

CHUNGHWA TELECOM CO LTD  
Form 6-K  
March 28, 2007

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 Mar 28, 2007

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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)



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: 2007/03/28

Chunghwa Telecom Co., Ltd.

By: /s/ Tan HoChen  
Name: Tan HoChen  
Title: Chairman & CEO

Exhibit

| <b>Exhibit</b> | <b>Description</b>   |
|----------------|--|
| 1.             | Consolidated Financial Statements for the Years Ended December 31, 2006 and 2005 and Independent Auditors Report |
| 2.             | Financial Statements for the Years Ended December 31, 2006 and 2005 and Independent Auditors Report              |

**Chunghwa Telecom Co., Ltd. and its Subsidiaries**

**Consolidated Financial Statements for the**

**Years Ended December 31, 2006 and 2005 and**

**Independent Auditors Report**

**REPRESENTATION LETTER**

The entities included in the combined financial statements of Chunghwa Telecom Co., Ltd. as of and for the year ended December 31, 2006, which were prepared in conformity with the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, are the same as the entities included in the consolidated financial statements prepared in conformity with the revised R.O.C. Statement of Financial Accounting Standards No. 7, Consolidated Financial Statements . In addition, the information needed to be disclosed in the combined financial statements is included in the consolidated financial statements. Thus, Chunghwa Telecom Co., Ltd. and its subsidiaries did not prepare a separate set of combined financial statements.

Very truly yours,

CHUNGHWA TELECOM CO., LTD.

By

/s/ TAN HO CHEN  
TAN HO CHEN  
Chairman  
March 13, 2007

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have audited the accompanying consolidated balance sheet of Chunghwa Telecom Co., Ltd. and its subsidiaries as of December 31, 2006 and 2005, and the related consolidated statement of operations, changes in stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to first paragraph present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2006, and the consolidated results of their operations and consolidated cash flows for the year then ended in conformity with relevant regulations governing the preparation of financial statements of public companies (applied before August 12, 2005), the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 2 to the consolidated financial statements, the consolidated financial statements as of and for the year ended December 31, 2006 included the accounts for the period September 7, 2006 to December 31, 2006 of CHIEF Telecom, Inc. ( CHIEF ) and its subsidiaries since the equity interest of CHIEF owned by the Company was more than 50% of its outstanding common stock on September 7, 2006.

As stated in Notes 2 and 4 to the financial statements, the Company completed its privatization on August 12, 2005 and the accounts before privatization were 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.

As stated in Note 3 to the consolidated financial statements, on January 1, 2006, Chunghwa Telecom Co., Ltd. and its subsidiaries adopted the newly released Statements of Financial Accounting Standards No. 34, Accounting for Financial Instruments ( SFAS No. 34 ), and No. 36, Disclosure and Presentation for Financial Instruments ( SFAS No. 36 ), and related revisions of previously released standards.

March 13, 2007

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. AND ITS SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

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

|  | 2006          |     | 2005          |     |
|--|---------------|-----|---------------|-----|
|  | Amount        | %   | Amount        | %   |
| <b>ASSETS</b>  |               |     |               |     |
| <b>CURRENT ASSETS</b>  |               |     |               |     |
| Cash and cash equivalents (Notes 2 and 5)  | \$ 70,672,974 | 15  | \$ 41,890,668 | 9   |
| Financial assets at fair value through profit or loss (Notes 2, 3 and 6)   | 59,119        |     | 35,000        |     |
| Available-for-sale financial assets (Notes 2, 3 and 7)   | 6,950,716     | 2   | 14,067,017    | 3   |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$3,550,086 in 2006 and \$3,604,604 in 2005 (Notes 2, 8 and 26) | 12,630,304    | 3   | 12,839,005    | 3   |
| Other current monetary assets (Note 9)   | 5,965,595     | 1   | 5,706,740     | 1   |
| Inventories, net (Notes 2 and 10)  | 2,182,583     | 1   | 2,120,472     | 1   |
| Deferred income taxes (Notes 2 and 23)   | 56,564        |     | 2,321,399     | 1   |
| Pledged assets (Note 27)   | 2,226         |     |               |     |
| Other current assets (Notes 11 and 25)   | 1,019,633     |     | 1,247,036     |     |
| Total current assets   | 99,539,714    | 22  | 80,227,337    | 18  |
| <b>LONG-TERM INVESTMENTS</b>   |               |     |               |     |
| Investments accounted for using equity method (Notes 2 and 12)   | 1,751,570     |     | 1,524,938     |     |
| Financial assets at fair value through profit or loss (Notes 2, 3 and 6)   |               |     | 500,000       |     |
| Financial assets carried at cost (Notes 2, 3 and 13)   | 1,944,730     |     | 1,866,280     |     |
| Other monetary assets (Notes 3, 14 and 28)   | 2,000,000     | 1   | 2,000,000     | 1   |
| Total investment   | 5,696,300     | 1   | 5,891,218     | 1   |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 26)</b>  |               |     |               |     |
| Cost   |               |     |               |     |
| Land   | 100,937,183   | 22  | 101,784,869   | 22  |
| Land improvements  | 1,476,683     |     | 1,474,429     |     |
| Buildings  | 59,011,713    | 13  | 57,451,040    | 13  |
| Machinery and equipment  | 21,388,089    | 5   | 21,753,818    | 5   |
| Telecommunications network facilities  | 636,486,870   | 138 | 627,609,240   | 137 |
| Miscellaneous equipment  | 1,949,504     |     | 2,046,160     |     |
| Total cost   | 821,250,042   | 178 | 812,119,556   | 177 |
| Revaluation increment on land  | 5,824,381     | 1   | 5,945,850     | 1   |
|  | 827,074,423   | 179 | 818,065,406   | 178 |
| Less: Accumulated depreciation   | 507,060,906   | 110 | 485,063,949   | 105 |
|  | 320,013,517   | 69  | 333,001,457   | 73  |
| Construction in progress and advances related to acquisitions of equipment   | 23,489,050    | 5   | 27,881,012    | 6   |
| Property, plant and equipment, net   | 343,502,567   | 74  | 360,882,469   | 79  |
| <b>INTANGIBLE ASSETS (Note 2)</b>  |               |     |               |     |
| 3G concession  | 8,983,306     | 2   | 9,731,914     | 2   |

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|  |                       |            |                       |            |
|--|-----------------------|------------|-----------------------|------------|
| Goodwill                               | 72,411                |            |                       |            |
| Patents and computer software, net     | 210,143               |            | 183,404               |            |
| Total intangible assets                | 9,265,860             | 2          | 9,915,318             | 2          |
| <b>OTHER ASSETS</b>                    |                       |            |                       |            |
| Idle assets (Note 2)                   | 970,266               |            |                       |            |
| Refundable deposits                    | 1,545,800             | 1          | 1,577,167             |            |
| Deferred income taxes (Notes 2 and 23) | 557,185               |            | 85,866                |            |
| Other                                  | 318,162               |            | 323,233               |            |
| Total other assets                     | 3,391,413             | 1          | 1,986,266             |            |
| <b>TOTAL</b>                           | <b>\$ 461,395,854</b> | <b>100</b> | <b>\$ 458,902,608</b> | <b>100</b> |

**LIABILITIES AND STOCKHOLDERS EQUITY**

|  |             |    |             |    |
|--|-------------|----|-------------|----|
| <b>CURRENT LIABILITIES</b>   |             |    |             |    |
| Short-term loans (Notes 16 and 27)   | \$ 126,000  |    | \$          |    |
| Financial liabilities at fair value through profit or loss (Notes 2, 3 and 6)      | 24,844      |    |             |    |
| Trade notes and accounts payable (Note 26)   | 9,906,012   | 2  | 10,332,306  | 2  |
| Income tax payable (Notes 2 and 23)  | 8,527,540   | 2  | 16,550      |    |
| Accrued expenses (Notes 17 and 26)   | 18,948,844  | 4  | 15,526,947  | 3  |
| Current portion of long-term loans (Note 19)                                       | 322,917     |    | 200,000     |    |
| Lease payable (Notes 2 and 15)   | 1,138       |    |             |    |
| Other current liabilities (Note 18)  | 13,895,611  | 3  | 17,605,916  | 4  |
| Total current liabilities  | 51,752,906  | 11 | 43,681,719  | 9  |
| <b>LONG-TERM LIABILITIES</b>   |             |    |             |    |
| Long-term loans (Note 19)  |             |    | 300,000     |    |
| Lease payable (Notes 2 and 15)   | 441         |    |             |    |
| Deferred income  | 955,419     |    | 318,528     |    |
| Total long-term liabilities  | 955,860     |    | 618,528     |    |
| RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)                                   | 94,986      |    | 94,986      |    |
| <b>OTHER LIABILITIES</b>   |             |    |             |    |
| Accrued pension liabilities (Notes 2 and 25)                                       | 1,263,423   |    |             |    |
| Customers deposits   | 6,654,161   | 2  | 7,391,902   | 2  |
| Other  | 560,319     |    | 207,285     |    |
| Total other liabilities  | 8,477,903   | 2  | 7,599,187   | 2  |
| Total liabilities  | 61,281,655  | 13 | 51,994,420  | 11 |
| <b>STOCKHOLDERS EQUITY OWNED BY THE PARENT COMPANY (Notes 2, 3, 15, 20 and 21)</b> |             |    |             |    |
| Common capital stock - 10 par values;  |             |    |             |    |
| Authorized: 12,000,000 thousand shares in 2006; 9,647,725 thousand shares in 2005  |             |    |             |    |
| Issued: 9,667,845 thousand shares in 2006; 9,647,725 thousand shares in 2005       | 96,678,451  | 21 | 96,477,249  | 21 |
| Preferred stock \$10 par value   |             |    |             |    |
| Capital surplus:   |             |    |             |    |
| Paid-in capital in excess of par value   | 210,260,235 | 46 | 214,529,603 | 47 |
| Donations  | 13,170      |    | 13,170      |    |

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|   |                |     |                |     |
|---|----------------|-----|----------------|-----|
| Equity in capital surplus reported by equity-method investees | (69)           |     |                |     |
| Total capital surplus   | 210,273,336    | 46  | 214,542,773    | 47  |
| <b>Retained earnings:</b>                                     |                |     |                |     |
| Legal reserve   | 44,037,765     | 9   | 39,272,477     | 9   |
| Special reserve   | 2,680,184      | 1   | 2,680,184      | 1   |
| Unappropriated earnings                                       | 39,984,454     | 9   | 48,087,583     | 10  |
| Total retained earnings                                       | 86,702,403     | 19  | 90,040,244     | 20  |
| <b>Other adjustments</b>                                      |                |     |                |     |
| Cumulative translation adjustments                            | (3,304)        |     | (2,942)        |     |
| Unrealized gain on financial instruments                      | 541,072        |     |                |     |
| Capital surplus from revaluation of land                      | 5,824,600      | 1   | 5,850,864      | 1   |
| Total other adjustments                                       | 6,362,368      | 1   | 5,847,922      | 1   |
| Total stockholders' equity owned by the parent company        | 400,016,558    | 87  | 406,908,188    | 89  |
| MINORITY INTEREST   | 97,641         |     |                |     |
| Total stockholders' equity                                    | 400,114,199    | 87  | 406,908,188    | 89  |
| TOTAL   | \$ 461,395,854 | 100 | \$ 458,902,608 | 100 |

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

(With Deloitte & Touche audit report dated March 13, 2007)

## CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF OPERATIONS

## FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

|  | 2006           |     | 2005           |     |
|--|----------------|-----|----------------|-----|
|  | Amount         | %   | Amount         | %   |
| REVENUES (Note 26)   | \$ 184,527,634 | 100 | \$ 183,381,851 | 100 |
| OPERATING COSTS (Note 26)                                  | 94,417,172     | 51  | 93,941,491     | 51  |
| GROSS PROFIT   | 90,110,462     | 49  | 89,440,360     | 49  |
| OPERATING EXPENSES   |                |     |                |     |
| Marketing  | 26,410,302     | 14  | 24,728,213     | 13  |
| General and administrative                                 | 3,207,461      | 2   | 2,982,882      | 2   |
| Research and development                                   | 3,309,201      | 2   | 3,164,981      | 2   |
| Total operating expenses                                   | 32,926,964     | 18  | 30,876,076     | 17  |
| INCOME FROM OPERATIONS                                     | 57,183,498     | 31  | 58,564,284     | 32  |
| OTHER INCOME   |                |     |                |     |
| Penalties income   | 1,648,871      | 1   | 1,266,469      | 1   |
| Income from sale of scrap inventories                      | 846,881        | 1   | 477,948        |     |
| Interest   | 803,975        |     | 451,457        |     |
| Gains on sale of fixed assets                              | 537,058        |     | 107,050        |     |
| Gains on sale of financial instruments, net                | 135,242        |     | 162,660        |     |
| Equity in earnings of equity investees                     | 96,904         |     | 160,080        |     |
| Foreign exchange gain, net                                 |                |     | 135,307        |     |
| Other  | 502,563        |     | 999,451        | 1   |
| Total other income   | 4,571,494      | 2   | 3,760,422      | 2   |
| OTHER EXPENSES   |                |     |                |     |
| Special termination benefit under early retirement program | 2,305,508      | 1   |                |     |
| Losses on disposal of property, plant and equipment        | 267,076        |     | 65,809         |     |
| Foreign exchange loss, net                                 | 165,553        |     |                |     |
| Losses arising from natural calamities                     | 29,877         |     | 137,864        |     |
| Interest   | 4,072          |     | 1,999          |     |
| Losses on inventory valuation                              | 1,365          |     |                |     |
| Realized losses on long-term investments (Note 13)         |                |     | 739,676        |     |
| Impairment loss on long-lived assets (Notes 2 and 15)      | 10,541         |     | 343,463        |     |
| Other  | 1,340,927      | 1   | 1,433,044      | 1   |
| Total other expenses                                       | 4,124,919      | 2   | 2,721,855      | 1   |

(Continued)

**CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS****FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

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

|                                | 2006                 |           | 2005                 |           |
|--------------------------------|----------------------|-----------|----------------------|-----------|
|                                | Amount               | %         | Amount               | %         |
| INCOME BEFORE INCOME TAX       | \$ 57,630,073        | 31        | \$ 59,602,851        | 33        |
| INCOME TAX (Notes 2 and 23)    | 12,752,007           | 7         | 11,949,967           | 7         |
| <b>CONSOLIDATED NET INCOME</b> | <b>\$ 44,878,066</b> | <b>24</b> | <b>\$ 47,652,884</b> | <b>26</b> |
| ATTRIBUTED TO                  |                      |           |                      |           |
| Shareholders of the parent     | \$ 44,891,337        | 24        | \$ 47,652,884        | 26        |
| Minority interests             | (13,271)             |           |                      |           |
|                                | \$ 44,878,066        | 24        | \$ 47,652,884        | 26        |

|   | 2006       |            | 2005       |            |
|---|------------|------------|------------|------------|
|   | Income     | Net Income | Income     | Net Income |
|   | Before Tax | Before Tax | Before Tax | Before Tax |
| <b>CONSOLIDATED EARNINGS PER SHARE (Notes 2 and 24)</b> |            |            |            |            |
| Basic net income per share                              | \$ 5.94    | \$ 4.63    | \$ 6.05    | \$ 4.83    |

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

(With Deloitte &amp; Touche audit report dated March 13, 2007)

(Concluded)

**CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

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

|   | Common Capital Stock  |               | Preferred Stock       |                | Retained Earnings |                    |                            | Other Adjustments<br>Unrealized Capital |  |                        | Treasury<br>Stock | Minority<br>Interests | Stock |
|---|-----------------------|---------------|-----------------------|----------------|-------------------|--------------------|----------------------------|---|--|------------------------|-------------------|-----------------------|-------|
|   | Shares<br>(Thousands) | Amount        | Shares<br>(Thousands) | Amount         | Legal<br>Reserve  | Special<br>Reserve | Unappropriated<br>Earnings | Cumulative<br>Adjustment                | Gain on Surplus from<br>Translation<br>Financial Instruments | Revaluation<br>of Land |                   |                       |       |
| 1,  |                       |               |                       |                |                   |                    |                            |   |  |                        |                   |                       |       |
| ,   | 9,647,725             | \$ 96,477,249 |                       | \$ 214,551,767 | \$ 39,272,477     | \$ 2,680,184       | \$ 434,699                 | \$ (4,765)                              |  | \$ 5,740,185           |                   | \$                    | \$ 3  |
| tion<br>rplus<br>tion<br>al of<br>me<br>of<br>unt<br>ent to |                       |               |                       |                |                   |                    |                            |   |  | (5,489)                |                   |                       |       |
| ureau   |                       |               |                       |                |                   |                    |                            |   |  |                        |                   |                       |       |
| tion<br>e for   |                       |               |                       | (8,994)        |                   |                    |                            |   |  | (28)                   |                   |                       |       |
| tax to<br>us<br>in  |                       |               |                       |                |                   |                    |                            |   |  | 116,196                |                   |                       |       |
|   |                       |               |                       |                |                   |                    | 47,652,884                 |   |  |                        |                   |                       |       |
| or<br>ency<br>in<br>ed                                      |                       |               |                       |                |                   |                    |                            |   | 1,823  |                        |                   |                       |       |
| R 31,   | 9,647,725             | 96,477,249    |                       | 214,542,773    | 39,272,477        | 2,680,184          | 48,087,583                 | (2,942)                                 |  | 5,850,864              |                   |                       | 4     |
| opting<br>o. 34   |                       |               |                       |                |                   |                    |                            |   |  | 51,675                 |                   |                       |       |
| ck - 2<br>(20)  |                       |               |                       |                |                   |                    |                            |   |  |                        |                   |                       |       |
| tion<br>rplus<br>tion<br>al of<br>me                        |                       |               |                       |                |                   |                    |                            |   |  | (26,264)               |                   |                       |       |

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|        |           |               |             |                |               |              |               |            |            |              |              |           |      |
|--------|-----------|---------------|-------------|----------------|---------------|--------------|---------------|------------|------------|--------------|--------------|-----------|------|
| on of  |           |               |             |                |               |              |               |            |            |              |              |           |      |
| gs     |           |               |             |                |               |              |               |            |            |              |              |           |      |
| l      |           |               |             |                |               |              |               |            |            |              |              |           |      |
|        |           |               | 4,765,288   |                | (4,765,288)   |              |               |            |            |              |              |           |      |
| nd -   |           |               |             |                |               |              |               |            |            |              |              |           |      |
| share  |           |               |             |                | (40,659,617)  |              |               |            |            |              |              |           |      |
| nd -   |           |               |             |                |               |              |               |            |            |              |              |           |      |
| share  | 189,114   | 1,891,145     |             |                | (1,891,145)   |              |               |            |            |              |              |           |      |
| profit |           |               |             |                |               |              |               |            |            |              |              |           |      |
| h      |           |               |             |                | (230,057)     |              |               |            |            |              |              |           |      |
| profit |           |               |             |                |               |              |               |            |            |              |              |           |      |
|        | 23,006    | 230,057       |             |                | (230,057)     |              |               |            |            |              |              |           |      |
| on to  |           |               |             |                |               |              |               |            |            |              |              |           |      |
| l      |           |               |             |                | (15,337)      |              |               |            |            |              |              |           |      |
| erests |           |               |             |                |               |              |               |            |            |              | 110,912      |           |      |
| l net  |           |               |             |                |               |              |               |            |            |              |              |           |      |
| 006    |           |               |             |                | 44,891,337    |              |               |            |            |              | (13,271)     |           |      |
| ck     |           |               |             |                |               |              |               |            |            |              |              |           |      |
| by     |           |               |             |                |               |              |               |            |            |              |              |           |      |
| y -    |           |               |             |                |               |              |               |            |            |              |              |           |      |
| usand  |           |               |             |                |               |              |               |            |            |              |              |           |      |
| res    |           |               |             |                |               |              |               |            |            |              | (11,392,333) |           |      |
| ck -   |           |               |             |                |               |              |               |            |            |              |              |           |      |
| usand  |           |               |             |                |               |              |               |            |            |              |              |           |      |
| res    | (192,000) | (1,920,000)   | (4,269,368) |                | (5,202,965)   |              |               |            |            | 11,392,333   |              |           |      |
| e      |           |               |             |                |               |              |               |            |            |              |              |           |      |
| ain    |           |               |             |                |               |              |               |            |            |              |              |           |      |
| -sale  |           |               |             |                |               |              |               |            |            |              |              |           |      |
| ets    |           |               |             |                |               |              |               |            |            |              |              |           |      |
| equity |           |               |             |                |               |              |               |            |            |              | 18           |           |      |
| ital   |           |               |             |                |               |              |               |            |            |              |              |           |      |
| rted   |           |               |             |                |               |              |               |            |            |              |              |           |      |
| ethod  |           |               |             |                | (69)          |              |               |            |            |              |              |           |      |
| or     |           |               |             |                |               |              |               |            |            |              |              |           |      |
| ency   |           |               |             |                |               |              |               |            |            |              |              |           |      |
| in     |           |               |             |                |               |              |               |            |            |              |              |           |      |
| ted    |           |               |             |                |               |              |               |            |            |              | (362)        |           |      |
| ain    |           |               |             |                |               |              |               |            |            |              | 489,379      |           |      |
| R 31,  | 9,667,845 | \$ 96,678,451 | \$          | \$ 210,273,336 | \$ 44,037,765 | \$ 2,680,184 | \$ 39,984,454 | \$ (3,304) | \$ 541,072 | \$ 5,824,600 | \$           | \$ 97,641 | \$ 4 |

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

(With Deloitte & Touche audit report dated March 13, 2007)

## CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(Amounts in Thousands of New Taiwan Dollars)

|   | 2006                | 2005                |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                     |                     |
| Consolidated net income   | \$ 44,878,066       | \$ 47,652,884       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                     |
| Provision for doubtful accounts   | 617,170             | 920,189             |
| Depreciation and amortization   | 41,033,147          | 41,575,047          |
| Impairment loss on long-lived assets  | 10,541              | 343,463             |
| Gain on sale of financial instruments, net  | (135,242)           | (162,660)           |
| Valuation loss (gain) on financial instruments, net                               | 20,582              | (12,416)            |
| Losses on inventory valuation   | 1,365               |                     |
| Realized losses on long-term investments  |                     | 739,676             |
| Gain on sale of fixed assets, net   | (269,982)           | (41,241)            |
| Equity in earnings of equity investees  | (96,904)            | (160,080)           |
| Dividends received from equity investees  | 42,331              | 66,000              |
| Deferred income taxes   | 1,797,090           | 9,882,696           |
| Changes in operating assets and liabilities:                                      |                     |                     |
| Decrease (increase) in:   |                     |                     |
| Financial assets held for trading   | (51,775)            | (35,000)            |
| Trade notes and accounts receivable   | (300,107)           | 245,217             |
| Other current monetary assets   | (253,395)           | (4,204,578)         |
| Inventories   | 579,316             | (830,404)           |
| Other current assets  | 265,206             | (582,910)           |
| Increase (decrease) in:   |                     |                     |
| Trade notes and accounts payable  | (1,164,777)         | (4,002,453)         |
| Income tax payable  | 8,510,990           | (5,013,108)         |
| Accrued expenses  | 3,397,344           | 1,195,232           |
| Other current liabilities   | (32,977)            | 645,274             |
| Deferred income   | 636,891             | (42,601)            |
| Accrued pension liabilities   | 1,254,683           | (773,465)           |
| <b>Net cash provided by operating activities</b>                                  | <b>100,739,563</b>  | <b>87,404,762</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                     |                     |
| Decrease (increase) of financial assets at fair value through profit or loss      | 473,666             | (500,000)           |
| Acquisition of available-for-sale financial assets                                | (4,149,141)         | (31,080,687)        |
| Proceeds from disposal of available-for-sale financial assets                     | 12,000,064          | 26,303,259          |
| Acquisition of financial assets carried at cost                                   | (75,000)            |                     |
| Increase in long-term investment accounted for using equity method                | (172,409)           |                     |
| Proceeds from disposal of property, plant and equipment                           | 778,842             | 374,163             |
| Acquisitions of property, plant and equipment                                     | (27,680,344)        | (22,930,075)        |
| Increase of intangible assets   | (170,564)           | (130,011)           |
| Increase in other assets  | 189,091             | (281,281)           |
| <b>Net cash used in investing activities</b>                                      | <b>(18,805,795)</b> | <b>(28,244,632)</b> |

(Continued)



**CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

(Amounts in Thousands of New Taiwan Dollars)

|   | 2006                 | 2005                 |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                   |                      |                      |
| Increase in short-term loans  | 11,000               |                      |
| Payment on principal of long-term loans                                       | (202,083)            | (200,000)            |
| Decrease in customers deposits  | (704,653)            | (1,011,952)          |
| Lease payable   | 186                  |                      |
| Increase in other liabilities   | 310,965              | 3,986                |
| Cash dividends paid   | (40,659,617)         | (45,344,307)         |
| Remuneration to directors and supervisors and bonus to employees paid         | (245,394)            |                      |
| Repurchase of treasury stock  | (11,392,333)         |                      |
| Net cash used in financing activities   | (52,881,929)         | (46,552,273)         |
| <b>EFFECT OF FIRST INCLUSION FOR CONSOLIDATED OF CERTAIN SUBSIDIARIES</b>     | <b>(269,533)</b>     |                      |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                              | <b>28,782,306</b>    | <b>12,607,857</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                           | <b>41,890,668</b>    | <b>29,282,811</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                                 | <b>\$ 70,672,974</b> | <b>\$ 41,890,668</b> |
| <b>SUPPLEMENTAL INFORMATION</b>   |                      |                      |
| Interest paid   | \$ 6,508             | \$ 1,999             |
| Income tax paid   | \$ 1,286,974         | \$ 11,418,858        |
| <b>NON-CASH FINANCING ACTIVITIES</b>  |                      |                      |
| Current portion of long-term loans  | \$ 322,917           | \$ 200,000           |
| Reclassification of reserve for land value incremental tax to capital surplus | \$                   | \$ 116,196           |

Acquiring subsidiaries, the consolidated assets and liabilities, based on their fair values are as follow:

|                                     | 2006      |
|-------------------------------------|-----------|
| Cash                                | \$ 41,224 |
| Trade notes and accounts receivable | 113,940   |
| Inventories                         | 3,330     |
| Other current assets                | 40,861    |
| Long-term investment                | 3,450     |
| Property, plant, and equipment      | 401,274   |
| Identifiable intangible assets      | 2,700     |
| Other assets                        | 182,167   |

(Continued)



**CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

(Amounts in Thousands of New Taiwan Dollars)

|   | <b>2006</b>           |
|---|-----------------------|
| Short-term bank loan and long-term debt due within one year | \$ (115,000)          |
| Trade notes and accounts payable                            | (99,062)              |
| Other current liabilities                                   | (100,708)             |
| Long-term loans   | (25,000)              |
| Other liabilities   | (108,834)             |
| <br>Total   | <br>340,342           |
| Percentage of ownership                                     | 70%                   |
| <br>Goodwill  | <br>238,240<br>72,412 |
| <br>Total amount of acquiring subsidiary                    | <br>\$ 310,652        |

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

(With Deloitte & Touche audit report dated March 13, 2007)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENT**

**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

**(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 to form Chunghwa. The DGT continues to be the telecom industry regulator in the ROC.

As a 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.

Effective August 12, 2005, the MOTC had completed 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 had been sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of the Company's common shares had also been sold in an international offering of securities in the form of American Depository Shares ( ADS ) on July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE ). The MOTC sold 289,431 thousand common shares of the Company by auction in the ROC on August 9, 2005 and 1,350,682 thousand common shares of the Company on August 10, 2005 in an international offering. Upon completion of the share transfers associated with these offerings on August 12, 2005, the MOTC owned less than 50% of the outstanding shares of the Company and completed the privatization plan.

CHIEF Telecom Inc. ( CHIEF ) was incorporated in 1991. CHIEF engages mainly in internet communication and internet data center ( IDC ) service. The Company has acquired 70% shares of CHIEF on September 7, 2006.

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

Unigate Telecom Inc. ( Unigate ) which is the subsidiary of CHIEF was incorporated in 1999. Unigate engages mainly in telecommunication and information software service.

CHIEF Telecom (Hong Kong) Limited which is the subsidiary of CHIEF was incorporated in 2003. CHIEF (HK) engages mainly in internet communication and internet data center ( IDC ) service.

As of December 31, 2006 and 2005, the Company and its subsidiaries had 25,966 and 27,386 employees, respectively.

The following diagram presents information regarding the relationship and ownership percentages between the Company and its subsidiaries as of December 31, 2006:

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

The accompanying consolidated financial statements were prepared in conformity with relevant regulations (applied before August 12, 2005), the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Guidelines Governing Business Accounting and accounting principles generally accepted in the ROC ( ROC GAAP ). The preparation of consolidated financial statements requires management to make certain estimates and assumptions that affect the recorded amounts of assets, liabilities, revenues and expenses of the Group. The Group 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 Group 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:

### **Basic of Consolidated Financial Statements**

The consolidated financial statements include the accounts of the Company and its direct and indirect subsidiaries. All significant intercompany transactions and balances are eliminated upon consolidation.

The consolidated financial statements as of and for the year ended December 31, 2006 include the accounts of the Company and its subsidiaries - New Prospect and Prime Asia. The Company has acquired 70% shares of CHIEF on September 7, 2006 and has a controlling power. The Company starts to consolidate the accounts on September 7, 2006 until December 31, 2006 of CHIEF and its subsidiaries - Unigate and CHIEF (HK).

For foreign subsidiaries using their local currency as their functional currency, assets and liabilities are translated at exchange rates in effect on the balance sheet date; shareholders' equity accounts are translated using historical exchange rates and income statement accounts are translated using average exchange rates during the year.

The entities in the Consolidated Financial Statements of Chunghwa and Affiliates are the same as those in the consolidated financial statements; thus, no consolidated financial statements of Chunghwa and affiliates will be compiled. The information needed in the consolidated financial statements of Chunghwa and affiliates is enclosed in the consolidated financial statements

### **Basis of Presentation**

As a stated-owned company before August 12, 2005 (privatization date), the accounts of the Company are subject to annual examinations by the Directorate General of Budget, Accounting and Statistics (the DGBAS) of the Executive Yuan and by the Ministry of Auditing (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, sold or consumed within one year. Current liabilities are obligations which mature within one year. Assets and liabilities that are not classified as current are noncurrent assets and liabilities.

### **Cash Equivalents**

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

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

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value subsequently with the changes in fair value recognized in earnings. Cash dividends received (including the year of investment) is recognized in earnings. For regular way purchase or sale of financial assets is accounted for using trade date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Hybrid instruments are designated as financial assets or financial liabilities at fair value through profit or loss.

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

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

The basis for determining the fair value of financial instruments is as follows: List stocks, closing prices as of balance sheet date; open-end bond mutual funds, net assets value as of balance sheet date; bonds, quotes in the OTC market as of balance sheet date; financial instruments without active market, fair value are estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.

Cash dividends are recognized as investment income upon the grant day but are accounted for as reductions to the original cost of investment if such dividends are declared on the earnings of the investees attributable to periods prior to the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new number of shares.

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

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

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

Service revenue is based on the fair value of the sales price, after business discount and quantity discount, between the Group and customer. The sales price of service revenue is the amount which matures within one year. The difference between fair value and maturity value is not material and the transactions occur frequently so the interest factor is not included in calculating the 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 (on fixed-line services) are deferred and recognized over the average expected customer service periods, (b) fixed-monthly fees (on fixed-line services, wireless and Internet and data services) are accrued every month, and (c) prepaid services (fixed line, cellular and Internet) are recognized as income based upon actual usage by customers or when the right to use those services expires.

Allowance for doubtful receivables is provided on the basis of the aging of the receivables and estimated collectibility of individual receivables. The Group periodically evaluates the collectibility of receivables in consideration of client's receivable aging analysis.

### **Inventories**

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

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

Investments in 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, depending on whether the investor has controlling power over investees or not. Unrealized profits and losses on sales to investees over which the Company has a controlling power are totally eliminated. Otherwise should be deferred in proportion to the Company's ownership percentage. Profits and losses arising from equipment purchases from equity investees are eliminated and recognized over the estimated remaining useful life of the equipment.

With respect to investment purchase or adoption of the equity method of accounting, effective on January 1, 2006, in accordance with the revised accounting pronouncement, goodwill is recognized by the difference that the cost of investment is exceeding the fair value of the acquisition. Goodwill can not be amortized, but is subject to a goodwill impairment test. If there is a triggering event or change in circumstance, the goodwill impairment test will be performed.

