                | 13,170                      |                             | 13,170                      |                             |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Total capital surplus                    | 220,399,126                 | 50                          | 220,291,952                 | 49                          |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Retained earnings:                       |                             |                             |                             |                             |
| Legal reserve                            | 39,272,477                  | 9                           | 34,286,147                  | 8                           |
| Special reserve                          | 2,680,184                   |                             | 2,675,941                   |                             |
| Unappropriated earnings                  | 38,600,793                  | 9                           | 40,190,727                  | 9                           |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Total retained earnings                  | 80,553,454                  | 18                          | 77,152,815                  | 17                          |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Other adjustment                         |                             |                             |                             |                             |
| Cumulative translation adjustments       | (5,607)                     |                             | (522)                       |                             |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| Total stockholders' equity               | 397,424,222                 | 90                          | 393,921,494                 | 88                          |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |
| <b>TOTAL</b>                             | <b>\$ 444,050,942</b>       | <b>100</b>                  | <b>\$ 445,986,876</b>       | <b>100</b>                  |
|  | <u>                    </u> | <u>                    </u> | <u>                    </u> | <u>                    </u> |

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

(With Deloitte & Touche review report dated October 19, 2005)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF OPERATIONS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004****(Amounts in New Taiwan Thousand Dollars, Except Basic Net Income Per Share Data)****(Reviewed, Not Audited)**

|   | 2005           |     | 2004           |     |
|---|----------------|-----|----------------|-----|
|   | Amount         | %   | Amount         | %   |
| SERVICE REVENUES                                    | \$ 136,919,581 | 100 | \$ 136,753,926 | 100 |
| COSTS OF SERVICES (Note 19)                         | 68,334,176     | 50  | 68,129,259     | 50  |
| GROSS PROFIT  | 68,585,405     | 50  | 68,624,667     | 50  |
| OPERATING EXPENSES                                  |                |     |                |     |
| Marketing   | 17,817,984     | 13  | 17,080,124     | 12  |
| General and administrative                          | 2,104,308      | 1   | 1,994,710      | 1   |
| Research and development                            | 2,282,128      | 2   | 2,270,875      | 2   |
| Total operating expenses                            | 22,204,420     | 16  | 21,345,709     | 15  |
| INCOME FROM OPERATIONS                              | 46,380,985     | 34  | 47,278,958     | 35  |
| OTHER INCOME  |                |     |                |     |
| Penalties income                                    | 934,264        | 1   | 748,391        | 1   |
| Interest  | 348,139        |     | 163,779        |     |
| Income from sale of scrap                           | 280,230        |     | 461,033        |     |
| Foreign exchange gain, net                          | 75,216         |     |                |     |
| Equity in net income of unconsolidated companies    | 65,500         |     | 33,268         |     |
| Dividends income                                    | 57,881         |     | 28,434         |     |
| Other income  | 691,552        | 1   | 444,640        |     |
| Total other income                                  | 2,452,782      | 2   | 1,879,545      | 1   |
| OTHER EXPENSES                                      |                |     |                |     |
| Impairment loss on long-lived assets                | 343,463        |     |                |     |
| Losses on disposal of property, plant and equipment | 33,087         |     | 128,560        |     |
| Interest  | 1,712          |     | 316            |     |
| Foreign exchange loss, net                          |                |     | 42,703         |     |
| Other expense                                       | 962,239        | 1   | 1,041,790      | 1   |
| Total other expenses                                | 1,340,501      | 1   | 1,213,369      | 1   |
| INCOME BEFORE INCOME TAX                            | 47,493,266     | 35  | 47,945,134     | 35  |
| INCOME TAX (Notes 2 and 16)                         | 9,327,172      | 7   | 8,660,688      | 6   |

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|            |                      |           |                      |           |
|------------|----------------------|-----------|----------------------|-----------|
| NET INCOME | <u>\$ 38,166,094</u> | <u>28</u> | <u>\$ 39,284,446</u> | <u>29</u> |
|------------|----------------------|-----------|----------------------|-----------|

(Continued)

|   | 2005                           |               | 2004                           |               |
|---|--------------------------------|---------------|--------------------------------|---------------|
|   | Income Before<br>Income<br>Tax | Net<br>Income | Income Before<br>Income<br>Tax | Net<br>Income |
| BASIC NET INCOME PER SHARE (Notes 2 and 17) | \$ 4.92                        | \$ 3.96       | \$ 4.97                        | \$ 4.07       |

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

(With Deloitte & Touche review report dated October 19, 2005)

(Concluded)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004****(Amounts in New Taiwan Thousand Dollars)****(Reviewed, Not Audited)**

|   | <u>2005</u>         | <u>2004</u>         |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                     |                     |
| Net income  | \$ 38,166,094       | \$ 39,284,446       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                     |
| Provision for doubtful accounts   | 710,359             | 1,022,813           |
| Depreciation and amortization   | 31,093,996          | 30,757,991          |
| Impairment loss on long-lived assets  | 343,463             |                     |
| Gain on disposal of short-term investments  | (79,380)            | (8,882)             |
| Provision for loss on short-term investments                                      | (12,416)            |                     |
| Reversal of allowance for losses on inventories                                   |                     | (1,297)             |
| Loss on disposal of property, plant and equipment                                 | 33,087              | 122,256             |
| Equity in net income of unconsolidated companies                                  | (65,500)            | (33,268)            |
| Cash dividends received from equity companies                                     | 66,000              | 56,000              |
| Deferred income taxes   | 9,263,941           | 71,580              |
| Changes in operating assets and liabilities:                                      |                     |                     |
| Decrease (increase) in:   |                     |                     |
| Trade notes and accounts receivable   | 811,422             | (1,803,652)         |
| Other current monetary assets   | (844,695)           | (448,964)           |
| Inventories   | (452,927)           | (510,263)           |
| Other current assets  | (9,478,540)         | (2,804,934)         |
| Overdue receivables   | (634,537)           | (546,100)           |
| Increase (decrease) in:   |                     |                     |
| Trade notes and accounts payable  | (2,399,726)         | 713,954             |
| Income tax payable  | (5,013,108)         | (2,342,972)         |
| Accrued expenses  | (4,722,250)         | (3,892,647)         |
| Accrued pension liabilities   | (773,465)           | (2,108,012)         |
| Other current liabilities   | 1,291,984           | 1,303,733           |
| Deferred income   | (37,100)            | (49,641)            |
| Net cash provided by operating activities   | <u>57,266,702</u>   | <u>58,782,141</u>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                     |                     |
| Increase of short-term investments, net   | (6,891,519)         | (3,691,118)         |
| Proceeds from disposal of investments in unconsolidated companies                 |                     | 10                  |
| Acquisitions of investments in unconsolidated companies                           |                     | (476,423)           |
| Proceeds from disposal of property, plant and equipment                           | 34,311              | 11,228              |
| Acquisitions of property, plant and equipment                                     | (15,896,114)        | (13,370,618)        |
| Increase of intangible assets   | (79,701)            | (77,846)            |
| Decrease(increase) in other assets  | (184,054)           | 738,435             |
| Net cash used in investing activities   | <u>(23,017,077)</u> | <u>(16,866,332)</u> |



|   | 2005                 | 2004                 |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>           |                      |                      |
| Payment on principal of long-term loans               | \$ (200,000)         | \$                   |
| Decrease in customers deposits                        | (950,216)            | (2,012,457)          |
| Increase (decrease) in other liabilities              | 116,355              | (60,212)             |
| Cash dividends paid                                   | (45,344,307)         | (43,414,762)         |
|   | <u>(46,378,168)</u>  | <u>(45,487,431)</u>  |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>      | <b>(12,128,543)</b>  | <b>(3,571,622)</b>   |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b> | <b>29,282,811</b>    | <b>13,553,029</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>       | <b>\$ 17,154,268</b> | <b>\$ 9,981,407</b>  |
| <b>SUPPLEMENTAL INFORMATION</b>                       |                      |                      |
| Interest paid   | \$ 1,712             | \$ 316               |
|   | <u>\$ 11,400,288</u> | <u>\$ 10,999,375</u> |
| <b>NON-CASH FINANCING ACTIVITIES</b>                  |                      |                      |
| Current portion of long-term loans                    | \$ 200,000           | \$ 200,000           |
|   | <u>\$ 116,196</u>    | <u>\$</u>            |

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

(With Deloitte & Touche review report dated October 19, 2005)

(Concluded)



**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005 AND 2004**

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

**(Reviewed, Not Audited)**

**1. GENERAL**

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

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

The MOTC is in the process of privatizing the Company by reducing the government ownership to below 50% in various stages. In July 2000, the Company received approval from the Securities and Futures Commission (the SFC ) for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the TSE ) on October 27, 2000. Certain of the Company s common shares were sold by an auction, in connection with the foregoing privatization plan, in domestic public offerings in June 2001, December 2002, March 2003, April 2003 and July 2003. Certain of the Company s common shares were also sold in an international offering of securities in the form of American Depository Shares ( ADS ) in July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE ). The MOTC sold 289,431 thousand common shares by auction in the ROC on August 9, 2005 and 1,350,682 thousand common shares of the Company on August 10, 2005. After the transfer in the international offering of ADS and in domestic public offering on August 12, 2005, the MOTC owns 47.84% shares of the Company and completed privatization plan.

The numbers of employees as of September 30, 2005 and 2004 are 27,031 and 28,533, respectively.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

### **Basis of Accounting**

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

### **Current Assets and Liabilities**

Current assets are commonly identified as those which are reasonably expected to be realized in cash; or sold or consumed within one year. Current liabilities are obligations which mature within one year.

### **Cash and Cash Equivalents**

Cash and cash equivalents are commercial paper purchased with maturities of three months or less from the date of acquisition.

### **Short-term Investments**

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

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

**Allowance for Doubtful Receivables**

Allowance for doubtful receivables is provided on the basis of review of the collectibility of individual receivables. The Company evaluates the collectibility of individual receivables according to its aging analysis, etc. periodically.

**Inventories**

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

### **Investments in Unconsolidated Companies**

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

Investments in shares of stock with no readily determinable market value are accounted for using the cost method when the ownership is less than 20%. Reductions in carrying value of those investments less reductions for decline in value are charged to stockholders' equity. Reductions which are determined to be other than temporary are charged to current income. Cash dividends received are recorded as income.

Stock dividends received are accounted for as increases in the number of shares held but not recognized as income.

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

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

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

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

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

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

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

### **Intangible Assets**

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

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

### **Pension Costs**

Upon privatization, pension costs subject to defined benefit plan are recognized according to the actuarial report and the measurement date is August 12, 2005. Pension costs subject to defined contribution plan are recognized according to the amount of contributions by the Company during the employees' service period.

### **Revenue Recognition**

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

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

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

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

### **Expense Recognition**

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

### **Income Tax**

The Company accounts for income tax using the asset and liability method. Under this method, deferred income tax is recognized for investment tax credits and tax consequences of differences between financial statement carrying amounts and their respective tax bases. A valuation

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allowance is recognized if, available evidence indicates it is more likely than not that a portion or the entire deferred tax asset will not be realized. A deferred tax asset or liability should be classified as current or non-current according to the classification of its related asset or liability. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it should be classified as current or non-current depending on the expected reversal date of the temporary difference.

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

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

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

**Earnings Per Share**

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

**Foreign-currency Transactions**

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

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

**Foreign Currency Forward Exchange Contracts**

The Company enters into foreign currency forward contracts to manage currency exposures in foreign currency-denominated assets and liabilities. The differences in the New Taiwan dollar amounts translated using the current rate and the amounts translated using the contracted forward rates on the contract date are amortized over the terms of the forward contracts using the straight-line method. At the balance sheet dates, the receivables or payables arising from forward contracts are restated using the prevailing current rate at the balance sheet date and the resulting differences are recognized and charged to income. Also the receivables and payables related to the forward contract are netted with the resulting amount presented as either other current monetary asset or other current liability. Any resulting gain or loss upon settlement is charged to income in the period of settlement.

**3. ADJUSTMENTS OF FINANCIAL STATEMENTS**

**For the Year Ended December 31, 2004**

The Company's financial statements for the year ended December 31, 2004 had been examined by the government agencies, and the resulting adjustments had been recorded retroactively as of December 31, 2004. The effects of these adjustments are summarized as follows:

|                      | <b>As Previously<br/>Reported</b> | <b>Adjustment<br/>Increase<br/>(Decrease)</b> | <b>As Adjusted</b> |
|----------------------|-----------------------------------|---|--------------------|
| <u>Balance sheet</u> |                                   |   |                    |



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

(Continued)

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

The adjustments made by the government agencies that decreased income before income tax of \$9,351 thousand were due to the different bases of estimates used by the MOA in determining certain accruals. Increased current liabilities of \$45,319,914 thousand and decreased total stockholders' equity of \$45,351,321 thousand were due to the appropriations of 2004 earnings recorded at December 31, 2004 by the MOA. (Please refer to Note 14).

#### 4. CASH AND CASH EQUIVALENTS

|  | September 30  |              |
|--|---------------|--------------|
|  | 2005          | 2004         |
| <b>Cash</b>  |               |              |
| Cash on hand   | \$ 99,829     | \$ 114,216   |
| Cash in banks  | 3,735,440     | 4,911,891    |
|  | 3,835,269     | 5,026,107    |
| <b>Cash equivalents</b>  |               |              |
| Commercial paper purchased, annual discount rates - ranging from 1.20%-1.24% and 0.98%-1.00% for 2005 and 2004, respectively | 13,318,999    | 4,955,300    |
|  | \$ 17,154,268 | \$ 9,981,407 |

**5. SHORT-TERM INVESTMENTS**

|                                   | September 30         |                     |
|-----------------------------------|----------------------|---------------------|
|                                   | 2005                 | 2004                |
| Open-end bond mutual funds        | \$ 15,831,085        | \$ 3,700,000        |
| Principal guarantee notes         | 100,000              |                     |
| Real estate investment trust fund | 100,000              |                     |
| Listed stocks                     | 66,743               |                     |
|                                   | <u>\$ 16,097,828</u> | <u>\$ 3,700,000</u> |
| Market value                      | <u>\$ 16,220,329</u> | <u>\$ 3,700,000</u> |

The market value of short-term investments were based on the net asset value as of September 30, 2005 and 2004 or the average price of September 2005.

**6. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

|                                 | Nine Months Ended<br>September 30 |                     |
|---------------------------------|-----------------------------------|---------------------|
|                                 | 2005                              | 2004                |
| Balance, beginning of period    | \$ 4,473,433                      | \$ 7,786,037        |
| Provision for doubtful accounts | 706,999                           | 981,367             |
| Accounts receivable written off | (1,485,062)                       | (3,640,191)         |
| Balance, end of period          | <u>\$ 3,695,370</u>               | <u>\$ 5,127,213</u> |

Above balance of allowance for doubtful accounts consisted of the allowance for notes, accounts receivable as well as overdue receivables.

**7. INVENTORIES, NET**

|                      | September 30 |              |
|----------------------|--------------|--------------|
|                      | 2005         | 2004         |
| Supplies             | \$ 1,364,360 | \$ 1,071,921 |
| Work in process      | 15,816       | 1,800        |
| Materials in transit | 510,788      | 335,986      |

|  |              |              |
|--|--------------|--------------|
|  | \$ 1,890,964 | \$ 1,409,707 |
|--|--------------|--------------|

**8. OTHER CURRENT ASSETS**

|                    | September 30         |                     |
|--------------------|----------------------|---------------------|
|                    | 2005                 | 2004                |
| Prepaid income tax | \$ 6,323,599         | \$                  |
| Prepaid expenses   | 3,751,968            | 3,225,871           |
| Miscellaneous      | 67,100               | 111,297             |
|                    | <u>\$ 10,142,667</u> | <u>\$ 3,337,168</u> |

**9. INVESTMENTS IN UNCONSOLIDATED COMPANIES AND FUNDS**

|  | September 30        |                        |                     |                        |
|--|---------------------|------------------------|---------------------|------------------------|
|  | 2005                |                        | 2004                |                        |
|  | Carrying<br>Value   | % of<br>Owner-<br>ship | Carrying<br>Value   | % of<br>Owner-<br>ship |
| <b>Funds</b>   |                     |                        |                     |                        |
| Fixed Line Funds                                     | \$ 1,000,000        |                        | \$ 1,000,000        |                        |
| Piping Funds   | 1,000,000           |                        | 1,000,000           |                        |
|  | <u>2,000,000</u>    |                        | <u>2,000,000</u>    |                        |
| <b>Investments in unconsolidated companies</b>       |                     |                        |                     |                        |
| Equity investees:                                    |                     |                        |                     |                        |
| Chunghwa Investment ( CHI )                          | 930,341             | 49                     | 978,896             | 49                     |
| Taiwan International Standard Electronics ( TISE )   | 497,352             | 40                     | 417,854             | 40                     |
|  | <u>1,427,693</u>    |                        | <u>1,396,750</u>    |                        |
| Cost investees                                       |                     |                        |                     |                        |
| Taipei Financial Center ( TFC )                      | 2,529,206           | 12                     | 2,476,266           | 12                     |
| RPTI International ( RPIT )                          | 71,500              | 12                     | 71,500              | 12                     |
| Siemens Telecommunication Systems ( Siemens )        | 5,250               | 15                     | 5,250               | 15                     |
|  | <u>2,605,956</u>    |                        | <u>2,553,016</u>    |                        |
| <b>Total investments in unconsolidated companies</b> | <u>4,033,649</u>    |                        | <u>3,949,766</u>    |                        |
|  | <u>\$ 6,033,649</u> |                        | <u>\$ 5,949,766</u> |                        |

The carrying values of the equity investees and the equity in their net loss and net income as of and for the nine months ended September 30, 2005 and 2004 are based on unreviewed financial statements. The equity in their net gains were \$65,500 thousand and \$33,268 thousand for the nine months ended September 30, 2005 and 2004, respectively.

