

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

1934 Act Registration No. 1-31731

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# SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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## FORM 6-K

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

Dated August 31, 2005

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### Chunghwa Telecom Co., Ltd.

(Translation of Registrant's Name into English)

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21-3 Hsinyi Road Sec. 1,

Taipei, Taiwan, 100 R.O.C.

(Address of Principal Executive Office)

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

Form 20-F  Form 40-F

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

Yes  No

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

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SIGNATURE

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

Date: 2005/08/31

Chunghwa Telecom Co., Ltd.

By: */s/ Tan HoChen*

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Name: Tan HoChen

Title: Chairman & CEO

Exhibit

<u>Exhibit</u>	<u>Description</u>
1.	Financial Statements for the Six Months Ended June 30, 2005 and 2004 together with Independent Auditors Report- ROC GAAP
2.	Financial Statements as of December 31, 2004 and June 30, 2005 (Unaudited) and for Three Months and Six Months Ended June 30, 2004 and 2005 (Unaudited)- US GAAP
3.	Press Release on 2005/08/31

**Chunghwa Telecom Co., Ltd.**

**Financial Statements for the**

**Six Months Ended June 30, 2005 and 2004 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, 2005 and 2004, and the related statements of operations, changes in stockholders' equity and cash flows for the six months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As stated in Note 9 to the financial statements, we did not audit the financial statements of equity-accounted investments, the investments in which are reflected in the accompanying financial statements using the equity method of accounting in 2004. The aggregate carrying values of the equity-accounted investments was NT\$1,443,558 thousand as of June 30, 2004 and the equity in their net gain was NT\$24,076 thousand for the six months then ended.

In our opinion, except for the matters described in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Company as of June 30, 2005 and 2004, and the results of its operations and its cash flows for the six months then ended in conformity with relevant regulations, regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China.

As stated in Notes 2 and 3 to the financial statements, the Company's accounts are subject to examination by the Executive Yuan and by the Ministry of Audit of the Control Yuan. The accounts as of and for the year ended December 31, 2004 have been examined by these government agencies, and adjustments from this examinations have been recognized in the accompanying financial statements.

August 10, 2005

Notice to Readers

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

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

**CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS****JUNE 30, 2005 AND 2004****(Amounts in New Taiwan Thousand Dollars, Except Par Value Data)**

	2005		2004	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 51,393,824	11	\$ 42,826,224	9
Short-term investments (Notes 2 and 5)	14,518,307	3	2,302,171	
Trade notes and accounts receivable, net of allowance for doubtful receivable of \$2,535,474 in 2005 and \$2,439,084 in 2004 (Notes 2 and 6)	12,211,196	2	14,391,648	3
Other current monetary assets	1,752,041		1,970,177	
Inventories, net (Notes 2 and 7)	1,198,713		1,162,433	
Deferred income taxes (Notes 2 and 17)	12,519,259	3	12,070,575	3
Other current assets (Note 8)	4,143,460	1	3,198,478	1
<b>Total current assets</b>	<b>97,736,800</b>	<b>20</b>	<b>77,921,706</b>	<b>16</b>
<b>INVESTMENTS IN UNCONSOLIDATED COMPANIES AND FUNDS (Notes 2, 9 and 21)</b>				
Funds	2,000,000		2,000,000	
Investments accounted for using the equity method	1,493,175		1,443,558	
Investments accounted for using the cost method	2,605,956	1	2,076,593	1
<b>Investment in unconsolidated companies and funds</b>	<b>6,099,131</b>	<b>1</b>	<b>5,520,151</b>	<b>1</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10 and 20)</b>				
<b>Cost</b>				
Land	101,929,974	21	101,827,180	21
Land improvements	1,460,144		1,446,419	
Buildings	56,589,274	12	54,327,287	11
Machinery and equipment	22,004,380	5	22,117,846	5
Telecommunications network facilities	622,009,585	128	615,627,149	128
Miscellaneous equipment	2,057,414		2,129,950	1
<b>Total cost</b>	<b>806,050,771</b>	<b>166</b>	<b>797,475,831</b>	<b>166</b>
Revaluation increment on land	5,951,340	1	5,951,540	1
	812,002,111	167	803,427,371	167
Less: Accumulated depreciation	473,260,856	97	455,099,387	95
	338,741,255	70	348,327,984	72
Construction in progress and advances related to acquisitions of equipment	28,554,197	6	36,021,523	8
<b>Property, plant and equipment, net</b>	<b>367,295,452</b>	<b>76</b>	<b>384,349,507</b>	<b>80</b>



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<b>INTANGIBLE ASSETS</b>				
3G concession (Note 2)	10,106,219	2	10,179,000	2
Deferred pension cost (Notes 2 and 19)	1,737,314	1	1,282,799	
Patents and computer software, net (Note 2)	176,446		221,570	
<b>Total intangible assets</b>	<b>12,019,979</b>	<b>3</b>	<b>11,683,369</b>	<b>2</b>
<b>OTHER ASSETS</b>				
Refundable deposits	1,354,325		1,099,467	1
Overdue receivables, net of allowance for losses of \$1,352,750 in 2005 and \$3,314,165 in 2004 (Notes 2 and 6)	394,340		708,979	
Deferred income taxes - non-current (Notes 2 and 17)			14,256	
Other	340,634		407,136	
<b>Total other assets</b>	<b>2,089,299</b>		<b>2,229,838</b>	<b>1</b>
<b>TOTAL</b>	<b>\$ 485,240,661</b>	<b>100</b>	<b>\$ 481,704,571</b>	<b>100</b>

**LIABILITIES AND STOCKHOLDERS EQUITY**

<b>CURRENT LIABILITIES</b>				
Trade notes and accounts payable	\$ 10,569,719	2	\$ 10,986,703	2
Income tax payable (Notes 2 and 17)	5,701,198	1	5,636,840	1
Accrued expenses (Note 11)	12,645,154	3	12,081,589	3
Accrued pension liabilities (Notes 2 and 19)	2,013,198	1	3,406,072	1
Dividends payable (Note 12)	45,344,307	9	43,414,762	9
Current portion of long-term loans (Note 14)	200,000		200,000	
Other current liabilities (Notes 13 and 20)	18,511,667	4	18,027,326	4
<b>Total current liabilities</b>	<b>94,985,243</b>	<b>20</b>	<b>93,753,292</b>	<b>20</b>
<b>LONG-TERM LIABILITIES</b>				
Long-term loans (Note 14)	300,000		500,000	
Deferred income	336,008		372,133	
<b>Total long-term liabilities</b>	<b>636,008</b>		<b>872,133</b>	
<b>RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 10)</b>	<b>94,986</b>		<b>211,182</b>	
<b>OTHER LIABILITIES</b>				
Customers deposits	5,721,911	1	5,655,234	1
Other	216,018		195,561	
<b>Total other liabilities</b>	<b>5,937,929</b>	<b>1</b>	<b>5,850,795</b>	<b>1</b>
<b>Total liabilities</b>	<b>101,654,166</b>	<b>21</b>	<b>100,687,402</b>	<b>21</b>
<b>STOCKHOLDERS EQUITY</b>				
Common capital stock - \$10 par value; authorized, issued and outstanding - 9,647,725 thousand shares	96,477,249	20	96,477,249	20
<b>Capital surplus:</b>				
Paid-in capital in excess of par value	214,529,603	44	214,538,597	45
Capital surplus from revaluation of land	5,856,353	1	5,740,358	1
Donations	13,170		13,170	

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Total capital surplus	220,399,126	45	220,292,125	46
<b>Retained earnings:</b>				
Legal reserve	39,272,477	8	34,286,147	7
Special reserve	2,680,184	1	2,675,941	
Unappropriated earnings	24,763,066	5	27,286,229	6
<b>Total retained earnings</b>	<b>66,715,727</b>	<b>14</b>	<b>64,248,317</b>	<b>13</b>
<b>Other adjustment</b>				
Cumulative translation adjustments	(5,607)		(522)	
<b>Total stockholders equity</b>	<b>383,586,495</b>	<b>79</b>	<b>381,017,169</b>	<b>79</b>
<b>TOTAL</b>	<b>\$ 485,240,661</b>	<b>100</b>	<b>\$ 481,704,571</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated August 10, 2005)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF OPERATIONS****FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004****(Amounts in New Taiwan Thousand Dollars, Except Basic Net Income Per Share Data)**

	2005		2004	
	Amount	%	Amount	%
SERVICE REVENUES	\$ 89,719,082	100	\$ 90,816,901	100
COSTS OF SERVICES (Note 20)	45,836,600	51	45,105,309	50
GROSS PROFIT	43,882,482	49	45,711,592	50
OPERATING EXPENSES				
Marketing	12,017,291	13	11,171,007	12
General and administrative	1,511,035	2	1,366,619	1
Research and development	1,608,047	2	1,504,086	2
Total operating expenses	15,136,373	17	14,041,712	15
INCOME FROM OPERATIONS	28,746,109	32	31,669,880	35
OTHER INCOME				
Penalties income	516,405	1	442,556	1
Foreign exchange gain, net	349,450		8,240	
Interest	215,551		115,371	
Income from sale of scrap	201,333		375,102	
Dividends income	57,881		28,434	
Equity in net gain of unconsolidated companies	64,982		24,076	
Other income	437,995	1	270,992	
Total other income	1,843,597	2	1,264,771	1
OTHER EXPENSES				
Losses on disposal of property, plant and equipment	27,977		118,427	
Interest	941		229	
Other expense	739,612	1	793,683	1
Total other expenses	768,530	1	912,339	1
INCOME BEFORE INCOME TAX	29,821,176	33	32,022,312	35
INCOME TAX (Notes 2 and 17)	5,492,809	6	5,642,364	6
NET INCOME	\$ 24,328,367	27	\$ 26,379,948	29



	2005		2004	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
<b>EARNINGS PER SHARE</b>				
Basic net income per share (Notes 2 and 18)	\$ 3.09	\$ 2.52	\$ 3.32	\$ 2.73

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

(With Deloitte & Touche audit report dated August 10, 2005)