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

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at original cost, such as non-publicly traded stocks. If there is objective evidence that a financial asset is impaired, a loss is recognized. No recording of a subsequent recovery in fair value is allowed.

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

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

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 shareholder's equity-other adjustments from revaluation under the heading shareholder's equity-other adjustments 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, 5 to 30 years; and miscellaneous equipment, 3 to 10 years.

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

#### **Intangible Assets**

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

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. Reversal of a previously recognized impairment loss on goodwill is prohibited.

#### **Idle Assets**

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

### **Pension Costs**

Pension costs subject to defined benefit plan are recognized according to the actuarial report. Pension costs subject to defined contribution plan are recognized according to the amount of contributions by the Company during the employees' service period.

### **Expense Recognition**

Expenses including commissions paid to agencies and incentives paid to a third party dealer 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.

### **Treasury Stock**

Cost of treasury stock is shown as a deduction to stockholders' equity. Treasury stock is recorded and is shown as a reduction to stockholders' equity. Upon cancellation of treasury stock, the accounts of common stock and treasury stock are reversed out based on the number of shares registered to be cancelled. The account of additional paid-in capital is adjusted for the difference of the repurchase price and the par value of common stock. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated retained earnings.

### **Income Tax**

The Company accounts for income tax using the asset and liability method. Under this method, deferred income tax is recognized for investment tax credits and tax consequences of differences between financial statement carrying amounts and their respective tax bases. A valuation 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 noncurrent 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 is recorded in the year when the stockholders have resolved that the earnings shall be retained.

### **Consolidated Earnings Per Share**

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

**3. REASON AND EFFECT OF THE CHANGES OF ACCOUNTING PRINCIPLE**

On January 1, 2006, the Group adopted the newly released Statements of Financial Accounting Standards No. 34, Accounting for Financial Instruments, ( SFAS No. 34 ) and No. 36, Disclosure and Presentation for Financial Instruments ( SFAS No. 36 ), and related revisions of previously released SFASs.

a. Effect of adopting the newly released SFASs and related revisions of previously released SFASs

The Group had categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as available-for-sale financial assets as adjustments to stockholders' equity were recognized.

The effect of adopting the newly released SFASs is summarized as follows:

|                                     | <b>Recognized as<br/>a Separate<br/>Component of<br/>Stockholders<br/>Equity</b> |
|-------------------------------------|--|
|                                     | <b>(Net of Tax)</b>  |
| Available-for-sale financial assets | \$ 51,675  |

For the year ended December 31, 2006, the adoption of the newly released SFASs had no impact on consolidated net income before income tax, consolidated net income after income tax and basic consolidated earnings per share.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the year ended December 31, 2005 were reclassified to conform to the financial statements as of and for the year ended December 31, 2006. The previous issued financial statements as of and for the year ended December 31, 2005 are not required to be restated.

For accounting policies applied to financial instruments in 2006, refer to the Note 2 to the financial statements. Certain accounting policies prior to the adoption of the newly released SFASs are summarized as follows:

Short-term investments

Short-term 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.

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the classifications prescribed by the newly released and revised SFASs. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

|   | Before<br>Reclassification | After<br>Reclassification |
|---|----------------------------|---------------------------|
| <b>Balance sheets</b>   |                            |                           |
| Short-term investments  | \$ 14,102,017              | \$                        |
| Funds   | 2,500,000                  |                           |
| Investments accounted for using the cost method                                     | 1,866,280                  |                           |
| Financial assets at fair value through profit or loss - current                     |                            | 35,000                    |
| Available-for-sale financial assets - current                                       |                            | 14,067,017                |
| Financial assets carried at cost - noncurrent                                       |                            | 1,866,280                 |
| Financial assets at fair value through profit or loss - noncurrent                  |                            | 500,000                   |
| Other monetary assets - noncurrent  |                            | 2,000,000                 |
|   | \$ 18,468,297              | \$ 18,468,297             |
| <b>Statements of operations</b>   |                            |                           |
| Reversal of allowance on short-term investments (included in other income - other ) | \$ 12,416                  | \$                        |
| Valuation gain on financial instruments (included in other income - other )         |                            | 12,416                    |
|   | \$ 12,416                  | \$ 12,416                 |
| <b>Statements of cash flows</b>   |                            |                           |
| Cash flows from operating activities  |                            |                           |
| Gain on sale of short-term investments  | \$ (162,660)               | \$                        |
| Reversal of allowance on short-term investments                                     | (12,416)                   |                           |
| Valuation gain on financial instruments, net  |                            | (12,416)                  |
| Gain on sale of financial instruments, net  |                            | (162,660)                 |
| Financial assets held for trading   |                            | (35,000)                  |
|   | (175,076)                  | (210,076)                 |
| Cash flows from investing activities  |                            |                           |
| Acquisition of short-term investment, net   | (4,812,428)                |                           |
| Acquisition of investments in unconsolidated companies                              | (500,000)                  |                           |
| Acquisition of financial assets at fair value through profit or loss                |                            | (500,000)                 |
| Acquisition of available-for-sale financial assets                                  |                            | (31,080,687)              |
| Proceeds from disposal of available-for-sale financial assets                       |                            | 26,303,259                |
|   | (5,312,428)                | (5,277,428)               |
|   | \$ (5,487,504)             | \$ (5,487,504)            |

**4. ADJUSTMENTS OF FINANCIAL STATEMENTS****For the Year Ended December 31, 2004**

The Company's financial statements for the year ended December 31, 2004 have been examined by the Executive Yuan and the Ministry of Audit of the Control Yuan (government agencies), and the resulting adjustments have been recorded retroactively as of December 31, 2004. 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 on December 31, 2004 were due to the appropriations of 2004 earnings recorded by the MOA.

**5. CASH AND CASH EQUIVALENTS**

|  | December 31          |                      |
|--|----------------------|----------------------|
|  | 2006                 | 2005                 |
| <b>Cash</b>  |                      |                      |
| Cash on hand   | \$ 106,397           | \$ 96,839            |
| Cash in banks  | 7,879,770            | 2,257,796            |
| Negotiable Certificate of Deposit, annual yield rate - ranging from 1.26%-1.95% and 1.00%-1.92% for the year ended December 31, 2006 and 2005, respectively. | 25,750,500           | 10,906,936           |
|  | <b>33,736,667</b>    | <b>13,261,571</b>    |
| <b>Cash equivalents</b>  |                      |                      |
| Commercial paper, annual yield rate - ranging from 1.26%-1.33% and 1.27%-1.45% for the year ended December 31, 2006 and 2005, respectively.                  | 36,936,307           | 28,629,097           |
|  | <b>\$ 70,672,974</b> | <b>\$ 41,890,668</b> |

As of December 31, 2006 and 2005, foreign deposits in bank were as following:

|  | December 31         |                  |
|--|---------------------|------------------|
|  | 2006                | 2005             |
| United States of America - New York (US\$21,378 thousand in 2006)                                    | \$ 696,920          | \$ 18,823        |
| Hong Kong (US\$54,069 thousand, EUR10 thousand, JPY872 thousand, HK\$390 thousand and GBP2 thousand) | 1,764,821           |                  |
|  | <b>\$ 2,461,741</b> | <b>\$ 18,823</b> |

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

|                                | December 31      |                  |
|--------------------------------|------------------|------------------|
|                                | 2006             | 2005             |
| <b>Current</b>                 |                  |                  |
| Derivatives - financial assets |                  |                  |
| Forward exchange contracts     | \$ 4,044         | \$               |
| Index future contracts         | 55,075           |                  |
| Credit linked investment       |                  | 35,000           |
|                                | <b>\$ 59,119</b> | <b>\$ 35,000</b> |



|   | December 31 |            |
|---|-------------|------------|
|   | 2006        | 2005       |
| Derivatives - financial liabilities   |             |            |
| Forward exchange contracts  | \$ 11,266   | \$         |
| Index future contracts  | 13,578      |            |
|   | \$ 24,844   | \$         |
| <b>Noncurrent</b>   |             |            |
| Financial assets at fair value through profit or loss - Yuanta Structured Principal Protected Private Placement | \$          | \$ 500,000 |

The Company entered into forward exchange contracts and index future contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates underlying the value of assets denominated in foreign currencies until such assets are received and fluctuations in stock prices. However, these financial assets and liabilities are not qualified for hedge accounting and categorized as trading financial assets and liabilities.

Yuanta Structured Principal Protected Private Placement is an open-end structured principal protected mutual fund. The maturity date is September 28, 2008. On June 28, 2006, the Company sold the contract to a third party and recognized an investment loss of \$26,334 thousand.

Outstanding forward contracts held by the Company as of December 31, 2006:

|                          |          |                 | Contract<br>Amount |
|--------------------------|----------|-----------------|--------------------|
|                          | Currency | Maturity Date   | (in Thousands)     |
| <b>December 31, 2006</b> |          |                 |                    |
| Sell                     | JPY/USD  | 2006.11-2007.01 | JPY 490,000        |
|                          | EUR/USD  | 2006.11-2007.01 | EUR 6,900          |
|                          | GBP/USD  | 2006.11-2007.01 | GBP 2,085          |

Outstanding index future contracts held by the Company as of December 31, 2006:

|                          | Maturity Date | Units | Contract<br>Amount |
|--------------------------|---------------|-------|--------------------|
|                          |               |       | (in Thousands)     |
| <b>December 31, 2006</b> |               |       |                    |
| INDEX FUTURE CONTRACTS   |               |       |                    |
| AMSTERDAM IDX FUT        | 2007.01       | 8     | EUR 769            |
| CAC40 10 EURO FUT        | 2007.01       | 45    | EUR 2,450          |
| DAX INDEX FUTURE         | 2007.03       | 11    | EUR 1,795          |
| IBEX 35 INDX FUTR        | 2007.01       | 7     | EUR 992            |
| MINI S&P/MIB FUT         | 2007.03       | 23    | EUR 950            |
| FTSE 100 IDX FUT         | 2007.03       | 33    | GBP 2,044          |
| TOPIX INDEX FUTURE       | 2007.03       | 32    | JPY 512,595        |
| S&P 500 FUTURE           | 2007.03       | 23    | USD 8,195          |
| S&P 500 EMINI FUTURE     | 2007.03       | 13    | USD 927            |

As of December 31, 2006, the amount paid for future deposit was \$54,857 thousand (classified as financial assets held for trading).



Net losses arising from derivative financial instruments for the year ended December 31, 2006 were \$52,370 thousand (including realized settlement losses of \$31,788 thousand and valuation losses of \$20,582 thousand).

The Company entered into investment management agreements with a well-known financial institutions (fund managers) to manage its investment portfolios in October 2006. As of December 31, 2006, the Company's investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. The investment portfolios included derivative instruments, listed stocks and mutual funds. Listed stocks and mutual funds were classified as available-for-sales financial assets.

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

|                                   | December 31  |               |
|-----------------------------------|--------------|---------------|
|                                   | 2006         | 2005          |
| Open-end mutual funds             | \$ 5,788,419 | \$ 13,898,188 |
| Foreign listed stocks             | 885,797      |               |
| Real estate investment trust fund | 179,200      | 100,000       |
| Listed stocks                     | 97,300       | 68,829        |
|                                   | \$ 6,950,716 | \$ 14,067,017 |

**8. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

|                                 | Years Ended December 31 |              |
|---------------------------------|-------------------------|--------------|
|                                 | 2006                    | 2005         |
| Balance, beginning of year      | \$ 3,625,645            | \$ 4,473,433 |
| Provision for doubtful accounts | 623,559                 | 906,148      |
| Accounts receivable written off | (699,118)               | (1,774,977)  |
| Balance, end of year            | \$ 3,550,086            | \$ 3,604,604 |

**9. OTHER CURRENT MONETARY ASSETS**

|                       | December 31  |              |
|-----------------------|--------------|--------------|
|                       | 2006         | 2005         |
| Tax refund receivable | \$ 3,221,496 | \$ 4,338,479 |
| Other receivable      | 2,744,099    | 1,368,261    |
|                       | \$ 5,965,595 | \$ 5,706,740 |

**10. INVENTORIES, NET**

|                            | December 31  |              |
|----------------------------|--------------|--------------|
|                            | 2006         | 2005         |
| Supplies                   | \$ 1,580,255 | \$ 1,276,160 |
| Work in process            | 73,497       | 19,856       |
| Merchandise                | 161,932      |              |
| Materials in transit       | 368,264      | 824,456      |
|                            | 2,183,948    | 2,120,472    |
| Less: Allowance for losses | 1,365        |              |
|                            | \$ 2,182,583 | \$ 2,120,472 |

**11. OTHER CURRENT ASSETS**

|                       | December 31  |              |
|-----------------------|--------------|--------------|
|                       | 2006         | 2005         |
| Prepaid rents         | \$ 581,541   | \$ 489,074   |
| Prepaid expenses      | 326,002      | 201,523      |
| Prepaid pension costs |              | 458,052      |
| Miscellaneous         | 112,090      | 98,387       |
|                       | \$ 1,019,633 | \$ 1,247,036 |

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

|  | December 31    |                |                |                |
|--|----------------|----------------|----------------|----------------|
|  | 2006           |                | 2005           |                |
|  | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| Equity investee:   |                |                |                |                |
| Chunghwa Investment ( CHI )  | \$ 974,805     | 49             | \$ 950,054     | 49             |
| Taiwan International Standard Electronics ( TISE )   | 609,004        | 40             | 574,884        | 40             |
| Spring House Entertainment ( Spring House )  | 17,761         | 30             |                |                |
|  | 1,601,570      |                | 1,524,938      |                |
| Prepayment for long-term investment - Chunghwa International Yellow Pages Co., Ltd. ( CIYP ) | 150,000        | 100            |                |                |
|  | \$ 1,751,570   |                | \$ 1,524,938   |                |

The Company invested Spring House in October, 2006, for a purchase price of \$22,409 thousand. Spring House engages mainly in network content manufacture broadcasts and information software.

The Company intended to acquire 100% shares of Chunghwa International Yellow Pages Co., Ltd. ( CIYP ) by prepaying \$150,000 thousand in December, 2006. CIYP engages mainly in yellow pages sales and advertisement service. CIYP finished registration on January 2, 2007.

The carrying values of the equity investees and the equity in their net loss and net income are based on audited financial statements.



**13. FINANCIAL ASSETS CARRIED AT COST**

|   | December 31         |           |                     |           |
|---|---------------------|-----------|---------------------|-----------|
|   | 2006                | % of      | 2005                | % of      |
|   | Carrying<br>Value   | Ownership | Carrying<br>Value   | Ownership |
| <b>Cost investees:</b>                          |                     |           |                     |           |
| Taipei Financial Center ( TFC )                 | \$ 1,789,530        | 12        | \$ 1,789,530        | 12        |
| iD Branding Ventures ( iDBV )                   | 75,000              | 8         |                     |           |
| RPTI International ( RPTI )                     | 71,500              | 12        | 71,500              | 12        |
| Siemens Telecommunication Systems ( Siemens )   | 5,250               | 15        | 5,250               | 15        |
| 3 Link Information Service Co., Ltd. ( 3 Link ) | 3,450               | 12        |                     |           |
| eASPNet Taiwan Inc. ( eASPNet )                 |                     | 2         |                     |           |
| Purple Communication Ltd. ( PCL )               |                     |           |                     |           |
|   | <b>\$ 1,944,730</b> |           | <b>\$ 1,866,280</b> |           |

The Company invested iDBV on November 13, 2006, for a purchase price of \$75,000 thousand. iDBV engages mainly in investment company.

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

After evaluating the carrying value of the investment in TFC, the Company concluded that a permanent impairment loss had occurred and recognized a loss of \$739,676 thousand for the year ended December 31, 2005.

**14. OTHER NONCURRENT MONETARY ASSETS**

|                 | December 31         |                     |
|-----------------|---------------------|---------------------|
|                 | 2006                | 2005                |
| Fixed-Line Fund | \$ 1,000,000        | \$ 1,000,000        |
| Piping Fund     | 1,000,000           | 1,000,000           |
|                 | <b>\$ 2,000,000</b> | <b>\$ 2,000,000</b> |

As part of the government's effort to upgrade the existing telecommunications infrastructure, the Company and other public utility companies were required by the ROC government to contribute a total of \$2,000,000 thousand to a Fixed-Line Fund managed by the Ministry of Interior Affairs and a Piping Fund administered by the Taipei City Government. These funds will be used to finance various telecommunications infrastructure projects. Upon completion of the construction projects, the funds will be proportionally allocated their assets to their contributors. If the balance of the Fixed-Line Fund is not sufficient for its operation, the above three parties will determine when to raise additional funds and the contribution amounts from each party.