The equity in the net assets of investments in unconsolidated companies accounted for using the cost method as computed by the percentage of ownership were \$2,168,272 thousand and \$2,416,380 thousand as of September 30, 2005 and 2004, respectively.

As part of the government's effort to upgrade the existing telecommunications infrastructure, the Company and other public utility companies were required to contribute to a Fixed Line Fund managed by the Ministry of Interior Affairs and a Piping Fund administered by the Taipei City Government. These funds will be used to finance various telecommunications infrastructure projects, and any deficiency of the funds will be reimbursed by the companies.

**10. PROPERTY, PLANT AND EQUIPMENT**

|   | September 30          |                       |
|---|-----------------------|-----------------------|
|   | 2005                  | 2004                  |
| <b>Cost</b>   |                       |                       |
| Land  | \$ 101,901,489        | \$ 101,832,412        |
| Land improvements   | 1,462,153             | 1,447,342             |
| Buildings   | 56,765,074            | 54,615,356            |
| Machinery and equipment   | 21,796,868            | 21,893,015            |
| Telecommunications network facilities                                     | 625,308,501           | 613,666,790           |
| Miscellaneous equipment   | 2,061,694             | 2,113,978             |
| <b>Total cost</b>   | <b>809,295,779</b>    | <b>795,568,893</b>    |
| Revaluation increment on land   | 5,951,339             | 5,951,368             |
|   | <b>815,247,118</b>    | <b>801,520,261</b>    |
| <b>Accumulated depreciation</b>   |                       |                       |
| Land improvements   | 738,835               | 680,634               |
| Buildings   | 12,990,475            | 12,037,982            |
| Machinery and equipment   | 15,788,409            | 15,561,561            |
| Telecommunications network facilities                                     | 447,247,118           | 428,718,235           |
| Miscellaneous equipment   | 1,765,470             | 1,772,601             |
|   | <b>478,530,307</b>    | <b>458,771,013</b>    |
|   | <b>336,716,811</b>    | <b>342,749,248</b>    |
| Construction in progress and advances related to acquisition of equipment | 25,611,084            | 36,176,409            |
| <b>Property, plant and equipment, net</b>                                 | <b>\$ 362,327,895</b> | <b>\$ 378,925,657</b> |

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

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

Because of the improvements on telecommunication technology and changes of the market, the recoverable amount of telecommunications network facilities of paging division is less than its carrying amount; therefore, an impairment loss amounted to \$343,463 thousand is recognized on long-lived assets.

No interest expense was capitalized for the nine months ended September 30, 2005 and 2004.

**11. ACCRUED EXPENSES**

|                                | <b>September 30</b> |                      |
|--------------------------------|---------------------|----------------------|
|                                | <b>2005</b>         | <b>2004</b>          |
| Accrued compensation           | \$ 6,068,877        | \$ 6,882,727         |
| Accrued franchise fees         | 1,883,192           | 1,870,237            |
| Accrued advertisement expenses | 210,000             | 430,000              |
| Other accrued expenses         | 1,447,396           | 1,086,452            |
|                                | <u>\$ 9,609,465</u> | <u>\$ 10,269,416</u> |



**12. OTHER CURRENT LIABILITIES**

|                                       | September 30         |                      |
|---------------------------------------|----------------------|----------------------|
|                                       | 2005                 | 2004                 |
| Advances from subscribers             | \$ 4,712,257         | \$ 3,491,199         |
| Amounts collected in trust for others | 4,410,832            | 4,679,795            |
| Payables to equipment suppliers       | 3,897,880            | 2,809,433            |
| Refundable customers deposits         | 1,232,551            | 3,656,259            |
| Payables to constructors suppliers    | 642,908              | 1,860,989            |
| Miscellaneous                         | 1,703,168            | 1,851,440            |
|                                       | <u>\$ 16,599,596</u> | <u>\$ 18,349,115</u> |

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

|  | September 30      |                   |
|--|-------------------|-------------------|
|  | 2005              | 2004              |
| Loan from the Common Tunnel Fund         | \$ 500,000        | \$ 700,000        |
| Less: Current portion of long-term loans | 200,000           | 200,000           |
|  | <u>\$ 300,000</u> | <u>\$ 500,000</u> |

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

**14. STOCKHOLDERS EQUITY**

Under the Company's Articles of Incorporation, authorized capital is divided into 9,647,724,900 common shares and 2 preferred shares (at \$10 par value per share), all of which are issued and outstanding. The Company's Articles of Incorporation and the Republic of China Telecommunications Act provide that the MOTC has the right to purchase two redeemable preferred shares (NT\$10 par value) in the event its ownership in the Company falls below 50% of the outstanding common shares.

For the purpose of privatizing the company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. As of September 30, 2005, the MOTC has sold 2,460,432 thousand common shares in the form of ADS amounting to 246,043 thousand units.

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

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

As of September 30, 2005, the outstanding ADSs were 246,043 thousand units, which equaled approximately 2,460,431 thousand common shares and represented 25.50% of the Company's total outstanding common shares.

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

- a. The holder of the preferred shares, or its nominated representative, will act as a director and/or supervisor during the entire period in which the preferred shares are outstanding.
- b. The holder of preferred shares has the same pre-emptive rights as holders of common shares when the Company raises capital by issuing new shares.
- c. The holder of the preferred shares will have to the right to veto on any change in the name of the Company or the nature of its business and any transfer of a substantial portion of the Company's business or property.
- d. The holder of the preferred shares may not transfer the ownership. The Company must redeem all outstanding preferred shares within three years from the date of their issuance.

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

In addition, before distributing a dividend or making any other distribution to stockholders, the Company must pay all outstanding taxes, recover any past losses and set aside a legal reserve equal to 10% of its net income, and depending on its business needs or requirements, may also set aside a special reserve. The cash dividends to be distributed shall not be less than 10% of the total amount of the dividends to be distributed. In addition, if the cash dividend to be distributed is less than \$0.10 per share, such cash dividend shall be distributed in the form of common shares.

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

Furthermore, under the ROC Company Law, the appropriation for legal reserve shall be made until the accumulated reserve equals the aggregate par value of the outstanding capital stock of the Company. This reserve can only be used to offset a deficit, or when the balance is 50% of the aggregate par value of the outstanding capital stock of the Company, the Company may, at its option, declare 50% of the reserve as a stock dividend and transfer the amount to capital.

The appropriation and distributions of the 2004 and 2003 earning of the Company have been approved and resolved by the stockholders in June 21, 2005 and June 25, 2004, respectively, were as follows:

|                 | Appropriations and       |                      | Dividends Per  |        |
|-----------------|--------------------------|----------------------|----------------|--------|
|                 | Distributions of Earning |                      | Share (Dollar) |        |
|                 | 2004                     | 2003                 | 2004           | 2003   |
| Legal reserve   | \$ 4,986,330             | \$ 4,848,789         |                |        |
| Special reserve | 4,243                    | 522                  |                |        |
| Cash dividends  | 45,344,307               | 43,414,762           | \$ 4.7         | \$ 4.5 |
|                 | <u>\$ 50,334,880</u>     | <u>\$ 48,264,073</u> |                |        |

Under the regulations of state-owned company, the appropriations and distributions adjustments of the 2004 and 2003 earnings had been recorded retroactively as of December 31, 2004 and 2003, respectively. (Refer to Note 3.)

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

#### 15. PERSONNEL, DEPRECIATION AND AMORTIZATION EXPENSES

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

Nine Months Ended September 30, 2004

Total

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|                      | <u>Cost of<br/>Services</u> | <u>Operating<br/>Expenses</u> | <u>                    </u> |
|----------------------|-----------------------------|-------------------------------|-----------------------------|
| Personnel expense    |                             |                               |                             |
| Salaries             | \$ 11,305,485               | \$ 6,765,032                  | \$ 18,070,517               |
| Insurance            | 456,980                     | 283,787                       | 740,767                     |
| Pension              | 1,153,987                   | 697,822                       | 1,851,809                   |
| Other compensation   | 4,453,957                   | 2,622,385                     | 7,076,342                   |
|                      | <u>17,370,409</u>           | <u>10,369,026</u>             | <u>27,739,435</u>           |
| Depreciation expense | 28,930,010                  | 1,622,694                     | 30,552,704                  |
| Amortization expense | 111,933                     | 93,354                        | 205,287                     |
|                      | <u>\$ 46,412,352</u>        | <u>\$ 12,085,074</u>          | <u>\$ 58,497,426</u>        |

**16. INCOME TAX**

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

|   | Nine Months Ended |               |
|---|-------------------|---------------|
|   | September 30      |               |
|   | 2005              | 2004          |
| Income tax expense computed at statutory income tax rate of 25% | \$ 11,873,307     | \$ 11,986,274 |
| Deduct tax effect of:   |                   |               |
| Permanent differences   | (135,083)         | (54,444)      |
| Timing differences  | (12,569,495)      | (907,030)     |
| Investment tax credits  |                   | (2,465,129)   |
| Income tax payable  | \$                | \$ 8,559,671  |

- b. Income tax expense consisted of the following:

|                                       |              |              |
|---------------------------------------|--------------|--------------|
| Income tax payable                    | \$           | \$ 8,559,671 |
| Income tax - separated                | 67,981       | 29,437       |
| Income tax - deferred                 |              |              |
| Temporary difference                  | 12,126,609   | 71,580       |
| Investment tax credits                | (2,091,156)  |              |
| Loss carryforwards                    | (771,512)    |              |
| Adjustment of prior year's income tax | (4,750)      |              |
|                                       | \$ 9,327,172 | \$ 8,660,688 |

The balance of income tax payable at September 30, 2005 was derived from the adjustment of the government agencies in examining the accounts for the year ended December 31, 2004.

The balance of income tax payable at September 30, 2004 was shown net of prepaid income tax.

- c. Deferred income tax assets (liabilities) consist of the following:

|                                    | September 30 |         |
|------------------------------------|--------------|---------|
|                                    | 2005         | 2004    |
| Current                            |              |         |
| Deferred income tax assets:        |              |         |
| Investment tax credits             | \$ 2,091,156 | \$      |
| Loss carryforwards                 | 771,512      |         |
| Provision for doubtful receivables | 241,954      | 778,858 |

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|                                  |                     |                      |
|----------------------------------|---------------------|----------------------|
| Accrued pension cost             |                     | 11,946,513           |
| Other                            | 111,748             | 56,748               |
|                                  | <u>3,216,370</u>    | <u>12,782,119</u>    |
| Less: Valuation allowance        | (241,954)           | (778,858)            |
|                                  | <u>2,974,416</u>    | <u>12,003,261</u>    |
| Deferred income tax liability:   |                     |                      |
| Unrealized foreign exchange gain | (34,262)            | (4,151)              |
|                                  | <u>\$ 2,940,154</u> | <u>\$ 11,999,110</u> |

(Continued)

|  | September 30 |           |
|--|--------------|-----------|
|  | 2005         | 2004      |
| Noncurrent deferred income tax assets:                         |              |           |
| Losses on impairment   | \$ 85,866    | \$        |
| Unrealized losses on disposal of property, plant and equipment |              | 14,256    |
| Net noncurrent deferred income tax assets                      | \$ 85,866    | \$ 14,256 |

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

|  | September 30 |            |
|--|--------------|------------|
|  | 2005         | 2004       |
| Balance of Imputation Credit Account (ICA) | \$ 115,890   | \$ 258,668 |

The actual ICA rate for the year ended December 31, 2004 and 2003 were 22.49% and 27.68%, respectively.

e. Undistributed earnings information

As of September 30, 2005 and 2004, the Company's undistributed earnings generated in June 30, 1998 and onward were \$32,336 thousand for both years.

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

## 17. BASIC NET INCOME PER SHARE

|                                      | Amount (Numerator)             |               | Weighted-<br>average<br>Number of<br>Common<br>Shares<br>Outstanding<br>(Denominator) | Net Income<br>Per Share<br>(Dollars) |               |
|--------------------------------------|--------------------------------|---------------|---|--------------------------------------|---------------|
|                                      | Income<br>Before<br>Income Tax |               |   | Income<br>Before<br>Tax              | Net<br>Income |
|                                      | Income Tax                     | Net Income    |   | Tax                                  | Income        |
| Nine months ended September 30, 2005 |                                |               |   |                                      |               |
| Net income                           | \$ 47,493,266                  | \$ 38,166,094 |   |                                      |               |



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|                                      |               |               |           |         |         |
|--------------------------------------|---------------|---------------|-----------|---------|---------|
| Basic net income per share           |               |               | 9,647,725 | \$ 4.92 | \$ 3.96 |
| <hr/>                                |               |               |           |         |         |
| Nine months ended September 30, 2004 |               |               |           |         |         |
| Net income                           | \$ 47,945,134 | \$ 39,284,446 |           |         |         |
| <hr/>                                |               |               |           |         |         |
| Basic net income per share           |               |               | 9,647,725 | \$ 4.97 | \$ 4.07 |
| <hr/>                                |               |               |           |         |         |

**18. PENSION PLAN**

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

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

The Company completed privatization plans on August 12, 2005. The Company is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in accordance with the Statute Governing Privatization of Stated-Owned Enterprises. The plan assets of the Company is sufficient for the above accrued pension obligation.

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

The balance of the Company's plan assets subject to defined benefit plan were \$1,163,152 thousand and \$893,717 thousand as of September 30, 2005 and 2004, respectively.

The Company applies the Labor Pension Act of ROC beginning July 1, 2005 and this pension mechanism is considered as a defined contribution plan and contributes 6% of each employee's monthly salary per month.

Pension costs were amounted to \$1,533,569 thousand (1,533,317 thousand subject to defined benefit plan and 252 thousand subject to defined contribution plan) and \$1,943,576 thousand for the nine months ended September 30, 2005 and 2004, respectively.

## 19. TRANSACTIONS WITH RELATED PARTIES

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

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

| <u>Company</u>                                     | <u>Relationship</u>                     |
|--|---|
| Taiwan International Standard Electronics ( TISE ) | Equity-accounted investee               |
| Chunghwa System Integration ( CSI )                | Subsidiary of equity-accounted investee |

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

|  | September 30      |            |                   |            |
|--|-------------------|------------|-------------------|------------|
|  | 2005              |            | 2004              |            |
|  | Amount            | %          | Amount            | %          |
| <b>1) Payables</b>   |                   |            |                   |            |
| Trade notes and accounts payable   |                   |            |                   |            |
| TISE   | \$ 16,427         |            | \$ 33,170         |            |
|  | <u>          </u> | <u>  </u>  | <u>          </u> | <u>  </u>  |
| <b>Accrued expense</b>   |                   |            |                   |            |
| TISE   | \$ 37,791         |            | \$ 35,978         |            |
|  | <u>          </u> | <u>  </u>  | <u>          </u> | <u>  </u>  |
| <b>Payable to construction supplier (included in other current liabilities )</b> |                   |            |                   |            |
| TISE   | \$                |            | \$ 5,443          |            |
|  | <u>          </u> | <u>  </u>  | <u>          </u> | <u>  </u>  |
| <b>2) Cost of services</b>   |                   |            |                   |            |
| TISE   | \$ 81,683         |            | \$ 127,649        |            |
| CSI  | 27,468            |            | 95,457            |            |
|  | <u>          </u> | <u>  </u>  | <u>          </u> | <u>  </u>  |
|  | <u>\$ 109,151</u> | <u>  </u>  | <u>\$ 223,106</u> | <u>  </u>  |
| <b>3) Acquisition of properties</b>  |                   |            |                   |            |
| TISE   | \$ 378,541        | 2          | \$ 795,947        | 6          |
| CSI  | 255,912           | 2          | 73,840            | 1          |
|  | <u>          </u> | <u>  </u>  | <u>          </u> | <u>  </u>  |
|  | <u>\$ 634,453</u> | <u>  4</u> | <u>\$ 869,787</u> | <u>  7</u> |

The foregoing transactions were conducted under normal commercial terms.

## 20. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2005, the Company's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of buildings of \$2,867,980 thousand.
- b. Acquisitions of telecommunications equipment of \$15,216,553 thousand.
- c. Unused letters of credit of approximately \$5,469,932 thousand.
- d. Contracts to print billing, envelopes and telephone directories of approximately \$394,716 thousand.