(Concluded)

## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004

(Amounts in New Taiwan Thousand Dollars)

	Common Capital Stock		Capital Surplus (Notes 10 and 15)			
	Shares	Amount	Capital			
			Surplus from			Total
			Paid -in Capital in Excess of Par Value	Revaluation of Land	Donations	
(Thousands)	Amount	Par Value	of Land	Donations	Total	
BALANCE, JANUARY 1, 2005 (AS ADJUSTED, Note 3)	9,647,725	\$ 96,477,249	\$ 214,538,597	\$ 5,740,185	\$ 13,170	\$ 220,291,952
Net transfer of property, plant and equipment to National Properties Bureau and other government agencies			(8,994)	(28)		(9,022)
Reclassification of the reserve for land value incremental tax to capital surplus				116,196		116,196
Net income for the six months ended June 30, 2005						
Cumulative translation adjustment for foreign-currency investments in consolidated companies						
<b>BALANCE, JUNE 30, 2005</b>	<b>9,647,725</b>	<b>\$ 96,477,249</b>	<b>\$ 214,529,603</b>	<b>\$ 5,856,353</b>	<b>\$ 13,170</b>	<b>\$ 220,399,126</b>
BALANCE, JANUARY 1, 2004 (AS ADJUSTED)	9,647,725	\$ 96,477,249	\$ 214,538,597	\$ 5,740,358	\$ 13,170	\$ 220,292,125
Net income for the six months ended June 30, 2004						
<b>BALANCE, JUNE 30, 2004</b>	<b>9,647,725</b>	<b>\$ 96,477,249</b>	<b>\$ 214,538,597</b>	<b>\$ 5,740,358</b>	<b>\$ 13,170</b>	<b>\$ 220,292,125</b>

  

	Retained Earnings (Note 15)				Cumulative Translation Adjustments (Note 2)	Total Stockholders Equity
	Legal	Special	Unappropriated	Total		
	Reserve	Reserve	Earnings			
	Reserve	Reserve	Earnings	Total		
BALANCE, JANUARY 1, 2005 (AS ADJUSTED, Note 3)	\$ 39,272,477	\$ 2,680,184	\$ 434,699	\$ 42,387,360	\$ (4,765)	\$ 359,151,796
Net transfer of property, plant and equipment to National Properties Bureau and other government agencies						(9,022)
Reclassification of the reserve for land value incremental tax to capital surplus						116,196
Net income for the six months ended June 30, 2005			24,328,367	24,328,367		24,328,367
Cumulative translation adjustment for foreign-currency investments in consolidated companies					(842)	(842)
<b>BALANCE, JUNE 30, 2005</b>	<b>\$ 39,272,477</b>	<b>\$ 2,680,184</b>	<b>\$ 24,763,066</b>	<b>\$ 66,715,727</b>	<b>\$ (5,607)</b>	<b>\$ 383,586,495</b>

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BALANCE, JANUARY 1, 2004 (AS ADJUSTED)	\$ 34,286,147	\$ 2,675,941	\$ 906,281	\$ 37,868,369	\$ (522)	\$ 354,637,221
Net income for the six months ended June 30, 2004			26,379,948	26,379,948		26,379,948
BALANCE, JUNE 30, 2004	\$ 34,286,147	\$ 2,675,941	\$ 27,286,229	\$ 64,248,317	\$ (522)	\$ 381,017,169

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

(With Deloitte & Touche audit report dated August 10, 2005)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004****(Amounts in New Taiwan Thousand Dollars)**

	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 24,328,367	\$ 26,379,948
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	459,270	801,685
Depreciation and amortization	20,603,978	20,573,977
Unrealized loss on reduction of short-term investments to market	13,862	
Gain on sale of short-term investments	(67,744)	
Reversal of allowance for losses on inventories		(1,297)
Loss on disposal of property, plant and equipment	27,977	118,427
Equity in net gain of unconsolidated companies	(64,982)	(24,076)
Deferred income taxes	(229,298)	115
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Trade notes and accounts receivable	1,381,708	(515,779)
Other current monetary assets	(238,757)	(345,086)
Inventories	43,705	(588,706)
Other current assets	(3,479,333)	(2,666,244)
Overdue receivables	(453,225)	(371,380)
Increase (decrease) in:		
Trade notes and accounts payable	(3,717,390)	(78,864)
Income tax payable	671,540	708,788
Accrued expenses	(1,686,561)	(2,080,474)
Accrued pension liabilities	(497,581)	(1,058,012)
Other current liabilities	1,221,322	768,032
Deferred income	(25,121)	(46,904)
	<u>38,291,737</u>	<u>41,574,150</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in short-term investments	(5,349,912)	(2,302,171)
Proceeds from disposal of investments in unconsolidated companies		10
Acquisitions of property, plant and equipment	(9,791,919)	(9,482,893)
Proceeds from disposal of property, plant and equipment	1,364	819
Increase of intangible assets	(42,611)	(51,515)
Decrease (increase) in other assets	(45,892)	922,782
	<u>(15,228,970)</u>	<u>(10,912,968)</u>

(Continued)





	<u>2005</u>	<u>2004</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on principal of long-term loans	\$ (200,000)	\$
Decrease in customers' deposits	(764,473)	(1,340,433)
Increase (decrease) in other liabilities	12,719	(47,554)
	<u>(951,754)</u>	<u>(1,387,987)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>22,111,013</b>	<b>\$ 29,273,195</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>29,282,811</b>	<b>13,553,029</b>
	<u>29,282,811</u>	<u>13,553,029</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 51,393,824</b>	<b>\$ 42,826,224</b>
	<u>\$ 51,393,824</u>	<u>\$ 42,826,224</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	\$ 941	\$ 229
	<u>\$ 941</u>	<u>\$ 229</u>
Income tax paid	\$ 5,050,567	\$ 4,933,446
	<u>\$ 5,050,567</u>	<u>\$ 4,933,446</u>
<b>NON-CASH FINANCING ACTIVITIES</b>		
Dividend payable	\$ 45,344,307	\$ 43,414,762
	<u>\$ 45,344,307</u>	<u>\$ 43,414,762</u>
Current portion of long-term loans	\$ 200,000	\$ 200,000
	<u>\$ 200,000</u>	<u>\$ 200,000</u>
Reclassification of the reserve for land value incremental tax to capital surplus	\$ 116,196	\$
	<u>\$ 116,196</u>	<u>\$</u>

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

(With Deloitte & Touche audit report dated August 10, 2005)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2005 AND 2004**

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

**1. GENERAL**

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

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

The MOTC is in the process of privatizing the Company by reducing the government ownership to below 50% in various stages. In July 2000, the Company received approval from the Securities and Futures Commission (the SFC ) for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the TSE ) on October 27, 2000. Certain of the Company's common shares were sold by an auction, in connection with the foregoing privatization plan, in domestic public offerings in June 2001, December 2002, March 2003, April 2003 and July 2003. Certain of the Company's common shares were also sold in an international offering of securities in the form of American Depository Shares ( ADS ) in July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE ). The Company sold 289,431 thousand common shares, which represented 3% of the Company's total outstanding common shares, by auction in a domestic public offering on August 9, 2005. The Company expects to complete the transfer of the shares on August 12, 2005. The Prospectus for the second international offering of securities in the form of ADS was delivered to US Securities and Exchange Commission (the SEC ) on July 6, 2005. The Company issued ADSs of 135,068 thousand units, which equaled approximately 1,350,682 thousand common shares and represented 14.00% of the Company's total outstanding common shares on August 9, 2005. The Company expects to deliver the ADS through the book-entry transfer facilities of The Depository Trust Company on or about August 12, 2005. The MOTC intends to continue to sell certain of the Company's common shares to the Company's employees. After the transfer in the international offering of ADS and in domestic public offering in August 2005, the MOTC owns 47.84% shares of the Company.

The numbers of employees as of June 30, 2005 and 2004 are 27,984 and 28,508, respectively.

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

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

### **Basis of Accounting**

As a state-owned company, the Company maintains statutory accounts in accordance with the laws and regulations issued by the Executive Yuan (executive branch), the MOTC, the Ministry of Audit (the MOA) of the Control Yuan and, in the absence of any specific laws and regulations applicable to a particular transaction or account, the regulations governing the preparation of financial statements of public companies and generally accepted accounting principles in the Republic of China. The accounts are subject to annual examinations by the Directorate General of Budget, Accounting and Statistics (the DGBAS) of the Executive Yuan and by the MOA (DGBAS and MOA are hereinafter referred to as government agencies). The objective of these examinations is to evaluate the Company's performance against the budget approved by the Legislative Yuan. The accounts are considered final only after any adjustments based on the annual examinations are taken into account. The accounts for the year ended December 31, 2004 have been examined by these government agencies and resulting adjustments were recorded retroactively.

### **Current Assets and Liabilities**

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

### **Cash and Cash Equivalents**

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

### **Short-term Investments**

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

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

**Allowance for Doubtful Receivables**

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

**Inventories**

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

### **Investments in Unconsolidated Companies**

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

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

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

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

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

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

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

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

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

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

### **Intangible Assets**

The amount recorded for the 3G Concession is amortized upon the MOTC approval of using the straight-line method over the lower of the legal useful life or estimated useful life. Patents are amortized using the straight-line method over the estimated useful lives ranging from 12 to 20 years. Computer software costs are capitalized and amortized using the straight-line method over the estimated useful lives of three years.

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

### **Pension Costs**

Pension costs are recognized according to the budget approved by the Legislative Yuan and the actuarial report. In addition, the DGBAS issued instructions that the pension costs of all state-owned companies to be privatized should be measured and recognized on the assumption that there is no privatization and that an additional amount should be calculated on the basis of the employees' service years if the additional amount does not reduce the budgeted net income. An additional minimum liability is recognized, if an unfunded accumulated benefit obligation exists, and an equal amount is recognized as an intangible asset, provided that the asset recognized does not exceed the amount of unrecognized net transition obligation and unrecognized prior service cost.