**15. PROPERTY, PLANT AND EQUIPMENT**

|   | December 31           |                       |
|---|-----------------------|-----------------------|
|   | 2006                  | 2005                  |
| Cost  |                       |                       |
| Land  | \$ 100,937,183        | \$ 101,784,869        |
| Land improvements   | 1,476,683             | 1,474,429             |
| Buildings   | 59,011,713            | 57,451,040            |
| Machinery and equipment   | 21,388,089            | 21,753,818            |
| Telecommunications network facilities                                     | 636,486,870           | 627,609,240           |
| Miscellaneous equipment   | 1,949,504             | 2,046,160             |
| <b>Total cost</b>   | <b>821,250,042</b>    | <b>812,119,556</b>    |
| Revaluation increment on land   | 5,824,381             | 5,945,850             |
|   | 827,074,423           | 818,065,406           |
| Accumulated depreciation  |                       |                       |
| Land improvements   | 807,767               | 753,224               |
| Buildings   | 14,230,739            | 13,246,759            |
| Machinery and equipment   | 16,378,560            | 15,869,654            |
| Telecommunications network facilities                                     | 473,954,933           | 453,438,139           |
| Miscellaneous equipment   | 1,688,907             | 1,756,173             |
|   | 507,060,906           | 485,063,949           |
| Construction in progress and advances related to acquisition of equipment | 23,489,050            | 27,881,012            |
| <b>Property, plant and equipment, net</b>                                 | <b>\$ 343,502,567</b> | <b>\$ 360,882,469</b> |

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

Because of the improvements on telecommunication technology and changes of the market, the recoverable amount of telecommunications network facilities of paging division is less than its carrying value. Therefore, an impairment loss amounted to \$343,463 thousand was recognized for the year ended December 31, 2005.

Depreciation on property, plant and equipment for the years ended December 31, 2006 and 2005 amounted to \$40,070,620 thousand and \$40,870,177 thousand, respectively. No interest expense was capitalized for the years ended December 31, 2006 and 2005.

CHIEF rents machinery equipments for a half and one years to four years under a capital lease agreement, which provides CHIEF having the ownership at the expiration of the lease term. The total lease payments were \$263 thousand in the year ended December 31, 2006.

Lease payable was as follow:

|                                     | December 31,<br>2006 |
|-------------------------------------|----------------------|
| Lease payable                       | \$ 1,647             |
| Less: Unamortization interest       | 68                   |
| Lease payable, net                  | 1,579                |
| Less: Current portion               | 1,138                |
| Noncurrent portion of lease payable | \$ 441               |

#### 16. SHORT-TERM LOANS

|  | December 31 |      |
|--|-------------|------|
|  | 2006        | 2005 |
| Unsecured loans - annual yield rate - 2.955% | \$ 126,000  | \$   |

#### 17. ACCRUED EXPENSES

|                                 | December 31   |               |
|---------------------------------|---------------|---------------|
|                                 | 2006          | 2005          |
| Accrued salary and compensation | \$ 12,007,101 | \$ 9,863,026  |
| Accrued franchise fees          | 2,413,579     | 2,539,494     |
| Accrued advertisement expenses  | 960,327       | 751,039       |
| Other accrued expenses          | 3,567,837     | 2,373,388     |
|                                 | \$ 18,948,844 | \$ 15,526,947 |

#### 18. OTHER CURRENT LIABILITIES

|                                       | December 31   |               |
|---------------------------------------|---------------|---------------|
|                                       | 2006          | 2005          |
| Advances from subscribers             | \$ 4,539,933  | \$ 4,749,623  |
| Amounts collected in trust for others | 4,014,709     | 3,323,278     |
| Payables to equipment suppliers       | 1,661,128     | 4,142,230     |
| Payables to constructors              | 1,073,285     | 2,405,748     |
| Refundable customers deposits         | 949,776       | 858,351       |
| Miscellaneous                         | 1,656,780     | 2,126,686     |
|                                       | \$ 13,895,611 | \$ 17,605,916 |

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

|  | December 31 |            |
|--|-------------|------------|
|  | 2006        | 2005       |
| Loan from the Fixed-Line Fund  | \$ 300,000  | \$ 500,000 |
| Secured loans - annual yield rate - 3.05% for the year ended December 31, 2006 | 22,917      |            |
|  | 322,917     | 500,000    |
| Less: Current portion of long-term loans                                       | 322,917     | 200,000    |
|  | \$          | \$ 300,000 |

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

CHIEF obtained a secured loan from Chinatrust Commercial Bank. The loan is repayable monthly at equal installments, with final payment due on November 18, 2007.

**20. STOCKHOLDERS EQUITY**

Under the revised Company's Articles of Incorporation dated May 30, 2006, the Company's authorized capital is \$120,000,000,020, which is divided into 12,000,000,000 common shares (at \$10 par value per share), which are issued and outstanding 9,667,845,093 shares, and 2 preferred shares (at \$10 par value per share), which are issued and approved by the board of directors on March 28, 2006, and the MOTC purchased 2 preferred shares at par value on April 4, 2006.

For the purpose of privatizing the company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of the company, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. As of September 30, 2006, the MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of December 31, 2006, the outstanding ADSs were 307,399 thousand units, which equaled approximately 3,073,988 thousand common shares and represented 31.8% of the Company's total outstanding common shares.

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.

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 with par value within three years from the date of their issuance.

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

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

Telecommunications service is a Taiwan's capital-intensive industry and the Company requires capital expenditures to sustain its competitive position in high-growth market. Thus, 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.

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 appropriations and distributions of the 2005 earnings of the Company have been approved and resolved by the stockholders on May 30, 2006 as follows:

|  | Appropriation and Distribution |                    |
|--|--------------------------------|--------------------|
|  | Amount                         | Dividend Per Share |
| Legal reserve                                      | \$ 4,765,288                   | \$                 |
| Cash dividends                                     | 40,659,617                     | 4.3                |
| Stock dividends                                    | 1,891,145                      | 0.2                |
| Employee bonus - cash                              | 230,057                        |                    |
| Employee bonus - stock                             | 230,057                        |                    |
| Remuneration to board of directors and supervisors | 15,337                         |                    |
|  | \$ 47,791,501                  | \$ 4.5             |

The appropriation and distributions of the 2004 earnings of the Company have been approved and resolved by the stockholders on June 21, 2005, for 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 in accordance with the applicable government regulations (See Note 4).

The appropriation of earnings in 2005 approved by the stockholders in their meeting was as follows:

|  | Actual                                |  | Difference |
|--|---------------------------------------|--|------------|
|  | Distribution Approved by Stockholders | Proposed Distribution Approved by Board of Directors |            |
| Appropriation of earnings                          |                                       |  |            |
| Employee bonus - cash                              | \$ 230,057                            | \$ 230,057   |            |
| Employee bonus - stock                             | 230,057                               | 230,057  |            |
| Remuneration to board of directors and supervisors | 15,337                                | 15,337   |            |
| Earnings per share                                 |                                       |  |            |
| Basic earnings per share                           | 4.94                                  | 4.94   |            |
| Imputed earnings per share                         | 4.89                                  | 4.89   |            |

The appropriation of the Company's 2006 earnings had not been proposed by the board of directors as of March 13, 2007, the independent auditors' report date. Information on the appropriation of 2006 earnings proposed by the board of directors and resolved by the shareholders can be accessed through the Market Observation Post System on the Taiwan Stock Exchange Corporation's website.

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.

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

|                       | <b>Years Ended<br/>December 31</b> |             |
|-----------------------|------------------------------------|-------------|
|                       | <b>2006</b>                        | <b>2005</b> |
| As of January 1, 2006 |                                    |             |
| Increase              | 192,000                            |             |
| Decrease              | 192,000                            |             |

As of December 31, 2006

According to the Securities and Exchange Law of the ROC, total shares of treasury stock shall not exceed 10% of the Company's stock issued. The total amount of the shares bought back shall not be more than the amount of retained earnings, premium on capital stock and realized capital reserve.

The shares bought back by the Company in accordance with Securities and Exchange Law of the ROC shall not be pledged. Before transfer, the shareholder's rights shall not be enjoyed.

In order to maintain its credit and shareholders' equity by repurchasing treasury stock 192,000 thousand shares, from February 10, 2006 to April 7, 2006, for \$11,392,333 thousand. On June 30, 2006, the company cancelled the treasury stock by reducing common stock of \$1,920,000 thousand, capital surplus of \$4,269,368 thousand and retained earnings of \$5,202,965 thousand.

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

|                      | <b>Year Ended December 31, 2006</b> |                               |               |
|----------------------|-------------------------------------|-------------------------------|---------------|
|                      | <b>Cost of<br/>Services</b>         | <b>Operating<br/>Expenses</b> | <b>Total</b>  |
| Compensation expense |                                     |                               |               |
| Salaries             | \$ 13,268,739                       | \$ 8,385,674                  | \$ 21,654,413 |
| Insurance            | 702,827                             | 453,414                       | 1,156,241     |
| Pension              | 1,923,560                           | 1,256,036                     | 3,179,596     |
| Other compensation   | 8,072,628                           | 5,091,557                     | 13,164,185    |
|                      | 23,967,754                          | 15,186,681                    | 39,154,435    |
| Depreciation expense | 37,865,973                          | 2,204,647                     | 40,070,620    |
| Amortization expense | 857,851                             | 102,643                       | 960,494       |
|                      | \$ 62,691,578                       | \$ 17,493,971                 | \$ 80,185,549 |

|                      | <b>Year Ended December 31, 2005</b> |                               |               |
|----------------------|-------------------------------------|-------------------------------|---------------|
|                      | <b>Cost of<br/>Services</b>         | <b>Operating<br/>Expenses</b> | <b>Total</b>  |
| Compensation expense |                                     |                               |               |
| Salaries             | \$ 15,058,999                       | \$ 9,183,602                  | \$ 24,242,601 |
| Insurance            | 672,367                             | 428,995                       | 1,101,362     |
| Pension              | 1,288,393                           | 829,690                       | 2,118,083     |
| Other compensation   | 6,671,240                           | 4,036,292                     | 10,707,532    |
|                      | 23,690,999                          | 14,478,579                    | 38,169,578    |
| Depreciation expense | 38,606,346                          | 2,263,831                     | 40,870,177    |
| Amortization expense | 577,544                             | 109,837                       | 687,381       |

\$ 62,874,889 \$ 16,852,247 \$ 79,727,136

**23. INCOME TAX**

The Income Basic Tax Act (the IBT Act), which took effect on January 1, 2006, requires that the income basic tax should be 10% of the sum of the taxable income as calculated in accordance with the Income Tax Act plus tax benefit regulated by the Income Tax Act or other laws. The tax payable of the current year would be the higher of the income basic tax and income tax payable calculated in accordance with the Income Tax Act. The Group has considered the impact of the IBT Act in the determination of the current year's income tax expense.

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

|   | <b>Years Ended December 31</b> |               |
|---|--------------------------------|---------------|
|   | <b>2006</b>                    | <b>2005</b>   |
| Income tax expense computed at statutory income tax rate of 25% to income before income tax | \$ 14,390,404                  | \$ 14,900,703 |
| Add (deduct) tax effects of:  |                                |               |
| Permanent differences   | (359,307)                      | (38,069)      |
| Temporary differences   | (1,298,563)                    | (10,887,822)  |
| Additional tax at 10% on undistributed earnings   | 182                            |               |
| Investment tax credits  | (3,092,983)                    | (1,987,406)   |
| Loss carryforward   | 21,979                         |               |
| Income tax payable  | \$ 9,661,712                   | \$ 1,987,406  |

- b. Income tax expense consisted of the following:

|  | <b>Years Ended December 31</b> |               |
|--|--------------------------------|---------------|
|  | <b>2006</b>                    | <b>2005</b>   |
| Income tax payable                     | \$ 9,661,712                   | \$ 1,987,406  |
| Income tax - separated                 | 135,631                        | 84,615        |
| Income tax - deferred                  | 2,845,672                      | 9,882,696     |
| Adjustments of prior years' income tax | 108,410                        | (4,750)       |
| Other                                  | 582                            |               |
|  | \$ 12,752,007                  | \$ 11,949,967 |

The balance of income tax payable as of December 31, 2006 was shown net of prepaid income tax. Tax refund receivable as of December 31, 2005 was shown net of income tax payable (classified as other current monetary assets). The balance of income tax payable as of December 31, 2005 was derived from the adjustment of the government agencies in examining the accounts for the year ended December 31, 2004.

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

|                                  | December 31 |              |
|----------------------------------|-------------|--------------|
|                                  | 2006        | 2005         |
| <b>Current</b>                   |             |              |
| Deferred income tax assets:      |             |              |
| Provision for doubtful accounts  | \$ 221,523  | \$ 233,638   |
| Unrealized foreign exchange loss | 39,361      |              |
| Accrued pension cost             |             | 1,772,248    |
| Investment tax credits           |             | 553,924      |
| Loss carryforward                | 38,881      |              |
| Other                            | 17,879      | 48,931       |
|                                  | 317,644     | 2,608,741    |
| Valuation allowance              | (261,080)   | (233,638)    |
|                                  | 56,564      | 2,375,103    |
| Deferred income tax liability:   |             |              |
| Unrealized foreign exchange gain |             | (53,704)     |
| Net deferred income tax assets   | \$ 56,564   | \$ 2,321,399 |
| <b>Noncurrent</b>                |             |              |
| Deferred income tax assets:      |             |              |
| Accrued pension cost             | \$ 429,500  | \$           |
| Loss carryforward                | 98,059      |              |
| Losses on impairment             | 88,501      | 85,866       |
| Other                            | 11,507      |              |
|                                  | 627,567     | 85,866       |
| Valuation allowance              | (70,382)    |              |
|                                  | \$ 557,185  | \$ 85,866    |

d. As of December 31, 2006, CHIEF's loss carryforward consisted of the following:

| <b>Regulation</b> | <b>Total<br/>Creditable<br/>Amounts</b> | <b>Remaining<br/>Creditable<br/>Amounts</b> | <b>Expiry<br/>Year</b> |
|-------------------|---|---|------------------------|
| Loss carryforward | \$ 38,881                               | \$ 38,881                                   | 2007                   |
| Loss carryforward | 28,261                                  | 28,261                                      | 2008                   |
| Loss carryforward | 22,427                                  | 22,427                                      | 2009                   |
| Loss carryforward | 25,392                                  | 25,392                                      | 2010                   |
| Loss carryforward | 21,979                                  | 21,979                                      | 2011                   |
|                   | \$ 136,940                              | \$ 136,940                                  |                        |

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

December 31

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|  | 2006         | 2005         |
|--|--------------|--------------|
| Balance of Imputation Credit Account ( ICA ) |              |              |
| Chunghwa                                     | \$ 1,116,033 | \$ 2,115,000 |
| CHIEF  | \$ 10,435    | \$           |

- 31 -

The estimated ICA rate for the 2006 earnings as of December 31, 2006 and the actual ICA rate for the 2005 earnings were 24.51% and 6.97%, respectively. The credit of the Company 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, 2006 may differ from the actual rate determined based on the balance of the ICA on the dividend distribution date.

f. Undistributed earnings information

As of December 31, 2006, the Company's undistributed earnings generated in June 30, 1998 and onward was zero.

As of December 31, 2006, there were no earnings of CHIEF available for distributed.

Income tax returns of the Group through the year ended December 31, 2004 have been examined by the ROC tax authorities.