- e. The Company also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Minimum rental commitments under those leases are as follows:

| <u>Year</u>                              | <u>Rental Amount</u> |
|--|----------------------|
| The three months ended December 31, 2005 | \$ 315,384           |
| 2006                                     | 1,197,352            |
| 2007                                     | 839,646              |
| 2008                                     | 489,014              |
| 2009 and thereafter                      | 323,499              |

- f. A commitment to contribute \$2,500,000 thousand to a Fixed Line Fund administered by the Ministry of Interior Affairs and Taiwan Power Company, of which \$1,000,000 thousand has been contributed by the Company on June 30, 1995. If the balance of the Fixed Line Fund is not sufficient for its purpose, the above three parties will determine when to raise additional funds and how much is the contribution from each party.
- g. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by the Company on August 15, 1996.
- h. A portion of the land used by the Company during the period July 1, 1996 to December 31, 2004 was co-owned by the Company and Chunghwa Post Co., Ltd. (the former Directorate General of Postal Service). In accordance with the pay order dated July 12, 2005 from the Taiwan Taipei District Court, the Company is required to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of the Company's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, the Company believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, the Company has filed an appeal at the Taiwan Taipei District court on July 29, 2005. Chunghwa Post Co., Ltd. has submitted pleading to the Taipei District Court and started pretrial procedure. Currently the preliminary hearing has initiated, not yet proceeds to the argumentation.

## 21. FAIR VALUE OF FINANCIAL INSTRUMENTS

- a. Derivative financial instruments

The Company entered into derivative financial instrument transactions to manage exposures related to foreign-currency denominated payable fluctuation. There were no foreign currency forward exchange contracts outstanding as of September 30, 2004. The Company didn't enter into derivative financial instrument transactions for the nine months ended September 30, 2005.

- 1) Transaction risk

- a) Credit risk

The Company is exposed to credit risk in the event of non-performance of the counter parties to forward contracts on domestic maturities. In order to manage this risk, the Company conducts transactions only with domestic financial institutions with good credit ratings. As a result, no material losses resulting from counter party defaults are anticipated.

b) Market risk

Market risk is the exposure created by potential exposures to changes of foreign exchange rate related to its foreign-currency-denominated assets and/or liabilities and changes on interest rates related to its obligations.

c) Liquidation risk and cash flow risk

The Company entered into foreign currency forward exchange contracts to hedge its exposure to the effect of exchange rate fluctuations on net liabilities. At the maturity of the contracts, the Company has sufficient cash to cover the cash out, therefore the Company believes there are no significant liquidation risk and cash flow risk.

2) Transaction gains and losses

Net exchange loss for the nine months ended September 30, 2004 was \$ 26,784 thousand.

b. Fair value of financial instruments:

|   | September 30       |               |                    |              |
|---|--------------------|---------------|--------------------|--------------|
|   | 2005               |               | 2004               |              |
|   | Carrying<br>Amount | Fair Value    | Carrying<br>Amount | Fair Value   |
| <b><u>Nonderivative financial instruments</u></b> |                    |               |                    |              |
| <b>Assets</b>                                     |                    |               |                    |              |
| Cash and cash equivalents                         | \$ 17,154,268      | \$ 17,154,268 | \$ 9,981,407       | \$ 9,981,407 |
| Short-term investments                            | 16,097,828         | 16,220,329    | 3,700,000          | 3,700,000    |
| Trade notes and accounts receivable, net          | 12,772,978         | 12,772,978    | 15,695,252         | 15,695,252   |
| Other current monetary assets                     | 2,357,538          | 2,357,538     | 2,073,435          | 2,073,435    |
| Investments in unconsolidated companies and funds | 6,033,649          | 5,854,450     | 5,949,766          | 6,164,424    |
| Refundable deposits                               | 1,474,113          | 1,474,113     | 1,220,402          | 1,220,402    |
| Overdue receivables, net                          | 333,508            | 333,508       | 647,460            | 647,460      |
| <b>Liabilities</b>                                |                    |               |                    |              |
| Trade notes and accounts payable                  | 12,083,002         | 12,083,002    | 12,105,238         | 12,105,238   |
| Accrued expenses                                  | 9,609,465          | 9,609,465     | 10,269,416         | 10,269,416   |
| Long-term loans-current portion                   | 200,000            | 200,000       | 200,000            | 200,000      |
| Long-term loans                                   | 300,000            | 300,000       | 500,000            | 500,000      |
| Customers deposits                                | 7,079,438          | 7,079,438     | 6,014,518          | 6,014,518    |

The Company's basis for determining the fair values is as follows:

- 1) Financial instruments except those mentioned in b) and c) - the carrying values of such financial instruments reported in the balance sheet approximate the fair values of these assets.

- 2) Fair values of investments in unconsolidated companies and funds are based on the net asset values of the investments in unconsolidated companies, if quoted market prices are not available.
- 3) Long-term loans (including long-term loans-current portion). The fair value is discounted value based on projected cash flow. The projected cash flows were discounted using the maturity dates of long-term loans.

**22. ADDITIONAL DISCLOSURES**

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

- a. Financing provided: None.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: See Table 1.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: See Table 2.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: See Table 3.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: None.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: None.
- i. Names, locations, and other information of investees on which the Company exercises significant influence: See Table 4
- j. Derivative financial transaction: See Note 23.
- k. Investment in Mainland China: None.

**TABLE 1****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****SEPTEMBER 30, 2005****(Amounts in Thousands of New Taiwan Dollars)**

|                             |   |                               |   | September 30, 2005         |                |              |                          |
|-----------------------------|---|-------------------------------|---|----------------------------|----------------|--------------|--------------------------|
| Parent Company Name         | Marketable Securities Type and Name           | Relationship with the Company | Financial Statement Account             | Shares                     |                | Market Value | Percentage of Net Assets |
|                             |   |                               |   | (Thousands/Thousand Units) | Carrying Value |              |                          |
| Chung Hwa Telecom Co., Ltd. | <u>Common stock</u>                           |                               |   |                            |                |              |                          |
|                             | Chungghwa Investment Co., Ltd.                | Equity method investee        | Investments in unconsolidated companies | 98,000                     | \$ 930,341     | 49           | \$ 930,341               |
|                             | Taiwan International Standard Electronics     | Equity method investee        | Investments in unconsolidated companies | 1,760                      | 497,352        | 40           | 755,000                  |
|                             | Taipei Financial Center                       | -                             | Investments in unconsolidated companies | 288,211                    | 2,529,206      | 12           | 1,883,000                |
|                             | RPTI International                            | -                             | Investments in unconsolidated companies | 9,234                      | 71,500         | 12           | 106,000                  |
|                             | Siemens Telecommunication Systems             | -                             | Investments in unconsolidated companies | 75                         | 5,250          | 15           | 178,000                  |
|                             | Nan Ya Plastics Corporation                   | -                             | Short-term investment                   | 123.6                      | 5,002          |              | 4,000                    |
|                             | Nien Hsing Textile Co., Ltd.                  | -                             | Short-term investment                   | 284                        | 7,028          |              | 6,000                    |
|                             | China Steel Corporation                       | -                             | Short-term investment                   | 114                        | 3,341          |              | 3,000                    |
|                             | China Motor Corporation                       | -                             | Short-term investment                   | 503                        | 15,571         |              | 14,000                   |
|                             | KINPO Electronics, Inc.                       | -                             | Short-term investment                   | 232                        | 3,166          |              | 3,000                    |
|                             | D-Link Corporation                            | -                             | Short-term investment                   | 267                        | 9,049          |              | 8,000                    |
|                             | Benq Corporation                              | -                             | Short-term investment                   | 402                        | 11,924         |              | 11,000                   |
|                             | Inventec Corporation                          | -                             | Short-term investment                   | 195.7                      | 2,810          |              | 3,000                    |
|                             | Gigabyte Technology Co., Ltd.                 | -                             | Short-term investment                   | 203                        | 6,514          |              | 6,000                    |
|                             | Realtek Semiconductor Corp.                   | -                             | Short-term investment                   | 70                         | 2,338          |              | 2,000                    |
|                             | <u>Beneficiary certificates (mutual fund)</u> |                               |   |                            |                |              |                          |
|                             | JF (Taiwan) First Bond Fund                   | -                             | Short-term investment                   | 43,557                     | 600,000        |              | 602,000                  |
|                             | JF (Taiwan) Taiwan Bond Fund                  | -                             | Short-term investment                   | 33,453                     | 500,000        |              | 501,000                  |
|                             | Dresdner Bond DAM Fund                        | -                             | Short-term investment                   | 70,495                     | 800,000        |              | 802,000                  |
|                             | Invesco ROC Bond Fund                         | -                             | Short-term investment                   | 54,891                     | 800,626        |              | 803,000                  |
|                             | ABN AMRO Bond Fund                            | -                             | Short-term investment                   | 60,977                     | 900,000        |              | 903,000                  |
|                             | ABN AMRO Select Bond Fund                     | -                             | Short-term investment                   | 99,074                     | 1,100,000      |              | 1,103,000                |
|                             | PCA Well Pool Fund                            | -                             | Short-term investment                   | 73,256                     | 900,268        |              | 902,000                  |
|                             | HSBC Taiwan Dragon Fund                       | -                             | Short-term investment                   | 13,373                     | 200,923        |              | 202,000                  |
|                             | HSBC NTD Money Management Fund 2              | -                             | Short-term investment                   | 32,651                     | 450,522        |              | 451,000                  |
|                             | FUBON Ju-I III Fund                           | -                             | Short-term investment                   | 41,772                     | 501,156        |              | 502,000                  |
|                             | Shinkong Chi-Shin Fund                        | -                             | Short-term investment                   | 142,405                    | 2,000,000      |              | 2,006,000                |
|                             | NITC Bond Fund                                | -                             | Short-term investment                   | 12,408                     | 2,000,000      |              | 2,006,000                |
|                             | Barits Bond Fund                              | -                             | Short-term investment                   | 50,429                     | 600,000        |              | 603,000                  |
|                             | Taishin Lucky Fund                            | -                             | Short-term investment                   | 9,966                      | 100,000        |              | 100,000                  |
|                             | TIIM High Yield Fund                          | -                             | Short-term investment                   | 33,727                     | 410,000        |              | 410,000                  |



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|                        |   |                       |        |         |         |
|------------------------|---|-----------------------|--------|---------|---------|
| Fuh-Hwa Albatross Fund | - | Short-term investment | 11,744 | 130,000 | 130,000 |
| Fuwha Atex Bund Fund   | - | Short-term investment | 34,469 | 400,000 | 400,000 |

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September 30, 2005

| Held Company Name             | Marketable Securities Type and Name                     | Relationship with the Company | Financial Statement Account             | Shares                     |                              | Market Value or Net Asset Value |           | Not |
|-------------------------------|---|-------------------------------|---|----------------------------|------------------------------|---------------------------------|-----------|-----|
|                               |   |                               |   | (Thousands/Thousand Units) | Percentage of Carrying Value | Ownership                       | Value     |     |
|                               | ADAM Global Bund Fund                                   | -                             | Short-term investment                   | 4,623                      | \$ 50,000                    |                                 | \$ 49,902 | Not |
|                               | Fubon Global Reit Fund                                  | -                             | Short-term investment                   | 20,000                     | 200,000                      |                                 | 205,200   | Not |
|                               | Jih Sun Navigation No. 1 Fund                           | -                             | Short-term investment                   | 5,000                      | 50,050                       |                                 | 50,350    | Not |
|                               | HSBC Trinity Balanced Fund                              | -                             | Short-term investment                   | 25,000                     | 250,000                      |                                 | 252,965   | Not |
|                               | JF (Taiwan) Pacific Balanced Fund                       | -                             | Short-term investment                   | 10,000                     | 100,000                      |                                 | 104,079   | Not |
|                               | Hua Nan Global Henry Fund                               | -                             | Short-term investment                   | 10,000                     | 100,000                      |                                 | 100,614   | Not |
|                               | Polaris Global Reits Fund                               | -                             | Short-term investment                   | 10,000                     | 100,000                      |                                 | 106,900   | Not |
|                               | Bowa Successful Balance Fund                            | -                             | Short-term investment                   | 10,000                     | 100,000                      |                                 | 98,762    | Not |
|                               | JF (Taiwan) Global Balance Fund                         | -                             | Short-term investment                   | 9,036                      | 100,000                      |                                 | 103,069   | Not |
|                               | JF (Taiwan) Wealth Management Fund                      | -                             | Short-term investment                   | 9,362                      | 100,000                      |                                 | 102,631   | Not |
|                               | Yuanta Structured Principal Protected Private Placement | -                             | Short-term investment                   | 50,000                     | 500,000                      |                                 | 499,950   | Not |
|                               | Fidelity Euro Bond Fund                                 | -                             | Short-term investment                   | 1,256                      | 604,960                      |                                 | 613,233   | Not |
|                               | Credit Suisse BF (Lux) Euro                             | -                             | Short-term investment                   | 41                         | 604,960                      |                                 | 614,252   | Not |
|                               | Fidelity Euro Bond Fund                                 | -                             | Short-term investment                   | 539                        | 193,500                      |                                 | 203,704   | Not |
|                               | MFS Emerging Market Debt Fund                           | -                             | Short-term investment                   | 351                        | 192,600                      |                                 | 208,110   | Not |
|                               | GAM USD Special Bond Fund                               | -                             | Short-term investment                   | 14                         | 191,520                      |                                 | 202,688   | Not |
|                               | <u>Real estate investment trust fund</u>                |                               |   |                            |                              |                                 |           |     |
|                               | Fubon No. 1   | -                             | Short-term investment                   | 10,000                     | 100,000                      |                                 | 102,600   | Not |
|                               | <u>Principal guarantee notes</u>                        |                               |   |                            |                              |                                 |           |     |
|                               | President rainbow structure note                        | -                             | Short-term investment                   |                            | 100,000                      |                                 | 100,000   | Not |
| Chunghwa Investment Co., Ltd. | <u>Common stock</u>                                     |                               |   |                            |                              |                                 |           |     |
|                               | Chunghwa System Integration Co., Ltd.                   | Subsidiary                    | Investments in unconsolidated companies | 60,000                     | 609,409                      | 100                             | 609,409   | Not |
|                               | Chunghwa Telecom Global                                 | Subsidiary                    | Investments in unconsolidated companies | 6,000                      | 102,249                      | 100                             | 102,249   | Not |
|                               | Chunghwa Precision Test Technical Co., Ltd.             | Subsidiary                    | Investments in unconsolidated companies | 1,500                      | 15,000                       | 60                              | 15,224    | Not |
|                               | Chunghwa Investment Holding Company                     | Subsidiary                    | Investments in unconsolidated companies | 589                        | 8,446                        | 100                             | 8,446     | Not |
|                               | PandaMonium Company Ltd.                                | Equity method investee        | Investments in unconsolidated companies | 602                        | 18,406                       | 43                              | 18,406    | Not |
|                               | Wayia Com Inc.  | Equity method investee        | Investments in unconsolidated companies | 4,000                      | 40,000                       | 19                              | 18,351    | Not |
|                               | TVbean Co. Ltd. Wayia Com Inc.                          | -                             | Investments in unconsolidated companies | 1,200                      | 12,000                       | 12                              | 17,607    | Not |
|                               | Vantech Software Company                                | -                             | Investments in unconsolidated companies | 1,223                      | 12,960                       | 7                               | 15,579    | Not |
|                               | Digimax Production Center                               | -                             | Investments in unconsolidated companies | 2,000                      | 60,000                       | 5                               | 16,817    | Not |
|                               | TSMC  | -                             | Short-term investment                   | 400                        | 21,060                       |                                 | 20,992    | Not |
|                               | Kinsus  | -                             | Short-term investment                   | 200                        | 14,000                       |                                 | 13,920    | Not |
|                               | Coretronic  | -                             | Short-term investment                   | 300                        | 11,682                       |                                 | 11,694    | Not |
|                               | <u>Beneficiary certification (mutual fund)</u>          |                               |   |                            |                              |                                 |           |     |
|                               | Grand Cathay Bond Fund                                  | -                             | Short-term investment                   | 786                        | 10,000                       |                                 | 10,014    | Not |

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|  |   |                       |       |        |        |     |
|--|---|-----------------------|-------|--------|--------|-----|
| Cathay Superior Balanced Fund                    | - | Short-term investment | 1,821 | 20,000 | 20,028 | Not |
| Grand Cathay High ROE and Dividend Balanced Fund | - | Short-term investment | 1,000 | 10,000 | 10,020 | Not |
| JF (Taiwan) pacific Balanced Fund                | - | Short-term investment | 962   | 10,010 | 10,017 | Not |
| Cathay No. 1 REIT                                | - | Short-term investment | 5,000 | 50,000 | 50,000 | Not |
| 94 Anshin Card 02A1                              | - | Short-term investment |       | 30,000 | 30,000 | Not |

(Continued)