### **Revenue Recognition**

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

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

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

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

### **Expense Recognition**

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

### **Income Tax**



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The Company accounts for income tax using the asset and liability method. Under this method, deferred income tax is recognized for investment tax credits and tax consequences of differences between financial statement carrying amounts and their respective tax bases. A valuation allowance is recognized if, available evidence indicates it is more likely than not that a portion or the entire deferred tax asset will not be realized. A deferred tax asset or liability should be classified as current or non-current according to the classification of its related asset or liability. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it should be classified as current or non-current depending on the expected reversal date of the temporary difference.

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

Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision. Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders have resolved that the earnings shall be retained.

**Earnings Per Share**

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

**Foreign-currency Transactions**

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

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

**Foreign Currency Forward Exchange Contracts**

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

**3. ADJUSTMENTS OF FINANCIAL STATEMENTS**

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

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

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

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Assets

Current assets	\$ 67,893,025	\$ (31,407)	\$ 67,861,618
Investments in unconsolidated companies and funds	6,034,991		6,034,991
Property, plant and equipment, net	379,483,488		379,483,488

(Continued)

	As Previously Reported	Adjustment Increase (Decrease)	As Adjusted
Intangible assets	\$ 11,630,126	\$	\$ 11,630,126
Other assets	2,127,067		2,127,067
<b>Total assets</b>	<b>\$ 467,168,697</b>	<b>\$ (31,407)</b>	<b>\$ 467,137,290</b>
<b>Liabilities</b>			
Current liabilities	\$ 55,213,108	\$ 45,319,914	\$ 100,533,022
Long-term liabilities	861,129		861,129
Reserve for land value incremental tax	211,182		211,182
Other liabilities	6,380,161		6,380,161
<b>Total liabilities</b>	<b>62,665,580</b>	<b>45,319,914</b>	<b>107,985,494</b>
<b>Total stockholders' equity</b>	<b>404,503,117</b>	<b>(45,351,321)</b>	<b>359,151,796</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 467,168,697</b>	<b>\$ (31,407)</b>	<b>\$ 467,137,290</b>
<b>Statement of income</b>			
Service revenues	\$ 182,562,682	\$	\$ 182,562,682
Costs of services	92,951,836	7,974	92,959,810
Operating expenses	29,947,953	1,377	29,949,330
Other income	2,743,037		2,743,037
Other expenses	1,644,048		1,644,048
Income before income tax	60,761,882	(9,351)	60,752,531
Income tax	10,891,570	(2,337)	10,889,233
Net income	49,870,312	(7,014)	49,863,298

The adjustments made by the government agencies that decreased income before income tax of \$9,351 thousand were due to the different bases of estimates used by the MOA in determining certain accruals. Increased current liabilities of \$45,319,914 thousand and decreased total stockholders' equity of \$45,351,321 thousand were due to the appropriations of 2004 earnings recorded at December 31, 2004 by the MOA. (Please refer to Note 15)

#### 4. CASH AND CASH EQUIVALENTS

	June 30	
	2005	2004
<b>Cash</b>		
Cash on hand	\$ 97,203	\$ 110,306
Cash in banks	2,729,045	12,245,324
Negotiable certificate of deposit, annual yield rate, ranging from 1.18%-1.30%	15,100,000	
	<b>17,926,248</b>	<b>12,355,630</b>
<b>Cash equivalents</b>		
Commercial paper purchased, annual yield rates - ranging from 1.17%-1.20% and 0.78%-0.97% for 2005 and 2004, respectively	33,467,576	30,470,594

	\$ 51,393,824	\$ 42,826,224
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**5. SHORT-TERM INVESTMENTS**

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
Open-end bond mutual funds	\$ 14,225,810	\$
Principal guarantee notes	194,290	
Real estate investment trust fund	100,000	
Listed stocks	24,485	
Commercial paper - ranging from 0.64%-0.70%		2,302,171
	<u>14,544,585</u>	<u>2,302,171</u>
Less: Allowance for losses	26,278	
	<u>\$ 14,518,307</u>	<u>\$ 2,302,171</u>
Market value	<u>\$ 14,518,307</u>	<u>\$ 2,302,171</u>

The market value of short-term investments were based on the net asset value or the average price of June 2005.

**6. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

	<b>Six Months Ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Balance, beginning of period	\$ 4,473,433	\$ 7,786,037
Provision for doubtful accounts	456,349	760,860
Accounts receivable written off	(1,041,558)	(2,793,648)
Balance, end of period	<u>\$ 3,888,224</u>	<u>\$ 5,753,249</u>

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

**7. INVENTORIES, NET**

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
Supplies	\$ 1,187,780	\$ 1,124,116
Work in process	10,933	806

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Materials in transit		37,511
	<u>\$ 1,198,713</u>	<u>\$ 1,162,433</u>

The insurance coverage on inventories as of June 30, 2005 amounted to \$1,213,989 thousand.

**8. OTHER CURRENT ASSETS**

	June 30	
	2005	2004
Prepaid expenses	\$ 4,019,587	\$ 3,083,242
Miscellaneous	123,873	115,236
	<u>\$ 4,143,460</u>	<u>\$ 3,198,478</u>

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

	June 30			
	2005		2004	
	Carrying Value	% of Owner- ship	Carrying Value	% of Owner- ship
<b>Funds</b>				
Fixed Line Funds	\$ 1,000,000		\$ 1,000,000	
Piping Funds	1,000,000		1,000,000	
	<u>2,000,000</u>		<u>2,000,000</u>	
<b>Investments in unconsolidated companies</b>				
<b>Equity investees</b>				
Chunghwa Investment ( CHI )	925,719	49	976,957	49
Taiwan International Standard Electronics ( TISE )	567,456	40	466,601	40
	<u>1,493,175</u>		<u>1,443,558</u>	
<b>Cost investees</b>				
Taipei Financial Center ( TFC )	2,529,206	12	1,999,843	12
RPTI International ( RPIT )	71,500	12	71,500	12
Siemens Telecommunication Systems ( Siemens )	5,250	15	5,250	15
	<u>2,605,956</u>		<u>2,076,593</u>	
<b>Total investments in unconsolidated companies</b>	<u>4,099,131</u>		<u>3,520,151</u>	
	<u>\$ 6,099,131</u>		<u>\$ 5,520,151</u>	

The carrying values of the equity investees and the equity in their net loss and net income as of and for the six months ended June 30, 2005 are based on audited financial statements. The aggregate carrying value of the investments based on audited financial statements was \$1,493,175 thousand as of June 30, 2005, and the equity in their net gain was \$64,982 thousand for the six months ended June 30, 2005. The carrying values of the equity investees and the equity in their net loss and net income as of and for the six months ended June 30, 2004 are based on unaudited



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financial statements. The aggregate carrying value of the investments based on unreviewed financial statements was \$1,443,558 thousand as of June 30, 2005, and the equity in their net gain was \$24,076 thousand for the six months ended June 30, 2004.

The equity in the net assets of investments in unconsolidated companies accounted for using the cost method as computed by the percentage of ownership was \$2,201,720 thousand and \$1,950,420 thousand as of June 30, 2005 and 2004, respectively.

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

**10. PROPERTY, PLANT AND EQUIPMENT**

	June 30	
	2005	2004
<b>Cost</b>		
Land	\$ 101,929,974	\$ 101,827,180
Land improvements	1,460,144	1,446,419
Buildings	56,589,274	54,327,287
Machinery and equipment	22,004,380	22,117,846
Telecommunications network facilities	622,009,585	615,627,149
Miscellaneous equipment	2,057,414	2,129,950
<b>Total cost</b>	<b>806,050,771</b>	<b>797,475,831</b>
Revaluation increment on land	5,951,340	5,951,540
	<b>812,002,111</b>	<b>803,427,371</b>
<b>Accumulated depreciation</b>		
Land improvements	725,184	664,960
Buildings	12,736,584	11,798,454
Machinery and equipment	15,633,885	15,677,768
Telecommunications network facilities	442,409,554	425,184,711
Miscellaneous equipment	1,755,649	1,773,494
	<b>473,260,856</b>	<b>455,099,387</b>
Construction in progress and advances related to acquisition of equipment	28,554,197	36,021,523
<b>Property, plant and equipment-net</b>	<b>\$ 367,295,452</b>	<b>\$ 384,349,507</b>

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

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

On July 1, 1996, pursuant to the guidance in connection with the incorporation of the Company and as instructed by the ROC's Executive Yuan, the ROC Government (through the MOTC) transferred to the Company certain land and buildings with a carrying value of \$120,957,303 thousand. Those properties, as of that date, were registered in the name of the ROC's National Properties Bureau ( NPB ). All the properties had been registered in the name of the Company.

Depreciation on property, plant and equipment for the years ended June 30, 2005 and 2004 amounted to \$20,407,512 thousand and \$20,438,185 thousand, respectively. No interest expense was capitalized for the six months ended June 30, 2005 and 2004.

The insurance coverage on property, plant and equipment as of June 30, 2005 aggregated \$2,294,560 thousand.

**11. ACCRUED EXPENSES**

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
Accrued salary and compensation	\$ 9,227,385	\$ 8,774,733
Accrued franchise fees	1,237,201	1,237,244
Other accrued expenses	2,180,568	2,069,612
	<b>\$ 12,645,154</b>	<b>\$ 12,081,589</b>

**12. DIVIDENDS PAYABLE**

The distribution of earnings for the year 2004 and 2003 were approved in the shareholders' meeting held on June 21, 2005 and June 25, 2004, respectively. Cash dividends for the year 2004 and 2003 were \$4.7 and \$4.5 per shares, and amounted to \$45,344,307 thousand and \$43,414,762 thousand, respectively. The distributing dates were August 17, 2005 and July 19, 2004, respectively.

**13. OTHER CURRENT LIABILITIES**

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
Advances from subscribers	\$ 4,606,859	\$ 3,467,507
Amounts collected in trust for others	4,207,821	3,940,426
Payables to equipment suppliers	3,838,658	2,819,929
Refundable customers' deposits	2,775,821	4,687,567
Other payables	1,312,668	1,344,465
Payables to constructors suppliers	1,198,097	1,020,881
Miscellaneous	571,743	746,551
	<b>\$ 18,511,667</b>	<b>\$ 18,027,326</b>

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

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

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

As of June 30, 2005, the Company had unused credit lines totaling approximately \$177,200,000 thousand, which are available for short-term and long-term borrowings.