**24. BASIC NET INCOME PER SHARE**

|                                     | Amount (Numerator)<br>Income |               |  | Net Income Per<br>Share (Dollars) |               |
|-------------------------------------|------------------------------|---------------|--|-----------------------------------|---------------|
|                                     | Income<br>Tax                | Net<br>Income | Shares<br>(Denominator)<br>(Thousands) | Income<br>Before<br>Income<br>Tax | Net<br>Income |
| <u>Year ended December 31, 2006</u> |                              |               |  |                                   |               |
| Consolidated net income             | \$ 57,630,073                | \$ 44,891,337 | 9,704,136                              |                                   |               |
| Basic net income per share          |                              |               |  | \$ 5.94                           | \$ 4.63       |
| <u>Year ended December 31, 2005</u> |                              |               |  |                                   |               |
| Net income                          | \$ 59,602,851                | \$ 47,652,884 |  |                                   |               |
| Basic net income per share          |                              |               | 9,859,845                              | \$ 6.05                           | \$ 4.83       |

The impact of stock dividends was considered in calculating basic net income per share for 2005. The basic EPS before income tax and the basic EPS after income tax in 2005 are restated from \$6.18 to \$6.05 and from \$4.94 to \$4.83, respectively.

**25. PENSION PLAN**

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

Before privatization, the funding of the pension plan for employees classified as staff was based on the budget approved by the Legislative Yuan and a supplementary budget approved by the Executive Yuan. The staff pension fund was 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 Company.

The Company completed privatization plans on August 12, 2005. The Company is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in accordance with the Statute Governing Privatization of Stated-owned Enterprises (the Privatization Fund). After paying all pension obligations for privatization, the plan assets of the Company should be transferred to the Fund for Privatization of Government-owned Enterprises under the Executive Yuan. However, according to the instructions of MOTC, the Company would, on behalf of the MOTC pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization. As of December 31, 2006, the remaining balance of funds to be disbursed to employees has totally transferred to Privatization Fund. On March 27, 2006 and August 7, 2006, the Company transferred \$5,088,879 thousand and the remaining balance of \$542,579 thousand, respectively, from the pension plan to the Privatization Fund.

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

After privatization, the Company's pension plan in accordance with the Labor Standards Law is considered as a defined benefit plan. The payments of pension are subject to the service periods and average salaries of six months of employees prior to retirement. The pension assets of the Group 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 Company.

Pension costs of the Company, CHIEF and Unigate amounted to \$3,324,019 thousand (\$3,256,681 thousand subject to defined benefit plan and \$67,338 thousand subject to defined contribution plan) and \$2,300,790 thousand (\$2,285,275 thousand subject to defined benefit plan and \$15,515 thousand subject to defined contributed plan) for the years ended December 31, 2006 and 2005, respectively.

Pension information of the Company and CHIEF of the defined benefit plan is summarized as follows:

a. Components of net periodic pension cost for the year

|                                     | 2006         | 2005 (After Privatization) |
|-------------------------------------|--------------|----------------------------|
| Service costs                       | \$ 3,072,678 | \$ 1,191,790               |
| Interest costs                      | 58,697       |                            |
| Projected return on plan assets     | (65,867)     | (14,253)                   |
| Amortization                        | 46,748       |                            |
| Effect of curtailment or settlement | 144,425      |                            |
|                                     | \$ 3,256,681 | \$ 1,177,537               |

- b. Reconciliation between the fund status and accrued pension cost (prepaid pension cost), vested benefit, actuarial assumptions and contributions and payments of the fund is summarized as follows:

- 1) Reconciliation between the fund status and accrued pension cost is summarized as follows:

|  | <b>Years Ended December 31</b> |              |
|--|--------------------------------|--------------|
|  | <b>2006</b>                    | <b>2005</b>  |
| <b>Benefit obligation</b>              |                                |              |
| Vested benefit obligation              | \$ (2,308,643)                 | \$ (995,410) |
| Non-vested benefit obligation          | (1,535,267)                    | (406,068)    |
| Accumulated benefit obligation         | (3,843,910)                    | (1,401,478)  |
| Additional benefit obligation          | (689,587)                      | (281,909)    |
| Projected benefit obligation           | (4,533,497)                    | (1,683,387)  |
| Fair values of plan assets             | 2,921,811                      | 1,637,730    |
| Funded status                          | (1,611,686)                    | (45,657)     |
| Unrecognized net transition obligation | 7,844                          |              |
| Actuarial gain or loss                 | (9,448)                        |              |
| Unrecognized net loss                  | 349,867                        | 503,709      |

(Accrued pension liabilities) prepaid pension cost (recognized as other current assets) \$ (1,263,423)      \$ 458,052

2) Vested benefit \$ 3,174,285      \$ 1,226,327

- 3) Actuarial assumptions

| <b>Chunghwa</b>                                 |       |       |
|---|-------|-------|
| Discount rate used in determining present value | 2.00% | 2.25% |
| Rate of compensation increase                   | 1.50% | 2.00% |
| Rate of return on plan assets                   | 3.00% | 3.00% |
| <b>CHIEF</b>                                    |       |       |
| Discount rate used in determining present value | 2.75% |       |
| Rate of compensation increase                   | 3.00% |       |
| Rate of return on plan assets                   | 2.75% |       |

- 4) Contributions and payments of the Fund

|                 | <b>December 31</b> |             |
|-----------------|--------------------|-------------|
|                 | <b>2006</b>        | <b>2005</b> |
| <b>Chunghwa</b> |                    |             |
| Contributions   | \$ 1,543,744       | \$ 585,560  |
| Payments        | \$ 6,869           | \$ 9,918    |
| <b>CHIEF</b>    |                    |             |
| Contributions   | \$ 710             | \$          |
| Payments        | \$                 | \$          |



**26. TRANSACTIONS WITH RELATED PARTIES**

As the Company was a state-owned enterprise, the ROC Government is one of the Company's 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 arms-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 would be incurred as a result of the privatization being completed.

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

| <b>Company</b>  | <b>Relationship</b>  |
|---|--|
| Taiwan International Standard Electronics Ltd. ( TISE ) | Equity investee  |
| Chunghwa System Integration Co., Ltd. ( CSI )           | Subsidiary of CHI  |
| Chunghwa Precision Test Technical Co., Ltd. ( CHPT )    | Subsidiary of CHI  |
| Chunghwa Telecom Global, Inc. ( CHTG )                  | Subsidiary of CHI  |
| Tai Zhong He  | Former chairman of CHIEF (resigned on September 6, 2006);<br>as a current member of the board of directors of CHIEF. |

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

|                                     | December 31 |   |            |   |
|-------------------------------------|-------------|---|------------|---|
|                                     | 2006        |   | 2005       |   |
|                                     | Amount      | % | Amount     | % |
| 1) Receivables                      |             |   |            |   |
| Trade notes and accounts receivable |             |   |            |   |
| CHTG                                | \$ 43,999   |   | \$ 49,436  |   |
| CHPT                                |             |   | 20,724     |   |
|                                     | \$ 43,999   |   | \$ 70,160  |   |
| 2) Payables                         |             |   |            |   |
| Trade notes and accounts payable    |             |   |            |   |
| TISE                                | \$ 202,205  | 2 | \$ 41,058  |   |
| CSI                                 | 191,662     | 2 | 54,832     | 1 |
| CHTG                                | 18,211      |   | 27,718     |   |
|                                     | \$ 412,078  | 4 | \$ 123,608 | 1 |
| Accrued expenses                    |             |   |            |   |
| TISE                                | \$ 92,156   |   | \$ 48,852  |   |
| CHTG                                | 18,632      |   | 11,119     |   |
| CSI                                 | 1,517       |   | 26,567     |   |
|                                     | \$ 112,305  |   | \$ 86,538  |   |

|   | December 31 |   |            |   |
|---|-------------|---|------------|---|
|   | 2006        |   | 2005       |   |
|   | Amount      | % | Amount     | % |
| Payable to construction supplier (included in other current liabilities ) |             |   |            |   |
| TISE  | \$ 345,246  | 3 | \$ 318,653 | 2 |
| CSI   | 13,331      |   | 22,227     |   |
|   | \$ 358,577  | 3 | \$ 340,880 | 2 |
| Other payables  |             |   |            |   |
| Tai Zhong He  | \$ 20,056   |   | \$         |   |

In 2005, CHIEF agreed to provide compensation to Tai Zhong He for assets that were pledged as collateral in connection with a financing arrangement during the period from 2002 to 2005. According to the number of days for which the pledged assets were used by CHIEF and an annual interest rate not to exceed 5%, the compensation is calculated to be a total amount of NT\$20,056 thousand as of December 31, 2006.

|                                 | Years Ended December 31 |   |            |   |
|---------------------------------|-------------------------|---|------------|---|
|                                 | 2006                    |   | 2005       |   |
|                                 | Amount                  | % | Amount     | % |
| 3) Revenues                     |                         |   |            |   |
| CHTG                            | \$ 95,127               |   | \$ 101,086 |   |
| CHPT                            | 13,774                  |   | 24,492     |   |
|                                 | \$ 108,901              |   | \$ 125,578 |   |
| 4) Operating costs and expenses |                         |   |            |   |
| TISE                            | \$ 374,209              |   | \$ 135,268 |   |
| CSI                             | 306,075                 |   | 89,137     |   |
| CHTG                            | 101,059                 |   | 80,360     |   |
|                                 | \$ 781,343              |   | \$ 304,765 |   |
| 5) Acquisition of properties    |                         |   |            |   |
| TISE                            | \$ 920,236              | 3 | \$ 477,988 | 2 |
| CSI                             | 283,309                 | 1 | 315,830    | 1 |
| CHTG                            | 864                     |   | 12,992     |   |
|                                 | \$ 1,204,409            | 4 | \$ 806,810 | 3 |

The foregoing terms were conducted as arm's length transactions except for other payable to Tai, Zhong-He.

## 27. PLEDGED ASSETS

The assets had been pledged as collaterals for contract security deposits and short-term bank loans by CHIEF.

**28. COMMITMENTS AND CONTINGENT LIABILITIES**

As of December 31, 2006, the Company's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of buildings of \$1,575,422 thousand.
- b. Acquisitions of telecommunications equipment of \$15,479,152 thousand.
- c. Unused letters of credit of approximately \$1,364,451 thousand.
- d. Contract to print billing, envelopes and telephone directories of approximately \$346,414 thousand.
- e. The Group also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operation system software under contracts that expire in various years. Minimum rental commitments under those leases are as follows:

| Year                | Rental Amount |
|---------------------|---------------|
| 2007                | \$ 1,233,801  |
| 2008                | 869,720       |
| 2009                | 610,670       |
| 2010                | 276,119       |
| 2011 and thereafter | 131,184       |

- 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 the contribution amounts 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. When the fund is not sufficient, the Company will contribute the remaining \$1,000,000 thousand after getting the notification from the Taipei City Government.
- 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 Taiwan Post Co., Ltd. (the former Chunghwa Post Co., Ltd. directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to the Company to reimburse Taiwan 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. As of March 13, 2007, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.

**29. SUBSEQUENT EVENTS**

The Company has acquired 31.5% shares of SENA International Co., Ltd. ( SENA ) amounted 70,373 thousand common shares by public tender on January 8, 2007, for purchase price of \$15.1 each share, totally \$1,062,632 thousand. SENA engages in communication machine sales and software service.



**30. FAIR VALUE OF FINANCIAL INSTRUMENTS**

a. Fair value of financial instruments were as follows:

|  | December 31        |               |                    |               |
|--|--------------------|---------------|--------------------|---------------|
|  | 2006               |               | 2005               |               |
|  | Carrying<br>Amount | Fair Value    | Carrying<br>Amount | Fair Value    |
| <b>Assets</b>  |                    |               |                    |               |
| Cash and cash equivalents  | \$ 70,672,974      | \$ 70,672,974 | \$ 41,890,668      | \$ 41,890,668 |
| Financial assets at fair value through profit or loss - current    | 59,119             | 59,119        | 35,000             | 34,986        |
| Available-for-sale financial assets                                | 6,950,716          | 6,950,716     | 14,067,017         | 14,136,195    |
| Trade notes and accounts receivable, net                           | 12,630,304         | 12,630,304    | 12,839,005         | 12,839,005    |
| Other current monetary assets                                      | 5,965,595          | 5,965,595     | 5,706,740          | 5,706,740     |
| Financial assets at fair value through profit or loss - noncurrent |                    |               | 500,000            | 481,410       |
| Investments accounted for using equity method                      | 1,751,570          | 1,907,144     | 1,524,938          | 1,763,711     |
| Financial assets carried at cost                                   | 1,944,730          | 1,944,730     | 1,866,280          | 1,866,280     |
| Other noncurrent monetary assets                                   | 2,000,000          | 2,000,000     | 2,000,000          | 2,000,000     |
| Refundable deposits  | 1,545,800          | 1,545,800     | 1,577,167          | 1,577,167     |
| <b>Liabilities</b>   |                    |               |                    |               |
| Short-term loans   | 126,000            | 126,000       |                    |               |
| Financial liabilities at fair value through profit or loss         | 24,844             | 24,844        |                    |               |
| Trade notes and accounts payable                                   | 9,906,012          | 9,906,012     | 10,332,306         | 10,332,306    |
| Accrued expenses   | 18,948,844         | 18,948,844    | 15,526,947         | 15,526,947    |
| Current portion of long-term loans                                 | 322,917            | 322,917       | 200,000            | 200,000       |
| Long-term loans  |                    |               | 300,000            | 300,000       |
| Customers deposits   | 6,654,161          | 6,654,161     | 7,391,902          | 7,391,902     |

On January 1, 2006, the Group adopted the newly released Statements of Financial Accounting Standards No. 34, Accounting for Financial Instruments ( SFAS No. 34 ), and the related information refers to the Note 3 to the financial statements.

b. Methods and assumptions used in the determination of fair values of financial instruments:

- 1) The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. Because of the short maturities of these instruments, the carrying value represents a reasonable basis to estimate fair values. This method does not apply to the financial instruments discussed in notes 2, 3, and 4 below.
- 2) If the financial assets/liabilities at fair value through profit or loss and the available-for-sale financial assets have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market price of the available-for-sale financial assets are not immediately available, they must be calculated using standard valuation models on the basis of current market parameters. The Group adopt fair value of accounting for estimates and assumptions for derivatives; these estimates and assumptions are used consistently by the investors in the market and can be obtained by the Group.
- 3) Long-term investments are based on the net asset values of the investments in unconsolidated companies, if quoted market prices are not available.
- 4) The fair value of long-term loans (including current portion) is discounted value based on projected cash flow. The projected cash flows were discounted using the maturity dates of long-term loans.



c. Fair value of financial instruments were as follow:

|  | Amount Based on Quoted<br>Market Price<br>December 31 |            | Amount Determined Using<br>Valuation Techniques<br>December 31 |         |
|--|---|------------|--|---------|
|  | 2006  | 2005       | 2006   | 2005    |
| <b>Assets</b>  |   |            |  |         |
| Financial assets at fair value through profit or loss - current    | \$ 59,119   | \$ 34,986  | \$   | \$      |
| Available-for-sale financial assets                                | 6,950,716   | 14,136,195 |  |         |
| Financial assets at fair value through profit or loss - noncurrent |   |            |  | 481,410 |
| <b>Liabilities</b>   |   |            |  |         |
| Financial liabilities at fair value through profit or loss         | 24,844  |            |  |         |

d. Information about financial risks

1) Market risk

The foreign exchange rate fluctuations would result in the Company's foreign-currency-dominated assets and liabilities and open forward exchange contracts exposed to fair value risk and cash flow risk.

The fluctuations of market price would result in the index future contracts exposed to fair value risk and cash flow risk.

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

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Group if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management believes that the Group's exposure to default by those parties is low.

3) Liquidation risk

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

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

**31. ADDITIONAL DISCLOSURES**

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

- a. Financing provided: Please see Table 1.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Please see Table 2.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: Please see Table 5.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: None.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: None.
- i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 6.
- j. Financial transaction: Please see Notes 6 and 30.
- k. Investment in Mainland China: None.
- l. Intercompany relationships and significant intercompany transaction: Please see Table 8.

**32. SEGMENT INFORMATION**

a. Industry

The financial information of the Group by industry: Please see Table 7.

b. Geographic

As of December 31, 2006, the Group had established a foreign operation in Hong Kong, but not on operating stage yet.

c. Foreign revenue

The foreign revenue of the Group is less than 10% of total sales.

d. Major customers

No single customer accounts for the Group more than 10% of total revenues.

