

CHUNGHWA TELECOM CO LTD  
Form 6-K  
August 28, 2008

1934 Act Registration No. 1-31731

# **SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

## **FORM 6-K**

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

Dated August 28, 2008

## **Chunghwa Telecom Co., Ltd.**

(Translation of Registrant's Name into English)

21-3 Hsinyi Road Sec. 1,

Taipei, Taiwan, 100 R.O.C.

(Address of Principal Executive Office)

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

Form 20-F  Form 40-F

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

Yes  No

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

SIGNATURE

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

Date: 2008/08/28

Chunghwa Telecom Co., Ltd.

By: /s/ Joseph C.P. Shieh

Name: Joseph C.P. Shieh

Title: Senior Vice President CFO

Exhibit

<b>Exhibit</b>	<b>Description</b>
1	Press Release to Report Operating Results for the First half of 2008
2	Financial Statements for the Six Months Ended June 30, 2008 and 2007 and Independent Auditors Report (Stand alone)
3	Consolidated Financial Statements for the Six Months Ended June 30, 2008 and 2007 and Independent Auditors Report
4	GAAP Reconciliations of Consolidated Financial Statements for the Six Months Ended June 30, 2007 and 2008

**Chunghwa Telecom Reports Operating Results for 1H 2008**

Taipei, Taiwan, R.O.C. AUGUST 28, 2008 Chunghwa Telecom Co., Ltd (TAIEX: 2412, NYSE: CHT) ( Chunghwa or the Company ), today reported its consolidated operating results for the first six months of 2008. All figures were prepared in accordance with ROC GAAP.

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

**Financial Highlights for 1H08:**

Total consolidated revenue increased by 5.4% to NT\$100.9 billion

Internet and data revenue grew by 1.8%;  
ADSL & FTTB revenue increased by 0.8%

Mobile revenue decreased by 1.2%; Mobile VAS revenue increased by 31.7%

Net income totaled NT\$23.2 billion, a decrease of 5.6%

Basic earnings per share (EPS) increased by 5.2% to NT\$2.43

**Financial Highlights for 2Q08:**

Total consolidated revenue decreased by 0.6% to NT\$50.0 billion

Internet and data revenue grew by 0.8%;  
ADSL & FTTB revenue decreased by 0.7%

Mobile revenue decreased by 2.7%; Mobile VAS revenue increased by 28.3%

Net income totaled NT\$12.5 billion, an increase of 0.1%

Basic earnings per share (EPS) increased by 12.0% to NT\$1.31

**Revenues**

Chunghwa's total consolidated revenue for the first half of 2008 increased by 5.4% year-on-year to NT\$100.9 billion, of which 28.5% was from fixed-line services, 35.9% was from mobile services, 24.6% was from Internet and data services, and the remaining 11.0% was from other revenues, including handset sales of Chunghwa and SENAO. Revenue growth for the full six month period in 1H 2008 was mainly due to the consolidation of the Senao subsidiary, as only 2.5 months of Senao's operational results were included in CHT's consolidated 1H 2007 financials. In addition, the Internet and data businesses were a positive contribution. At NT\$24.8 billion, Internet and data revenue in 1H 2008 was 1.8% higher than in 1H 2007. This was driven by the continued total broadband

subscriber base growth and broadband speed upgrades, and was partly offset by an ADSL tariff adjustment that took effect on April 1, 2008. Mobile revenue decreased by 1.2% in the first half of 2008 to NT\$36.3 billion. This was mainly due to the decrease in traffic and the tariff cuts imposed by the NCC. Fixed-line revenues decreased by 3.1% to NT\$28.7 billion in the first half of this year. Local revenues decreased by 2.3% year-on-year due to broadband, mobile and VoIP substitution. Mobile and VoIP substitution was largely responsible for a 5.6% domestic long distance revenue decrease. In addition, International long distance revenue declined 3.2% year-on-year primarily due to increased competition for calling card services posed by our competitors' prepaid card service and the decrease in settlement income resulting from the appreciation of new Taiwan dollars.

For the second quarter of 2008, total consolidated revenue was NT\$50.0 billion, a 0.6% decrease from the same period last year. Of this, 28.7% was from fixed-line services, 36.3% was from mobile services and 24.5% was from Internet and data services, and over half of the remainder 10.5% were mainly attributed to the consolidation of revenue from SENAO.

#### **Costs and expenses**

For 1H 2008, total operating costs and expenses increased year-on-year by 4.9% to NT\$68.6 billion, due primarily to the operating costs and expenses from subsidiaries, especially SENAO. For the parent company, total operating costs and expenses decreased by NT\$0.42 billion, representing a year-over-year decrease of 0.7%. The decrease was primarily from decreased personnel and depreciation expenses.

For the second quarter of 2008, total operating costs and expenses decreased by 2.7%, mainly from declines in personnel expenses and depreciation, since the Company has not provided an early retirement program this year up to now and therefore incurred no related expenses.

#### **Income tax**

Income taxes for 1H 2008 were NT\$7.0 billion, an increase of 8.8% compared to NT\$6.4 billion for 1H 2007. This was mainly due to the higher effective tax rate for the 1H 2008 consolidated financials as compared to 1H 2007, resulting from a lower investment tax credits in 1H 2008.

#### **EBITDA and net income**

EBITDA for 1H 2008 increased 2.6% year-on-year to NT\$51.5 billion. Due to the 2Q 2007 acquisition of SENAO, which has a lower EBITDA margin than Chunghwa, the Company's EBITDA margin in 1H 2008 was 51.1%, down from 52.5% in 1H 2007. Net

income for 1H 2008 was NT\$23.2 billion, a decrease of 5.6%. The decrease in net income was due to the unrealized mark-to-market loss stemming from the foreign exchange derivative contract.

### **Capex**

Capital expenditures totaled NT\$11.3 billion for 1H 2008, of which 73.6% was for wire line equipment (including fixed-line and Internet and data), 12.7% was for wireless equipment, and the remainder was for other expenditures. Total capital expenditures increased due to a NT\$1.2 billion purchase of state-owned land in 1Q 2008, where one of Chunghwa's outlets is located.

### **Cash Flow**

Net cash flow from operations increased by 27% to NT\$41.5 billion, as compared to NT\$32.7 billion in 1H 2007. This was primarily due to a decrease in other financial assets, an increase in accounts payable and taxes payable. As of June 30, 2008, the Company's cash and cash equivalents totaled NT\$95.3 billion, an increase of 15.8% year-on-year despite the capital reduction cash payment of NT\$9.6 billion in January this year.

### **Businesses Performance Highlights:**

#### **Internet and Data Services**

Total HiNet subscribers increased to 4.1 million as of June 30, 2008. HiNet broadband subscribers including HiNet ADSL and HiNet FTTx increased by 23,000 to 3.5 million quarter-on-quarter.

ADSL subscribers decreased by 126,000 to 3.5 million quarter-on-quarter. This decline was offset by strong growth in FTTB subscriptions, with 148,000 net additions to around 0.8 million over the course of the second quarter of 2008, bringing the total number of broadband subscribers to 4.3 million on June 30, 2008, a 3.4% increase compared to the same period of last year. By the end of June 2008, the number of ADSL and FTTx subscriptions with a service speed of greater than 8 Mbps reached 1.38 million, representing 32.1% of total broadband subscribers.