## 15. STOCKHOLDERS EQUITY

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

For the purpose of privatizing the company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange in July 17, 2003.

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

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

As of June 30, 2005, therefore, the outstanding ADSs were 110,975 thousand units, which equaled approximately 1,109,749 thousand common shares and represented 11.50% of the Company's total outstanding common shares.

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

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

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

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

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

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

The appropriation and distributions of the 2004 earning of the Company have been approved and resolved by the stockholders in June 21, 2005, where special reserve of \$4,243 thousand, 10% legal reserve of \$4,987,031 thousand and cash dividends of \$45,344,307 thousand (\$4.7 per share). After examination by the MOA, 10% legal reserve was decreased \$701 thousand, from \$4,987,031 thousand to \$4,986,330 thousand. The appropriation and distributions adjustments have been recorded retroactively as of December 31, 2004 under the regulations of government. (Refer to Note 3.)

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

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

	Six Months Ended June 30, 2005		
	Cost of Services	Operating Expenses	Total
Personnel expense			
Salaries	\$ 7,817,833	\$ 4,808,808	\$ 12,626,641
Insurance	289,692	186,218	475,910
Pension	1,417,963	880,180	2,298,143
Other compensation	2,903,717	1,760,618	4,664,335
	12,429,205	7,635,824	20,065,029
Depreciation expense	19,247,995	1,159,517	20,407,512
Amortization expense	135,663	53,826	189,489
	<b>\$ 31,812,863</b>	<b>\$ 8,849,167</b>	<b>\$ 40,662,030</b>

	Six Months Ended June 30, 2004		
	Cost of Services	Operating Expenses	Total
Personnel expense			
Salaries	\$ 7,763,949	\$ 4,638,968	\$ 12,402,917



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Insurance	288,107	181,736	469,843
Pension	679,675	411,754	1,091,429
Other compensation	2,939,892	1,760,573	4,700,465
	<u>11,671,623</u>	<u>6,993,031</u>	<u>18,664,654</u>
Depreciation expense	19,337,819	1,100,366	20,438,185
Amortization expense	73,047	62,745	135,792
	<u>\$ 31,082,489</u>	<u>\$ 8,156,142</u>	<u>\$ 39,238,631</u>

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**17. INCOME TAX**

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

	<b>Six Months Ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Income tax expense computed at statutory income tax rate of 25%	\$ 7,455,284	\$ 8,005,568
Add (deduct) tax effect of:		
Permanent differences	(99,536)	(39,704)
Timing differences	(152,696)	(664,407)
Investment tax credits	(1,518,053)	(1,680,469)
<b>Income tax payable</b>	<b>\$ 5,684,999</b>	<b>\$ 5,620,988</b>

- b. Income tax expense consisted of the following:

	<b>Six Months Ended June 30</b>	
	<b>2005</b>	<b>2004</b>
Income tax payable	\$ 5,684,999	\$ 5,620,988
Separated income tax	41,858	21,261
Income tax - deferred	(229,298)	115
Adjustments of prior years income tax	(4,750)	
<b>Income tax expense</b>	<b>\$ 5,492,809</b>	<b>\$ 5,642,364</b>

The balance of income tax payable at June 30, 2005 and 2004 were shown net of prepaid income tax.

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

	<b>June 30</b>	
	<b>2005</b>	<b>2004</b>
Current		
Deferred income tax assets:		
Accrued pension cost	\$ 12,507,506	\$ 12,012,728
Provision for doubtful receivables	302,845	950,016
Other	85,717	60,150
	<b>12,896,068</b>	<b>13,022,894</b>

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Less: Valuation allowance	(302,845)	(950,016)
	<u>12,593,223</u>	<u>12,072,878</u>
Deferred income tax liability:		
Unrealized foreign exchange gain	(73,964)	(2,303)
	<u>\$ 12,519,259</u>	<u>\$ 12,070,575</u>
Net deferred income tax assets		
Noncurrent deferred income tax assets:		
Unrealized losses on disposal of property, plant and equipment	\$	\$ 14,256
	<u></u>	<u></u>

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

	<u>June 30</u>	
	<u>2005</u>	<u>2004</u>
Balance of Imputation Credit Account (ICA)	<u>\$ 11,364,834</u>	<u>\$ 13,576,082</u>

The estimated ICA rate for the year ended December 31, 2004 and the actual ICA rate for the year ended December 31, 2003 were 22.40% and 27.68%, respectively. The credit available for allocation to the stockholders is calculated on the basis of the balance of ICA on the date of distribution of dividends. Accordingly, the estimated rate as of December 31, 2004 may differ from the actual rate determined based on the balance of the ICA on the dividend distribution date.

e. Undistributed earnings information

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

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

**18. EARNINGS PER SHARE**

	Amount (Numerator)		Weighted- average Number of Common Shares Outstanding (Denominator)	Net Income per Share (Dollars)	
	Income Before			Income Before Income Tax	Net Income
	Income Tax	Net Income			
<u>Six months ended June 30, 2005</u>					
Net income	\$ 29,821,176	\$ 24,328,367			
Basic net income per share			9,647,725	\$ 3.09	\$ 2.52
<u>Six months ended June 30, 2004</u>					
Net income	\$ 32,022,312	\$ 26,379,948			
Basic net income per share			9,647,725	\$ 3.32	\$ 2.73

**19. PENSION PLAN**

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

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

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

Contributions and payments information are as follows:

	Six Months Ended	
	June 30	
	2005	2004
<b>Contributions</b>		
Staff	\$ 2,781,185	\$ 2,089,977
Workers	125,681	114,170
<b>Payments</b>		
Staff	2,078,567	2,067,012
Workers	30,572	44,320

Pension costs amounted to \$2,409,284 thousand and \$1,146,135 thousand for the six months ended June 30, 2005 and 2004, respectively.

## 20. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

	June 30			
	2005		2004	
	Amount	%	Amount	%
<b>1) Payables</b>				
Accrued expense				
TISE	\$ 47,953		\$ 21,206	

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Payable to construction supplier (included in other current liabilities )

TISE

\$ 3,478

\$ 16,513

                                   

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	Six Months Ended June 30, June 30			
	2005		2004	
	Amount	%	Amount	%
2) Cost of services				
TISE	\$ 69,325		\$ 30,705	
CSI	15,317		53,031	
	<u>\$ 84,642</u>		<u>\$ 83,736</u>	
3) Acquisition of properties				
TISE	\$ 306,062	3	\$ 732,440	8
CSI	205,216	2	38,831	
	<u>\$ 511,278</u>	<u>5</u>	<u>\$ 771,271</u>	<u>8</u>

The foregoing acquisitions were conducted under normal commercial terms.

## 21. COMMITMENTS AND CONTINGENT LIABILITIES

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

- a. Acquisitions of buildings of \$3,050,290 thousand.
- b. Acquisitions of telecommunications equipment of \$15,204,895 thousand.
- c. Unused letters of credit of approximately \$6,275,822 thousand.
- d. Contracts to print billing, envelopes and telephone directories of approximately \$312,250 thousand.
- e. The Company also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Minimum rental commitments under those leases are as follows:

Year	Amount
The six months ended December 31, 2005	\$ 687,649
2006	1,137,334
2007	782,369
2008	456,826
2009 and thereafter	206,585



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- f. A commitment to contribute \$2,500,000 thousand to a Fixed Line Fund administered by the Ministry of Interior Affairs and Taiwan Power Company, of which \$1,000,000 thousand has been contributed by the Company on June 30, 1995. If the balance of the Fixed Line Fund is not sufficient for its purpose, the above three parties will determine when to raise additional funds and how much is the contribution from each party.
  
- g. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by the Company on August 15, 1996.

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- h. A portion of the land used by the Company during the period July 1, 1996 to December 31, 2004 was co-owned by the Company and Chunghwa Post Co., Ltd. (the former Directorate General of Postal Service). In accordance with the pay order dated July 12, 2005 from the Taiwan Taipei District Court, the Company is required to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of the Company's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, the Company believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, the Company has filed an appeal at the Taiwan Taipei District court on July 29, 2005.

## 22. FAIR VALUE OF FINANCIAL INSTRUMENTS

- a. Derivative financial instruments

The Company entered into derivative financial instrument transactions to manage exposures related to foreign-currency denominated payable fluctuation. There were no foreign currency forward exchange contracts outstanding as of June 30, 2005 and 2004.

- 1) Transaction risk

- a) Credit risk

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

- b) Market risk

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

- c) Liquidation risk and cash flow risk

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

- 2) Transaction gains and losses

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

## b. Fair value of non-derivative financial instruments

	June 30			
	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b><u>Nonderivative financial instruments</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 51,393,824	\$ 51,393,824	\$ 42,826,224	\$ 42,826,224
Short-term investments	14,518,307	14,518,307	2,302,171	2,302,171
Trade notes and accounts receivable, net	12,211,196	12,211,196	14,391,648	14,391,648
Other current monetary assets	1,752,041	1,752,041	1,970,177	1,970,177
Investments in unconsolidated companies and funds	6,099,131	5,919,501	5,520,151	5,793,542
Refundable deposits	1,354,325	1,354,325	1,099,467	1,099,467
Overdue receivables, net	394,340	394,340	708,979	708,979
<b>Liabilities</b>				
Trade notes and accounts payable	10,569,719	10,569,719	10,986,703	10,986,703
Accrued expenses	12,645,154	12,645,154	12,081,589	12,081,589
Dividend payable	45,344,307	45,344,307	43,414,762	43,414,762
Long-term loans - current portion	200,000	200,000	200,000	200,000
Long-term loans	300,000	300,000	500,000	500,000
Customers deposits	5,721,911	5,721,911	5,655,234	5,655,234

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

- a) Financial instruments except those mentioned in b) and c) - the carrying values of such financial instruments reported in the balance sheet approximate the fair values of these assets.
- b) Fair values of investments in unconsolidated companies and funds are based on the net asset values of the investments in unconsolidated companies, if quoted market prices are not available.
- c) Long-term loans (including long-term loans - current portion). The fair value is discounted value based on projected cash flow. The projected cash flows were discounted using the maturity dates of long-term loans.