September 30, 2005

| Held Company Name                    | Marketable Securities Type and Name            | Relationship with the Company | Financial Statement Account | Shares                         |   | Market Value |
|--------------------------------------|--|-------------------------------|-----------------------------|--------------------------------|---|--------------|
|                                      |  |                               |                             | (Thousands/<br>Thousand Units) | Percentage of<br>Carrying Value Ownership |              |
|                                      | PCA Bond Fund                                  | -                             | Short-term investment       | 1,132                          | \$ 17,266                                 | \$ 17,317    |
|                                      | HSBC NTD Money Manager Fund 2                  | -                             | Short-term investment       | 2,675                          | 36,896                                    | 37,019       |
|                                      | FGIT Duoli-2 Bond Fund                         | -                             | Short-term investment       | 3,510                          | 50,327                                    | 50,480       |
|                                      | Fuwha Bond Fund                                | -                             | Short-term investment       | 3,609                          | 45,241                                    | 45,395       |
|                                      | Fuwha Atex Bund Fund                           | -                             | Short-term investment       | 3,821                          | 44,225                                    | 44,374       |
|                                      | Home Ren Bund Fund                             | -                             | Short-term investment       | 2,076                          | 31,354                                    | 31,505       |
|                                      | Sheng-hua 1699 Bond Fund                       | -                             | Short-term investment       | 2,875                          | 35,000                                    | 35,118       |
|                                      | Cathay Capital Income Growth Bond Fund         | -                             | Short-term investment       | 6,622                          | 70,930                                    | 71,198       |
|                                      | Mega Diamond Bond Fund                         | -                             | Short-term investment       | 3,600                          | 40,253                                    | 40,679       |
|                                      | NITC Bond Fund                                 | -                             | Short-term investment       | 124                            | 20,000                                    | 20,067       |
|                                      | Truswell Bond Fund                             | -                             | Short-term investment       | 3,194                          | 40,000                                    | 40,130       |
|                                      | PIIM Bond Fund                                 | -                             | Short-term investment       | 2,880                          | 40,000                                    | 40,130       |
|                                      | The Forever Fund                               | -                             | Short-term investment       | 2,818                          | 40,000                                    | 40,131       |
|                                      | Polaris De-Bao Fund                            | -                             | Short-term investment       | 2,989                          | 31,500                                    | 31,601       |
|                                      | JF Taiwan Bond Fund                            | -                             | Short-term investment       | 1,662                          | 24,857                                    | 24,936       |
|                                      | Cash Reserves Capital fund                     | -                             | Short-term investment       | 3,489                          | 40,074                                    | 40,211       |
|                                      | Safe Income Capital Fund                       | -                             | Short-term investment       | 1,514                          | 22,000                                    | 22,102       |
|                                      | Cathay Ballanced Bond Fund                     | -                             | Short-term investment       | 1,573                          | 20,000                                    | 20,392       |
|                                      | HSBC Trinity Balanced Fund                     | -                             | Short-term investment       | 1,500                          | 15,001                                    | 15,179       |
|                                      | Cathay Small Cap Growth Bond Fund              | -                             | Short-term investment       | 2,396                          | 40,000                                    | 41,657       |
|                                      | Cathay Technology Fund                         | -                             | Short-term investment       | 1,392                          | 30,000                                    | 30,968       |
|                                      | Cathay Fund                                    | -                             | Short-term investment       | 3,324                          | 30,000                                    | 30,379       |
|                                      | Polaris Taiwan Top 50 Tracker Fund             | -                             | Short-term investment       | 250                            | 11,750                                    | 11,793       |
| Chunghwa System Integration Co., Ltd | <u>Common stock</u>                            |                               |                             |                                |   |              |
|                                      | TSMC   | -                             | Short-term investment       | 280                            | 15,109                                    | 14,924       |
|                                      | Coretronic                                     | -                             | Short-term investment       | 200                            | 7,791                                     | 8,060        |
|                                      | <u>Beneficiary certification (mutual fund)</u> |                               |                             |                                |   |              |
|                                      | Fuh-Hwa Bond Fund                              | -                             | Short-term investment       | 3,239                          | 42,316                                    | 42,463       |
|                                      | Cathay Capital Income Growth Bond Fund         | -                             | Short-term investment       | 1,373                          | 14,708                                    | 14,760       |
|                                      | Mega Diamond Bond Fund                         | -                             | Short-term investment       | 3,596                          | 40,500                                    | 40,637       |
|                                      | Turswell Bond Fund                             | -                             | Short-term investment       | 3,205                          | 40,000                                    | 40,261       |
|                                      | Polaris Fu-Li Strategic Income Fund            | -                             | Short-term investment       | 959                            | 10,000                                    | 10,034       |
|                                      | Cathay Fund                                    | -                             | Short-term investment       | 2,187                          | 20,000                                    | 19,991       |
|                                      | Cathay Small Cap Growth Bond Fund              | -                             | Short-term investment       | 1,198                          | 20,000                                    | 20,825       |
|                                      | Cathay Technology Fund                         | -                             | Short-term investment       | 1,293                          | 20,000                                    | 20,723       |
|                                      | Cathay Global Balanced Fund                    | -                             | Short-term investment       | 919                            | 10,000                                    | 10,018       |
|                                      | Cathay Superior Balanced Fund                  | -                             | Short-term investment       | 1,812                          | 20,000                                    | 19,937       |
|                                      | SinoPac Strategic Allocation Balanced Fund     | -                             | Short-term investment       | 3,000                          | 30,000                                    | 30,009       |
|                                      | SinoPac Columbus Fund                          | -                             | Short-term investment       | 987                            | 10,000                                    | 10,128       |
|                                      | Cathay No. 1 REIT                              | -                             | Short-term investment       | 5,000                          | 50,000                                    | 50,000       |
|                                      | 94 Anshin Card 02A1                            | -                             | Short-term investment       |                                | 30,000                                    | 30,000       |
|                                      | Fuh-Hua Albatross Fund                         | -                             | Short-term investment       | 2,830                          | 31,255                                    | 31,387       |

(Continued)

September 30, 2005

| No. | Held Company Name                   | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account             | Shares                      |                | Percentage of Ownership | Market Value or Net Asset Value |        | Note |
|-----|-------------------------------------|-------------------------------------|-------------------------------|---|-----------------------------|----------------|-------------------------|---------------------------------|--------|------|
|     |                                     |                                     |                               |   | (Thousands/ Thousand Units) | Carrying Value |                         | Value                           | Value  |      |
| 3   | Chunghwa Investment Holding Company | <u>Common stock</u>                 |                               |   |                             |                |                         |                                 |        |      |
|     |                                     | Donghua Telecom Co., Limited        | Subsidiary                    | Investments in unconsolidated companies | 4,590                       | \$ 8,526       | 100                     | \$ 6,148                        | Note 1 |      |
|     |                                     | Chunghwa Telecom (ASIA) Company     | Subsidiary                    | Investments in unconsolidated companies |                             |                | 100                     |                                 | Note 1 |      |

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

Note 2: The market value of short-term investments were based on the net asset values as of September 30, 2005.

Note 3: The average price of September 2005.

TABLE 2

## CHUNGHWA TELECOM CO., LTD.

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

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005

(Amounts in Thousands of New Taiwan Dollars)

| Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance                 |            | Acquisition                       |            | Disposal                          |            |                | Gain (Loss) on Disposal |
|-------------------------------------|-----------------------------|---------------|------------------------|-----------------------------------|------------|-----------------------------------|------------|-----------------------------------|------------|----------------|-------------------------|
|                                     |                             |               |                        | Shares (Thousands/Thousand Units) | Amount     | Shares (Thousands/Thousand Units) | Amount     | Shares (Thousands/Thousand Units) | Amount     | Carrying Value |                         |
| Primary certificates (mutual        |                             |               |                        |                                   |            |                                   |            |                                   |            |                |                         |
| (ran) First Bond Fund               | Short-term investment       | -             | -                      | 43,812                            | \$ 600,000 | 43,557                            | \$ 600,000 | 43,812                            | \$ 603,505 | \$ 600,000     | \$ 3,505                |
| (ran) Taiwan Bond Fund              | Short-term investment       | -             | -                      | 33,652                            | 500,000    | 33,453                            | 500,000    | 33,652                            | 502,978    | 500,000        | 2,978                   |
| (ran) Bond DAM Fund                 | Short-term investment       | -             | -                      | 79,876                            | 900,000    | 70,495                            | 800,000    | 79,876                            | 905,765    | 900,000        | 5,765                   |
| (ran) ROC Bond Fund                 | Short-term investment       | -             | -                      | 68,986                            | 1,000,000  | 68,560                            | 1,000,000  | 82,655                            | 1,206,216  | 1,199,374      | 6,842                   |
| (ran) MRO Bond Fund                 | Short-term investment       | -             | -                      | 47,725                            | 700,000    | 74,568                            | 1,100,000  | 61,316                            | 905,015    | 900,000        | 5,015                   |
| (ran) MRO Select Bond Fund          | Short-term investment       | -             | -                      | 63,451                            | 700,000    | 135,235                           | 1,500,000  | 99,612                            | 1,105,971  | 1,100,000      | 5,971                   |
| (ran) Bell Pool Fund                | Short-term investment       | -             | -                      | 106,401                           | 1,300,000  | 81,372                            | 1,000,000  | 114,517                           | 1,406,189  | 1,399,732      | 6,457                   |
| (ran) Taiwan Dragon Fund            | Short-term investment       | -             | -                      | 19,967                            | 300,000    | -                                 | -          | 6,594                             | 100,009    | 99,077         | 932                     |
| (ran) ITD Money                     | Short-term investment       | -             | -                      | 36,468                            | 500,000    | 61,662                            | 850,000    | 65,479                            | 904,027    | 899,478        | 4,549                   |
| (ran) Jui-III Fund                  | Short-term investment       | -             | -                      | 75,498                            | 900,000    | 91,738                            | 1,100,000  | 125,464                           | 1,506,426  | 1,498,844      | 7,582                   |
| (ran) g Chi-Shin Fund               | Short-term investment       | -             | -                      | 107,498                           | 1,500,000  | 178,160                           | 2,500,000  | 143,253                           | 2,011,921  | 2,000,000      | 11,921                  |
| (ran) Bond Fund                     | Short-term investment       | -             | -                      | -                                 | -          | 24,877                            | 4,000,000  | 12,469                            | 2,009,760  | 2,000,000      | 9,760                   |
| (ran) Bond Fund                     | Short-term investment       | -             | -                      | -                                 | -          | 50,429                            | 600,000    | -                                 | -          | -              | -                       |
| (ran) Lucky Fund                    | Short-term investment       | -             | -                      | -                                 | -          | 9,966                             | 100,000    | -                                 | -          | -              | -                       |
| (ran) High Yield Fund               | Short-term investment       | -             | -                      | -                                 | -          | 33,727                            | 410,000    | -                                 | -          | -              | -                       |
| (ran) Albatross Fund                | Short-term investment       | -             | -                      | -                                 | -          | 11,744                            | 130,000    | -                                 | -          | -              | -                       |
| (ran) Index Bund Fund               | Short-term investment       | -             | -                      | -                                 | -          | 34,469                            | 400,000    | -                                 | -          | -              | -                       |
| (ran) Global Reit Fund              | Short-term investment       | -             | -                      | -                                 | -          | 20,000                            | 200,000    | -                                 | -          | -              | -                       |
| (ran) Trinity Balanced Fund         | Short-term investment       | -             | -                      | -                                 | -          | 25,000                            | 250,000    | -                                 | -          | -              | -                       |
| (ran) Pacific Balanced              | Short-term investment       | -             | -                      | -                                 | -          | 10,000                            | 100,000    | -                                 | -          | -              | -                       |
| (ran) Global Henry Fund             | Short-term investment       | -             | -                      | -                                 | -          | 10,000                            | 100,000    | -                                 | -          | -              | -                       |
| (ran) Global Reits Fund             | Short-term investment       | -             | -                      | -                                 | -          | 20,000                            | 200,000    | 10,000                            | 106,400    | 100,000        | 6,400                   |
| (ran) Successful Balance Fund       | Short-term investment       | -             | -                      | -                                 | -          | 10,000                            | 100,000    | -                                 | -          | -              | -                       |
| (ran) Global Balance                | Short-term investment       | -             | -                      | -                                 | -          | 9,036                             | 100,000    | -                                 | -          | -              | -                       |
| (ran) Wealth                        | Short-term investment       | -             | -                      | -                                 | -          | 9,362                             | 100,000    | -                                 | -          | -              | -                       |
| (ran) ment Fund                     | Short-term investment       | -             | -                      | -                                 | -          | 50,000                            | 500,000    | -                                 | -          | -              | -                       |
| (ran) Structured Principal          | Short-term investment       | -             | -                      | -                                 | -          | -                                 | -          | -                                 | -          | -              | -                       |
| (ran) d Private Placement           | Short-term investment       | -             | -                      | -                                 | -          | -                                 | -          | -                                 | -          | -              | -                       |
| (ran) Euro Bond Fund                | Short-term investment       | -             | -                      | 813                               | 407,880    | 443                               | 197,080    | -                                 | -          | -              | -                       |
| (ran) Suisse BF (Lux) Euro          | Short-term investment       | -             | -                      | 28                                | 407,880    | 13                                | 197,080    | -                                 | -          | -              | -                       |
| (ran) European High Yield           | Short-term investment       | -             | -                      | -                                 | -          | 539                               | 193,500    | -                                 | -          | -              | -                       |
| (ran) Emerging Market Debt          | Short-term investment       | -             | -                      | -                                 | -          | 351                               | 192,600    | -                                 | -          | -              | -                       |
| (ran) Special Bond Fund             | Short-term investment       | -             | -                      | -                                 | -          | 14                                | 191,520    | -                                 | -          | -              | -                       |

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|                                  |                       |   |   |                |
|----------------------------------|-----------------------|---|---|----------------|
| <u>ate investment trust fund</u> |                       |   |   |                |
| o. 1                             | Short-term investment | - | - | 10,000 100,000 |
| <u>ate investment trust fund</u> |                       |   |   |                |
| t rainbow structure note         | Short-term investment | - | - | 100,000        |

(Continued)

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| Marketable<br>Securities Type<br>and Name | Financial<br>Statement<br>Account | Counter-party | Nature<br>of<br>Relationship | Beginning Balance                           |            | Acquisition                                 |            | Disposal                                    |            |                   |                               |
|---|-----------------------------------|---------------|------------------------------|---|------------|---|------------|---|------------|-------------------|-------------------------------|
|   |                                   |               |                              | Shares<br>(Thousands/<br>Thousand<br>Units) | Amount     | Shares<br>(Thousands/<br>Thousand<br>Units) | Amount     | Shares<br>(Thousands/<br>Thousand<br>Units) | Amount     | Carrying<br>Value | Gain (Loss)<br>on<br>Disposal |
|   |                                   |               |                              |   |            |   |            |   |            |                   |                               |
| <u>Beneficiary certificates</u>           |                                   |               |                              |   |            |   |            |   |            |                   |                               |
| PCA Bond Fund                             | Short-term investment             | -             | -                            | 6,665                                       | \$ 101,013 | 7,893                                       | \$ 120,191 | 13,426                                      | \$ 204,450 | \$ 203,938        | \$ 512                        |
| FGIT Duoli-2 Bond Fund                    | Short-term investment             | -             | -                            | 3,510                                       | 50,000     | 7,020                                       | 100,497    | 7,020                                       | 100,497    | 100,170           | 327                           |
| FGIT Duoli Bond Fund                      | Short-term investment             | -             | -                            |   |            | 7,386                                       | 120,000    | 7,386                                       | 120,169    | 120,000           | 169                           |
| Fuwaha Bond Fund                          | Short-term investment             | -             | -                            | 8,330                                       | 103,710    | 9,604                                       | 120,200    | 14,325                                      | 179,277    | 178,669           | 608                           |
| Jamef Bond Fund                           | Short-term investment             | -             | -                            | 5,199                                       | 71,064     | 2,916                                       | 40,000     | 8,115                                       | 111,409    | 111,064           | 345                           |
| Cathay Capital Income<br>Growth Bond Fund | Short-term investment             | -             | -                            | 8,523                                       | 90,655     | 17,012                                      | 181,722    | 18,913                                      | 202,119    | 201,447           | 672                           |
| Mega Diamond Bond Fund                    | Short-term investment             | -             | -                            | 13,415                                      | 150,000    |   |            | 9,815                                       | 110,168    | 109,747           | 421                           |
| NITC Bond Fund                            | Short-term investment             | -             | -                            |   |            | 966   | 155,000    | 842   | 135,352    | 135,000           | 352                           |
| HSBC Taiwan Dragon<br>Fund                | Short-term investment             | -             | -                            | 3,435                                       | 51,602     | 3,434                                       | 51,775     | 6,869                                       | 103,672    | 103,377           | 295                           |
| Sheng-hua 1699 Bond<br>Fund               | Short-term investment             | -             | -                            |   |            | 9,890                                       | 120,000    | 7,015                                       | 85,222     | 85,000            | 222                           |
| Cathay Bond Fund                          | Short-term investment             | -             | -                            | 5,339                                       | 60,000     | 6,585                                       | 74,349     | 11,924                                      | 134,713    | 134,349           | 364                           |
| Cathay Small Cap Growth<br>Bond Fund      | Short-term investment             | -             | -                            |   |            | 7,748                                       | 123,500    | 5,352                                       | 87,806     | 83,500            | 4,306                         |
| <u>Beneficiary certificates</u>           |                                   |               |                              |   |            |   |            |   |            |                   |                               |
| Mega Diamond Bond Fund                    | Short-term investment             | -             | -                            |   |            | 14,289                                      | 160,500    | 10,693                                      | 120,531    | 120,000           | 531                           |