At the end of June 2008, Chunghwa had 508,000 MOD subscribers, with 73,000 new subscriptions added during the second quarter.

#### **Mobile Services**

As of June 30, 2008, Chunghwa had 8.8 million mobile subscribers, slightly up quarter-on-quarter by 0.63% compared to 8.7 million on March 31, 2008.

Chunghwa remained the leading mobile operator in Taiwan. According to statistics published by the NCC, at the end of June 2008, the Company's total subscriber market share (including 2G, 3G and PHS) was 35.6%, while its revenue share was 33.6%.

Chunghwa had 306,000 net additions to its 3G subscriber base during the second quarter, recording a 11.8% rise in the total number of 3G subscribers to 2.9 million on June 30, 2008.

Mobile VAS revenue for 1H 2008 was NT\$3.4 billion, a 31.7% year-on-year increase, with SMS revenue up 24.9% and mobile Internet revenue up 58.2%.

#### **Fixed-line Services**

At the end of June 2008, the Company maintained its leading fixed-line market position, with fixed-line subscribers totaling 12.9 million.

#### **2008 Olympic Games on New Media**

The Company broadcasted the 2008 Olympic Games across its MOD, emome and hiChannel platforms in August. According to its internal statistics, during the Olympic Games, from August 8 until August 24, the highest number of view household for MOD was up to 1.6 times compared to before the game.

HiChannel visitors were 3.3 times and the page views amounted to 11.3 times compared to before the Games.

Number of video clips viewed, page views and traffic over our mobile portal emome were 15.8, 10 and 10 times respectively, as compared to the period before the Games.

#### **Financial Statements**

Financial statements and additional operational data can be found on the Company's website at [www.cht.com.tw/ir/filedownload](http://www.cht.com.tw/ir/filedownload).

#### **Note Concerning Forward-looking Statements**

Except for statements in respect of historical matters, the statements made in this press release contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual performance, financial condition or results of operations of Chunghwa to be materially different from what may be implied by such forward-looking statements. Investors are cautioned that actual events and results could differ materially from those statements as a



result of a number of factors including, among other things: extensive regulation of 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's annual reports on Form F-20 filed with the SEC.

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

#### **SPECIAL NOTE REGARDING NON-GAAP FINANCIAL MEASURES**

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

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

EBITDA is not a measure of financial performance under U.S. GAAP or ROC GAAP. EBITDA should not be considered as an alternate measure of net income or operating income, as determined on a consolidated basis using amounts derived from statements of operations prepared in accordance with ROC GAAP, as an indicator of operating performance or as cash flows from operating activity or as a measure of liquidity. EBITDA has material limitations that impair its value as a measure of a company's overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses and income taxes, depreciation, pension plan reserves or capital expenditures and associated charges. The EBITDA presented herein relates to ROC GAAP, which we use to prepare our consolidated financial statements.

#### **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.

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

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Republic of China

**Chunghwa Telecom Co., Ltd.**

**Financial Statements for the**

**Six Months Ended June 30, 2008 and 2007 and**

**Independent Auditors Report**

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have audited the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of June 30, 2008 and 2007, and the related statements of income, changes in stockholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Taiwan International Standard Electronics Co., Ltd. and Equity-accounted investee of SENA0 of Senao Networks, Inc. The aggregate carrying values of those equity method investees were NT\$655,093 thousand and NT\$614,285 thousand as of June 30, 2008 and 2007 and the equity in their earnings (loss) were NT\$69,502 thousand and NT\$(16,641) thousand, respectively, for the six months then ended. The financial statements of Taiwan International Standard Electronics Co., Ltd. and equity-accounted investee of SENA0 of Senao Networks, Inc. as of and for the six months ended June 30, 2008 and 2007, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these equity method investees, is based solely on the reports of the other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to first paragraph present fairly, in all material respects, the financial position of the Company as of June 30, 2008 and 2007, and the results of their operations and cash flows for the six months then ended in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, on January 1, 2008, the Company adopted Interpretation 96-052 issued by the Accounting and Research Development Foundation of the Republic of China that requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings.

We have also audited the consolidated financial statements of the Company and its subsidiaries as of the six months ended June 30, 2008 and 2007, and have expressed an modified unqualified opinion on those consolidated financial statements.

August 15, 2008

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

JUNE 30, 2008 AND 2007

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

	2008		2007		2008		2007	
	Amount	%	Amount	%	Amount	%	Amount	%
<b>ASSETS</b>					<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>			
Cash and cash equivalents (Notes 2 and 4)	\$ 91,744,722	19	\$ 81,578,146	17	Financial liabilities at fair value through profit or loss (Notes 2 and 5)	\$ 3,313,291	1	\$ 19,692
Financial assets at fair value through profit or loss (Notes 2 and 5)	135,238		65,441		Trade notes and accounts payable	6,919,396	1	6,716,189
Available-for-sale financial assets (Notes 2 and 6)	18,509,251	4	17,615,909	4	Payables to related parties (Note 24)	1,678,379		1,734,513
Held-to-maturity financial assets (Notes 2 and 7)	644,935		50,672		Income tax payable (Notes 2 and 21)	7,807,133	2	6,466,622
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$3,111,329 in 2008 and \$3,552,669 in 2007 (Notes 2 and 8)	9,815,385	2	11,780,005	2	Accrued expenses (Notes 3 and 16)	11,193,670	2	11,201,346
Receivables from related parties (Note 24)	468,729		258,719		Dividends payable (Note 18)	40,716,130	9	34,610,885
Other current monetary assets (Notes 5 and 9)	2,828,805	1	5,488,598	1	Other current liabilities (Note 17)	15,779,569	3	14,394,994
Inventories, net (Notes 2 and 10)	2,969,686	1	2,844,675	1	Total current liabilities	87,407,568	18	75,144,241
Deferred income taxes (Notes 2 and 21)	1,073,256		11,452					
Other current assets (Note 11)	4,520,898	1	3,431,541	1	DEFERRED INCOME	1,831,946		1,218,169
					RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)	94,986		94,986
Total current assets	132,710,905	28	123,125,158	26				
<b>LONG-TERM INVESTMENTS</b>					<b>OTHER LIABILITIES</b>			
Investments accounted for using equity method (Notes 2 and 12)	7,376,058	2	3,052,841	1	Accrued pension liabilities (Notes 2 and 23)	5,105,108	1	2,562,025
Financial assets carried at cost (Notes 2 and 13)	2,261,048		1,941,280		Customers deposits	6,236,222	2	6,416,855
Held-to-maturity financial assets (Notes 2 and 7)	763,852		243,222		Deferred credit-profit on intercompany transactions (Note 24)	1,117,755		
Other monetary assets (Notes 14 and 25)	1,000,000		2,000,000		Other	425,213		806,504
Total long-term investment	11,400,958	2	7,237,343	1	Total other liabilities	12,884,298	3	9,785,384