### 23. ADDITIONAL DISCLOSURES

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

- a. Financing provided: None.
- b. Endorsement/guarantee provided: None.

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

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- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: None.
- i. Names, locations, and other information of investees on which the Company exercises significant influence: See Table 4.
- j. Derivative financial transactions: See Note 22.
- k. Investment in Mainland China: None.

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

				June 30, 2005			
Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares		Percentage of Market Value	
				(Thousands/Thousand Units)	Carrying Value	Ownership	Net Asset Value
Chungghwa Telecom Co., Ltd.	<u>Common stock</u>						
	Chungghwa Investment Co., Ltd.	Equity method investee	Investments in unconsolidated companies	98,000	\$ 925,719	49	\$ 925,719
	Taiwan International Standard Electronics Taipei Financial Center	Equity method investee	Investments in unconsolidated companies	1,760	567,456	40	792,062
	RPTI International		Investments in unconsolidated companies	288,211	2,529,206	12	1,927,737
	Siemens Telecommunication Systems		Investments in unconsolidated companies	9,234	71,500	12	107,783
	Nan Ya Plastics Corporation	Equity method investee	Short-term investment	75	5,250	15	166,200
	Nien Hsing Textile Co., Ltd.	Equity method investee	Short-term investment	60	2,601		2,699
	China Steel Corporation	Equity method investee	Short-term investment	60	1,619		1,666
	China Motor Corporation	Equity method investee	Short-term investment	80	2,471		2,526
	KINPO Electronics, Inc.	Equity method investee	Short-term investment	160	5,306		5,368
	D-Link Corporation	Equity method investee	Short-term investment	40	542		594
	Benq Corporation	Equity method investee	Short-term investment	120	4,502		4,530
	Inventec Corporation	Equity method investee	Short-term investment	60	1,865		1,895
	Gigabyte Technology Co., Ltd.	Equity method investee	Short-term investment	100	1,472		1,474
	Realtek Semiconductor Corp.	Equity method investee	Short-term investment	80	2,803		2,915
		Equity method investee	Short-term investment	40	1,304		1,367
	<u>Beneficiary certificates (mutual fund)</u>						

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JF (Taiwan) First Bond Fund		Short-term investment	43,557	600,000	600,126
JF (Taiwan) Taiwan Bond Fund		Short-term investment	33,453	500,000	500,100
Dresdner Bond DAM Fund		Short-term investment	70,495	800,000	800,028
Invesco ROC Bond Fund		Short-term investment	68,560	1,000,000	1,000,069
ABN AMRO Bond Fund		Short-term investment	60,977	900,000	900,061
ABN AMRO Select Bond Fund		Short-term investment	99,074	1,100,000	1,100,079
PCA Well Pool Fund		Short-term investment	81,372	1,000,000	1,000,033
HSBC Taiwan Dragon Fund		Short-term investment	19,967	300,000	302,013
HSBC NTD Money Management Fund 2		Short-term investment	47,108	650,000	650,000
FUBON Ju-I III Fund		Short-term investment	83,351	1,000,000	1,000,000
Shinkong Chi-Shin Fund		Short-term investment	142,404	2,000,000	2,000,427
NITC Bond Fund		Short-term investment	12,408	2,000,000	2,000,000
Barits Bond Fund		Short-term investment	33,683	400,000	401,519
Taishin Lucky Fund	Equity method investee	Short-term investment	9,966	100,000	100,259
TIIM High Yield Fund	Equity method investee	Short-term investment	9,902	120,000	120,058
Fuh-Hwa Albatross Fund	Equity method investee	Short-term investment	2,719	30,000	30,035
Fubon Global Reit Fund	Equity method investee	Short-term investment	20,000	200,000	198,800
Jih Sun Navigation No. 1 Fund	Equity method investee	Short-term investment	5,000	50,050	50,200
HSBC Trinity Balanced Fund	Equity method investee	Short-term investment	25,000	250,000	250,473

(Continued)

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June 30, 2005

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares		Market Value of Net Asset
				(Thousands/Thousand Units)	Percentage of Carrying Value Ownership	
	Sunrise Full Return Balance Fund	Equity method investee	Short-term investment	1,000	\$ 10,000	\$ 10,020
	JF (Taiwan) Pacific Balanced Fund	Equity method investee	Short-term investment	10,000	100,000	100,208
	Hua Nan Global Henry Fund	Equity method investee	Short-term investment	10,000	100,000	100,081
	Polaris Global Reits Fund	Equity method investee	Short-term investment	20,000	200,000	198,800
	Fidelity Euro Bond Fund	Equity method investee	Short-term investment	813	407,880	392,249
	Credit Suisse BF (Lux) Euro	Equity method investee	Short-term investment	28	407,880	392,645
	<u>Real estate investment trust fund</u>					
	Fubon No. 1		Short-term investment	10,000	100,000	100,700
	<u>Principal guarantee notes</u>					
	YCHK 3M Libor PGN	Equity method investee	Short-term investment		100,000	100,000
	Yuanta Nan Ya PGN	Equity method investee	Short-term investment		94,290	94,290
Chunghwa Investment Co., Ltd.	<u>Common stock</u>					
	Chunghwa System Integration Co., Ltd.	Subsidiary	Investments in unconsolidated companies	60,000	613,914	100 613,914
	Chunghwa Telecom Global	Subsidiary	Investments in unconsolidated companies	6,000	103,383	100 103,383
	Chunghwa Investment Holding Company	Subsidiary	Investments in unconsolidated companies	589	8,447	100 8,447
	PandaMonium Company Ltd.	Equity method investee	Investments in unconsolidated companies	602	18,406	43 18,406
	Wayia Com Inc.		Investments in unconsolidated companies	4,000	40,000	19 18,188
	TVbean Co. Ltd.		Investments in unconsolidated companies	1,200	12,000	9 10,199
	Vantech Software Company		Investments in unconsolidated companies	1,223	12,960	7 15,784
	Digimax Production Center		Investments in unconsolidated companies	2,000	60,000	5 17,996
	<u>Beneficiary certification (mutual fund)</u>					
	PCA Bond Fund		Short-term investment	3,947	60,191	60,193
	PCA Well Pool Fund		Short-term investment	3,373	41,450	41,451
	HSBC NTD Money Manager Fund 2		Short-term investment	2,675	36,896	36,916
	FGIT Duoli-2 Bond Fund		Short-term investment	3,510	50,327	50,328
	Fuwaha Bond Fund		Short-term investment	4,802	60,200	60,202
	Fuwaha Atex Bund Fund		Short-term investment	3,821	44,225	44,226
	Home Ren Bund Fund		Short-term investment	2,076	31,354	31,405
	Sheng-hua 1699 Bond Fund		Short-term investment	2,876	35,000	35,001
			Short-term investment	6,622	70,930	70,951



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Cathay Capital Income Growth

Bond Fund

Mega Diamond Bond Fund	Short-term investment	3,600	40,253	40,542
Cathay Bond Fund	Short-term investment	6,585	74,349	74,492
NITC Bond Fund	Short-term investment	124	20,000	20,001
FGIT Wand Tai Bond Fund	Short-term investment	2,194	30,091	30,092
Truswell Bond Fund	Short-term investment	3,194	40,000	40,000
PIIM Bond Fund	Short-term investment	2,800	40,000	40,000
The Forever Fund	Short-term investment	2,818	40,000	40,001
Polaris De-Bao Fund	Short-term investment	2,899	31,500	31,500
JF Taiwan Bond Fund	Short-term investment	2,673	39,954	39,954
Cash Reserves Capital fund	Short-term investment	3,489	40,074	40,076
Safe Income Capital Fund	Short-term investment	1,514	22,000	22,015
Cathay Ballanced Bond Fund	Short-term investment	1,515	19,000	18,864
HSBC Trinity Balanced Fund	Short-term investment	1,500	15,001	15,029

(Continued)

							June 30, 2005	
Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares		Market Value or Net Asset Value	Percentage of Ownership	
				(Thousands/Thousand Units)	Carrying Value			
	Cathay Small Cap Growth Bond Fund		Short-term investment	1,626	\$ 26,000	\$ 25,561	N	
	Cathay Technology Fund		Short-term investment	897	13,000	12,722	N	
	Cathay Fund		Short-term investment	367	3,000	2,941	N	
	Polaris Taiwan Top 50 Tracker Fund		Short-term investment	50	2,329	2,350	N	
Chunghwa System Integration Co., Ltd.	<u>Beneficiary certification (mutual fund)</u>							
	Fubon Ju-12 Fund		Short-term investment	2,492	51,128	51,128	N	
	Fuh-Hua Albatross Fund		Short-term investment	2,830	31,255	31,256	N	
	Fuh-Hwa Bond Fund		Short-term investment	3,240	42,316	42,317	N	
	Cathay Capital Income Growth Bond Fund		Short-term investment	2,304	24,687	24,688	N	
	Cathay Bond Fund		Short-term investment	3,901	44,123	44,127	N	
	Home Ren Bond Fund		Short-term investment	1,652	25,000	25,001	N	
	HSBC NTD Money Manager Fund 2		Short-term investment	5,101	70,377	70,379	N	
	Mega Diamond Bond Fund		Short-term investment	7,148	80,500	80,500	N	
	Turswell Bond Fund		Short-term investment	3,205	40,000	40,131	N	
	Polaris Fu-Li Strategic Income Fund		Short-term investment	959	10,000	10,000	N	
	Cathay Fund		Short-term investment	1,601	13,000	12,840	N	
	Cathay Small Cap Growth Bond Fund		Short-term investment	315	5,000	4,953	N	
	Cathay Technology Fund		Short-term investment	1,052	15,000	14,920	N	
Chunghwa Investment Holding Company	<u>Common stock</u>							
	Donghua Telecom Co., Limited	Subsidiary	Investments in unconsolidated companies	4,590	8,526	100	8,526	
	Chunghwa Telecom (ASIA) Company	Subsidiary	Investments in unconsolidated companies			100	N	

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

Note 2: The net asset values of unconsolidated companies were based on unaudited financial statements.