**TABLE 3**

**CHUNGHWA TELECOM CO., LTD.**

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

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

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

| Company Name          | Property | Transaction Date | Transaction Amount | Payment Term | Counter-party                 | Nature of Relationship | Prior Transactions with Related Counter-party |              |      |        | Price Reference | Purpose of Acquisition      | Other |
|-----------------------|----------|------------------|--------------------|--------------|-------------------------------|------------------------|---|--------------|------|--------|-----------------|-----------------------------|-------|
|                       |          |                  |                    |              |                               |                        | Owner   | Relationship | Date | Amount |                 |                             |       |
| Chunghwa Telecom Co., | Building | 2005.02.21       | \$ 473,248         | Paid         | Kun-Fu Construction Co., Ltd. | None                   |   |              |      |        | Bidding         | New office                  |       |
|                       | Building | 2005.08.08       | 148,964            | Paid         | Ya-Do Construction Co., Ltd.  | None                   |   |              |      |        | Bidding         | Telecommunication-equipment |       |

**TABLE 4****CHUNGHWA TELECOM CO., LTD.****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2005****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Investee Company                            | Location   | Main Businesses and Products   | Original Investment Amount          |                                     | Balance as of September 30, 2005 |                             |                                     | Net Income (Loss) of the Investee   | Recognized Gain (Loss) |
|---|--|--|-------------------------------------|-------------------------------------|----------------------------------|-----------------------------|-------------------------------------|-------------------------------------|------------------------|
|   |  |  | September 30, 2005                  | December 31, 2004                   | Shares (Thousands)               | Percentage of Ownership (%) | Carrying Value                      |                                     |                        |
| Chunghwa Investment Co., Ltd.               | 24F, No. 456, Hsinyi Rd., Sec. 4, Taipei   | Investment   | \$ 980,000                          | \$ 980,000                          | 98,000                           | 49                          | \$ 930,341                          | \$ 2,822                            | \$                     |
| Taiwan International Standard Electronics   | No. 4, Min Sheng St., Tu-Chen Taipei Hsien   | Manufacturing, selling, designing and maintaining of telecommunications systems and equipment  | 164,000                             | 164,000                             | 1,760                            | 40                          | 497,352                             | (37,654)                            |                        |
| Chunghwa System Integration Co., Ltd.       | 24F, No. 458, Hsinyi Rd., Sec. 4, Taipei   | Integrated communication and information services  | 600,000                             | 600,000                             | 60,000                           | 100                         | 609,409                             | 6,451                               |                        |
| Chunghwa Telecom Global                     | United States  | Multinational enterprise data service, Internet gateway and voice wholesale, mobile commerce value-added services, and content services                              | 204,271<br>US\$ (6,000)<br>thousand | 204,271<br>US\$ (6,000)<br>thousand | 6,000                            | 100                         | 102,249<br>US\$ (3,077)<br>thousand | (21,960)<br>US\$ (661)<br>thousand  |                        |
| Chunghwa Precision Test Technical Co., Ltd. | No. 12, Lane 551, Sec. 5, Minzu Rd., Yangmei Township, Taoyuan County 326, Taiwan (R.O.C.) | Electronics parts manufacturing industry<br><br>Computer and peripheral device manufacturing industry<br><br>Data storage manufacturing industry                     | 15,000                              |                                     | 1,500                            | 60                          | 15,000                              | 374                                 |                        |
| Chunghwa Investment Holding Company         | Brunei   | Investment   | 20,000<br>US\$ (589)<br>thousand    | 20,000<br>US\$ (589)<br>thousand    | 589                              | 100                         | 8,446<br>US\$ (267)<br>thousand     | (6,098)<br>US\$ (194)<br>thousand   |                        |
| PandaMomum Company                          | British Virgin Island  | Develop PandaMomum project and provide multimedia services   | 20,000<br>¥ (65,094)<br>thousand    | 20,000<br>¥ (65,094)<br>thousand    | 602                              | 43                          | 18,406<br>¥ (149,989)<br>thousand   | (8)<br>¥ (67)<br>thousand           |                        |
| Donghua Telecom Co., Ltd.                   | Hong Kong  | Engage in telecom related investments, provide international private leased circuits (IPLC), internet protocol virtual private network (IPVPN), and internet transit | 20,000<br>US\$ (589)<br>thousand    | 20,000<br>US\$ (589)<br>thousand    | 4,590                            | 100                         | 8,526<br>US\$ (2,085)<br>thousand   | (6,148)<br>HK\$ (1,503)<br>thousand | US\$                   |
| Chunghwa Telecom (ASIA)                     | Hong Kong  |  |                                     |                                     |                                  | 100                         |                                     |                                     |                        |

Company

HK\$ (1) HK\$ (1)

Note 1: The equity in net income (net loss) of unconsolidated companies was based on unreviewed financial statements.

Note 2: The equity in net loss of an unconsolidated company amounted to \$15,062 thousand was calculated from the unreviewed financial statements plus a gain on realized upstream transactions of \$106,087 thousand less a gain on unrealized upstream transactions of \$26,908 thousand.

**Chunghwa Telecom Co., Ltd.**

**Financial Statements as of December 31, 2004 and**

**September 30, 2005 (Unaudited) and for**

**Three Months and Nine Months Ended**

**September 30, 2004 and 2005 (Unaudited)**

**CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS**

(Amounts in Millions, Except Shares and Par Value Data)

|  | December 31, 2004 | September 30, 2005 |                         |
|--|-------------------|--------------------|-------------------------|
|  | NT\$              | NT\$               | US\$                    |
|  |                   | (Unaudited)        | (Unaudited)<br>(Note 3) |
| <b>ASSETS</b>                                  |                   |                    |                         |
| <b>CURRENT ASSETS</b>                          |                   |                    |                         |
| Cash and cash equivalents                      | \$ 29,283         | \$ 17,154          | \$ 517                  |
| Short-term investments                         | 9,115             | 16,220             | 489                     |
| Trade notes and accounts receivable, net       | 13,673            | 12,671             | 382                     |
| Inventories                                    | 1,439             | 1,891              | 57                      |
| Prepaid expenses                               | 602               | 9,805              | 296                     |
| Deferred income taxes                          | 17,283            | 8,377              | 252                     |
| Other current assets                           | 1,609             | 2,424              | 73                      |
| <b>Total current assets</b>                    | <b>73,004</b>     | <b>68,542</b>      | <b>2,066</b>            |
| <b>INVESTMENTS IN UNCONSOLIDATED COMPANIES</b> | <b>4,035</b>      | <b>4,034</b>       | <b>122</b>              |
| <b>PROPERTY, PLANT AND EQUIPMENT, NET</b>      | <b>311,638</b>    | <b>294,875</b>     | <b>8,887</b>            |
| <b>INTANGIBLE ASSETS</b>                       |                   |                    |                         |
| Deferred pension cost                          | 33,222            |                    |                         |
| 3G concession                                  | 10,179            | 9,919              | 299                     |
| Patents and computer software, net             | 207               | 177                | 5                       |
| <b>Total intangible assets</b>                 | <b>43,608</b>     | <b>10,096</b>      | <b>304</b>              |
| <b>OTHER ASSETS</b>                            |                   |                    |                         |
| Deferred income taxes - non-current            | 2,444             | 2,234              | 67                      |
| Other  | 3,692             | 3,818              | 115                     |
| <b>Total other assets</b>                      | <b>6,136</b>      | <b>6,052</b>       | <b>182</b>              |
| <b>TOTAL</b>                                   | <b>\$ 438,421</b> | <b>\$ 383,599</b>  | <b>\$ 11,561</b>        |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>     |                   |                    |                         |
| <b>CURRENT LIABILITIES</b>                     |                   |                    |                         |
| Trade notes and accounts payable               | \$ 14,484         | \$ 12,083          | \$ 364                  |
| Income tax payable                             | 5,032             | 17                 | 1                       |
| Accrued expenses                               | 14,368            | 9,620              | 290                     |
| Accrued pension liabilities                    | 44,252            |                    |                         |
| Current portion of deferred income             | 2,633             | 2,340              | 71                      |
| Current portion of long-term loans             | 200               | 200                | 6                       |

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|   |                   |                   |                   |
|---|-------------------|-------------------|-------------------|
| Customers deposits  | 9,262             | 8,312             | 250               |
| Other current liabilities   | 18,966            | 18,100            | 545               |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Total current liabilities   | 109,197           | 50,672            | 1,527             |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>OTHER LIABILITIES</b>  |                   |                   |                   |
| Deferred income, net of current portion   | 9,778             | 8,582             | 259               |
| Long-term loans, net of current portion   | 500               | 300               | 9                 |
| Other   | 203               | 320               | 9                 |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Total other liabilities   | 10,481            | 9,202             | 277               |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Total liabilities   | 119,678           | 59,874            | 1,804             |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>COMMITMENTS AND CONTINGENT LIABILITIES</b>   |                   |                   |                   |
| <b>STOCKHOLDERS EQUITY</b>  |                   |                   |                   |
| Capital stock - NT\$10 (US\$0.30) par value; authorized, issued and outstanding - 9,647,724,900 common shares | 96,477            | 96,477            | 2,908             |
| Capital surplus   | 136,362           | 150,762           | 4,544             |
| Retained earnings   | 85,909            | 76,492            | 2,305             |
| Cumulative translation adjustments  | (5)               | (6)               |                   |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| Total stockholders equity   | 318,743           | 323,725           | 9,757             |
|   | <u>          </u> | <u>          </u> | <u>          </u> |
| <b>TOTAL</b>  | <b>\$ 438,421</b> | <b>\$ 383,599</b> | <b>\$ 11,561</b>  |
|   | <u>          </u> | <u>          </u> | <u>          </u> |

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

## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF OPERATIONS

(Amounts in Millions, Except Shares and Per Share and Per ADS Data)

|   | Three Months Ended September 30 |               |                         | Nine Months Ended September 30 |               |                         |
|---|---------------------------------|---------------|-------------------------|--------------------------------|---------------|-------------------------|
|   | 2004                            |               | 2005                    | 2004                           |               | 2005                    |
|   | NT\$                            | NT\$          | US\$                    | NT\$                           | NT\$          | US\$                    |
|   | (Unaudited)                     | (Unaudited)   | (Unaudited)<br>(Note 3) | (Unaudited)                    | (Unaudited)   | (Unaudited)<br>(Note 3) |
| SERVICE REVENUES  | \$ 46,460                       | \$ 47,751     | \$ 1,439                | \$ 138,386                     | \$ 138,449    | \$ 4,173                |
| <b>OPERATING COSTS AND EXPENSES</b>                                 |                                 |               |                         |                                |               |                         |
| Costs of services, excluding depreciation and amortization          | 14,877                          | 16,551        | 499                     | 43,927                         | 46,162        | 1,391                   |
| Marketing, excluding depreciation and amortization                  | 4,574                           | 5,187         | 156                     | 13,604                         | 14,455        | 436                     |
| General and administrative, excluding depreciation and amortization | 575                             | 716           | 21                      | 1,910                          | 2,080         | 63                      |
| Research and development, excluding depreciation and amortization   | 592                             | 717           | 22                      | 1,787                          | 1,976         | 60                      |
| Depreciation and amortization - costs of services                   | 9,514                           | 9,812         | 296                     | 28,730                         | 29,002        | 874                     |
| Depreciation and amortization - operating expenses                  | 551                             | 573           | 17                      | 1,709                          | 1,781         | 53                      |
| Total operating costs and expenses                                  | 30,683                          | 33,556        | 1,011                   | 91,667                         | 95,456        | 2,877                   |
| <b>INCOME FROM OPERATIONS</b>                                       | <b>15,777</b>                   | <b>14,195</b> | <b>428</b>              | <b>46,719</b>                  | <b>42,993</b> | <b>1,296</b>            |
| <b>OTHER INCOME</b>   |                                 |               |                         |                                |               |                         |
| Interest  | 49                              | 132           | 4                       | 164                            | 348           | 11                      |
| Equity in net income of unconsolidated companies                    | 9                               | 1             |                         | 33                             | 66            | 2                       |
| Other income  | 543                             | 887           | 27                      | 1,675                          | 2,162         | 65                      |
| Total other income  | 601                             | 1,020         | 31                      | 1,872                          | 2,576         | 78                      |
| <b>OTHER EXPENSES</b>   |                                 |               |                         |                                |               |                         |
| Interest  |                                 | 1             |                         |                                | 2             |                         |
| Other expense   | 147                             | 376           | 11                      | 253                            | 191           | 6                       |
| Total other expenses  | 147                             | 377           | 11                      | 253                            | 193           | 6                       |
| <b>INCOME BEFORE INCOME TAX</b>                                     | <b>16,231</b>                   | <b>14,838</b> | <b>448</b>              | <b>48,338</b>                  | <b>45,376</b> | <b>1,368</b>            |
| <b>INCOME TAX</b>   | <b>3,072</b>                    | <b>3,768</b>  | <b>114</b>              | <b>8,730</b>                   | <b>9,448</b>  | <b>285</b>              |

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|  |               |               |               |               |               |               |
|--|---------------|---------------|---------------|---------------|---------------|---------------|
| NET INCOME   | \$ 13,159     | \$ 11,070     | \$ 334        | \$ 39,608     | \$ 35,928     | \$ 1,083      |
| NET INCOME PER SHARE   | \$ 1.36       | \$ 1.14       | \$ 0.03       | \$ 4.11       | \$ 3.72       | \$ 0.11       |
| WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING             | 9,647,724,900 | 9,647,724,900 | 9,647,724,900 | 9,647,724,900 | 9,647,724,900 | 9,647,724,900 |
| NET INCOME PER PRO FORMA EQUIVALENT ADS                          | \$ 13.64      | \$ 11.48      | \$ 0.34       | \$ 41.05      | \$ 37.24      | \$ 1.12       |
| WEIGHTED-AVERAGE NUMBER OF PRO FORMA EQUIVALENT ADSs OUTSTANDING | 964,772,490   | 964,772,490   | 964,772,490   | 964,772,490   | 964,772,490   | 964,772,490   |

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



## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CASH FLOWS

(Amounts in Millions)

|   | Nine Months Ended September 30 |               |                         |
|---|--------------------------------|---------------|-------------------------|
|   | 2004                           | 2005          |                         |
|   | NT\$                           | NT\$          | US\$                    |
|   | (Unaudited)                    | (Unaudited)   | (Unaudited)<br>(Note 3) |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                                |               |                         |
| Net income  | \$ 39,608                      | \$ 35,928     | \$ 1,083                |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |               |                         |
| Provision for doubtful accounts   | 1,023                          | 710           | 21                      |
| Depreciation and amortization   | 30,439                         | 30,783        | 928                     |
| Impairment loss on long-live assets   |                                | 343           | 10                      |
| Net unrealized gain on short-term investments                                     |                                | (123)         | (4)                     |
| Gain on sales of short-term investments   |                                | (91)          | (3)                     |
| Net loss on disposal of scrap inventories and property, plant and equipment       | 119                            | 7             |                         |
| Equity in net gain of unconsolidated companies                                    | (33)                           | (66)          | (2)                     |
| Cash dividends received from equity investees                                     | 56                             | 66            | 2                       |
| Stock compensation expenses for shares issued to employee at a discount           | 182                            | 1,997         | 60                      |
| Deferred income taxes   | 137                            | 9,116         | 275                     |
| Changes in operating assets and liabilities:                                      |                                |               |                         |
| Decrease (increase) in:   |                                |               |                         |
| Trade notes and accounts receivable   | (2,129)                        | 295           | 9                       |
| Inventories   | (510)                          | (453)         | (14)                    |
| Prepaid expenses  | (2,732)                        | (9,203)       | (278)                   |
| Other current assets  | (523)                          | (818)         | (25)                    |
| Other assets  | 739                            | (176)         | (5)                     |
| Increase (decrease) in:   |                                |               |                         |
| Trade notes and accounts payable  | 713                            | (2,400)       | (72)                    |
| Income tax payable  | (2,338)                        | (5,015)       | (151)                   |
| Accrued expenses  | (3,915)                        | (4,748)       | (143)                   |
| Customers deposits  | (2,012)                        | (950)         | (29)                    |
| Other current liabilities   | 1,226                          | 1,055         | 32                      |
| Accrued pension liabilities   | (714)                          | 1,373         | 42                      |
| Deferred income   | (1,845)                        | (1,489)       | (45)                    |
| Other liabilities   | (60)                           | 117           | 4                       |
| Net cash provided by operating activities   | <u>57,431</u>                  | <u>56,258</u> | <u>1,695</u>            |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                                |               |                         |
| Purchase and sale of short-term investments, net                                  | (3,700)                        | (6,891)       | (207)                   |
| Acquisition of investments in unconsolidated companies                            | (476)                          |               |                         |
| Proceeds from disposal of investments in unconsolidated companies                 | 10                             |               |                         |
| Acquisitions of property, plant and equipment                                     | (13,371)                       | (15,896)      | (479)                   |