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PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 24)					Total liabilities	102,218,798	21	86,242,780	18
Cost									
Land	101,855,226	21	100,928,932	21	STOCKHOLDERS EQUITY (Notes 2, 15, 18 and 19)				
Land improvements	1,484,013		1,482,502		Common capital stock \$10 par value;				
Buildings	62,433,677	13	59,399,295	12	Authorized: 12,000,000 thousand shares				
Computer equipment	15,022,254	3	15,539,392	3	Issued: 9,557,777 thousand shares in 2008 and 9,667,845 thousand shares in 2007	95,577,769	20	96,678,451	20
Telecommunications equipment	642,086,379	135	634,486,404	134					
Transportation equipment	2,751,402	1	3,263,270	1	Preferred stock \$10 par value				
Miscellaneous equipment	7,418,057	2	7,934,272	2	Capital stock to be issued	1,390,313		9,667,845	2
Total cost	833,051,008	175	823,034,067	173	Additional paid-in capital				
Revaluation increment on land	5,820,548	1	5,823,991	2	Capital surplus	198,308,651	42	200,592,390	42
	838,871,556	176	828,858,058	175	Donated capital	13,170		13,170	
					Equity in additional paid-in capital reported by equity-method investees	1,367		3,309	
Less: Accumulated depreciation	532,618,692	112	516,797,492	109					
	306,252,864	64	312,060,566	66	Total additional paid-in capital	198,323,188	42	200,608,869	42
Construction in progress and prepayments for equipment	14,370,085	3	20,343,422	4	Retained earnings:				
					Legal reserve	52,859,566	11	48,036,210	10
Property, plant and equipment, net	320,622,949	67	332,403,988	70	Special reserve	2,675,419	1	2,678,723	1
					Unappropriated earnings	19,532,657	4	24,674,913	5
INTANGIBLE ASSETS (Note 2)					Total retained earnings	75,067,642	16	75,389,846	16
3G concession	7,860,392	2	8,609,001	2	Other adjustments				
Other	299,993		205,620		Cumulative translation adjustments	(12,295)		(4,445)	
					Unrecognized net loss of pension	(87)			
Total intangible assets	8,160,385	2	8,814,621	2	Unrealized gain (loss) on financial instruments	(1,183,967)		800,068	
					Unrealized revaluation increment	5,823,085	1	5,824,210	2
OTHER ASSETS					Total other adjustments	4,626,736	1	6,619,833	2
Idle assets (Note 2)	927,512		928,384						
Refundable deposits	1,243,701		1,438,453	1	Total stockholders equity	374,985,648	79	388,964,844	82
Deferred income taxes (Notes 2 and 21)	1,485,073	1	841,103						
Other	652,963		418,574						
Total other assets	4,309,249	1	3,626,514	1					
TOTAL	\$ 477,204,446	100	\$ 475,207,624	100	TOTAL	\$ 477,204,446	100	\$ 475,207,624	100

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

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(With Deloitte & Touche audit report dated August 15, 2008)

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**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF INCOME****FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)**

	2008		2007	
	Amount	%	Amount	%
NET REVENUES (Note 24)	\$ 93,367,447	100	\$ 92,325,836	100
OPERATING COSTS (Note 24)	46,094,220	49	46,514,834	50
<b>GROSS PROFIT</b>	<b>47,273,227</b>	<b>51</b>	<b>45,811,002</b>	<b>50</b>
OPERATING EXPENSES (Note 24)				
Marketing	12,625,911	13	12,473,922	13
General and administrative	1,599,300	2	1,601,546	2
Research and development	1,473,205	2	1,618,168	2
Total operating expenses	15,698,416	17	15,693,636	17
<b>INCOME FROM OPERATIONS</b>	<b>31,574,811</b>	<b>34</b>	<b>30,117,366</b>	<b>33</b>
NON-OPERATING INCOME AND GAINS				
Interest income	845,778	1	690,649	1
Gains on disposal of financial instruments, net	756,241	1	16,534	
Equity in earnings of equity method investees, net	258,169		48,978	
Dividends income	14,664		58,074	
Other	153,306		125,422	
Total non-operating expenses and losses	2,028,158	2	939,657	1
NON-OPERATING EXPENSES AND LOSSES				
Valuation loss on financial instruments, net	2,734,885	3		
Foreign exchange loss, net	730,230	1	3,047	
Losses on disposal of property, plant and equipment	41,321		21,664	
Valuation loss on inventory	20,407		560	
Interest expenses	132		388	
Other	51,873		65,689	
Total non-operating expenses and losses	3,578,848	4	91,348	
<b>INCOME BEFORE INCOME TAX</b>	<b>30,024,121</b>	<b>32</b>	<b>30,965,675</b>	<b>34</b>
INCOME TAX (Notes 2 and 21)	6,793,608	7	6,366,830	7
<b>NET INCOME</b>	<b>\$ 23,230,513</b>	<b>25</b>	<b>\$ 24,598,845</b>	<b>27</b>

(Continued)



**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF INCOME**

**FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007**

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

	2008		2007	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
<b>EARNINGS PER SHARE (Note 22)</b>				
Basic earnings per share	\$ 3.14	\$ 2.43	\$ 2.91	\$ 2.31
Diluted earnings per share	\$ 3.14	\$ 2.43	\$ 2.91	\$ 2.31

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

(With Deloitte & Touche audit report dated August 15, 2008)

(Concluded)

## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007

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

Common Capital Stock		Preferred Stock	Retained Earnings					Other Adjustments				
Shares (Thousands)	Amount	Shares (Thousands)	Capital Stock to Be Issued	Additional Paid-in Capital	Legal Reserve	Special Reserve	Unappro- priated Ear- nings	Cumu- lative Trans- lation Adjust- ments	Un- recognized Net Loss of Pension Instruments	Un- realized Gain or Loss on Financial Instruments	Un- recognized Re- valuation Increment	Trea- sury Stock
9,667,845	\$ 96,678,451	\$	\$	\$ 200,605,563	\$ 48,036,210	\$ 2,678,723	\$ 48,317,617	\$ (1,980)	\$ (90)	\$ 37,508	\$ 5,823,200	\$ (7,107,494)
											(115)	
					4,823,356		(4,823,356)					
						(3,304)	3,304					
4.26							(40,716,130)					
0.1				955,778			(955,778)					
							(1,303,605)					
				434,535			(434,535)					
							(43,454)					
							23,230,513					
										(13,766)		
				1,364			(18,846)					
								(10,315)				

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

(With Deloitte & Touche audit report dated August 15, 2008)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars)**

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 23,230,513	\$ 24,598,845
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	335,579	420,849
Depreciation and amortization	19,134,387	19,896,272
Valuation loss on inventory	20,407	560
Valuation loss (gain) on financial instruments, net	2,734,885	(2,597)
Amortization of discount of financial assets	(1,192)	
Gain on disposal of financial instruments, net	(756,241)	(16,534)
Losses on disposal of property, plant and equipment, net	40,518	15,323
Equity in earnings of equity method investees	(258,169)	(48,978)
Dividends received from equity investees		44,000
Deferred income taxes	(1,185,404)	(281,972)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	543,031	(85,780)
Trade notes and accounts receivable	323,014	340,315
Receivables from related parties	(257,103)	(210,951)
Other current monetary assets	4,780,221	539,535
Inventories	481,607	(519,240)
Other current assets	(3,305,782)	(3,708,884)
Increase (decrease) in:		
Trade notes and accounts payable	(3,637,407)	(2,518,260)
Payables to related parties	71,747	741,401
Income tax payable	846,629	(2,060,918)
Accrued expenses	(3,763,411)	(7,595,475)
Other current liabilities	1,105,918	1,418,045
Deferred income	326,796	262,750
Accrued pension liabilities	1,193,144	1,308,324
Net cash provided by operating activities	42,003,687	32,536,630
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of available-for-sale financial assets	(4,900,000)	(11,021,947)
Proceeds from disposal of available-for-sale financial assets	2,701,761	707,545
Acquisitions of held-to-maturity financial assets	(300,000)	(300,000)
Proceeds from disposal of held-to-maturity financial assets	41,854	6,106
Acquisition of financial assets carried at cost	(200,000)	
Proceeds from disposal of financial assets carried at cost	354,933	
Acquisition of investment accounted for using equity method	(3,202,809)	(1,093,268)
Acquisitions of property, plant and equipment	(11,225,747)	(9,578,117)