Note 3: The market value of short-term investments were based on the net asset values as of June 30, 2005 or the average price of June 2005.

**TABLE 2****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE SIX MONTHS ENDED JUNE 30, 2005**

(Amounts in Thousands of New Taiwan Dollars)

Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal		Gain (Loss) on Disposal	E
					Shares (Thousands/Thousand Units)	Amount	Shares (Thousands/Thousand Units)	Amount	Shares (Thousands/Thousand Units)	Amount		
	<u>Beneficiary certificates (mutual fund)</u>											
	JF (Taiwan) First Bond Fund	Short-term investment			43,812	\$ 600,000	43,557	\$ 600,000	43,812	\$ 603,505	\$ 600,000	\$ 3,505
	JF (Taiwan) Taiwan Bond Fund	Short-term investment			33,652	500,000	33,453	500,000	33,652	502,978	500,000	2,978
	Dresdner Bond DAM Fund	Short-term investment			79,876	900,000	70,495	800,000	79,876	905,765	900,000	5,765
	Invesco ROC Bond Fund	Short-term investment			68,986	1,000,000	68,560	1,000,000	68,986	1,006,216	1,000,000	6,216
	ABN AMRO Bond Fund	Short-term investment			47,725	700,000	74,568	1,100,000	61,316	905,015	900,000	5,015
	ABN AMRO Select Bond Fund	Short-term investment			63,451	700,000	135,235	1,500,000	99,612	1,105,971	1,100,000	5,971
	PCA Well Pool Fund	Short-term investment			106,401	1,300,000	81,372	1,000,000	106,401	1,306,189	1,300,000	6,189
	HSBC Taiwan Dragon Fund	Short-term investment			19,967	300,000						
	HSBC NTD Money Management Fund 2	Short-term investment			36,468	500,000	61,662	850,000	51,022	704,010	700,000	4,010
	FUBON Ju-I III Fund	Short-term investment			75,498	900,000	91,738	1,100,000	83,885	1,006,405	1,000,000	6,405
	Shinkong Chi-Shin Fund	Short-term investment			107,498	1,500,000	178,160	2,500,000	143,254	2,011,921	2,000,000	11,921
	NITC Bond Fund	Short-term investment					24,877	4,000,000	12,469	2,009,760	2,000,000	9,760
	Barits Bond Fund	Short-term investment					33,683	400,000				
	Taishin Lucky Fund	Short-term investment					9,966	100,000				

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TIIM High Yield Fund	Short-term investment			9,902	120,000				
Fuh-Hwa Albatross Fund	Short-term investment			2,719	30,000				
Fubon Global Reit Fund	Short-term investment			20,000	200,000				
HSBC Trinity Balanced Fund	Short-term investment			25,000	250,000				
JF (Taiwan) Pacific Balanced Fund	Short-term investment			10,000	100,000				
Hua Nan Global Henry Fund	Short-term investment			10,000	100,000				
Polaris Global Reits Fund	Short-term investment			20,000	200,000				
Fidelity Euro Bond Fund	Short-term investment			813	407,880				
Credit Suisse BF (Lux) Euro	Short-term investment			28	407,880				
<u>Real estate investment trust fund</u>									
Fubon No.1	Short-term investment			100,000	100,000				
<u>Real estate investment trust fund</u>									
YCHK 3M Libor Pgn	Short-term investment				100,000				
<u>Beneficiary certificates</u>									
PCA Bond Fund	Short-term investment	6,665	101,013	7,893	120,191	10,611	161,518	161,013	505
FGIT Duoli-2 Bond Fund	Short-term investment	3,510	50,000	7,019	100,497	7,019	100,497	100,170	327
FGIT Duoli Bond Fund	Short-term investment			7,386	120,000	7,386	120,169	120,000	169
Fuwha Bond Fund	Short-term investment	8,330	103,710	9,604	120,200	13,132	164,278	163,710	568
Jamef Bond Fund	Short-term investment	5,199	71,064	2,916	40,000	8,115	111,409	111,064	345
Cathay Capital Income Growth Bond Fund	Short-term investment	8,523	90,655	17,012	181,722	18,913	202,119	201,447	672
Mega Diamond Bond Fund	Short-term investment	13,415	150,000			9,815	110,168	109,747	421
NITC Bond Fund	Short-term investment			966	155,000	842	135,353	135,000	353
HSBC Taiwan Dragon Fund	Short-term investment	3,434	51,602	3,434	51,775	6,868	103,671	103,377	294
Sheng-hua 1699 Bond Fund	Short-term investment			9,891	120,000	7,015	85,222	85,000	222
Cathay Bond Fund	Short-term investment	5,339	60,000	6,585	74,349	5,339	60,073	60,000	73

Beneficiary  
certificates

Mega Diamond Bond Fund	Short-term investment	14,289	160,500	7,141	80,148	80,000	418
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**TABLE 3****CHUNGHWA TELECOM CO., LTD.****ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE SIX MONTHS ENDED JUNE 30, 2005**

(Amounts in Thousands of New Taiwan Dollars)

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

**TABLE 4****CHUNGHWA TELECOM CO., LTD.****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE FOR THE SIX MONTHS ENDED JUNE 30, 2005**

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

Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2005			Net Income (Loss) of the Investee	Recognized Gain (Loss)
				June 30, 2005	December 31, 2004	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value		
om	Chunghwa Investment Co., Ltd.	24F, No. 456, Hsinyi Rd., Sec. 4, Taipei	Investment	\$ 980,000	\$ 980,000	98,000	49	\$ 925,719	\$ (6,612)	\$ (3, (No
	Taiwan International Standard Electronics	No. 4, Min Sheng St., Tu-Chen Taipei Hsien	Manufacturing, selling, designing and maintaining of telecommunications systems and equipment	164,000	164,000	1,760	40	567,456	52,329	68, (No
	Chunghwa System Integration Co., Ltd.	24F, No. 458, Hsinyi Rd., Sec. 4, Taipei	Integrated communication and information services	600,000	600,000	60,000	100	613,914	9,894	9, (No
	Chunghwa Telecom Global	United States	Multinational enterprise data service, Internet gateway and voice wholesale, mobile commerce value-added services, and content services	204,271 US\$ ( 6,000) thousand	204,271 US\$ ( 6,000) thousand	6,000	100	103,383 US\$ ( 3,264) thousand	(20,046) US\$ ( 633) thousand	(20, (No
	Chunghwa Investment Holding Company	Brunei	Investment	20,000 US\$ ( 589) thousand	20,000 US\$ ( 589) thousand	589	100	8,447 US\$ ( 267) thousand	6,148 US\$ ( 195) thousand	(6, (No
	PandaMomum Company	British Virgin Island	Develop PandaMomum project and provide multimedia services	20,000 ¥ ( 65,094) thousand	20,000 ¥ ( 65,094) thousand	602	43	18,406 ¥ ( 63,821) thousand	(8) ¥ ( 27) thousand	(8, (No
ing	Donghua Telecom CO., Ltd	Hong Kong	Engage in telecom related investments, provide international private leased circuits (IPLC), internet protocol virtual private network (IPVPN), and internet transit	20,000 US\$ ( 589) thousand	20,000 US\$ ( 589) thousand	4,590	100	8,526 US\$ ( 269) thousand	(6,148) HK\$ ( 1,523) thousand	(6, (No

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Chunghwa  
Telecom (ASIA)  
Company

Hong  
Kong

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

100

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

Note 2: The equity in net gain of an unconsolidated company amounted to \$20,932 thousand was calculated from the audited financial statements plus a gain on realized upstream transactions of \$71,865 thousand less a gain on unrealized upstream transactions of \$24,575 thousand.

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**Chunghwa Telecom Co., Ltd.**

**Financial Statements as of December 31, 2004 and  
June 30, 2005 (Unaudited) and for Three Months and  
Six Months Ended June 30, 2004 and 2005 (Unaudited)**

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

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

	December 31,	June 30	
	2004	2005	2005
	NT\$	NT\$ (Unaudited)	US\$ (Unaudited) (Note 3)
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 29,283	\$ 51,394	\$ 1,624
Short-term investments	9,115	14,518	459
Trade notes and accounts receivable, net	13,673	12,114	383
Inventories, net	1,439	1,939	61
Prepaid expenses	602	3,280	104
Deferred income taxes	17,283	17,530	554
Other current assets	1,609	1,876	59
<b>Total current assets</b>	<b>73,004</b>	<b>102,651</b>	<b>3,244</b>
<b>INVESTMENTS IN UNCONSOLIDATED COMPANIES</b>	<b>4,035</b>	<b>4,099</b>	<b>130</b>
<b>PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>311,638</b>	<b>299,662</b>	<b>9,471</b>
<b>INTANGIBLE ASSETS</b>			
Deferred pension cost	33,222	33,222	1,050
3G concession	10,179	10,106	319
Patents and computer software, net	207	176	6
<b>Total intangible assets</b>	<b>43,608</b>	<b>43,504</b>	<b>1,375</b>
<b>OTHER ASSETS</b>			
Deferred income taxes - non-current	2,444	2,237	71
Other	3,692	3,695	117
<b>Total other assets</b>	<b>6,136</b>	<b>5,932</b>	<b>188</b>
<b>TOTAL</b>	<b>\$ 438,421</b>	<b>\$ 455,848</b>	<b>\$ 14,408</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>			
<b>CURRENT LIABILITIES</b>			
Trade notes and accounts payable	\$ 14,484	\$ 10,570	\$ 334
Income tax payable	5,032	5,701	180
Accrued expenses	14,368	12,665	400
Accrued pension liabilities	44,252	44,007	1,391
Current portion of deferred income	2,633	2,434	77