(Continued)

|   | Nine Months Ended September 30 |                  |                         |
|---|--------------------------------|------------------|-------------------------|
|   | 2004                           | 2005             |                         |
|   | NT\$                           | NT\$             | US\$                    |
|   | (Unaudited)                    | (Unaudited)      | (Unaudited)<br>(Note 3) |
| Proceeds from disposal of property, plant and equipment | \$                             | \$ 34            | \$ 1                    |
| Acquisitions of patents and computer software           | (78)                           | (89)             | (3)                     |
| <b>Net cash used in investing activities</b>            | <b>(17,615)</b>                | <b>(22,842)</b>  | <b>(688)</b>            |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>             |                                |                  |                         |
| Payments on principal of long-term loans                |                                | (200)            | (6)                     |
| Cash dividends paid                                     | (43,415)                       | (45,344)         | (1,367)                 |
| Additional capital contributed by government            | 27                             | (1)              |                         |
| <b>Net cash used in financing activities</b>            | <b>(43,388)</b>                | <b>(45,545)</b>  | <b>(1,373)</b>          |
| <b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>        | <b>(3,572)</b>                 | <b>(12,129)</b>  | <b>(366)</b>            |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>   | <b>13,553</b>                  | <b>29,283</b>    | <b>883</b>              |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>         | <b>\$ 9,981</b>                | <b>\$ 17,154</b> | <b>\$ 517</b>           |
| <b>SUPPLEMENTAL INFORMATION</b>                         |                                |                  |                         |
| Interest paid   | \$                             | \$ 2             | \$                      |
| Income tax paid   | \$ 10,999                      | \$ 11,400        | \$ 344                  |
| <b>NON-CASH FINANCING ACTIVITIES</b>                    |                                |                  |                         |
| Current portion of long-term loans                      | \$ 200                         | \$ 200           | \$ 6                    |

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

(Concluded)

**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

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

**1. GENERAL**

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

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

The MOTC is in the process of privatizing the Company by reducing the government ownership to below 50% in stages. Certain of the Company's common shares were sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of the Company's common shares were also sold to its employees at various dates from October 2000 to July 2005. In July 2003, the MOTC sold the Company's common shares in an international offering of securities in the form of American Depository Shares ( ADS ). In August 2005, the MOTC sold 289,431,000 common shares in the ROC and 1,350,682,000 common shares in an international offering of securities in the form of ADS. On August 12, 2005, the MOTC owns 47.84% shares of the Company and completed privatization plan. As of October 2005, the MOTC owns 41.48% shares of the Company.

The Company's common shares were listed and traded on Taiwan Stock Exchange and New York Stock Exchange on October 27, 2000 and on July 17, 2003, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The financial statements have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission ( SEC ) and, in the opinion of management, include all adjustments necessary for a fair statement of the results of operations, financial position and cash flows for each period presented. The results for interim periods are not necessarily indicative of results for the full year.

**Cash Equivalents**

Cash equivalents include commercial paper purchased with maturities of three months or less from the date of acquisition.

### **Short-term Investments**

Short-term investments include commercial paper purchased with original maturities greater than 90 days. The Company has classified investments as held to maturity which the Company has the ability to and intends to hold to maturity. Held-to maturity investments are reported at amortized cost with any realized gains and losses recorded in other income and expense. Investments in mutual funds, real estate investment trust funds and stocks are designated as trading and are carried at their fair value with unrealized valuation gains and losses recognized in earnings.

### **Employee Stock Compensation**

In connection with the privatization plan of the Company, employees may be offered to purchase shares of common stock of the Company at less than fair market value. The Company records the difference between the quoted market price of the stock on the date of purchase and the purchase price as compensation expense and charges to income in the holding periods.

### **Derivative Financial Instruments**

The Company enters into forward contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates underlying the value of liabilities denominated in foreign currencies until such liabilities are paid. A forward contract obligates the Company to exchange predetermined amounts of specified foreign currencies at specified exchange rates on specified dates. These foreign currency forward exchange contracts are denominated in the same currency in which the underlying foreign currency liabilities are denominated and bear a contract value and maturity date that approximate the value and expected settlement date, respectively, of the underlying transactions. For contracts that are designated and effective as hedges, unrealized gains and losses on open contracts at the end of each accounting period, resulting from changes in the fair value of these contracts, are recognized in earnings in the same period as gains and losses on the underlying foreign denominated receivables are recognized and generally offset. Gains and losses on forward contracts and foreign denominated liabilities are included in other income (expense), net. The Company does not enter into or hold derivatives for trading or speculative purposes and only enters into contracts with highly rated financial institutions.

Derivatives are recognized at fair value and included in either other current liabilities or other current assets on the balance sheet.

### **Valuation of Long-lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, a loss is recognized for the excess of the carrying amount over the fair value of the asset. All impairment charges have been properly recorded and disclosed throughout the periods presented in the accompanying financial statements.

### **Recent Accounting Pronouncements**

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In December 2004, the FASB issued SFAS No. 123(R) Share-Based Payment. SFAS No. 123(R) requires that companies recognize compensation expense equal to the fair value of stock options or other share based payments for the annual reporting period that begins after June 15, 2005. SFAS No. 123(R) applies to all awards granted after January 1, 2006, and prior period s awards that are modified, repurchased, or cancelled after January 1, 2006. There is no impact to the Company as a result of this standard as the Company does not currently issue stock options to its employees or others.

In May 2005, the FASB issued SFAS No. 154 Accounting Changes and Error Corrections. SFAS No. 154 requires that companies apply accounting changes and error corrections to financial statements retrospectively from previous period unless it is impracticable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. There is no impact to the Company as a result of this standard as the Company does not currently intend to change its accounting principles, estimate or reporting entity.

### 3. U.S. DOLLAR AMOUNTS

The Company maintains its accounts and expresses its financial statements in New Taiwan dollars. For convenience only, U.S. dollar amounts presented in the accompanying financial statements have been translated at the noon buying rate for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York as of September 30, 2005, which was NT\$33.18 to US\$1.00. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

### 4. CASH AND CASH EQUIVALENTS

|                                   | December 31,<br>2004 | September 30,<br>2005 |
|-----------------------------------|----------------------|-----------------------|
|                                   | NT\$                 | NT\$                  |
|                                   |                      | (Unaudited)           |
| Cash and bank deposits            | \$ 1,958             | \$ 1,785              |
| Negotiable certificate of deposit | 8,900                | 2,050                 |
| Commercial paper purchased        | 18,425               | 13,319                |
|                                   | <u>\$ 29,283</u>     | <u>\$ 17,154</u>      |

### 5. SHORT-TERM INVESTMENTS

|                                   | December 31, 2004  |                           | September 30, 2005 |                              |
|-----------------------------------|--------------------|---------------------------|--------------------|------------------------------|
|                                   | Carrying<br>Amount | Unrealized<br>Gain (Loss) | Carrying<br>Amount | Unrealized<br>Gain<br>(Loss) |
|                                   | NT\$               | NT\$                      | NT\$               | NT\$                         |
|                                   |                    |                           | (Unaudited)        | (Unaudited)                  |
| Open-end bond mutual fund         | \$ 8,901           | \$ 1                      | \$ 15,951          | \$ 121                       |
| Principal guarantee notes         |                    |                           | 100                |                              |
| Real estate investment trust fund |                    |                           | 103                | 3                            |
| Stock                             |                    |                           | 66                 | (1)                          |
| Repurchaseable bond               | 214                | (13)                      |                    |                              |
|                                   | <u>\$ 9,115</u>    | <u>\$ (12)</u>            | <u>\$ 16,220</u>   | <u>\$ 123</u>                |

**6. INVESTMENTS IN UNCONSOLIDATED COMPANIES**

The investments in unconsolidated companies comprise the following:

|  | <u>December 31, 2004</u>  |                           | <u>September 30, 2005</u> |                           |
|--|---------------------------|---------------------------|---------------------------|---------------------------|
|  | <u>Carrying<br/>Value</u> | <u>% of<br/>Ownership</u> | <u>Carrying<br/>Value</u> | <u>% of<br/>Ownership</u> |
|  | <u>NT\$</u>               |                           | <u>NT\$</u>               |                           |
|  |                           |                           | <b>(Unaudited)</b>        | <b>(Unaudited)</b>        |
| <b>Equity investees</b>                            |                           |                           |                           |                           |
| Chunghwa Investment ( CHI )                        | \$ 930                    | 49                        | \$ 931                    | 49                        |
| Taiwan International Standard Electronics ( TISE ) | 499                       | 40                        | 497                       | 40                        |
|  | <u>1,429</u>              |                           | <u>1,428</u>              |                           |
| <b>Cost investees</b>                              |                           |                           |                           |                           |
| Taipei Financial Center ( TFC )                    | 2,530                     | 12                        | 2,530                     | 12                        |
| RPTI International ( RPTI )                        | 71                        | 12                        | 71                        | 12                        |
| Siemens Telecommunication Systems ( Siemens )      | 5                         | 15                        | 5                         | 15                        |
|  | <u>2,606</u>              |                           | <u>2,606</u>              |                           |
|  | <u>\$ 4,035</u>           |                           | <u>\$ 4,034</u>           |                           |

TISE designs, manufactures and sells telecommunications equipment. It also provides maintenance services on such telecommunications equipment. No dividends were declared by TISE for the three months and nine months ended September 30, 2004 and 2005, respectively.

CHI invests in companies engaged in telecom and software businesses. No dividends were declared by CHI for the three months and nine months ended September 30, 2004 and 2005, respectively.

The Company evaluated the investments in TFC, RPTI and Siemens for investment. The investments have no quoted market values and are carried at their original costs which approximate fair value based on the net asset values on the respective companies. Dividends amounted to NT\$58 million (unaudited) were declared by Siemens for the nine months ended September 30, 2005.

**7. IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT**

Because of the improvements on telecommunication technology and changes in the market, the paging division is at the risk of obsolescence; the Company evaluated the recoverable amount of telecommunications network facilities of paging division on the basis of discounted future cash flow. As a result of the evaluation, the recoverable amount of telecommunications network facilities of paging division is less than its carrying amount; therefore, an impairment loss amounted to NT\$343 million (US\$ 10 million) is recognized on long-lived assets for three months ended September 30, 2005.



**8. LONG-TERM LOANS (INCLUDING CURRENT PORTION OF LONG-TERM LOANS)**

|  | December 31,<br>2004 | September 30,<br>2005 |
|--|----------------------|-----------------------|
|  | NT\$                 | NT\$                  |
|  |                      | <b>(Unaudited)</b>    |
| Loan from the Common Tunnel Fund         | \$ 700               | \$ 500                |
| Less: Current portion of long-term loans | 200                  | 200                   |
|  | <b>\$ 500</b>        | <b>\$ 300</b>         |

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

As of December 31, 2004 and September 30, 2005, the Company has unused credit lines of approximately NT\$190,000 million and NT\$170,800 million (unaudited), which are available for short-term and long-term borrowings.

**9. STOCKHOLDERS EQUITY**

Under the Company's Articles of Incorporation, authorized capital is 9,647,724,900 common shares. The Company's Articles of Incorporation and the Republic of China Telecommunications Act provide that the MOTC has the right to purchase two redeemable preferred shares (NT\$10 par value) in the event its ownership in the Company falls below 50% of the outstanding common shares.

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

- a. The holder of the preferred shares, or its nominated representative, will act as a director and/or supervisor during the entire period in which the preferred shares are outstanding.
- b. The holder of preferred shares has the same pre-emptive rights as holders of common shares when the Company raises capital by issuing new shares.
- c. The holder of the preferred shares will have the right to veto on any change in the name of the Company or the nature of its business and any transfer of a substantial portion of the Company's business or property.
- d. The holder of the preferred shares may not transfer the ownership. The Company must redeem all outstanding preferred shares within three years from the date of their issuance.

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For the purpose of privatizing the company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange in 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. As of September 30, 2005, the MOTC has sold 2,460,432 thousand common shares in the form of ADS amounting to 246,043 thousand units.

The ADS holders generally have the same rights and obligations as other common shareholders, subject to the provision of relevant laws. The exercise of such rights and obligations shall comply with the related regulations and deposit agreement, which stipulate, among other things, that ADS holders can, through deposit agents; exercise their voting rights, sell their ADSs, and receive dividends declared and subscribe to the issuance of new shares.

As of December 31, 2004 and September 30, 2005, the outstanding ADSs were 110,975 thousand units and 246,043 thousand units which equaled approximately 1,109,749 thousand common shares and 2,460,431 thousand common shares which represented 11.5% and 25.5% of the Company's total outstanding common shares.

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

In addition, before distributing a dividend or making any other distribution to stockholders, the Company must pay all outstanding taxes, recover any past losses and set aside a legal reserve equal to 10% of its net income, and, depending on its business needs or requirements, may also set aside a special reserve. The cash dividends to be distributed shall not be less than 10% of the total amount of the dividends to be distributed. If the cash dividend to be distributed is less than NT\$0.10 per share, such cash dividend shall be distributed in the form of common shares.

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

The appropriation and distributions of the 2004 earnings of the Company have been approved and resolved by the stockholders, for special reserve of \$4 million (unaudited), 10% legal reserve of NT\$4,986 million (unaudited) and cash dividends of NT\$45,344 million (NT\$4.7 per share) (unaudited).

The MOTC, in connection with the privatization plan of the Company, sold shares of stock at discounted prices, to employees at various times from October 2000 to 2005. The employees purchased the common shares at discounts of 10% and 20% and 50% in consideration for their commitment to hold the common shares for two, three and four years (the holding periods), respectively. In circumstances wherein the employees took advantage of such discounts, the common shares are held by an escrow agent on behalf of the employees/stockholders. There are no circumstances under which the MOTC or the Company would be required to repurchase these common shares. Also, the employees are not required to remain employed with the Company during the duration of the holding periods. The Company has recognized NT\$1,769 million (unaudited) as compensation expense for the shares purchased by employees that were subject to a discount for the three months and nine months ended September 30, 2005.

The MOTC, in connection with the compensation of the employees, sold to employees 3,286,907 shares from February 27, 2004 to March 9, 2004, 14,579 shares from May 31, 2004 to June 18, 2004, 382,083 shares from June 30, 2004 to July 6, 2004, 5,098,515 shares from November 30 to December 8, 2004, 3,681,307 shares from March 31, 2005 to April 8 and 445,661 shares from June 30, 2005 to July 6, 2005 for total consideration of NT\$33 million, NT\$0.1 million, NT\$4 million, NT\$50 million, NT\$37 million and NT\$4 million, respectively. The terms of the offers for the share purchases provided that employees purchase common shares from the above offering and hold the shares for one to three years. Such common shares, pursuant to the Enforcement Rule of the Statute Governing Privatization of State-Owned Enterprises, were sold at par value (NT\$10). The employees are not required to remain employed with the Company during the duration of the holding periods. The Company has recognized NT\$24 million (unaudited) and NT\$228 million (unaudited) as compensation expense for the shares purchased by

employees that were subject to par value for the three months and nine months ended September 30, 2005.

**10. PENSION PLAN**

Pension costs amounted to NT\$1,114 million (unaudited) and NT\$1,018 million (unaudited) for the three months ended September 30, 2004 and 2005, respectively, and NT\$3,337 million (unaudited) and NT\$3,680 million (unaudited) for the nine months ended September 30, 2004 and 2005, respectively. The Company's contributions to the retirement plan were NT\$1,848 million (unaudited) and NT\$28 million (unaudited) for the three months ended September 30, 2004 and 2005, and NT\$4,052 million (unaudited) and NT\$2,935 million (unaudited) for the nine months ended September 30, 2004 and 2005, respectively.

In connection with the planned privatization, the Company is obligated to fully fund the existing defined benefit plans prior to the time of privatization. Under applicable Republic of China regulations, upon the privatization, the obligation related to annuity payments due after the date of privatization for civil serve eligible employees who retire prior to that date would be born by the MOTC. The Company completed its privatization plan on August 12, 2005. On the date of privatization, the Company settled employees' past service costs mentioned above under the existing plans. The difference between deferred pension cost and accrued pension liabilities is taken over by the MOTC and accounted for the difference amounted to NT 12,403 million (US\$ 374 million) as contributed capital and recorded in stockholders' equity. The Company paid NT 76,015 million (US\$ 2,291 million) for the accrued pension obligation from plan assets for the nine months ended September 30, 2005.

**11. COMMITMENTS AND CONTINGENT LIABILITIES**

As of September 30, 2005, the Company had remaining commitments under non-cancelable contracts with various parties as follows: (a) acquisitions of land and buildings of NT\$2,868 million (unaudited), and (b) acquisitions of telecommunications equipment of NT\$15,217 million (unaudited).