(Continued)





**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars)**

	<b>2008</b>	<b>2007</b>
Proceeds from disposal of property, plant and equipment	\$ 1,823,900	\$ 12,025
Increase of intangible assets	(52,971)	(59,958)
Increase in other assets	(138,629)	(46,413)
Net cash used in investing activities	(15,097,708)	(21,374,027)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment of long-term loans		(300,000)
Decrease in customers deposits	(48,546)	(170,095)
Increase (decrease) in other liabilities	(307,498)	246,185
Decrease in due to stockholders for capital reduction	(9,557,777)	
Net cash used in financing activities	(9,913,821)	(223,910)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>16,992,158</b>	<b>10,938,693</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>74,752,564</b>	<b>70,639,453</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 91,744,722</b>	<b>\$ 81,578,146</b>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	\$ 132	\$ 388
Income tax paid	\$ 7,133,234	\$ 8,709,720
<b>NON-CASH FINANCING ACTIVITIES</b>		
Dividend payable	\$ 40,716,130	\$ 34,610,885
Payables to employees bonuses and remuneration to directors and supervisors	\$ 1,347,059	\$ 1,292,523

(Continued)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007**

(Amounts in Thousands of New Taiwan Dollars)

The following table presents the allocation of acquisition costs of Senao International Co., Ltd. made during the six months ended June 30, 2007 to assets acquired and liabilities assumed, based on their fair values:

Cash	\$ 617,003
Financial assets at fair value through profit or loss	86,796
Trade notes and accounts receivable	2,024,443
Inventories	1,625,790
Other current assets	334,055
Long-term investment	12,941
Property, plant and equipment	1,316,657
Identifiable intangible assets	365,920
Other assets	134,869
Short-term loans and current portion of long-term loans	(100,000)
Trade notes and accounts payable	(1,629,324)
Other current liabilities	(714,517)
Long-term liabilities	(580,000)
Other liabilities	(92,579)
<b>Total</b>	<b>3,402,054</b>
Percentage of ownership	31.3285%
<b>Acquisition cost</b>	<b>\$ 1,065,813</b>

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

(With Deloitte & Touche audit report dated August 15, 2008)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2008 AND 2007**

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

**1. GENERAL**

Chunghwa Telecom Co., Ltd. ( Chunghwa ) was incorporated on July 1, 1996 in the Republic of China ( ROC ) pursuant to the Article 30 of the Telecommunications Act. Chunghwa is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications ( MOTC ). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications ( DGT ). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off to as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As a telecommunications service provider of fixed-line and cellular telephone services, Chunghwa was announced as a market dominator by the MOTC; therefore Chunghwa is subject to the applicable telecommunications regulations for market dominators of the ROC.

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

The numbers of employees as of June 30, 2008 and 2007 are 24,519 and 24,097, respectively.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **Classification of Current and Noncurrent Assets and Liabilities**

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

### **Cash Equivalents**

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

### **Financial Assets and Liabilities at Fair Value Through Profit or Loss**

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

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

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

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

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of stockholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

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

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

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

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

#### **Held-to-maturity Financial Assets**

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

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

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

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

Sales prices are determined using fair value taking into account related sales discounts and quantity discounts agreed to by the Company and its customers. Since the receivables from sales are collectible within one year and such transactions are frequent, fair value of the receivables is equivalent to the nominal amount of the cash to be received.

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

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

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

### **Inventories**

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

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

Investments in companies where in the Company exercises significant influence over the operating and financial policy decisions are accounted for by the equity method. Under the equity method, the investment is initially stated at cost and subsequently adjusted for its proportionate share in the net earnings of the investee companies. Any cash dividends received are recognized as a reduction in the carrying value of the investments.

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

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

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

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

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

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

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

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

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

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

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

### **Intangible Assets**

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

3G Concession is amortized upon the MOTC granted the license of using the straight-line method over the shorter of the legal useful life or estimated useful life. Computer software costs and patents are amortized using the straight-line method over the estimated useful lives of 3-20 years.

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

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

### **Idle Assets**

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

### **Pension Costs**

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

### **Expense Recognition**

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

### **Treasury Stock**

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

### **Income Tax**

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

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

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

Income taxes (10%) on undistributed earnings is recorded in the year of stockholders approval which is the year subsequent to the year the earnings are generated.

### **Foreign-currency Transactions**

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

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

### **Hedge Accounting**

Hedged items are recognized as follows:

- a. The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in profit or loss.
- b. The gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be currently recognized in earnings.

### **Reclassifications**

Certain accounts in the financial statements as of and for the six months ended June 30, 2007 have been reclassified to conform to the presentation of the financial statements as of and for the six months ended June 30, 2008.



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

In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning January 1, 2008. These bonuses were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of NT\$562,776 thousand (including NT\$548,054 thousand recorded by Chunghwa and NT\$14,722 thousand recorded by its equity-accounted investees) in net income and a decrease in basic earnings per share (after income tax) of NT\$0.06 for the six months ended June 30, 2008.

**4. CASH AND CASH EQUIVALENTS**

	June 30	
	2008	2007
<b>Cash</b>		
Cash on hand	\$ 87,664	\$ 101,736
Bank deposits	16,542,583	5,168,604
Negotiable certificate of deposit, annual yield rate ranging from 2.00% 4.31% and 1.40% 5.38% for 2008 and 2007, respectively	49,449,950	38,918,596
	<b>66,080,197</b>	<b>44,188,936</b>
<b>Cash equivalents</b>		
Commercial paper purchased, annual yield rate ranging from 1.99% 2.02% and 1.36% 5.36% for 2008 and 2007, respectively	25,664,525	36,739,210
Bond with resale agreements, annual yield rate ranging from 2.50% 2.90% for 2007		650,000
	<b>25,664,525</b>	<b>37,389,210</b>
	<b>\$ 91,744,722</b>	<b>\$ 81,578,146</b>

As of June 30, 2008 and 2007, foreign deposits in bank were as following:

	June 30	
	2008	2007
United States of America New York (US\$290,917 thousand and US\$6,810 thousand for 2008 and 2007, respectively)	\$ 8,830,509	\$ 222,939
Hong Kong (US\$35,377 thousand, EUR862 thousand, JPY10,016 thousand and GBP198 thousand for 2008 and US\$1,998 thousand, EUR628 thousand, JPY35,830 thousand and GBP169 thousand for 2007)	1,130,090	113,649
	<b>\$ 9,960,599</b>	<b>\$ 336,588</b>

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

	June 30	
	2008	2007
<b>Current</b>		
Derivatives financial assets		
Index future contracts	\$ 135,238	\$ 65,441
<b>Derivatives financial liabilities</b>		
Currency option contracts	\$ 3,274,607	\$
Forward exchange contracts	38,684	11,820
Index future contracts		7,872
	<b>\$ 3,313,291</b>	<b>\$ 19,692</b>

Chunghwa entered into investment management agreements with a well-known financial institutions (fund managers) to manage its investment portfolios in 2006. As of June 30, 2008, Chunghwa's investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. The investment portfolios included listed stocks, mutual funds and derivative instruments.