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Current portion of long-term loans	200	200	6
Dividends payable		45,344	1,433
Customers deposits	9,262	8,498	269
Other current liabilities	18,966	18,514	586
	<u>          </u>	<u>          </u>	<u>          </u>
Total current liabilities	109,197	147,933	4,676
	<u>          </u>	<u>          </u>	<u>          </u>
<b>OTHER LIABILITIES</b>			
Deferred income, net of current portion	9,778	8,940	283
Long-term loans	500	300	9
Other	203	216	7
	<u>          </u>	<u>          </u>	<u>          </u>
Total other liabilities	10,481	9,456	299
	<u>          </u>	<u>          </u>	<u>          </u>
Total liabilities	119,678	157,389	4,975
	<u>          </u>	<u>          </u>	<u>          </u>
<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>			
<b>STOCKHOLDERS EQUITY</b>			
Capital stock - NT\$10 (US\$0.32) par value; authorized, issued and outstanding - 9,647,724,900 common shares	96,477	96,477	3,049
Capital surplus	136,362	136,565	4,316
Retained earnings	85,909	65,423	2,068
Cumulative translation adjustments	(5)	(6)	
	<u>          </u>	<u>          </u>	<u>          </u>
Total stockholders equity	318,743	298,459	9,433
	<u>          </u>	<u>          </u>	<u>          </u>
<b>TOTAL</b>	<b>\$ 438,421</b>	<b>\$ 455,848</b>	<b>\$ 14,408</b>
	<u>          </u>	<u>          </u>	<u>          </u>

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

## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF OPERATIONS

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

	Three Months Ended June 30			Six Months Ended June 30		
	2004	2005	2005	2004	2005	2005
	NT\$	NT\$	US\$	NT\$	NT\$	US\$
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
			(Note 3)			(Note 3)
SERVICE REVENUES	\$ 46,298	\$ 46,151	\$ 1,459	\$ 91,926	\$ 90,698	\$ 2,867
<b>OPERATING COSTS AND EXPENSES</b>						
Costs of services, excluding depreciation and amortization	14,559	15,290	483	29,050	29,611	936
Marketing, excluding depreciation and amortization	4,423	4,906	155	9,030	9,268	293
General and administrative, excluding depreciation and amortization	644	676	22	1,335	1,364	43
Research and development, excluding depreciation and amortization	597	660	21	1,195	1,259	40
Depreciation and amortization - costs of services	9,604	9,620	304	19,216	19,190	607
Depreciation and amortization - operating expenses	567	602	19	1,158	1,208	38
Total operating costs and expenses	30,394	31,754	1,004	60,984	61,900	1,957
<b>INCOME FROM OPERATIONS</b>	<b>15,904</b>	<b>14,397</b>	<b>455</b>	<b>30,942</b>	<b>28,798</b>	<b>910</b>
<b>OTHER INCOME</b>						
Interest	82	134	4	115	216	7
Equity in net income of unconsolidated companies	19	84	3	24	65	2
Other income	599	815	26	1,132	1,575	50
Total other income	700	1,033	33	1,271	1,856	59

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<b>OTHER EXPENSES</b>						
Interest					1	
Other expense	104	55	2	106	115	4
<b>Total other expenses</b>	<b>104</b>	<b>55</b>	<b>2</b>	<b>106</b>	<b>116</b>	<b>4</b>
<b>INCOME BEFORE</b>						
<b>INCOME TAX</b>	<b>16,500</b>	<b>15,375</b>	<b>486</b>	<b>32,107</b>	<b>30,538</b>	<b>965</b>
<b>INCOME TAX</b>	<b>2,982</b>	<b>2,585</b>	<b>82</b>	<b>5,658</b>	<b>5,680</b>	<b>180</b>
<b>NET INCOME</b>	<b>\$ 13,518</b>	<b>\$ 12,790</b>	<b>\$ 404</b>	<b>\$ 26,449</b>	<b>\$ 24,858</b>	<b>\$ 785</b>
<b>NET INCOME PER SHARE</b>	<b>\$ 1.40</b>	<b>\$ 1.33</b>	<b>\$ 0.04</b>	<b>\$ 2.74</b>	<b>\$ 2.58</b>	<b>\$ 0.08</b>
<b>WEIGHTED-AVERAGE</b>						
<b>NUMBER OF COMMON</b>						
<b>SHARES OUTSTANDING</b>	<b>9,647,724,900</b>	<b>9,647,724,900</b>	<b>9,647,724,900</b>	<b>9,647,724,900</b>	<b>9,647,724,900</b>	<b>9,647,724,900</b>
<b>NET INCOME PER PRO</b>						
<b>FORMA EQUIVALENT</b>						
<b>ADS</b>	<b>\$ 14.01</b>	<b>\$ 13.26</b>	<b>\$ 0.42</b>	<b>\$ 27.41</b>	<b>\$ 25.76</b>	<b>\$ 0.81</b>
<b>WEIGHTED-AVERAGE</b>						
<b>NUMBER OF PRO FORMA</b>						
<b>EQUIVALENT ADSs</b>						
<b>OUTSTANDING</b>	<b>964,772,490</b>	<b>964,772,490</b>	<b>964,772,490</b>	<b>964,772,490</b>	<b>964,772,490</b>	<b>964,772,490</b>

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

## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Amounts in Millions, Except Shares Data)

	Capital Stock		Retained Earnings				Cumulative		Total
	Common		Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Translation Adjustments Equity	Stockholders Equity	
	Shares	Amount							
BALANCE, DECEMBER 31, 2004 (IN NT\$)	9,647,724,900	\$ 96,477	\$ 136,362	\$ 34,287	\$ 2,676	\$ 48,946	\$ 85,909	\$ (5)	\$ 318,743
Additional capital contributed by government (unaudited)			(1)						(1)
Additional capital contributed by the MOTC through selling shares to employees at a discounted price (unaudited)			204						204
Appropriations and distributions of 2004 earnings (unaudited):									
Legal reserve				4,986		(4,986)			
Special reserve					4	(4)			
Dividends declared						(45,344)	(45,344)		(45,344)
Net income for the six months ended June 30, 2005 (unaudited)						24,858	24,858		24,858
Cumulative translation adjustment for foreign-currency investments in unconsolidated companies (unaudited)								(1)	(1)
<b>BALANCE, JUNE 30, 2005 (IN NT\$) (UNAUDITED)</b>	<b>9,647,724,900</b>	<b>\$ 96,477</b>	<b>\$ 136,565</b>	<b>\$ 39,273</b>	<b>\$ 2,680</b>	<b>\$ 23,470</b>	<b>\$ 65,423</b>	<b>\$ (6)</b>	<b>\$ 298,459</b>
<b>BALANCE, JUNE 30, 2005 (IN US\$) (UNAUDITED) (Note 3)</b>	<b>9,647,724,900</b>	<b>\$ 3,049</b>	<b>\$ 4,316</b>	<b>\$ 1,241</b>	<b>\$ 85</b>	<b>\$ 742</b>	<b>\$ 2,068</b>	<b>\$</b>	<b>\$ 9,433</b>

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



## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CASH FLOWS

(Amounts in Millions)

	Six Months Ended June 30		
	2004	2005	2005
	NT\$ (Unaudited)	NT\$ (Unaudited)	US\$ (Unaudited) (Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income	\$ 26,449	\$ 24,858	\$ 785
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for doubtful accounts	802	459	15
Depreciation and amortization	20,374	20,398	645
Net unrealized loss on short-term investments		26	1
Gain on sale of short-term investments		(80)	(3)
Net loss on disposal of scrap inventories and property, plant and equipment	110	36	1
Equity in net income of unconsolidated companies	(24)	(65)	(2)
Stock compensation expenses for shares issued to employees at a discount	182	204	6
Deferred income taxes	12	(40)	(1)
Changes in operating assets and liabilities:			
Decrease (increase) in:			
Trade notes and accounts receivable	(708)	1,103	35
Inventories	(589)	(697)	(22)
Prepaid expenses	(2,589)	(2,678)	(84)
Other current assets	(424)	(270)	(9)
Other assets	923	(46)	(1)
Increase (decrease) in:			
Trade notes and accounts payable	(79)	(3,717)	(117)
Income tax payable	714	669	21
Accrued expenses	(2,094)	(1,703)	(54)
Customers deposits	(1,340)	(764)	(24)
Other current liabilities	711	1,072	34
Accrued pension liabilities	19	(245)	(8)
Deferred income	(1,309)	(1,037)	(33)
Other liabilities	(48)	13	
<b>Net cash provided by operating activities</b>	<b>41,092</b>	<b>37,496</b>	<b>1,185</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisitions of short-term investments	(2,302)	(5,349)	(169)
Acquisitions of property, plant and equipment	(9,483)	(9,792)	(310)
Proceeds from disposal of property, plant and equipment	1		
Acquisitions of patents and computer software	(52)	(43)	(1)
<b>Net cash used in investing activities</b>	<b>(11,836)</b>	<b>(15,184)</b>	<b>(480)</b>

(Continued)





	Six Months Ended June 30		
	2004	2005	2005
	NT\$ (Unaudited)	NT\$ (Unaudited)	US\$ (Unaudited) (Note 3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payments on principal of long-term loans	\$	\$ (200)	\$ (6)
Additional capital contributed by government	17	(1)	
Net cash provided by (used in) financing activities	17	(201)	(6)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	29,273	22,111	699
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	13,553	29,283	925
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 42,826	\$ 51,394	\$ 1,624
<b>SUPPLEMENTAL INFORMATION</b>			
Interest paid	\$	\$ 1	\$
Income tax paid	\$ 4,933	\$ 5,051	\$ 160
<b>NON-CASH FINANCING ACTIVITIES</b>			
Dividends payable	\$ 43,415	\$ 45,344	\$ 1,433
Current portion of long-term loans	\$ 200	\$ 200	\$ 6

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

(Concluded)

**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

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

**1. GENERAL**

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

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

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

**Cash Equivalents**

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

### **Short-term Investments**

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

### **Employee Stock Compensation**

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

### **Derivative Financial Instruments**

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

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

### **Recent Accounting Pronouncements**

In December 2004, the FASB issued SFAS No. 123(R) Share-Based Payment. SFAS No. 123(R) requires that companies recognize compensation expense equal to the fair value of stock options or other share based payments for the annual reporting period that begins after June 15, 2005. SFAS No. 123(R) applies to all awards granted after June 15, 2005, and prior period's awards that are modified, repurchased, or cancelled after June 15, 2005. There is no impact to the Company as a result of this standard as the Company does not currently issue stock options to its employees or others. In May 2005, the FASB issued SFAS No. 154 Accounting Changes and Error Corrections. SFAS No. 154 requires that companies apply accounting changes and error corrections to financial statements retrospectively from previous period unless it is impracticable. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. There is no impact to the Company as a result of this standard as the Company does not currently intend to change its accounting principles, estimate or reporting entity.