- 40 -

**TABLE 1****CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES****FINANCING PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2006****(Amounts in Thousands of New Taiwan Dollars)**

| No. | Financing Name       | Counter-party                     | Financial Statement Account      | Maximum Balance for the Period Ending | Interest Rate | Type of Transaction                 | Reasons for short-term financing | Allowance for Doubtful Accounts | Collateral Value | Financing Limit for Each Company | Financing Amount                |
|-----|----------------------|-----------------------------------|----------------------------------|---------------------------------------|---------------|-------------------------------------|----------------------------------|---------------------------------|------------------|----------------------------------|---------------------------------|
| 1   | CHIEF Telecom        | CHIEF Telecom (Hong Kong) Limited | Other receivable - related party | \$ 879<br>(Note 1)                    |               | Necessary for short-term financing. | For revolving fund               |                                 |                  |                                  | \$ 274,069<br>(Note 3) (Note 4) |
| 2   | Unigate Telecom Inc. | CHIEF Telecom                     | Other receivable - related party | 9,877<br>(Note 2)                     | 4%            | Necessary for short-term financing. | For revolving fund               |                                 |                  | 813,696<br>(Note 3)              | 274,069<br>(Note 4)             |

Note 1: CHIEF Telecom receive the payment on October 27, 2006.

Note 2: CHIEF Telecom repaid the payment on October 20, 2006.

Note 3: According to CHIEF Telecom's Operational Procedures for Loaning Funds to Others, the amount shall not exceed 2.5 times of the lender's net worth.

Note 4: According to CHIEF Telecom's Operational Procedures for Loaning Funds to Others, the amount shall not exceed 50% of CHIEF Telecom's paid-up capital.

**TABLE 2****CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2006****(Amounts in Thousands of New Taiwan Dollars)**

|                             |  |                               |   | December 31, 2006              |                      |                         |
|-----------------------------|--|-------------------------------|---|--------------------------------|----------------------|-------------------------|
| Company Name                | Marketable Securities Type and Name            | Relationship with the Company | Financial Statement Account                   | Shares                         | Carrying Value       | Percentage of Ownership |
|                             |  |                               |   | (Thousands/<br>Thousand Units) |                      |                         |
| Chung Hwa Telecom Co., Ltd. | <u>Common stock</u>                            |                               |   |                                |                      |                         |
|                             | Chung Hwa Investment Co., Ltd.                 | Equity-accounted investee     | Investments accounted for using equity method | 98,000 \$                      | 974,805              | 49 \$                   |
|                             | Taiwan International Standard Electronics      | Equity-accounted investee     | Investments accounted for using equity method | 1,760                          | 609,004              | 40                      |
|                             | Spring House Entertainment Inc.                | Equity-accounted investee     | Investments accounted for using equity method | 2,016                          | 17,761               | 30                      |
|                             | CHIEF Telecom                                  | Subsidiary                    | Investments accounted for using equity method | 38,370                         | 273,411<br>(Note 8)  | 70                      |
|                             | New Prospect Investments Holdings Ltd. (B.V.I) | Subsidiary                    | Investments accounted for using equity method |                                | US\$ (1)             | 100<br>US\$             |
|                             | Prime Asia Investments Group Ltd. (B.V.I)      | Subsidiary                    | Investments accounted for using equity method |                                | US\$ (1)<br>(Note 8) | 100<br>US\$             |
|                             | Chung Hwa International Yellow Pages Co., Ltd  | Subsidiary                    | Prepayment for long-term investment           | 15,000                         | 150,000              | 100                     |
|                             | Taipei Financial Center                        |                               | Financial assets carried at cost              | 288,211                        | 1,789,530            | 12                      |
|                             | RPTI International                             |                               | Financial assets carried at cost              | 9,234                          | 71,500               | 12                      |
|                             | iD Branding Ventures                           |                               | Financial assets carried at cost              | 7,500                          | 75,000               | 8                       |
|                             | Siemens Telecommunication Systems              |                               | Financial assets carried at cost              | 75                             | 5,250                | 15                      |
|                             | Formosa Chemicals & Fiber Corporation          |                               | Available-for-sale financial assets           | 90                             | 4,548                |                         |
|                             | Fu Sheng Group                                 |                               | Available-for-sale financial assets           | 240                            | 7,201                |                         |
|                             | Oriental Union Chemical Corporation            |                               | Available-for-sale financial assets           | 320                            | 6,521                |                         |
|                             | China Motor Corporation                        |                               | Available-for-sale financial assets           | 417                            | 12,149               |                         |
|                             | Lite-On Technology Corporation                 |                               | Available-for-sale financial assets           | 150                            | 5,994                |                         |
|                             | D-Link Corporation                             |                               | Available-for-sale financial assets           | 258                            | 8,216                |                         |
|                             | Realtek Semiconductor Corp.                    |                               | Available-for-sale financial assets           | 21                             | 668                  |                         |
|                             | Sinoking Technology Development Ltd.           |                               | Available-for-sale financial assets           | 250                            | 7,351                |                         |
|                             | ZyXEL Communications Corp.                     |                               | Available-for-sale financial assets           | 268                            | 10,742               |                         |
|                             | Sunplus Innovation Technology Inc.             |                               | Available-for-sale financial assets           | 160                            | 5,160                |                         |
|                             | Taiwan Life Insurance                          |                               | Available-for-sale financial assets           | 142                            | 5,587                |                         |
|                             | Lite-On IT Corporation                         |                               | Available-for-sale financial assets           | 350                            | 9,429                |                         |
|                             | Norm Pacific Automation Corp.                  |                               | Available-for-sale financial assets           | 130                            | 3,739                |                         |
|                             | <u>Stock</u>                                   |                               |   |                                |                      |                         |
|                             | Acerinox Sa EUR0.25                            |                               | Available-for-sale financial assets           | 10                             | 7,014                |                         |
|                             | Agf - Assur Gen De France                      |                               | Available-for-sale financial assets           | 2                              | 7,156                |                         |
|                             | Air France-Klm EUR8.50                         |                               | Available-for-sale financial assets           | 7                              | 6,943                |                         |
|                             | Alleanza Assicurazioni EUR 0.5                 |                               | Available-for-sale financial assets           | 18                             | 6,834                |                         |

(Continued)

|                   |  |                               |                                     | December 31, 2006 |          |                         |             |
|-------------------|--|-------------------------------|-------------------------------------|-------------------|----------|-------------------------|-------------|
|                   |  |                               |                                     | Shares            |          | Market Value            |             |
|                   |  |                               |                                     | Carrying Value    |          | Net                     |             |
|                   |  |                               |                                     | (Thousands/       |          | Asset                   |             |
|                   |  |                               |                                     | (Note             |          | Value                   |             |
|                   |  |                               |                                     | Percentage of     |          | Net                     |             |
|                   |  |                               |                                     | Ownership         |          | Value                   |             |
|                   |  |                               |                                     | Thousand Units)   |          | Value                   |             |
|                   |  |                               |                                     | 6)                |          | Value                   |             |
|                   |  |                               |                                     | 6)                |          | Value                   |             |
| Held Company Name | Marketable Securities Type and Name        | Relationship with the Company | Financial Statement Account         | Thousand Units)   | (Note 6) | Percentage of Ownership | Asset Value |
|                   | Allianz Se-Reg Cmzb 10 1/2 05/31/07        |                               | Available-for-sale financial assets | 1                 | \$ 6,899 |                         | \$ 7,979    |
|                   | Alstom                                     |                               | Available-for-sale financial assets | 2                 | 6,884    |                         | 8,588       |
|                   | Anglo Irish Bank Corp Plc EUR0.16          |                               | Available-for-sale financial assets | 13                | 6,996    |                         | 8,510       |
|                   | Asml Holding Nv Ord                        |                               | Available-for-sale financial assets | 9                 | 6,839    |                         | 7,276       |
|                   | Assicurazioni Generali EUR1                |                               | Available-for-sale financial assets | 6                 | 6,848    |                         | 7,904       |
|                   | Banco Popolare Di Verona E N EUR3.6        |                               | Available-for-sale financial assets | 7                 | 6,769    |                         | 6,950       |
|                   | Banco Santander Central Hisp EUR0.50       |                               | Available-for-sale financial assets | 13                | 6,835    |                         | 8,019       |
|                   | Bnp Paribas Ord Shs                        |                               | Available-for-sale financial assets | 2                 | 6,930    |                         | 6,901       |
|                   | Continental Ag Ord Npv                     |                               | Available-for-sale financial assets | 2                 | 6,869    |                         | 6,845       |
|                   | Credit Agricole Sa EUR3                    |                               | Available-for-sale financial assets | 5                 | 6,865    |                         | 6,445       |
|                   | Crh Plc Ord EUR0.32                        |                               | Available-for-sale financial assets | 6                 | 6,912    |                         | 8,284       |
|                   | Enel                                       |                               | Available-for-sale financial assets | 23                | 6,799    |                         | 7,636       |
|                   | Eni Spa EUR1                               |                               | Available-for-sale financial assets | 7                 | 6,766    |                         | 7,733       |
|                   | Fomento De Construc Y Contra               |                               | Available-for-sale financial assets | 2                 | 6,988    |                         | 8,222       |
|                   | Fugro Nv-Cva EUR0.05                       |                               | Available-for-sale financial assets | 5                 | 6,643    |                         | 7,829       |
|                   | Heineken Nv Ord Nr                         |                               | Available-for-sale financial assets | 5                 | 6,789    |                         | 7,090       |
|                   | Inbev Nv Npv                               |                               | Available-for-sale financial assets | 4                 | 6,789    |                         | 8,134       |
|                   | Inditex Reg Shs                            |                               | Available-for-sale financial assets | 4                 | 6,827    |                         | 7,873       |
|                   | Kon Kpv Nv Shs                             |                               | Available-for-sale financial assets | 16                | 6,795    |                         | 7,516       |
|                   | L'oreal EUR0.20                            |                               | Available-for-sale financial assets | 2                 | 6,874    |                         | 6,741       |
|                   | M.A.N Ag Ord                               |                               | Available-for-sale financial assets | 2                 | 6,266    |                         | 6,495       |
|                   | Muenchener Rueckver Ag-Reg Npv (Regd)      |                               | Available-for-sale financial assets | 1                 | 6,806    |                         | 7,290       |
|                   | Neopost Sa EUR1                            |                               | Available-for-sale financial assets | 2                 | 7,147    |                         | 7,103       |
|                   | Randstad Holding Nv EUR0.10                |                               | Available-for-sale financial assets | 3                 | 7,042    |                         | 7,504       |
|                   | Royal Dutch Shell Plc-A Shs A shs EUR0.07  |                               | Available-for-sale financial assets | 6                 | 6,727    |                         | 7,316       |
|                   | Ryanair Holdings Plc Ord EUR0.0127         |                               | Available-for-sale financial assets | 17                | 7,007    |                         | 7,575       |
|                   | Saipem EUR1                                |                               | Available-for-sale financial assets | 10                | 6,681    |                         | 8,331       |
|                   | Sbm Offshore Nv EUR0.25 (Post Subdivision) |                               | Available-for-sale financial assets | 8                 | 6,797    |                         | 8,671       |
|                   | Schneider Electric Sa EUR8                 |                               | Available-for-sale financial assets | 2                 | 6,852    |                         | 6,657       |
|                   | Societe Generale EUR1.25                   |                               | Available-for-sale financial assets | 1                 | 6,937    |                         | 7,342       |
|                   | Solvay Sa Npv Npv                          |                               | Available-for-sale financial assets | 2                 | 6,708    |                         | 7,632       |
|                   | Telekom Austria Ag Ord Shs                 |                               | Available-for-sale financial assets | 9                 | 7,061    |                         | 7,818       |
|                   | Thyssenkrupp Ag Npv Npv                    |                               | Available-for-sale financial assets | 6                 | 6,788    |                         | 9,567       |
|                   | Umicore Act                                |                               | Available-for-sale financial assets | 1                 | 6,780    |                         | 7,819       |
|                   | Vallourec EUR4 (Post Subdivision)          |                               | Available-for-sale financial assets | 1                 | 6,659    |                         | 8,445       |
|                   | Vinci Sa EUR5                              |                               | Available-for-sale financial assets | 2                 | 6,812    |                         | 7,792       |
|                   | Aegis Group Plc Gbp0.05                    |                               | Available-for-sale financial assets | 58                | 4,847    |                         | 5,214       |
|                   | Aggreko Plc Ord                            |                               | Available-for-sale financial assets | 21                | 4,805    |                         | 5,920       |
|                   | Anglo American Plc Ord USD0.50             |                               | Available-for-sale financial assets | 3                 | 4,745    |                         | 5,014       |
|                   | Arm Holdings Plc Ord GBP0.0005             |                               | Available-for-sale financial assets | 65                | 4,728    |                         | 5,201       |
|                   | Astrazeneca Plc Ord USD0.25                |                               | Available-for-sale financial assets | 2                 | 4,811    |                         | 4,231       |
|                   | Aviva Plc Ordinary 25p Shares              |                               | Available-for-sale financial assets | 10                | 4,683    |                         | 5,141       |
|                   | Bae Systems Ord 2.5p                       |                               | Available-for-sale financial assets | 18                | 4,624    |                         | 4,974       |
|                   | Balfour Beatty Plc GBP0.50                 |                               | Available-for-sale financial assets | 19                | 4,712    |                         | 5,362       |
|                   | Barclays Ord GBP0.25                       |                               | Available-for-sale financial assets | 11                | 4,694    |                         | 5,029       |
|                   | Barratt Developments Plc Ord               |                               | Available-for-sale financial assets | 7                 | 4,763    |                         | 5,735       |
|                   | Bhp Billiton Plc US\$0.50                  |                               | Available-for-sale financial assets | 7                 | 4,693    |                         | 4,384       |

(Continued)