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

Outstanding forward exchange contracts on June 30, 2008 and 2007 were as follows:

	Currency	Maturity Period	Contract Amount (in Thousands)
<u>June 30, 2008</u>			
Sell	USD/NTD	2008.07-2008.09	USD 320,000
	EUR/USD	2008.08	EUR 18,105
	GBP/USD	2008.08	GBP 2,250
	JPY/USD	2008.08	JPY 523,000
<u>June 30, 2007</u>			
Sell	USD/GBP	2007.09	USD 150
	EUR/USD	2007.09	EUR 31,300
	GBP/USD	2007.09	GBP 2,675
	JPY/USD	2007.09	JPY 653,950

Outstanding index future contracts on June 30, 2008 and 2007 were as follows:

	Maturity Date	Units	Contract Amount (in Thousands)
<u>June 30, 2008</u>			
AMSTERDAM IDX FUT	2008.07	13	EUR 1,209
IBEX 35 INDX FUTR	2008.07	7	EUR 897
CAC40 10 EURO FUT	2008.07	3	EUR 141
DAX INDEX FUTURE	2008.09	1	EUR 172
MINI S&P/MIB FUT	2008.09	37	EUR 1,155
FTSE 100 IDX FUT	2008.09	18	GBP 1,065
TOPIX INDEX FUTURE	2008.09	36	JPY 504,432
S&P 500 FUTURE	2008.09	16	USD 5,373
S&P 500 EMINI FUTURE	2008.09	38	USD 2,549
<u>June 30, 2007</u>			
AMSTERDAM IDX FUT	2007.07	9	EUR 970
CAC40 10 EURO FUT	2007.07	45	EUR 2,679
IBEX 35 INDEX FUTR	2007.07	7	EUR 1,037
DAX INDEX FUTURE	2007.09	10	EUR 1,941
MINI S&P/MIB FUT	2007.09	23	EUR 965
FTSE 100 IDX FUT	2007.09	36	GBP 2,378
TOPIX INDEX FUTURE	2007.09	34	JPY 604,860
S&P 500 FUTURE	2007.09	23	USD 8,755
S&P 500 EMINI FUTURE	2007.09	10	USD 761

As of June 30, 2008 and 2007, the deposits paid for index future contracts were \$101,374 thousand and \$63,619 thousand, respectively.

In September 2007, Chunghwa entered into a 10-year, foreign currency derivative contract with Goldman Sachs Group Inc. ( Goldman ) and valuations are made biweekly starting from September 20, 2007 which are 260 valuation periods totally. Under the terms of the contract, if the NT dollar/US dollar exchange rate is less than NT\$31.50 per US\$ at any two consecutive bi-weekly valuation dates during the valuation period starting from October 4, 2007 to September 5, 2017, Chunghwa is required to make a cash payment to Goldman. The settlement amount is determined by the difference between the applicable exchange rates and the base amount of US\$4,000 thousand. Conversely, if the NT dollar/US dollar exchange rate is above NT\$31.50 per US dollar using the same valuation methodology, Goldman would have a settlement obligation to Chunghwa determined using a base amount of US\$2,000 thousand. Further, if the exchange rate is at or above NT\$32.70 per US dollar starting from December 12, 2007 at any time, the contract will be terminated at that time. In accordance with the terms of the contract, Chunghwa deposited US\$3,000 thousand with Goldman (included in other current assets ) with annual yield rate of 8%. As of June 30, 2008, there are 240 remaining valuation periods.

Net losses arising from financial assets and liabilities at fair value through profit or loss for the six months ended June 30, 2008 and 2007 were \$2,104,697 thousand (including realized settlement gains of \$559,140 thousand and valuation losses of \$2,663,837 thousand; such valuation loss included a total of \$2,694,448 from foreign currency derivative contract with Goldman) and \$74,306 thousand (including realized settlement losses of \$77,018 thousand and valuation gain of \$2,712 thousand), respectively.

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

	June 30	
	2008	2007
Open-end mutual funds	\$ 17,483,417	\$ 16,134,581
Foreign listed stocks	789,379	961,850
Real estate investment trust fund	236,455	278,650
Listed stocks		240,828
	\$ 18,509,251	\$ 17,615,909

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

	June 30	
	2008	2007
Corporate bonds	\$ 1,349,676	\$ 150,000
Collateralized loan obligation	59,111	143,894
	1,408,787	293,894
Less: Current portion	644,935	50,672
	\$ 763,852	\$ 243,222

**8. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

	Six Months Ended June 30	
	2008	2007
Balance, beginning of period	\$ 3,290,123	\$ 3,535,141
Provision for doubtful accounts	332,403	418,888
Accounts receivable written off	(511,197)	(401,360)
Balance, end of period	\$ 3,111,329	\$ 3,552,669

**9. OTHER CURRENT MONETARY ASSETS**

	June 30	
	2008	2007
Accrued custodial receipts from other carriers	\$ 641,245	\$ 772,158
Tax refund receivable		3,221,136
Other	2,187,560	1,495,304
	\$ 2,828,805	\$ 5,488,598



**10. INVENTORIES, NET**

	June 30	
	2008	2007
Supplies	\$ 1,538,235	\$ 1,829,318
Work in process	171,293	155,546
Merchandise	512,341	130,005
Materials in transit	787,890	730,867
	3,009,759	2,845,736
Less: Valuation allowance	40,073	1,061
	\$ 2,969,686	\$ 2,844,675

**11. OTHER CURRENT ASSETS**

	June 30	
	2008	2007
Prepaid expenses	\$ 3,411,415	\$ 2,535,899
Prepaid rents	762,115	622,311
Miscellaneous	347,368	273,331
	\$ 4,520,898	\$ 3,431,541

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

	June 30			
	2008	% of Ownership	2007	% of Ownership
Carrying Value	Carrying Value			
<b>Listed</b>				
Senao International Co., Ltd. ( SENAO )	\$ 1,207,996	31	\$ 1,107,259	31
<b>Non-listed</b>				
Light Era Development Co., Ltd. ( LED )	2,995,721	100		
Chunghwa Investment Co., Ltd. ( CHI )	876,867	49	999,655	49
Chunghwa System Integration Co., Ltd. ( CHSI )	781,034	100		
Taiwan International Standard Electronics Co., Ltd. ( TISE )	578,926	40	532,107	40
CHIEF Telecom Inc. ( CHIEF )	415,145	69	253,553	70
Chunghwa International Yellow Pages Co., Ltd. ( CIYP )	101,297	100	116,432	100
Viettel-CHT Co., Ltd. ( Viettel-CHT )	88,207	33		
Skysoft Co., Ltd. ( SKYSOFT )	78,973	30		
Chunghwa Telecom Global, Inc. ( CHTG )	77,695	100		
KingWay Technology Co., Ltd. ( KWT )	75,671	33		
ELTA Technology Co., Ltd. ( ELTA )	42,883	32	26,784	21
Spring House Entertainment Inc. ( SHE )	40,250	56	17,051	30