**3. U.S. DOLLAR AMOUNTS**

The Company maintains its accounts and expresses its financial statements in New Taiwan dollars. For convenience only, U.S. dollar amounts presented in the accompanying financial statements have been translated at the noon buying rate for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York as of June 30, 2005, which was NT\$31.64 to US\$1.00. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

**4. CASH AND CASH EQUIVALENTS**

	<b>December 31, 2004</b>	<b>June 30, 2005</b>
	<b>NT\$</b>	<b>NT\$ (Unaudited)</b>
Cash and bank deposits	\$ 1,958	\$ 2,826
Negotiable certificate of deposit	8,900	15,100
Commercial paper purchased	18,425	33,468
	<b>\$ 29,283</b>	<b>\$ 51,394</b>

**5. SHORT-TERM INVESTMENTS**

	<b>December 31, 2004</b>		<b>June 30, 2005</b>	
	<b>Carrying Amount</b>	<b>Unrealized Gain (Loss)</b>	<b>Carrying Amount</b>	<b>Unrealized Gain (Loss)</b>
	<b>NT\$</b>	<b>NT\$</b>	<b>NT\$ (Unaudited)</b>	<b>NT\$ (Unaudited)</b>
Open-end bond mutual fund	\$ 8,901	\$ 1	\$ 14,198	\$ (28)
Principal guarantee notes			194	
Real estate investment trust fund			101	1
Stock			25	1
Repurchaseable bond	214	(13)		
	<b>\$ 9,115</b>	<b>\$ (12)</b>	<b>\$ 14,518</b>	<b>\$ (26)</b>

**6. INVESTMENTS IN UNCONSOLIDATED COMPANIES**

The investments in unconsolidated companies comprise the following:

	December 31, 2004		June 30, 2005	
	Carrying Value  NT\$	% of Ownership	Carrying Value  NT\$ (Unaudited)	% of Ownership  (Unaudited)
<b>Equity investees:</b>				
Chunghwa Investment ( CHI )	\$ 930	49	\$ 926	49
Taiwan International Standard Electronics ( TISE )	499	40	567	40
	<u>1,429</u>		<u>1,493</u>	
<b>Cost investees:</b>				
Taipei Financial Center ( TFC )	2,530	12	2,530	12
RPTI International ( RPTI )	71	12	71	12
Siemens Telecommunication Systems ( Siemens )	5	15	5	15
	<u>2,606</u>		<u>2,606</u>	
	<u>\$ 4,035</u>		<u>\$ 4,099</u>	

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

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

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

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

December 31, 2004	June 30, 2005
NT\$	NT\$ (Unaudited)



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Loan from the Common Tunnel Fund	\$	700	\$	500
Less: Current portion of long-term loans		200		200
		<u>          </u>		<u>          </u>
	\$	500	\$	300
		<u>          </u>		<u>          </u>

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

As of December 31, 2004 and June 30, 2005, the Company has unused credit lines of approximately NT\$190,000 million and NT\$177,200 million (unaudited), which are available for short-term and long-term borrowings.

## 8. STOCKHOLDERS EQUITY

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

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

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

For the purpose of privatizing the company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange in July 17, 2003.

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

As of December 31, 2004 and June 30, 2005, the outstanding ADSs were 110,975 thousand units, which equaled approximately 1,109,749 thousand common shares which represented 11.50% of the Company's total outstanding common shares.

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

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

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

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

The MOTC, in connection with the privatization plan of the Company, sold shares of stock at discounted prices, to employees at various times from October 2000 to October 31, 2003. The employees purchased the common shares at discounts of 10% and 20% in consideration for their commitment to hold the common shares for two and three years (the holding periods), respectively. In circumstances wherein the employees took advantage of such discounts, the common shares are held by an escrow agent on behalf of the employees/stockholders. There are no circumstances under which the MOTC or the Company would be required to repurchase these common shares. Also, the employees are not required to remain employed with the Company during the duration of the holding periods.

The MOTC, in connection with the compensation of the employees, sold to employees 3,286,907 shares from February 27, 2004 to March 9, 2004, 14,579 shares from May 31, 2004 to June 18, 2004, 382,083 shares from June 30, 2005 to July 6, 2004, 5,098,515 shares from November 30 to December 8, 2004 and 3,681,307 shares from March 31, 2005 to April 8 for total consideration of NT\$33 million, NT\$0.1 million, NT\$4 million, NT\$50 million and NT\$37 million, respectively. The terms of the offers for the share purchases provided that employees purchase common shares from the above offering and hold the shares for one to three years. Such common shares, pursuant to the Enforcement Rule of the Statute Governing Privatization of State-Owned Enterprises, were sold at par value (NT\$10). The employees are not required to remain employed with the Company during the duration of the holding periods. The Company has recognized NT\$204 million (unaudited) as compensation expense for the shares purchased by employees that were subject to par value for the six months ended June 30, 2005, respectively.

From June 30, 2005 to July 6, 2005, the MOTC, in connection with the compensation of the employees, sold to employees 445,661 shares at par value for total consideration of NT\$4 million (unaudited), and the company has recognized NT\$25 million (unaudited) as compensation expense in July, 2005.

## **9. PENSION PLAN**

Pension costs amounted to NT\$1,112 million (unaudited) and NT\$1,332 million (unaudited) for the three months ended June 30, 2004 and 2005, respectively, and NT\$2,223 million (unaudited) and NT\$2,662 million (unaudited) for the six months ended June 30, 2004 and 2005, respectively. The Company's contributions to the retirement plan were NT\$1,623 million (unaudited) and NT\$870 million (unaudited) for the three months ended June 30, 2004 and 2005, and NT\$2,204 million (unaudited) and NT\$2,907 million (unaudited) for the six months ended June 30, 2004 and 2005, respectively.

## **10. COMMITMENTS AND CONTINGENT LIABILITIES**

As of June 30, 2005, the Company had remaining commitments under non-cancelable contracts with various parties as follows: (a) acquisitions of land and buildings of NT\$3,050 million (unaudited), and (b) acquisitions of telecommunications equipment of NT\$15,205 million (unaudited).

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

	<b>June 30,</b>
	<b>2005</b>
	<b>NT\$</b>
	<b>(Unaudited)</b>
Within the following year	\$ 1,223
During the second year	1,058
During the third year	563
During the fourth year	336
During the fifth year and thereafter	130
	<b>\$ 3,310</b>

As of June 30, 2005, the Company had unused letters of credit of NT\$6,276 million (unaudited).

The Company has a commitment to contribute NT\$2,500 million to a Fixed Line Fund administered by the Ministry of Interior Affairs and Taiwan Power Company, of which NT\$1,000 million was contributed by the Company on June 30, 1995. If the balance of the Fixed Line Fund is not sufficient for its purpose, the above three parties will determine when to raise additional funds and the contribution amounts from each party. In addition, the Company has a commitment to contribute NT\$2,000 million to a Piping Fund administered by the Taipei City Government, of which NT\$1,000 million was contributed by the Company on August 15, 1996.

A portion of the land used by the Company during the period of July 1, 1996 to December 31, 2004 was co-own by the Company and Chunghwa Post Co., Ltd. (the former Directorate General of Postal Service). In accordance with the pay order dated July 12, 2005 from the Taiwan Taipei District Court, the Company is required to reimburse Chunghwa Post Co., Ltd. in the amount of \$768 million for land usage compensation due to the portion of land usage area in excess of the Company's ownership along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, the Company believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as a result of the expiration clause. Therefore, the Company has filed an appeal at the Taiwan Taipei District court on July 29, 2005.

## 11. LITIGATION

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

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

**12. INFORMATION ON FINANCIAL INSTRUMENTS**

## a. Derivative financial instruments

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

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

	December 31, 2004		June 30, 2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	NT\$	NT\$	NT\$ (Unaudited)	NT\$ (Unaudited)
<b>Assets</b>				
Cash and cash equivalents	\$ 29,283	\$ 29,283	\$ 51,394	\$ 51,394
Short-term investment	9,115	9,115	14,518	14,518
Investments in unconsolidated companies, Accounted for using the equity method	1,429	1,767	1,493	1,718
Refundable deposits (included in other assets - other )	3,357	3,357	3,354	3,354
<b>Liabilities</b>				
Customers deposits	9,262	7,771	8,498	7,089
Long-term loans (including current portion of long-term loans)	700	700	500	500

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

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



**13. SEGMENT REPORTING**

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

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

Local operations - the provision of local telephone services;

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

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

Cellular operations - the provision of cellular and related services;

Paging operations - the provision of paging and related services;

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

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

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

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

- a. Business segments:

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

Fixed-line	Cellular	Paging	Internet	All Other	Total
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	Local	DLD	ILD	Service		and Data		
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Service revenues for reportable segments	\$ 15,026	\$ 3,497	\$ 3,969	\$ 17,622	\$ 82	\$ 12,687	\$ 674	\$ 53,557
Elimination of intersegment amount	(4,188)	(544)		(258)	(1)	(2,563)	(1)	(7,555)
US GAAP adjustments	377	(19)	(23)	(32)			(7)	296
<b>Total service revenues from external customers</b>	<b>\$ 11,215</b>	<b>\$ 2,934</b>	<b>\$ 3,946</b>					