The Company also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Minimum rental commitments under those leases are as follows:

|                                      | <b>September 30,<br/>2005</b> |
|--------------------------------------|-------------------------------|
|                                      | <b>NT\$</b>                   |
|                                      | <b>(Unaudited)</b>            |
| Within the following year            | \$ 1,206                      |
| During the second year               | 985                           |
| During the third year                | 548                           |
| During the fourth year               | 310                           |
| During the fifth year and thereafter | 116                           |
|                                      | <b>\$ 3,165</b>               |

As of September 30, 2005, the Company had unused letters of credit of NT\$5,470 million (unaudited).

The Company has a commitment to contribute NT\$2,500 million to a Fixed Line Fund administered by the Ministry of Interior Affairs and Taiwan Power Company, of which NT\$1,000 million was contributed by the Company on June 30, 1995. If the balance of the Fixed Line Fund

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is not sufficient for its purpose, the above three parties will determine when to raise additional funds and the contribution amounts from each party. In addition, the Company has a commitment to contribute NT\$2,000 million to a Piping Fund administered by the Taipei City Government, of which NT\$1,000 million was contributed by the Company on August 15, 1996.

A portion of the land used by the Company during the period July 1, 1996 to December 31, 2004 was co-owned by the Company and Chunghwa Post Co., Ltd. (the former Directorate General of Postal Service). In accordance with the pay order dated July 12, 2005 from the Taiwan Taipei District Court, the Company is required to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of the Company's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, the Company believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, the Company has filed an appeal at the Taiwan Taipei District court on July 29, 2005. Chunghwa Post Co., Ltd. has submitted pleading to the Taipei District Court and started pretrial procedure. Currently the preliminary hearing has initiated, not yet proceeds to the argumentation.

## 12. LITIGATION

The Company is involved in various legal proceedings of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these legal matters when it is probable that a liability has been incurred and the amount is reasonably estimable.

The Company believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

## 13. INFORMATION ON FINANCIAL INSTRUMENTS

### a. Derivative financial instruments

The Company enters into forward contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates underlying the value of liabilities denominated in foreign currencies until such liabilities are paid. There were no foreign currency forward exchange contracts outstanding as of September 30, 2005. The net realized exchange loss for the nine months ended September 30, 2004 was of NT\$27 million (unaudited).

### b. Non-derivative financial instruments are as follows:

|  | December 31, 2004 |            | September 30, 2005 |             |
|--|-------------------|------------|--------------------|-------------|
|  | Carrying Amount   | Fair Value | Carrying Amount    | Fair Value  |
|  | NT\$              | NT\$       | NT\$               | NT\$        |
|  |                   |            | (Unaudited)        | (Unaudited) |
| <b>Assets</b>  |                   |            |                    |             |
| Cash and cash equivalents  | \$ 29,283         | \$ 29,283  | \$ 17,154          | \$ 17,154   |
| Short-term investment  | 9,115             | 9,115      | 16,220             | 16,220      |
| Investments in unconsolidated companies, accounted for using the equity method | 1,429             | 1,767      | 1,428              | 1,686       |
| Refundable deposits (included in other assets - other )                        | 3,357             | 3,357      | 3,474              | 3,474       |
| <b>Liabilities</b>   |                   |            |                    |             |
| Customers' deposits  | 9,262             | 7,771      | 8,312              | 6,922       |
|  | 700               | 700        | 500                | 500         |

Long-term loans (including current portion of long-term loans)



The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

- 1) Cash and cash equivalents. The carrying amounts approximate fair values because of the short maturity of those instruments.
- 2) Short-term investments. The carrying amounts approximate fair values because of the short maturity of those instruments.
- 3) Investments in unconsolidated companies, accounted for using the equity method. The fair value is based on net asset values of the investments in unconsolidated companies if quoted market prices are not available.
- 4) Refundable deposits. The carrying amounts approximate fair values as the average lease term associated with these deposits is approximately one year.
- 5) Customers' deposits. The fair value is the discounted value based on projected cash flow. The projected cash flows were discounted using the average expected customer service periods.
- 6) Long-term loans (including current portion). The fair value is discounted value based on projected cash flow. The projected cash flows were discounted using the maturity dates of long-term loans.

#### 14. SEGMENT REPORTING

Operating segments are defined as components of an enterprise regarding which separate financial information is available for regular evaluation by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company organizes its business segments based on the various types of telecommunications services provided to customers. The major business segments operated by the Company are classified as below:

Local operations - the provision of local telephone services;

DLD operations - the provision of domestic long distance call services;

ILD operations - the provision of international long distance call services;

Cellular operations - the provision of cellular and related services;

Paging operations - the provision of paging and related services;

Internet and data operation - the provision of Internet access, lease line, and related services;

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All other operations - the services other than the above six categories, such as carrying out project research and providing training.

The operating segments are managed separately as each operating segment represents a strategic business unit that serves different markets. All the operating segments of the Company have been aggregated into the above reportable segments.

The Company evaluates performance based on several factors using information prepared on the ROC government regulations basis. The information below is provided on this basis with a summary of US GAAP adjustments to reconcile to the amounts presented in the statement of operations. The Company does not allocate interest and other income, interest expense or taxes to operating segments, nor does the Company's chief operating decision maker evaluate operating segments on these criteria. Except as discussed above, the accounting policies for segment reporting are the same as for the company as a whole. The Company's primary measure of segment profit is based on income or loss from operations.

a. Business segments:

As of and for the three months ended September 30, 2004 (unaudited)

|  | Fixed-Line       |                 |                 | Cellular<br>Service | Paging       | Internet        |               | Total            |
|--|------------------|-----------------|-----------------|---------------------|--------------|-----------------|---------------|------------------|
|  | Local            | DLD             | ILD             |                     |              | and<br>Data     | All Other     |                  |
|  | NT\$             | NT\$            | NT\$            |                     |              | NT\$            | NT\$          |                  |
| Service revenues for reportable segments   | \$ 15,255        | \$ 3,641        | \$ 3,779        | \$ 18,241           | \$ 74        | \$ 12,279       | \$ 874        | \$ 54,143        |
| Elimination of intersegment amount   | (4,366)          | (586)           |                 | (279)               |              | (2,792)         | (8)           | (8,031)          |
| US GAAP adjustments  | 345              | (1)             | 2               | 10                  |              |                 | (8)           | 348              |
| <b>Total service revenues from external customers</b>                              | <b>\$ 11,234</b> | <b>\$ 3,054</b> | <b>\$ 3,781</b> | <b>\$ 17,972</b>    | <b>\$ 74</b> | <b>\$ 9,487</b> | <b>\$ 858</b> | <b>\$ 46,460</b> |
| Operating costs and expenses, excluding depreciation and amortization              | \$ 8,637         | \$ 1,228        | \$ 2,673        | \$ 8,081            | \$ 97        | \$ 6,012        | \$ 459        | \$ 27,187        |
| Elimination of intersegment amount   | (995)            | (896)           | (782)           | (3,160)             | (15)         | (2,084)         | (99)          | (8,031)          |
| US GAAP adjustments  | 283              | 5               | 12              | 49                  | 1            | 92              | (1)           | 441              |
|  | <b>\$ 7,925</b>  | <b>\$ 337</b>   | <b>\$ 1,903</b> | <b>\$ 4,970</b>     | <b>\$ 83</b> | <b>\$ 4,020</b> | <b>\$ 359</b> | <b>19,597</b>    |
| Unallocated corporate amount   |                  |                 |                 |                     |              |                 |               | 1,021            |
| <b>Total operating costs and expenses, excluding depreciation and amortization</b> |                  |                 |                 |                     |              |                 |               | <b>\$ 20,618</b> |
| Depreciation and amortization  | \$ 5,078         | \$ 207          | \$ 173          | \$ 1,454            | \$ 78        | \$ 3,055        | \$ 117        | \$ 10,162        |
| US GAAP adjustments  | (65)             | (3)             | (3)             | (16)                | (1)          | (31)            |               | (119)            |
|  | <b>\$ 5,013</b>  | <b>\$ 204</b>   | <b>\$ 170</b>   | <b>\$ 1,438</b>     | <b>\$ 77</b> | <b>\$ 3,024</b> | <b>\$ 117</b> | <b>10,043</b>    |

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|  |            |          |          |           |          |          |        |           |
|--|------------|----------|----------|-----------|----------|----------|--------|-----------|
| Unallocated corporate amount           |            |          |          |           |          |          |        | 22        |
| Total depreciation and amortization    |            |          |          |           |          |          |        | \$ 10,065 |
| Income from operations                 | \$ 1,540   | \$ 2,206 | \$ 933   | \$ 8,706  | \$ (101) | \$ 3,212 | \$ 298 | \$ 16,794 |
| Elimination of intersegment amount     | (3,371)    | 310      | 782      | 2,881     | 15       | (708)    | 91     |           |
| US GAAP adjustments                    | 127        | (3)      | (7)      | (23)      |          | (61)     | (7)    | 26        |
|  | \$ (1,704) | \$ 2,513 | \$ 1,708 | \$ 11,564 | \$ (86)  | \$ 2,443 | \$ 382 | 16,820    |
| Unallocated corporate amount           |            |          |          |           |          |          |        | (1,043)   |
| Total income from operations           |            |          |          |           |          |          |        | \$ 15,777 |
| Segment income before income tax       | \$ 1,642   | \$ 2,255 | \$ 933   | \$ 8,712  | \$ (102) | \$ 3,327 | \$ 292 | \$ 17,059 |
| Elimination of intersegment amount     | (3,371)    | 310      | 782      | 2,881     | 15       | (708)    | 91     |           |
| US GAAP adjustments                    | 209        | (2)      | (4)      | (4)       | 1        | (37)     | (7)    | 156       |
|  | \$ (1,520) | \$ 2,563 | \$ 1,711 | \$ 11,589 | \$ (86)  | \$ 2,582 | \$ 376 | 17,215    |
| Unallocated corporate amount           |            |          |          |           |          |          |        | (984)     |
| Total segment income before income tax |            |          |          |           |          |          |        | \$ 16,231 |

As of and for the three months ended September 30, 2005 (unaudited)

|  | Fixed-Line |          |          | Cellular  |        | Internet  |           | Total     |
|--|------------|----------|----------|-----------|--------|-----------|-----------|-----------|
|  | Local      | DLD      | ILD      | Service   | Paging | and Data  | All Other |           |
|  | NT\$       | NT\$     | NT\$     | NT\$      | NT\$   | NT\$      | NT\$      |           |
| Service revenues for reportable segments       | \$ 14,521  | \$ 3,390 | \$ 3,626 | \$ 19,230 | \$ 30  | \$ 14,580 | \$ 1,068  | \$ 56,445 |
| Elimination of intersegment amount             | (4,323)    | (583)    |          | (275)     | (1)    | (3,882)   | (7)       | (9,071)   |
| US GAAP adjustments                            | 303        | 17       | 19       | 46        |        |           | (8)       | 377       |
| Total service revenues from external customers | \$ 10,501  | \$ 2,824 | \$ 3,645 | \$ 19,001 | \$ 29  | \$ 10,698 | \$ 1,053  | \$ 47,751 |
| Operating costs and expenses, excluding        | \$ 7,504   | \$ 1,173 | \$ 2,455 | \$ 8,806  | \$ 35  | \$ 6,457  | \$ 536    | \$ 26,966 |

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|   |                 |               |                 |                 |               |                 |               |                  |
|---|-----------------|---------------|-----------------|-----------------|---------------|-----------------|---------------|------------------|
| depreciation and amortization   |                 |               |                 |                 |               |                 |               |                  |
| Elimination of intersegment amount  | (985)           | (838)         | (732)           | (3,516)         | (6)           | (2,864)         | (128)         | (9,069)          |
| US GAAP adjustments   | 2,219           | 56            | 104             | 509             | 347           | 710             | 35            | 3,980            |
|   | <u>\$ 8,738</u> | <u>\$ 391</u> | <u>\$ 1,827</u> | <u>\$ 5,799</u> | <u>\$ 376</u> | <u>\$ 4,303</u> | <u>\$ 443</u> | <u>21,877</u>    |
| Unallocated corporate amount  |                 |               |                 |                 |               |                 |               | <u>1,294</u>     |
| Total operating costs and expenses, excluding depreciation and amortization |                 |               |                 |                 |               |                 |               | <u>\$ 23,171</u> |

(Continued)

|  | Fixed-Line        |                 |                 | Cellular         | Internet        |                 |               | Total            |
|--|-------------------|-----------------|-----------------|------------------|-----------------|-----------------|---------------|------------------|
|  | Local             | DLD             | ILD             | Service          | Paging          | and Data        | All Other     |                  |
|  | NT\$              | NT\$            | NT\$            | NT\$             | NT\$            | NT\$            | NT\$          |                  |
| Depreciation and amortization          | \$ 4,796          | \$ 184          | \$ 170          | \$ 2,008         | \$ 71           | \$ 3,099        | \$ 123        | \$ 10,451        |
| US GAAP adjustments                    | (81)              | (3)             | (2)             | (17)             | (1)             | (26)            | 30            | (100)            |
|  | <u>\$ 4,715</u>   | <u>\$ 181</u>   | <u>\$ 168</u>   | <u>\$ 1,991</u>  | <u>\$ 70</u>    | <u>\$ 3,073</u> | <u>\$ 153</u> | <u>10,351</u>    |
| Unallocated corporate amount           |                   |                 |                 |                  |                 |                 |               | 34               |
| Total depreciation and amortization    |                   |                 |                 |                  |                 |                 |               | <u>\$ 10,385</u> |
| Income from operations                 | \$ 2,221          | \$ 2,033        | \$ 1,001        | \$ 8,416         | \$ (76)         | \$ 5,024        | \$ 409        | \$ 19,028        |
| Elimination of intersegment amount     | (3,338)           | 255             | 732             | 3,241            | 5               | (1,018)         | 121           | (2)              |
| US GAAP adjustments                    | (1,835)           | (36)            | (83)            | (446)            | (346)           | (684)           | (73)          | (3,503)          |
|  | <u>\$ (2,952)</u> | <u>\$ 2,252</u> | <u>\$ 1,650</u> | <u>\$ 11,211</u> | <u>\$ (417)</u> | <u>\$ 3,322</u> | <u>\$ 457</u> | <u>15,523</u>    |
| Unallocated corporate amount           |                   |                 |                 |                  |                 |                 |               | (1,328)          |
| Total income from operations           |                   |                 |                 |                  |                 |                 |               | <u>\$ 14,195</u> |
| Segment income before income tax       | \$ 2,347          | \$ 2,090        | \$ 981          | \$ 8,436         | \$ (420)        | \$ 5,091        | \$ 382        | \$ 18,907        |
| Elimination of intersegment amount     | (3,338)           | 255             | 732             | 3,241            | 5               | (1,018)         | 121           | (2)              |
| US GAAP adjustments                    | (1,687)           | (36)            | (61)            | (437)            | (3)             | (674)           | (73)          | (2,971)          |
|  | <u>\$ (2,678)</u> | <u>\$ 2,309</u> | <u>\$ 1,652</u> | <u>\$ 11,240</u> | <u>\$ (418)</u> | <u>\$ 3,399</u> | <u>\$ 430</u> | <u>15,934</u>    |
| Unallocated corporate amount           |                   |                 |                 |                  |                 |                 |               | (1,096)          |
| Total segment income before income tax |                   |                 |                 |                  |                 |                 |               | <u>\$ 14,838</u> |

As of and for the nine months ended September 30, 2004 (unaudited)

|  | Fixed-Line |     |     | Cellular | Paging | Internet | All Other | Total |
|--|------------|-----|-----|----------|--------|----------|-----------|-------|
|  | Local      | DLD | ILD | Service  |        |          |           |       |