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Donghwa Technology Co., Ltd. ( DHT )

15,393

100

(Continued)

	June 30			
	2008		2007	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
New Prospect Investments Holdings Ltd. (B.V.I.) ( NPIH )	\$	100	\$	100
Prime Asia Investments Group Ltd. (B.V.I.) ( PAIG )		100		100
	6,168,062		1,945,582	
	\$ 7,376,058		\$ 3,052,841	

(Concluded)

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

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

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

Chunghwa invested CHIEF Telecom Inc. in October 2007 and September 2006, for a purchase price of \$171,513 thousand and \$310,652 thousand, respectively. CHIEF engages mainly in internet communication and internet data center ( IDC ) service.

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

Chunghwa established Viettel-CHT Co., Ltd. with Viettel Co., Ltd. ( Viettel-CHT ) in Vietnam in April 2008, by investing US\$3,000 thousand cash. V-CHT engages mainly in IDC services.

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

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

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

Chunghwa invested ELTA Technology Co., Ltd. ( ELTA ) in April and October 2007, for a purchase price of \$27,455 thousand and \$16,768 thousand, respectively. ELTA engages mainly in professional on-line and mobile value-added content aggregative services. Chunghwa sold all shares of ELTA on July 23, 2008.

Chunghwa increased its ownership of Spring House Entertainment Inc. ( SHE ) from 30% to 56% in January 2008, for a purchase price of \$39,800 thousand, and SHE becomes a subsidiary of Chunghwa.



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

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

Chunghwa established Chunghwa Telecom Singapore Pte., Ltd. ( CHS ) 100% owned subsidiary in July 2008, for a purchase price of \$200,000 thousand, CHS engages mainly in data wholesale, IP Transit, IPLC, IP VPN, and voice wholesale services.

The carrying values of the equity investees and the equity in their earnings as of June 30, 2008 and 2007 are based on the audited financial statements.

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

### 13. FINANCIAL ASSETS CARRIED AT COST

	June 30		June 30	
	2008	2007	2008	2007
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Cost investees:				
Taipei Financial Center ( TFC )	\$ 1,789,530	12	\$ 1,789,530	12
Industrial Bank of Taiwan II Venture Capital Co., Ltd. ( IBT II )	200,000	17		
Global Mobile Corp. ( GMC )	127,018	11		
iD Branding Ventures ( iDBV )	75,000	8	75,000	8
RPTI International ( RPTI )	49,500	12	71,500	12
Essence Technology Solution, Inc. ( ETS )	20,000	9		
Siemens Telecommunication Systems ( Siemens )			5,250	15
	\$ 2,261,048		\$ 1,941,280	

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

Chunghwa invested GMC in December 2007, for a purchase price of \$168,038 thousand for 16,796 thousand stocks. GMC engages mainly in computer software wholesale and circuit engineering and wire communication services. The National Communications Commission ( NCC ) informed Chunghwa with the Communication Letter (#0974102087) on April 1, 2008 that its investment in GMC has been overruled, and notified Chunghwa officially on May 5, 2008 that Chunghwa should dispose of all investment in GMC no later than June 30, 2008, otherwise, NCC will enforce a fine according to Telecommunication Act, and the fine may be imposed consecutively until the violation is rectified. Chunghwa has disposed 4,100 thousand stocks of GMC in April 2008. Chunghwa has filed an appeal to NCC on April 30, 2008 and requested NCC officially to suspend the enforcement on June 10, 2008. On July 3, 2008, NCC resolved that according to the administrative penal provisions, Chunghwa will not be subject to fine in a suitable time.

After evaluating the investment in RPTI, Chunghwa determined the investment in RPTI was impaired and recognized a impairment loss of \$22,000 thousand for the year ended December 31, 2007.

Chunghwa invested ETS in December 2007, for a purchase price of \$20,000 thousand. ETS mainly engaged in IP-Private Branch Exchange (IP PBX) and design of voice security module.

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

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

#### 14. OTHER NONCURRENT MONETARY ASSETS

	June 30	
	2008	2007
Piping Fund	\$ 1,000,000	\$ 1,000,000
Fixed Line Fund		1,000,000
	\$ 1,000,000	\$ 2,000,000

As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute a total of \$2,000,000 thousand to a Fixed-Line Fund managed by the Ministry of the Interior and a Piping Fund administered by the Taipei City Government. These funds were used to finance various telecommunications infrastructure projects. Upon completion of the construction projects, the parties using the infrastructure shall reimburse the money to the contributors. According to the communication letter (#0960004447) dated August 6, 2007, the Executive Yuan ratified that the Ministry of the Interior (the Interior) can dissolve the Fixed-Line Fund effective from January 1, 2008. In connection with the dissolution, the Interior disposed the assets liabilities related to the Fixed-Line Fund during the final accounting of the fiscal year 2007. Chunghwa received the full amount of its original contribution of \$1,000,000 thousand on January 11, 2008.

#### 15. PROPERTY, PLANT AND EQUIPMENT

	June 30	
	2008	2007
Cost		
Land	\$ 101,855,226	\$ 100,928,932
Land improvements	1,484,013	1,482,502
Buildings	62,433,677	59,399,295
Computer equipment	15,022,254	15,539,392
Telecommunications equipment	642,086,379	634,486,404
Transportation equipment	2,751,402	3,263,270
Miscellaneous equipment	7,418,057	7,934,272
Total cost	833,051,008	823,034,067
Revaluation increment on land	5,820,548	5,823,991
	838,871,556	828,858,058
Accumulated depreciation		
Land improvements	871,734	834,481
Buildings	15,714,076	14,749,012
Computer equipment	11,512,642	11,818,891
Telecommunications equipment	495,542,339	479,447,214

(Continued)



	June 30	
	2008	2007
Transportation equipment	\$ 2,603,643	\$ 3,149,482
Miscellaneous equipment	6,374,258	6,798,412
	532,618,692	516,797,492
Construction in progress and advances related to acquisitions of equipment	14,370,085	20,343,422
Property, plant and equipment, net	\$ 320,622,949	\$ 332,403,988

(Concluded)

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

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went effective from February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of \$116,196 thousand to stockholder's equity other adjustments. As of June 30, 2008, the unrealized revaluation increment was decreased to \$5,823,085 thousand by disposal revaluation assets.

Depreciation on property, plant and equipment for the six months ended June 30, 2008 and 2007 amounted to \$18,636,189 thousand and \$19,424,868 thousand, respectively. No interest expense was capitalized for the six months ended June 30, 2008 and 2007.