|                   |   |                               |                                     | December 31, 2006 |          |              |
|-------------------|---|-------------------------------|-------------------------------------|-------------------|----------|--------------|
|                   |   |                               |                                     | Shares            |          | Market Value |
|                   |   |                               |                                     | Carrying          |          |              |
|                   |   |                               |                                     | (Thousands/       | Value    | Net          |
| Held Company Name | Marketable Securities Type and Name               | Relationship with the Company | Financial Statement Account         | Thousand Units)   | (Note 6) |              |
|                   | Bp Plc Ord US\$0.25                               |                               | Available-for-sale financial assets | 16                | \$ 5,967 | \$ 5,922     |
|                   | Bt Group Ord GBP0.05                              |                               | Available-for-sale financial assets | 27                | 4,785    | 5,280        |
|                   | Burberry Group Plc Ord GBP0.0005                  |                               | Available-for-sale financial assets | 14                | 4,776    | 5,607        |
|                   | Cable & Wireless Plc Ord GBP0.25                  |                               | Available-for-sale financial assets | 52                | 4,714    | 5,242        |
|                   | De La Rue Ord GBP0.2777                           |                               | Available-for-sale financial assets | 12                | 4,750    | 5,064        |
|                   | Firstgroup Plc                                    |                               | Available-for-sale financial assets | 14                | 4,765    | 5,243        |
|                   | Glaxosmithkline Plc Ord GBP0.25                   |                               | Available-for-sale financial assets | 3                 | 2,697    | 2,629        |
|                   | Imi Plc Ord GBP0.25                               |                               | Available-for-sale financial assets | 14                | 4,721    | 4,647        |
|                   | Intercontinental Hotels Grou Ord GBP0.114285      |                               | Available-for-sale financial assets | 8                 | 4,713    | 6,091        |
|                   | Marks & Spencer Group Plc Ord GBP0.25             |                               | Available-for-sale financial assets | 12                | 4,763    | 5,328        |
|                   | Morrison <Wm.> Supermarkets Ord GBP0.10           |                               | Available-for-sale financial assets | 29                | 4,752    | 4,776        |
|                   | Reckitt Benckiser Ord GBP0.105263 Ord GBP0.105263 |                               | Available-for-sale financial assets | 3                 | 4,785    | 4,964        |
|                   | Royal Dutch Shell Plc-A Shs A shs EUR0.07         |                               | Available-for-sale financial assets | 1                 | 1,408    | 1,438        |
|                   | Scot + Sthn Energy Ord GBP0.50                    |                               | Available-for-sale financial assets | 6                 | 4,771    | 5,713        |
|                   | Scot Power Plc Ord GBP0.42                        |                               | Available-for-sale financial assets | 12                | 4,717    | 5,512        |
|                   | Tate & Lyle Plc Ord GBP0.25                       |                               | Available-for-sale financial assets | 9                 | 4,296    | 4,283        |
|                   | Vodafone Group Plc Ord USD0.11428571              |                               | Available-for-sale financial assets | 20                | 1,675    | 1,794        |
|                   | Xstrata Plc Ord USD0.50                           |                               | Available-for-sale financial assets | 3                 | 4,693    | 5,325        |
|                   | Asahi Kasei Corp Ord                              |                               | Available-for-sale financial assets | 17                | 3,431    | 3,629        |
|                   | Canon Inc Ord                                     |                               | Available-for-sale financial assets | 2                 | 3,334    | 3,672        |
|                   | Dainippon Ink & Chemicals                         |                               | Available-for-sale financial assets | 28                | 3,440    | 3,560        |
|                   | Eisai Co Ltd                                      |                               | Available-for-sale financial assets | 2                 | 3,446    | 3,584        |
|                   | Elpida Memory Inc Npv                             |                               | Available-for-sale financial assets | 2                 | 3,414    | 4,122        |
|                   | Familymart Co Ltd Familymart Co Ltd               |                               | Available-for-sale financial assets | 4                 | 3,256    | 3,463        |
|                   | Fanuc Ltd   |                               | Available-for-sale financial assets | 1                 | 3,535    | 3,854        |
|                   | Glory Ltd Npv                                     |                               | Available-for-sale financial assets | 6                 | 3,500    | 3,420        |
|                   | Hankyu Department Stores                          |                               | Available-for-sale financial assets | 13                | 3,410    | 3,534        |
|                   | Itochu Techno-Solutions Corp Npv                  |                               | Available-for-sale financial assets | 2                 | 3,284    | 3,122        |
|                   | Kawasaki Kisen Kaisha Ltd Npv                     |                               | Available-for-sale financial assets | 16                | 3,562    | 4,082        |
|                   | Konica Corp Shs                                   |                               | Available-for-sale financial assets | 7                 | 3,292    | 3,223        |
|                   | Kyocera Corp Ord                                  |                               | Available-for-sale financial assets | 1                 | 3,384    | 3,690        |
|                   | Mitsubishi Corp Ord                               |                               | Available-for-sale financial assets | 6                 | 3,407    | 3,683        |
|                   | Mitsubishi Ufj Financial Gro Npv                  |                               | Available-for-sale financial assets |                   | 3,441    | 3,625        |
|                   | Mitsui Fudosan Co Ltd                             |                               | Available-for-sale financial assets | 5                 | 3,633    | 3,980        |
|                   | Nichirei Corp Npv                                 |                               | Available-for-sale financial assets | 19                | 3,488    | 3,473        |
|                   | Nikon Corp  |                               | Available-for-sale financial assets | 5                 | 3,268    | 3,576        |
|                   | Nintendo Corp Ltd                                 |                               | Available-for-sale financial assets | 1                 | 3,670    | 4,234        |
|                   | Nippon Electric Glass Co Ltd                      |                               | Available-for-sale financial assets | 5                 | 3,465    | 3,425        |
|                   | Nippon Mining Holdings Inc Npv                    |                               | Available-for-sale financial assets | 16                | 3,477    | 3,636        |
|                   | Nippon Steel Corp                                 |                               | Available-for-sale financial assets | 25                | 3,402    | 4,686        |
|                   | Nissan Motor Co Ltd                               |                               | Available-for-sale financial assets | 9                 | 3,348    | 3,377        |
|                   | Nsk Limited                                       |                               | Available-for-sale financial assets | 12                | 3,373    | 3,857        |
|                   | Olympus Corp Shs Jpy                              |                               | Available-for-sale financial assets | 3                 | 3,019    | 3,075        |
|                   | Sekisui Chemical Co                               |                               | Available-for-sale financial assets | 13                | 3,475    | 3,381        |
|                   | Shin Etsu Chemical Co Ltd JPY50                   |                               | Available-for-sale financial assets | 2                 | 3,288    | 3,494        |
|                   | Stanley Electric Co Ltd                           |                               | Available-for-sale financial assets | 5                 | 3,484    | 3,529        |

(Continued)



|   |  |                               | December 31, 2006                   |                |              |         |
|---|--|-------------------------------|-------------------------------------|----------------|--------------|---------|
|   |  |                               | Shares                              |                |              |         |
|   |  |                               | (Thousands/Carrying Value           |                | Market Value |         |
|   |  |                               | Percentage of                       |                | Net          |         |
|   |  |                               | Ownership                           |                | Asset        |         |
| Company Name                                  | Marketable Securities Type and Name          | Relationship with the Company | Financial Statement Account         | Thousand Units | (Note 6)     | Value   |
|   | Nordstrom Inc Com                            |                               | Available-for-sale financial assets | 4              | \$ 5,576     | \$ 6,08 |
|   | Novellus Sys Inc Com                         |                               | Available-for-sale financial assets | 6              | 5,621        | 6,79    |
|   | Nucor Corp Com Stk USD0.40                   |                               | Available-for-sale financial assets | 3              | 5,478        | 6,14    |
|   | Office Depot Inc Com                         |                               | Available-for-sale financial assets | 4              | 5,479        | 5,12    |
|   | Omnicom Group Inc Com                        |                               | Available-for-sale financial assets | 1              | 4,903        | 5,02    |
|   | Oracle Corp Com                              |                               | Available-for-sale financial assets | 9              | 5,524        | 5,20    |
|   | Pactiv Corp Com                              |                               | Available-for-sale financial assets | 6              | 5,500        | 6,83    |
|   | Principal Financial Group Com USD0.01        |                               | Available-for-sale financial assets | 3              | 5,475        | 5,89    |
|   | Quest Diagnostics Inc Com USD0.01            |                               | Available-for-sale financial assets | 3              | 5,460        | 5,75    |
|   | Robert Half Intl Inc Com                     |                               | Available-for-sale financial assets | 5              | 5,844        | 5,95    |
|   | Rockwell Collins Com                         |                               | Available-for-sale financial assets | 3              | 5,527        | 6,17    |
|   | Schlumberger Ltd Com USD0.01                 |                               | Available-for-sale financial assets | 3              | 5,505        | 5,88    |
|   | United States Steel Corp Com                 |                               | Available-for-sale financial assets | 3              | 5,522        | 7,21    |
|   | V F Corp Com                                 |                               | Available-for-sale financial assets | 2              | 5,440        | 5,96    |
|   | Waste Mgmt Inc Del Com                       |                               | Available-for-sale financial assets | 5              | 5,434        | 5,46    |
|   | Wellpoint Inc Common                         |                               | Available-for-sale financial assets | 2              | 5,464        | 5,53    |
| <b>Beneficiary certificates (mutual fund)</b> |  |                               |                                     |                |              |         |
|   | Sinopia Alt-GI Bd M/N 600\$ I Gbl Bd         |                               | Available-for-sale financial assets |                | 618,324      | 629,13  |
|   | Mkt Neutr 600 USD I                          |                               |                                     |                |              |         |
|   | Fuh Hwa Heirloom No. 2 Balanced Fund         |                               | Available-for-sale financial assets | 17,750         | 250,000      | 257,24  |
|   | HSBC Taiwan Safe & Rich Fund                 |                               | Available-for-sale financial assets | 4,827          | 80,000       | 91,57   |
|   | HSBC Global Balanced Select Fund             |                               | Available-for-sale financial assets | 5,284          | 60,000       | 65,80   |
|   | AIG Flagship Global Balanced Fund of Funds   |                               | Available-for-sale financial assets | 4,274          | 50,000       | 54,48   |
|   | ING CHB Tri-Gold Balanced Portfolio          |                               | Available-for-sale financial assets | 8,143          | 100,000      | 108,06  |
|   | Fubon Global Reit Fund                       |                               | Available-for-sale financial assets | 11,000         | 110,000      | 131,67  |
|   | Jih Sun Navigation No. 1 Fund                |                               | Available-for-sale financial assets | 5,000          | 50,050       | 54,05   |
|   | HSBC Trinity Balanced Fund                   |                               | Available-for-sale financial assets | 8,000          | 80,000       | 86,37   |
|   | JF (Taiwan) Pacific Balanced Fund            |                               | Available-for-sale financial assets | 10,000         | 100,000      | 106,92  |
|   | Polaris Global Reits Fund                    |                               | Available-for-sale financial assets | 16,018         | 200,000      | 221,84  |
|   | JF (Taiwan) Global Balance Fund              |                               | Available-for-sale financial assets | 13,331         | 150,000      | 167,07  |
|   | JF (Taiwan) Wealth Management Fund           |                               | Available-for-sale financial assets | 7,362          | 78,636       | 85,55   |
|   | Shinkong Strategy Balanced Fund              |                               | Available-for-sale financial assets | 18,348         | 199,108      | 208,23  |
|   | Fuh-Hua Home Run Fund                        |                               | Available-for-sale financial assets | 9,977          | 100,000      | 101,70  |
|   | Fuh-Hua Total Return Fund                    |                               | Available-for-sale financial assets | 9,872          | 100,000      | 104,93  |
|   | Fuh-Hua Elite Angel Fund                     |                               | Available-for-sale financial assets | 947            | 10,000       | 10,29   |
|   | JF (Taiwan) Balanced Fund                    |                               | Available-for-sale financial assets | 2,875          | 50,000       | 51,17   |
|   | Primasia S&P Global Fixed Income Fund        |                               | Available-for-sale financial assets | 4,673          | 50,000       | 50,65   |
|   | Franklin Templeton Global Bond Fund of Funds |                               | Available-for-sale financial assets | 9,196          | 100,000      | 100,51  |
|   | HSBC European Stars Fund                     |                               | Available-for-sale financial assets | 2,844          | 50,000       | 52,66   |
|   | Fuh-Hua Olympic Global Fund                  |                               | Available-for-sale financial assets | 8,993          | 100,000      | 100,89  |
|   | PCA Quality-Quantity Fund                    |                               | Available-for-sale financial assets | 4,514          | 50,000       | 52,68   |
|   | Capital Asset Allocation                     |                               | Available-for-sale financial assets | 7,753          | 100,000      | 108,95  |
|   | Fubon No. 1 Fund                             |                               | Available-for-sale financial assets | 10,000         | 100,000      | 121,50  |
|   | Cathay No. 2 REIT                            |                               | Available-for-sale financial assets | 5,000          | 50,000       | 57,70   |
|   | Fidelity Euro Bond Fund                      |                               | Available-for-sale financial assets | 695            | 334,593      | 349,13  |
|   | Credit Suisse BF (Lux) Euro Bond Fund        |                               | Available-for-sale financial assets | 16             | 236,233      | 255,31  |

(Continued)

|                       |  |            |   | December 31, 2006         |                    |               |                  |
|-----------------------|--|------------|---|---------------------------|--------------------|---------------|------------------|
|                       |  |            |   | Shares                    |                    |               |                  |
| Relationship with the |  |            |   | (Thousands/Carrying Value |                    | Percentage of | Market V         |
| Company Name          | Marketable Securities Type and Name    | Company    | Financial Statement Account                   | Thousand Units)           | (Note 6)           | Ownership     | Ne<br>Ass<br>Val |
|                       | Fidelity European Highyield Fund       |            | Available-for-sale financial assets           | 1,443                     | \$ 541,806         |               | \$ 598.          |
|                       | Parvest European Convertible Bond Fund |            | Available-for-sale financial assets           | 65                        | 324,708            |               | 374.             |
|                       | MFS Emerging Market Debt Fund          |            | Available-for-sale financial assets           | 622                       | 354,450            |               | 406.             |
|                       | GAM USD Special Bond Fund              |            | Available-for-sale financial assets           | 25                        | 353,540            |               | 394.             |
|                       | Fidelity US High Yield Fund            |            | Available-for-sale financial assets           | 458                       | 172,709            |               | 175.             |
|                       | Fidelity Euro Balanced Fund            |            | Available-for-sale financial assets           | 379                       | 203,104            |               | 230.             |
| EF Telecom Inc.       | Unigate Telecom Inc.                   | Subsidiary | Investments accounted for using equity method | 1,000                     | 10,159<br>(Note 8) | 100           | 10.              |
|                       | CHIEF Telecom (Hong Kong) Limited      | Subsidiary | Investments accounted for using equity method | 10                        | 1,373<br>(Note 8)  | 99            | 1.               |
|                       | eASPNet Inc.                           |            | Financial assets carried at cost              | 1,000                     |                    | 2             |                  |
|                       | 3 Link Information Service Co., Ltd.   |            | Financial assets carried at cost              | 374                       | 3,450              | 12            | 6.               |
|                       | Purple Communications Ltd.             |            | Financial assets carried at cost              | 857                       |                    |               |                  |
|                       | Truswell Pegasus Fund                  |            | Available-for-sale financial assets           | 6                         | 95                 |               |                  |

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: New Prospect Investments Holdings Ltd. (B.V.I) and Prime Asia Investments Group Ltd. (B.V.I) were incorporated in March 2006, but not on operating stage yet.

Note 4: The net asset values of beneficiary certification (mutual fund) were based on the net asset values as of December 31, 2006.

Note 5: Market value was based on the closing price of December 31, 2006.

Note 6: Available-for-sale financial assets and financial assets at fair value through profit and loss were showed at their original carrying amounts without the adjustments of fair values.

Note 7: The Company has acquired 100% shares of Chunghwa International Yellow Pages Co., Ltd. ( CIYP ) by prepaying \$150,000 thousand in December, 2006. CIYP finished registration on January 2, 2007.

Note 8: The amount are eliminated upon consolidation.

(Concluded)

**TABLE 3****CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES****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 YEAR ENDED DECEMBER 31, 2006****(Amounts in Thousands of New Taiwan Dollars)**

| Marketable Securities Type and Name         | Financial Statement Account         | Counter-party | Nature of Relationship | Beginning Balance                 |                 | Acquisition                       |         | Disposal                          |           | Carrying Value (Note 1) | Gain (Loss) on Disposal |
|---|-------------------------------------|---------------|------------------------|-----------------------------------|-----------------|-----------------------------------|---------|-----------------------------------|-----------|-------------------------|-------------------------|
|   |                                     |               |                        | Shares (Thousands/Thousand Units) | Amount (Note 1) | Shares (Thousands/Thousand Units) | Amount  | Shares (Thousands/Thousand Units) | Amount    |                         |                         |
| Ltd. Beneficiary certificates (mutual fund) |                                     |               |                        |                                   |                 |                                   |         |                                   |           |                         |                         |
| ADAM Global Bond Fund                       | Available-for-sale financial assets |               |                        | 9,286                             | \$ 100,000      |                                   | \$      | 9,286                             | \$ 98,888 | \$ 100,000              | \$ (1,112)              |
| NITC Taiwan Bond Fund                       | Available-for-sale financial assets |               |                        |                                   |                 | 14,385                            | 200,000 | 14,385                            | 202,532   | 200,000                 | 2,532                   |
| Prudential Financial Bond Fund              | Available-for-sale financial assets |               |                        |                                   |                 | 13,867                            | 200,000 | 13,867                            | 202,538   | 200,000                 | 2,538                   |
| Jih Sun Bond Fund                           | Available-for-sale financial assets |               |                        |                                   |                 | 14,847                            | 200,000 | 14,847                            | 202,448   | 200,000                 | 2,448                   |
| INVESTCO ROC Bond Fund                      | Available-for-sale financial assets |               |                        | 45,998                            | 675,000         |                                   |         | 45,998                            | 679,933   | 675,000                 | 4,933                   |
| Barits Bond Fund                            | Available-for-sale financial assets |               |                        | 40,857                            | 490,000         |                                   |         | 40,857                            | 494,147   | 490,000                 | 4,147                   |
| FUBON Ju-I III Fund                         | Available-for-sale financial assets |               |                        | 41,413                            | 500,000         |                                   |         | 41,413                            | 504,046   | 500,000                 | 4,046                   |
| Fuhwa APEX Bond Fund                        | Available-for-sale financial assets |               |                        | 25,752                            | 300,000         |                                   |         | 25,752                            | 302,629   | 300,000                 | 2,629                   |
| Fuh-Hwa Albatross Fund                      | Available-for-sale financial assets |               |                        | 11,679                            | 130,000         |                                   |         | 11,679                            | 131,218   | 130,000                 | 1,218                   |
| Shinkong Chi-Shin Fund                      | Available-for-sale financial assets |               |                        | 77,829                            | 1,100,000       |                                   |         | 77,829                            | 1,113,221 | 1,100,000               | 13,221                  |
| TIIM High Yield Fund                        | Available-for-sale financial assets |               |                        | 42,545                            | 519,555         | 4,907                             | 60,000  | 47,452                            | 588,374   | 579,555                 | 8,819                   |
| Fuh-Hwa YouLi Fund                          | Available-for-sale financial assets |               |                        |                                   |                 | 16,345                            | 200,000 | 16,345                            | 202,664   | 200,000                 | 2,664                   |
| MFS Emerging Market Debt Fund               | Available-for-sale financial assets |               |                        | 351                               | 192,600         | 271                               | 161,850 |                                   |           |                         |                         |
| GAM USD Special Bond Fund                   | Available-for-sale financial assets |               |                        | 14                                | 191,520         | 11                                | 162,020 |                                   |           |                         |                         |
| Fidelity US High Yield Fund                 | Available-for-sale financial assets |               |                        |                                   |                 | 458                               | 172,709 |                                   |           |                         |                         |
| JF (Taiwan) First Bond Fund                 | Available-for-sale financial assets |               |                        | 72,139                            | 1,000,000       |                                   |         | 72,139                            | 1,013,310 | 1,000,000               | 13,310                  |
| JF (Taiwan) Bond Fund                       | Available-for-sale financial assets |               |                        | 66,450                            | 1,000,000       |                                   |         | 66,450                            | 1,013,423 | 1,000,000               | 13,423                  |