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|  |                  |                 |                  |                  | and<br>Data   |                  |                 |                   |
|--|------------------|-----------------|------------------|------------------|---------------|------------------|-----------------|-------------------|
|  | NT\$             | NT\$            | NT\$             | NT\$             | NT\$          | NT\$             | NT\$            | NT\$              |
| Service revenues for reportable segments   | \$ 45,020        | \$ 10,736       | \$ 11,441        | \$ 53,361        | \$ 245        | \$ 37,230        | \$ 2,147        | \$ 160,180        |
| Elimination of intersegment amount   | (12,563)         | (1,754)         |                  | (775)            | (1)           | (7,801)          | (9)             | (22,903)          |
| US GAAP adjustments  | 1,130            | (18)            | (19)             | 38               |               |                  | (22)            | 1,109             |
| <b>Total service revenues from external customers</b>                              | <b>\$ 33,587</b> | <b>\$ 8,964</b> | <b>\$ 11,422</b> | <b>\$ 52,624</b> | <b>\$ 244</b> | <b>\$ 29,429</b> | <b>\$ 2,116</b> | <b>\$ 138,386</b> |
| Operating costs and expenses, excluding depreciation and amortization              | \$ 24,954        | \$ 3,831        | \$ 7,898         | \$ 23,657        | \$ 250        | \$ 17,061        | \$ 1,148        | \$ 78,799         |
| Elimination of intersegment amount   | (2,895)          | (2,830)         | (2,201)          | (9,278)          | (49)          | (5,409)          | (241)           | (22,903)          |
| US GAAP adjustments  | 1,367            | 34              | 65               | 321              | 4             | 546              | 10              | 2,347             |
|  | \$ 23,426        | \$ 1,035        | \$ 5,762         | \$ 14,700        | \$ 205        | \$ 12,198        | \$ 917          | 58,243            |
| Unallocated corporate amount   |                  |                 |                  |                  |               |                  |                 | 2,985             |
| <b>Total operating costs and expenses, excluding depreciation and amortization</b> |                  |                 |                  |                  |               |                  |                 | <b>\$ 61,228</b>  |
| Depreciation and amortization  | \$ 15,245        | \$ 649          | \$ 514           | \$ 4,302         | \$ 235        | \$ 9,355         | \$ 387          | \$ 30,687         |
| US GAAP adjustments  | (177)            | (8)             | (8)              | (42)             | (3)           | (81)             |                 | (319)             |
|  | \$ 15,068        | \$ 641          | \$ 506           | \$ 4,260         | \$ 232        | \$ 9,274         | \$ 387          | 30,368            |
| Unallocated corporate amount   |                  |                 |                  |                  |               |                  |                 | 71                |
| <b>Total depreciation and amortization</b>   |                  |                 |                  |                  |               |                  |                 | <b>\$ 30,439</b>  |
| Income from operations   | \$ 4,821         | \$ 6,256        | \$ 3,029         | \$ 25,402        | \$ (240)      | \$ 10,814        | \$ 612          | \$ 50,694         |
| Elimination of intersegment amount   | (9,668)          | 1,076           | 2,201            | 8,503            | 48            | (2,392)          | 232             |                   |
| US GAAP adjustments  | (60)             | (44)            | (76)             | (241)            | (1)           | (465)            | (32)            | (919)             |
|  | \$ (4,907)       | \$ 7,288        | \$ 5,154         | \$ 33,664        | \$ (193)      | \$ 7,957         | \$ 812          | 49,775            |

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|  |            |          |          |           |          |           |        |           |           |
|--|------------|----------|----------|-----------|----------|-----------|--------|-----------|-----------|
| Unallocated corporate amount           |            |          |          |           |          |           |        |           | (3,056)   |
| <hr/>                                  |            |          |          |           |          |           |        |           |           |
| Total income from operations           |            |          |          |           |          |           |        |           | \$ 46,719 |
| <hr/>                                  |            |          |          |           |          |           |        |           |           |
| Segment income before income tax       | \$ 4,957   | \$ 6,409 | \$ 3,059 | \$ 25,394 | \$ (242) | \$ 11,062 | \$ 565 | \$ 51,204 |           |
| Elimination of intersegment amount     | (9,668)    | 1,076    | 2,201    | 8,503     | 48       | (2,392)   | 232    |           |           |
| US GAAP adjustments                    | 424        | (33)     | (53)     | (60)      | 1        | (274)     | (28)   | (23)      |           |
|  | <hr/>      | <hr/>    | <hr/>    | <hr/>     | <hr/>    | <hr/>     | <hr/>  | <hr/>     | <hr/>     |
|  | \$ (4,287) | \$ 7,452 | \$ 5,207 | \$ 33,837 | \$ (193) | \$ 8,396  | \$ 769 | 51,181    |           |
| <hr/>                                  |            |          |          |           |          |           |        |           |           |
| Unallocated corporate amount           |            |          |          |           |          |           |        |           | (2,843)   |
| <hr/>                                  |            |          |          |           |          |           |        |           |           |
| Total segment income before income tax |            |          |          |           |          |           |        |           | \$ 48,338 |
| <hr/>                                  |            |          |          |           |          |           |        |           |           |



As of and for the nine months ended September 30, 2005 (unaudited)

|   | Fixed-Line       |                 |                  | Cellular         |               | Internet         |                 | Total             |
|---|------------------|-----------------|------------------|------------------|---------------|------------------|-----------------|-------------------|
|   | Local            | DLD             | ILD              | Service          | Paging        | and Data         | All Other       |                   |
|   | NT\$             | NT\$            | NT\$             | NT\$             | NT\$          | NT\$             | NT\$            |                   |
| Service revenues for reportable segments                                    | \$ 42,406        | \$ 9,982        | \$ 10,855        | \$ 55,451        | \$ 110        | \$ 41,700        | \$ 2,346        | \$ 162,850        |
| Elimination of intersegment amount  | (12,196)         | (1,740)         |                  | (840)            | (1)           | (10,617)         | (14)            | (25,408)          |
| US GAAP adjustments   | 1,004            | 20              | 23               | (18)             |               | 1                | (23)            | 1,007             |
| <b>Total service revenues from external customers</b>                       | <b>\$ 31,214</b> | <b>\$ 8,262</b> | <b>\$ 10,878</b> | <b>\$ 54,593</b> | <b>\$ 109</b> | <b>\$ 31,084</b> | <b>\$ 2,309</b> | <b>\$ 138,449</b> |
| Operating costs and expenses, excluding depreciation and amortization       | \$ 24,380        | \$ 3,497        | \$ 7,665         | \$ 25,374        | \$ 120        | \$ 18,927        | \$ 1,812        | \$ 81,775         |
| Elimination of intersegment amount  | (2,745)          | (2,492)         | (2,393)          | (9,762)          | (25)          | (7,663)          | (328)           | (25,408)          |
| US GAAP adjustments   | 2,893            | 71              | 134              | 610              | 348           | 932              | 51              | 5,039             |
|   | \$ 24,528        | \$ 1,076        | \$ 5,406         | \$ 16,222        | \$ 443        | \$ 12,196        | \$ 1,535        | 61,406            |
| Unallocated corporate amount  |                  |                 |                  |                  |               |                  |                 | 3,267             |
| Total operating costs and expenses, excluding depreciation and amortization |                  |                 |                  |                  |               |                  |                 | \$ 64,673         |
| Depreciation and amortization   | \$ 14,487        | \$ 553          | \$ 511           | \$ 5,452         | \$ 213        | \$ 9,341         | \$ 422          | \$ 30,979         |
| US GAAP adjustments   | (184)            | (7)             | (8)              | (49)             | (2)           | (79)             | 30              | (299)             |
|   | \$ 14,303        | \$ 546          | \$ 503           | \$ 5,403         | \$ 211        | \$ 9,262         | \$ 452          | 30,680            |
| Unallocated corporate amount  |                  |                 |                  |                  |               |                  |                 | 103               |
| Total depreciation and amortization   |                  |                 |                  |                  |               |                  |                 | \$ 30,783         |
| Income from operations  | \$ 3,539         | \$ 5,932        | \$ 2,679         | \$ 24,625        | \$ (223)      | \$ 13,432        | \$ 112          | \$ 50,096         |
| Elimination of intersegment amount  | (9,451)          | 752             | 2,393            | 8,922            | 24            | (2,954)          | 314             |                   |

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|  |                   |                 |                 |                  |                 |                  |               |                  |
|--|-------------------|-----------------|-----------------|------------------|-----------------|------------------|---------------|------------------|
| US GAAP adjustments                    | (1,705)           | (44)            | (103)           | (579)            | (346)           | (852)            | (104)         | (3,733)          |
|  | <u>\$ (7,617)</u> | <u>\$ 6,640</u> | <u>\$ 4,969</u> | <u>\$ 32,968</u> | <u>\$ (545)</u> | <u>\$ 9,626</u>  | <u>\$ 322</u> | <u>46,363</u>    |
| Unallocated corporate amount           |                   |                 |                 |                  |                 |                  |               | (3,370)          |
| Total income from operations           |                   |                 |                 |                  |                 |                  |               | <u>\$ 42,993</u> |
| Segment income before income tax       | \$ 3,712          | \$ 6,094        | \$ 2,708        | \$ 25,029        | \$ (568)        | \$ 13,689        | \$ 38         | \$ 50,702        |
| Elimination of intersegment amount     | (9,451)           | 752             | 2,393           | 8,922            | 24              | (2,954)          | 314           |                  |
| US GAAP adjustments                    | (1,159)           | (44)            | (81)            | (568)            | (2)             | (708)            | (95)          | (2,657)          |
|  | <u>\$ (6,898)</u> | <u>\$ 6,802</u> | <u>\$ 5,020</u> | <u>\$ 33,383</u> | <u>\$ (546)</u> | <u>\$ 10,027</u> | <u>\$ 257</u> | <u>48,045</u>    |
| Unallocated corporate amount           |                   |                 |                 |                  |                 |                  |               | (2,669)          |
| Total segment income before income tax |                   |                 |                 |                  |                 |                  |               | <u>\$ 45,376</u> |

b. Geographic information

The users of the Company's services are mainly from Taiwan, ROC. The revenues it derived outside Taiwan are mainly inter-connection fees from other telecommunication carriers. The geographic information for revenues is as follows:

|             | Three Months Ended<br>September 30 |                  | Nine Months Ended<br>September 30 |                   |
|-------------|------------------------------------|------------------|-----------------------------------|-------------------|
|             | 2004                               | 2005             | 2004                              | 2005              |
|             | NT\$                               | NT\$             | NT\$                              | NT\$              |
|             | (Unaudited)                        | (Unaudited)      | (Unaudited)                       | (Unaudited)       |
| Taiwan, ROC | \$ 45,155                          | \$ 46,815        | \$ 134,261                        | \$ 135,590        |
| Overseas    | 1,305                              | 936              | 4,125                             | 2,859             |
|             | <u>\$ 46,460</u>                   | <u>\$ 47,751</u> | <u>\$ 138,386</u>                 | <u>\$ 138,449</u> |

c. Gross sales to major customers

The Company has no single customer account representing 10% or more of its total revenues for all periods presented.

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The Company has a non-revenue generating office in Thailand. All non-current assets (including investments in unconsolidated companies, property, plant and equipment, intangible assets, and other assets) except for NT\$0.02 million and NT\$0.01 million (unaudited) at December 31, 2004 and September 30, 2005, respectively, are located in Taiwan, ROC.

## **Chunghwa Telecom Reports Operating Results for the First Nine Months and the Third Quarter of 2005:**

**3Q Revenue Increases 3.5% on the Back of Solid Mobile and Internet & Data**

**Service Growth**

**Taipei, Taiwan, R.O.C. October 31, 2005** Chunghwa Telecom Co., Ltd (TAIEX: 2412, NYSE: CHT) ( Chunghwa or the Company ), today announced its unaudited operating results for the third quarter of 2005. All figures were prepared in accordance with US GAAP.

Net income figures listed below will be affected by the employee stock purchase plan that was granted as a part of the Company's privatization in August. According to US GAAP, the discount provided to employees for the shares to which they subscribed is considered compensation, and as such, needs to be accounted for as operating cost and expense over the lock-up period. Because the stock purchase plan was so well-received, the Company incurred a NT\$1.7 billion expense in the third quarter. The total amount does not affect the Company's cash position. Additionally, the dividend payout will be based on ROC GAAP financials, so it will be unaffected by the US accounting treatment of the employee stock purchases.

**Highlights** for the first nine months ending September 30, 2005:

Revenue remained flat at NT\$138.4 billion

Net income was NT\$35.9 billion, a 9.3 % YoY decrease

Fully-diluted earnings per common share (EPS) was NT\$3.72, or US\$ 1.12 per ADS, a 9.3% YoY decrease

**Highlights** for the third quarter of 2005:

Revenue was NT\$47.8 billion, a 3.5 % QoQ increase

Net income was NT\$11.1billion, a 13.4% QoQ decrease

Earnings per share (EPS) was NT\$1.14, or US\$0.34 per ADS, a 13.4% QoQ decrease.

## Summary

Total revenue for the first nine months of 2005 was NT\$138.4bn, which was flat compared to the same period last year. Of this, 36.4% was from fixed-line services, 39.5% from wireless services and 22.4% from Internet and data services. The remainder was from other services. Revenue from the Company's mobile, and Internet and data services grew by 3.7% and 5.6%, respectively. Revenue for international long distance declined 4.8%, mainly due to competition. Domestic long distance revenue declined 7.8%, mainly because of mobile substitution and a decrease in transit revenue. Local call revenue declined 7.1% YoY, again, mainly due to mobile substitution and a migration of subscribers to broadband from dial-up Internet access services.

Total revenue for the third quarter of 2005 was NT\$47.8bn, a 3.5% QoQ increase. Of this, 35.5% was from fixed-line services, 39.9% was from wireless services and 22.4% was from Internet and data services. The remainder was from other services.

Total operating costs and expenses for first nine months 2005 increased by 4.1% YoY, mainly because of the employee stock purchase plan that was mentioned at the top of this earnings release, and handset subsidies.

Total operating costs and expenses for the third quarter of 2005 were NT\$33.6bn, a 5.7% QoQ increase. This was mainly due again to the employee stock purchase plan.

The Company also disclosed its ROC financial results, based on which the dividend will be paid. For the first nine months of 2005, total revenue on ROC GAAP was NT\$136.9bn, total operating costs and expenses were NT\$90.5bn and net income was NT\$38.2bn, translating to earnings per share of NT\$3.96, a 2.8% decrease YoY.

## Businesses Performance Highlights

### Internet and Data Services

Internet and data revenue for first nine months increased by 5.6% YoY to approximately NT\$31.1bn. Revenue in the third quarter of 2005 was NT\$10.7bn, a 3.8% QoQ increase. This was primarily driven by a continued increase in broadband subscriber numbers.

The total number of Internet subscribers was about 4mn as of Sep. 30, 2005, a 7.6% YoY increase. In the third quarter of 2005, we added 94,000 subscribers.

ADSL subscribers totaled 3.5mn as of Sep. 30, 2005, a 21% YoY increase. We continued our growth in this business by adding 175,000 ADSL subscribers in the third quarter of 2005.

## Mobile Service

Mobile revenue for the first nine months of 2005 increased by 3.7% YoY to NT\$54.7bn due to an increase in minute usage and increased VAS revenue. For the third quarter of 2005, mobile revenue increased by 4.4%. This was due to typical seasonal spikes in usage.

At the end of September 2005, the total number of mobile subscribers was 8.1mn. The 2.1% YoY decrease was primarily due to our clean-up of inactive prepaid subscribers.

Our blended Average Revenue per User (ARPU) was NT\$744 for the first nine months of the year. ARPU for the third quarter this year increased by 4.8% QoQ to NT\$781 due to seasonal spikes in usage.

Chunghwa continues to be the leading mobile operator in Taiwan in both revenue and subscriber market share with 35.2% and 39.6% respectively as of the end of August 2005, according to data announced on the Directorate General of Telecommunications (DGT) website.

Mobile Number Portability (MNP) became effective on October 15<sup>th</sup> this year. To date, only a minimum number of subscribers have switched to other service providers. We believe that a number of mobile subscribers will switch to Chunghwa and that our business will benefit from the new regulation.

We rolled out 3G services on July 26<sup>th</sup> 2005. To date, we have around 265,000 3G subscribers.

## Fixed Line Services

Total fixed line revenues for the first nine months 2005 declined by 6.7% to NT\$50.4bn, mainly due to fixed-line competition, mobile substitution and a continuous migration of dial-up subscribers to ADSL broadband services. Fixed-line revenue for the third quarter of 2005 was NT\$17.0bn, a increase of 0.8% QoQ.

Chunghwa's total fixed line subscriber base stood at approximately 13.3mn as of Sep. 30, 2005, a 0.4% YoY increase.

## Financial Statements

Financial statements and additional operating data can be found on our website at [www.cht.com.tw/ir/filedownload](http://www.cht.com.tw/ir/filedownload).

## About Chunghwa Telecom

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

## Note Concerning Forward-looking Statements

Except for statements in respect of historical matters, the statements made in this press conference 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 Telecom 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 state owned enterprises by the ROC government and extensive regulation of telecom industry; the intensely competitive telecom industry; our relationship with our labor union; general economic and political conditions, including those related to the telecom industry; possible disruptions in commercial activities caused by natural and human induced events and disasters, including terrorist activity, armed conflict and highly contagious diseases, such as SARS; and those risks identified in the section entitled "Risk Factors" in Chunghwa Telecom's Form F-1 and F-3 filed with the U.S. Securities and Exchange Commission in connection with our U.S. initial and secondary public offering.

The financial statements included in this press conference were unaudited, and prepared and published in accordance with U.S. GAAP. Chunghwa Telecom also prepared certain financial statements for the same periods discussed in this press conference under ROC GAAP. Investors are cautioned that there are many differences between ROC GAAP and U.S. GAAP. As a result, our results under U.S. GAAP and ROC GAAP may in many events be substantially different.

The forward-looking statements in this press conference reflect the current belief of Chunghwa Telecom as of the date of this press conference and we undertake no obligation to update these forward-looking statements for events or circumstances that occur subsequent to such date.

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