## 16. ACCRUED EXPENSES

	June 30	
	2008	2007
Accrued salary and compensation	\$ 8,482,722	\$ 7,737,796
Accrued franchise fees	1,219,579	1,117,852
Other accrued expenses	1,491,369	2,345,698
	\$ 11,193,670	\$ 11,201,346

## 17. OTHER CURRENT LIABILITIES

	June 30	
	2008	2007
Advances from subscribers	\$ 5,226,374	\$ 4,656,551
Amounts collected in trust for others	2,580,798	2,832,933
Payables to employees' bonuses and remuneration to directors and supervisors	1,347,059	1,292,523
Payables to equipment suppliers	1,312,458	1,412,969
Payables to constructors	1,025,968	408,002
Refundable customers' deposits	955,192	959,830
Miscellaneous	3,331,720	2,832,186
	\$ 15,779,569	\$ 14,394,994



## 18. STOCKHOLDERS EQUITY

Under Chunghwa's Articles of Incorporation Chunghwa's authorized capital is \$120,000,000,020, which is divided into 12,000,000,000 common shares (at \$10 par value per share), which are issued and outstanding 9,557,776,912 shares, and 2 preferred shares (at \$10 par value per share), which was approved by the board of directors to be issue on March 28, 2006, and the MOTC purchased 2 preferred shares at par value on April 4, 2006.

For the purpose of privatizing Chunghwa, the MOTC sold 1,109,750 thousand common shares of Chunghwa in an international offering of securities in the form of American Depositary Shares ( ADS ) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of Chunghwa, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. The MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of June 30, 2008, the outstanding ADSs were 1,781,712 thousand units, which equaled approximately 178,171 thousand common shares and represented 18.64% of Chunghwa's total outstanding common shares.

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

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

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

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

Under the ROC Company Law, additional paid-in capital may only be utilized to offset deficits. For those companies having no deficits, additional paid-in capital arising from capital surplus can be used to increase capital stock and distribute to stockholders in proportion to their ownership at the ex-dividend date. Also, such amounts can only be declared as a stock dividend by Chunghwa at an amount calculated in accordance with the provisions of existing regulations.

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

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

For the six months ended June 30, 2008, the accrual amounts for bonuses to employees and remuneration to directors and supervisors were accrued based on past experiences and represented 3.37% and 0.2%, respectively, of net income after setting aside 10% legal reserve.

If the initial accrual amounts of the aforementioned bonus are significantly different from the amounts proposed by the board of directors, the difference is charged to the earnings of the year making the initial estimate. Otherwise, the difference between initial accrual amount and the amount resolved in the shareholders' meeting is charged to the earnings of the following year as a result of change of accounting estimate.

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

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

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

On June 27, 2008, the board of directors of Chunghwa resolved to transfer capital surplus in the amount of \$19,115,554 thousand to common capital stock. Furthermore, they resolved to reduce the same amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and to refund the excess funds to shareholders. The proposal was resolved by the stockholders meeting which was held on August 14, 2008.

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

The above proposals have had an effective registration with the Securities and Futures Bureau of Financial Supervisory Commission, Executive Yuan ( SFC ). The board of directors resolved the ex-dividend date of aforementioned proposals as August 1, 2007.

The stockholders, at the stockholders meeting held on June 15, 2007, resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of NT\$9,667,845 thousand to common capital stock. Chunghwa obtained the approval letter from Financial Supervisory Commission, Executive Yuan which stated the effective registration date of capital reduction is October 17, 2007. Chunghwa decided October 19, 2007 and December 29, 2007 as the record date and stock transfer date of capital reduction, respectively. Subsequently, common capital stock was reduced by NT\$9,667,845 thousand and a liability for the actual amount of cash to be distributed to stockholders of NT\$9,557,777 thousand was recorded. The difference between the reduction in common capital stock and the distribution amount represents treasury stock of NT\$110,068 thousand held by Chunghwa and concurrently cancelled.

Information on the appropriation of 2007 earnings, employee bonus and remuneration to board of directors and supervisors proposed by the board of directors and resolved by the stockholders is available at the Market Observation Post System website.

Under the Integrated Income Tax System that became effective on July 1, 1998, R.O.C. resident stockholders are allowed a tax credit for their proportionate share of the income tax paid by Chunghwa on earnings generated since January 1, 1998.

**19. TREASURY STOCK (COMMON STOCK IN THOUSANDS OF SHARES)**

	Six Months Ended June 30	
	2008	2007
Balance, beginning of period	110,068	
Increase		
Decrease		(110,068)
Balance, end of period		

According to the Securities and Exchange Law of the ROC, total shares of treasury stock shall not exceed 10% of Chunghwa s stock issued. The total amount of the repurchased shares shall not be more than the total amount of retained earnings, capital surplus and realized additional paid-in capital. The shares repurchased by Chunghwa shall not be pledged in accordance with Securities and Exchange Law of the ROC. The holders of treasury stocks are not entitled to vote in stockholders meetings.

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



**20. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES**

	Six Months Ended June 30, 2008		
	Cost of Services	Operating Expenses	Total
Compensation expense			
Salaries	\$ 6,028,408	\$ 4,132,847	\$ 10,161,255
Insurance	284,013	192,257	476,270
Pension	800,023	567,919	1,367,942
Other compensation	3,844,789	2,647,897	6,492,686
	\$ 10,957,233	\$ 7,540,920	\$ 18,498,153
Depreciation expense	\$ 17,620,558	\$ 1,015,631	\$ 18,636,189
Amortization expense	\$ 429,819	\$ 67,943	\$ 497,762

	Six Months Ended June 30, 2007		
	Cost of Services	Operating Expenses	Total
Compensation expense			
Salaries	\$ 6,323,531	\$ 4,047,627	\$ 10,371,158
Insurance	293,755	188,873	482,628
Pension	884,355	584,523	1,468,878
Other compensation	5,131,105	3,434,256	8,565,361
	\$ 12,632,746	\$ 8,255,279	\$ 20,888,025
Depreciation expense	\$ 18,355,653	\$ 1,069,215	\$ 19,424,868
Amortization expense	\$ 427,601	\$ 43,368	\$ 470,969

**21. INCOME TAX**

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

	Six Months Ended June 30	
	2008	2007
Income tax expense computed at statutory income tax rate of 25% to income before income tax	\$ 7,506,021	\$ 7,741,409
Add (deduct) tax effects of:		
Permanent differences	(278,522)	(190,384)
Temporary differences	1,367,337	398,691
Additional tax at 10% on undistributed earnings		8,260
Investment tax credits	(785,317)	(1,490,453)
Income tax payable	\$ 7,809,519	\$ 6,467,523



- b. Income tax expense consists of the following:

	Six Months Ended	
	June 30	
	2008	2007
Income tax payable	\$ 7,809,519	\$ 6,467,523
Income tax separated	131,752	120,112
Income tax deferred	(1,185,404)	(281,972)
Adjustments of prior years income tax	37,741	61,167
	<b>\$ 6,793,608</b>	<b>\$ 6,366,830</b>

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

	June 30	
	2008	2007
<b>Current</b>		
Deferred income tax assets:		
Valuation loss on financial instruments, net	\$ 835,079	\$
Provision for doubtful accounts	513,261	339,806
Unrealized foreign exchange loss	207,337	
Other	30,840	22,299
	<b>1,586,517</b>	<b>362,105</b>
Valuation allowance	(513,261)	(339,806)
	<b>1,073,256</b>	<b>22,299</b>
Deferred income tax liability:		
Unrealized foreign exchange gain		(10,847)
Net deferred income tax assets	<b>\$ 1,073,256</b>	<b>\$ 11,452</b>
<b>Noncurrent deferred income tax assets:</b>		
Accrued pension cost	\$ 1,391,601	\$ 755,237
Impairment loss	80,502	85,866
Losses on disposal of property, plant and equipment	12,970	
	<b>\$ 1,485,073</b>	<b>\$ 841,103</b>

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

	June 30	
	2008	2007
Balance of Imputation Credit Account (ICA)	\$ 13,645,995	\$ 9,746,573

The estimated and the actual creditable ratios distribution of Chunghwa s of 2007 and 2006 for earnings were 31.37% and 24.42%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

e. Undistributed earnings information

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

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

## 22. EARNINGS PER SHARE

	Amount (Numerator)		Weighted-average Number of Common Shares Outstanding (Denominator)	Net Income per Share (Dollars)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
<b>Six months ended June 30, 2008</b>					
EPS was calculated as follows:					
Basic earnings per share	\$ 30,024,121	\$ 23,230,513	9,557,777	\$ 3.14	\$ 2.43
SENAO stock-based Compensation	(5,009)	(5,009)			
Employee bonus			9,616		
Diluted earnings per share	\$ 30,019,112	\$ 23,225,504	9,567,393	\$ 3.14	\$ 2.43
<b>Six months ended June 30, 2008</b>					
Pro forma basic EPS adjusted for stock dividends with ex-dividend date after issuance of financial statements					
	\$ 30,024,121	\$ 23,230,513	11,608,363	\$ 2.59	\$ 2.00
Pro forma diluted EPS adjusted for stock dividends with ex-dividend date after issuance of financial statements					
	\$ 30,019,112	\$ 23,225,504	11,617,979	\$ 2.58	\$ 2.00
<b>Six months ended June 30, 2007</b>					
EPS was calculated as follows:					
Basic earnings per share	\$ 30,965,675	\$ 24,598,845	10,634,630	\$ 2.91	\$ 2.31
SENAO stock-based Compensation	(11,334)	(11,334)			
Diluted earnings per share	\$ 30,954,341	\$ 24,587,511	10,634,630	\$ 2.91	\$ 2.31
<b>Six months ended June 30, 2007</b>					
Pro forma basic EPS adjusted for stock dividends with ex-dividend date after issuance of financial statements					
	\$ 30,965,675	\$ 24,598,845	12,685,216	\$ 2.44	\$ 1.94
Pro forma diluted EPS adjusted for stock dividends with ex-dividend date after issuance of financial statements					
	\$ 30,954,341	\$ 24,587,511	12,685,216	\$ 2.44	\$ 1.94



Chunghwa presumes that the bonuses to employees will be settled in shares and takes those shares into consideration when calculating the weighted average number of shares outstanding used in the calculation of diluted EPS. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa's shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the shareholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The diluted earnings per share for the six months ended June 30, 2008 and 2007 was due to the effect of potential common stock of stock options by SENAO.

### **23. PENSION PLAN**

Chunghwa completed privatization plans on August 12, 2005. Chunghwa is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in accordance with the Statute Governing Privatization of Stated-owned Enterprises. After paying all pension obligations for privatization, the plan assets of Chunghwa should be transferred to the Fund for Privatization of Government-owned Enterprises (the Privatization Fund) under the Executive Yuan. On August 7, 2006, Chunghwa transferred the remaining balance of fund to the Privatization Fund. However, according to the instructions of MOTC, Chunghwa would, on behalf of the MOTC to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization.

The pension plan under the Labor Pension Act of ROC 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 July 1, 2005 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 monthly contribution shall not be less than 6% of each employee's monthly salary. Chunghwa made monthly contributions equal to 6% of each employee's monthly salary to employee's pension accounts beginning July 1, 2005.

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

The balance of Chunghwa's plan assets subject to defined benefit plan were \$2,961,507 thousand and \$2,521,981 thousand as of June 30, 2008 and 2007, respectively.

Pension costs of Chunghwa were \$1,410,232 thousand (\$1,374,036 thousand subject to defined benefit plan and \$36,196 thousand subject to defined contribution plan) and \$1,524,809 thousand (\$1,496,208 thousand subject to defined benefit plan and \$28,601 thousand subject to defined contribution plan) for the six months ended June 30, 2008 and 2007, respectively.

**24. TRANSACTIONS WITH RELATED PARTIES**

The ROC Government, one of Chunghwa's customers held significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, internet and data and other services to the various departments and institutions of the ROC Government and other state-owned enterprises in the normal course of business and at arm's-length prices. The information on service revenues from government bodies and related organizations have not been provided because details of the type of transactions were not summarized by Chunghwa. Chunghwa believes that all costs of doing business are reflected in the financial statements.

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

<b>Company</b>	<b>Relationship</b>
Senao International Co., Ltd. ( SENAO )	Subsidiary (it was the equity-accounted investee in January 2007, and has substantial control in April 2007.)
Light Era Development Co., Ltd. ( LED )	Subsidiary
CHIEF Telecom, Inc. ( CHIEF )	Subsidiary
Chunghwa International Yellow Pages Co., Ltd. ( CIYP )	Subsidiary
Chunghwa System Integration Co., Ltd. ( CHSI )	Subsidiary (it was the subsidiary of equity-accounted investee, Chunghwa Investment Co., Ltd., it becomes to Chunghwa's subsidiary since December 2007.)
Spring House Entertainment Inc. ( SHE )	Subsidiary (it was the equity-accounted investee, it becomes to Chunghwa's subsidiary since January 2008)
Chunghwa Telecom Global, Inc. ( CHTG )	Subsidiary (it was the subsidiary of equity-accounted investee, Chunghwa Investment Co., Ltd., it becomes to Chunghwa's subsidiary since December 2007.)
Donghwa Telecom Co., Ltd. ( DHT )	Subsidiary (it was the indirect owned subsidiary of equity-accounted investee, Chunghwa Investment Co., Ltd., it becomes to Chunghwa's subsidiary since December 2007.)
New Prospect Investments Holdings Ltd. (B.V.I.)	Subsidiary
Prime Asia Investments Group Ltd. (B.V.I.)	Subsidiary
Uni-Gate Telecom Inc.	Subsidiary of CHIEF
Chunghwa Investment Co., Ltd. ( CHI )	Equity-accounted investee
Taiwan International Standard Electronics Co., Ltd. ( TISE )	Equity-accounted investee
ELTA Technology Co., Ltd. ( ELTA )	Equity-accounted investee
Skysoft Co., Ltd. ( SKYSOFT )	Equity-accounted investee
KingWay Technology Co., Ltd. ( KWT )	Equity-accounted investee
Viettel-Cht Co., Ltd. (Viettel-CHT)	Equity-accounted investee
Chunghwa Precision Test Technical Co., Ltd. ( CHPT )	Equity-accounted investee of CHI



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

	2008		June 30		2007	
	Amount	%	Amount	%	Amount	%
1) Receivables from related parties						
Trade notes and accounts receivable						
SENAO	\$ 273,901	59	\$ 214,071	83		
LED	91,134	19				
CHTG						