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|  |                                     |        |           |        |         |         |           |           |      |
|--|-------------------------------------|--------|-----------|--------|---------|---------|-----------|-----------|------|
| Dresdner Bond DAM  | Available-for-sale financial assets | 70,008 | 800,000   |        |         | 70,008  | 810,886   | 800,000   | 10   |
| ABN AMRO Bond Fund                                       | Available-for-sale financial assets | 60,579 | 900,000   |        |         | 60,579  | 912,552   | 900,000   | 12   |
| ABN AMRO Select Bond Fund                                | Available-for-sale financial assets | 89,476 | 1,000,000 |        |         | 89,476  | 1,013,726 | 1,000,000 | 13   |
| HSBC Taiwan Dragon                                       | Available-for-sale financial assets | 13,147 | 200,000   |        |         | 13,147  | 202,523   | 200,000   | 2    |
| NITC Bond  | Available-for-sale financial assets | 12,326 | 2,000,000 |        |         | 12,326  | 2,027,524 | 2,000,000 | 27   |
| Tasihin Lucky Fund                                       | Available-for-sale financial assets | 9,881  | 100,000   |        |         | 9,881   | 101,272   | 100,000   | 1    |
| Fuh-Hwa Heirloom No. 2 Balance Fund                      | Available-for-sale financial assets |        |           | 28,051 | 390,000 | 10,301  | 148,452   | 140,000   | 8    |
| Capital Asset Allocation                                 | Available-for-sale financial assets |        |           | 7,753  | 100,000 |         |           |           |      |
| Polaris Global Reits Fund                                | Available-for-sale financial assets | 10,000 | 100,000   | 21,018 | 252,250 | 15,000  | 171,649   | 152,250   | 19   |
| HSBC Taiwan Safe & Rich Fund                             | Available-for-sale financial assets |        |           | 6,637  | 110,000 | 1,810   | 31,878    | 30,000    | 1    |
| ING CHB Tri-Gold Balanced                                | Available-for-sale financial assets |        |           | 8,143  | 100,000 |         |           |           |      |
| Portfolio  |                                     |        |           |        |         |         |           |           |      |
| HSBC Trinity Balanced Fund                               | Available-for-sale financial assets | 25,000 | 250,000   |        |         | 17,000  | 176,117   | 170,000   | 6    |
| Franklin Templeton Global Bond Fund of Funds             | Available-for-sale financial assets |        |           | 9,196  | 100,000 |         |           |           |      |
| SKIT Strategy Balanced Fund                              | Available-for-sale financial assets | 9,396  | 100,000   | 13,641 | 150,000 | 4,689   | 52,251    | 50,892    | 1    |
| Fuh-Hwa Olympic Global Fund                              | Available-for-sale financial assets |        |           | 8,993  | 100,000 |         |           |           |      |
| Fidelity Euro Bond Fund                                  | Available-for-sale financial assets | 1,256  | 604,960   | 26     | 12,427  | 587     | 280,897   | 282,794   | (1)  |
| Credit Suisse BF (Lux) Euro Bond                         | Available-for-sale financial assets | 41     | 601,003   |        |         | 25      | 365,907   | 364,770   | 1    |
| Fund   |                                     |        |           |        |         |         |           |           |      |
| Fidelity European Highyield Fund                         | Available-for-sale financial assets | 539    | 193,500   | 904    | 348,306 |         |           |           |      |
| Pervext European Convertible                             | Available-for-sale financial assets |        |           | 65     | 324,708 |         |           |           |      |
| Bond Fund  |                                     |        |           |        |         |         |           |           |      |
| Sinopia Alt-Gl Bd M/N 600 \$I Gbl Bd Mkt Neutr 600 USD I | Available-for-sale financial assets |        |           |        |         | 618,324 |           |           |      |
| Fidelity Euro Balanced Fund                              | Available-for-sale financial assets |        |           | 379    | 203,104 |         |           |           |      |
| Yuanta Structured Principal                              | Available-for-sale financial assets | 50,000 | 500,000   |        |         | 50,000  | 473,666   | 500,000   | (26) |
| Protected Private  | - noncurrent                        |        |           |        |         |         |           |           |      |

Placement

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Note 1: Available-for-sale financial assets and financial assets at fair value through profit and loss are showed at their original carrying amounts without the adjustments of fair values.

**TABLE 4****CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES****ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2006****(Amounts in Thousands of New Taiwan Dollars)**

| Name                        | Property | Transaction Date | Transaction Amount | Payment Term | Counter-party                                  | Nature of Relationship | Prior Transactions with Related Counter-party |              | Price Reference | Purpose of Acquisition    |
|-----------------------------|----------|------------------|--------------------|--------------|--|------------------------|---|--------------|-----------------|---------------------------|
|                             |          |                  |                    |              |  |                        | Owner   | Relationship |                 |                           |
| Chung Hwa Telecom Co., Ltd. | Building | 2006.2.17        | \$ 754,444         | Paid         | Steve Lin Architect and Associates             | None                   |   |              | \$              | Bidding New office        |
|                             | Building | 2006.3.13        | 178,880            | Paid         | Taiwan Bank                                    | None                   |   |              |                 | Bidding New office        |
|                             | Building | 2006.9.25        | 191,996            | Paid         | Joe-Team Machinery Engineering Co., Ltd., etc. | None                   |   |              |                 | Bidding Operating purpose |

**TABLE 5****CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES****DISPOSAL OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2006**

(Amounts in Thousands of New Taiwan Dollars)

| Company Name                | Property   | Date of Disposal | Date of Obtained                        | Carrying Amount | Transaction Amount | Receipt Condition | Disposed Gain(Loss) | Parties Involved          | Relation with the Corporation | Purpose            | Reference for Price Settlement                  | Other Limitation |
|-----------------------------|--|------------------|---|-----------------|--------------------|-------------------|---------------------|---------------------------|-------------------------------|--------------------|---|------------------|
| Chunghwa Telecom. Co., Ltd. | Land and building (No. 23 and 26, Jing Ping Duan, Zhong He City) | 2006.12.28       | Acquired from October 1965 to June 2000 | \$229,600       | \$764,436          | Received          | \$534,836           | Kindom Construction Corp. |                               | Revitalized assets | According to appraisal report: Negotiated price |                  |

**TABLE 6****CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****FOR THE YEAR ENDED DECEMBER 31, 2006****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Company                     | Investee Company                               | Location  | Main Businesses and Products  | Original Investment Amount |                   | Balance as of December 31, 2006 |                             | Carrying Value           | Net Income (Loss) of the Investee | Recognized Gain (Loss)   | Note                    |
|-----------------------------|--|---|---|----------------------------|-------------------|---------------------------------|-----------------------------|--------------------------|-----------------------------------|--------------------------|-------------------------|
|                             |  |   |   | December 31, 2006          | December 31, 2005 | Shares (Thousands)              | Percentage of Ownership (%) |                          |                                   |                          |                         |
| Chungghwa Telecom Co., Ltd. | Chungghwa Investment Co., Ltd.                 | 24F, No. 456, Hsinyi Rd., Sec. 4, Taipei                                    | Investment  | \$ 980,000                 | \$ 980,000        | 98,000                          | 49                          | \$ 974,805               | \$ 51,269                         | \$ 25,122 (Note 1)       | Equity-account investee |
|                             | 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                          | 609,004                  | 22,877                            | 76,451 (Note 2)          | Equity-account investee |
|                             | CHIEF Telecom                                  | 1F., No. 250, Yang Guang Street, Nei Hu District, Taipei                    | Network communication and engine room hiring  | 310,652                    |                   | 38,370                          | 70                          | 273,411 (Note 5)         | (44,239)                          | (37,178) (Notes 3 and 5) | Subsidiary              |
|                             | Spring House Entertainment Inc.                | 3F-3, NO.3-2, Li Yuan District, San Zhong, Nan Gang District Street, Taipei | Network content manufacture broadcasts and information software                               | 22,409                     |                   | 2,016                           | 30                          | 17,761                   | (15,564)                          | (4,669) (Note 1)         | Equity-account investee |
|                             | New Prospect Investments Holdings Ltd.(B.V.I.) | British Virgin Islands  | Investment  | US\$ (1) (Note 4)          |                   |                                 | 100                         | US\$ (1) (Notes 4 and 5) |                                   | (Notes 1 and 5)          | Subsidiary              |
|                             | Prime Asia Investments Group Ltd.(B.V.I.)      | British Virgin Islands  | Investment  | US\$ (1) (Note 4)          |                   |                                 | 100                         | US\$ (1) (Notes 4 and 5) |                                   | (Notes 1 and 5)          | Subsidiary              |
| CHIEF Telecom               | Unigate Telecom Inc.                           | 1F.,No.250,Yang Guang Street, Nei Hu District, Taipei                       | Network communication and engine room hiring.   | 10,000                     | 10,000            | 1,000                           | 100                         | 10,159 (Note 5)          | 121                               | 121 (Notes 1 and 5)      | Subsidiary              |
|                             | CHIET Telecom (Hong Kong) Limited              | Hong Kong   | Telecom and internet service  | 44                         | 44                | 10                              | 99                          | 1,373 (Note 5)           | (78)                              | (78) (Notes 1 and 5)     | Subsidiary              |

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 \$9,151 thousand was calculated from audited financial statements plus a gain on realized upstream transactions of \$114,481 thousand less a gain on unrealized upstream transactions of \$47,181 thousand.

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Note 3: The equity in net loss of an unconsolidated Company amounted to \$30,967 thousand was calculated from audited financial statements less amortization between the investment cost and net value \$6,211 thousand.

Note 4: New Prospect Investments Holdings Ltd. (B.V.I) and Prime Asia Investments Group Ltd. (B.V.I) were incorporated in March, 2006 but not on operating stage yet.

Note 5: The amount are eliminated upon consolidation.

- 51 -

**TABLE 7****CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES****INDUSTRY FINANCIAL INFORMATION****FOR THE YEAR ENDED DECEMBER 31, 2006****(Amount in Thousands of New Taiwan Dollars)**

|  | Local<br>Telephone<br>Service | Domestic<br>Long<br>Distance<br>Call<br>Service | International<br>Long<br>Distance<br>Call<br>Service | Cellular<br>Service | Paging<br>Service | Internet<br>and Data<br>Service<br>(Note 6) | All Other     | Adjustment      | Total          |
|--|-------------------------------|---|--|---------------------|-------------------|---|---------------|-----------------|----------------|
| <b>Year ended December 31, 2006</b>              |                               |   |  |                     |                   |   |               |                 |                |
| Service revenues from external customers         | \$ 37,364,097                 | \$ 9,824,358                                    | \$ 13,977,600  | \$ 72,976,557       | \$ 67,891         | \$ 46,326,083                               | \$ 3,991,048  | \$              | \$ 184,527,634 |
| Intersegment service revenues (Note 2)           | 18,789,602                    | 2,528,553                                       | 883  | 3,201,930           | 820               | 14,562,054                                  | 164,527       | (39,248,369)    |                |
| Total service revenues                           | \$ 56,153,699                 | \$ 12,352,911                                   | \$ 13,978,483  | \$ 76,178,487       | \$ 68,711         | \$ 60,888,137                               | \$ 4,155,575  | \$ (39,248,369) | \$ 184,527,634 |
| Segment income before income tax (Note 3)        | \$ 1,390,422                  | \$ 6,861,933                                    | \$ 2,861,437   | \$ 29,824,367       | \$ (34,422)       | \$ 20,708,774                               | \$ (286,274)  | \$              | \$ 61,326,237  |
| Interest income                                  |                               |   |  |                     |                   |   |               |                 | 803,975        |
| Equity in net gain of unconsolidated companies   |                               |   |  |                     |                   |   |               |                 | 96,904         |
| Other income                                     |                               |   |  |                     |                   |   |               |                 | 3,670,615      |
| Interest expense                                 |                               |   |  |                     |                   |   |               |                 | (4,072)        |
| General expense (Note 4)                         |                               |   |  |                     |                   |   |               |                 | (4,143,467)    |
| Other expense                                    |                               |   |  |                     |                   |   |               |                 | (4,120,119)    |
| Income before tax                                |                               |   |  |                     |                   |   |               |                 | \$ 57,630,073  |
| Reportable assets (Note 5)                       | \$ 180,609,843                | \$ 5,078,010                                    | \$ 9,860,159   | \$ 59,829,886       | \$ 281,589        | \$ 91,717,821                               | \$ 23,391,302 | \$              | \$ 370,768,610 |
| Investment in unconsolidated companies and funds |                               |   |  |                     |                   |   |               |                 | 5,696,300      |
| Other assets                                     |                               |   |  |                     |                   |   |               |                 | 84,930,944     |
| Total assets                                     |                               |   |  |                     |                   |   |               |                 | \$ 461,395,854 |
| Depreciation expenses                            | \$ 18,131,845                 | \$ 662,368                                      | \$ 549,986   | \$ 7,516,539        | \$ 3,911          | \$ 12,402,506                               | \$ 685,403    |                 |                |
| Expenditures for segment assets                  | \$ 5,066,412                  | \$  | \$ 349,797   | \$ 9,405,460        | \$                | \$ 12,481,839                               | \$ 359,593    |                 |                |
| <b>Year ended December 31, 2005</b>              |                               |   |  |                     |                   |   |               |                 |                |
| Service revenues from external customers         | \$ 39,817,093                 | \$ 10,867,980                                   | \$ 14,480,885  | \$ 72,770,629       | \$ 133,981        | \$ 42,144,613                               | \$ 3,166,670  | \$              | \$ 183,381,851 |
| Intersegment service revenues (Note 2)           | 17,358,793                    | 2,400,164                                       | 753  | 1,167,342           | 956               | 14,806,290                                  | 15,788        | (35,750,086)    |                |
| Total service revenues                           | \$ 57,175,886                 | \$ 13,268,144                                   | \$ 14,481,638  | \$ 73,937,971       | \$ 134,937        | \$ 56,950,903                               | \$ 3,182,458  | \$ (35,750,086) | \$ 183,381,851 |
| Segment income before income tax (Note 3)        | \$ 3,504,990                  | \$ 7,786,794                                    | \$ 3,320,315   | \$ 31,068,922       | \$ (242,698)      | \$ 17,532,971                               | \$ (302,810)  | \$              | \$ 62,668,484  |
| Interest income                                  |                               |   |  |                     |                   |   |               |                 | 451,457        |
| Equity in net gain of unconsolidated companies   |                               |   |  |                     |                   |   |               |                 | 160,080        |
| Other income                                     |                               |   |  |                     |                   |   |               |                 | 3,148,885      |
| Interest expense                                 |                               |   |  |                     |                   |   |               |                 | (1,999)        |
| General expense (Note 4)                         |                               |   |  |                     |                   |   |               |                 | (4,121,689)    |
| Other expense                                    |                               |   |  |                     |                   |   |               |                 | (2,702,367)    |

Income before tax

\$ 59,602,851

(Continued)

|  | Local<br>Telephone<br>Service | Domestic<br>Long<br>Distance<br>Call<br>Service | International<br>Long<br>Distance<br>Call<br>Service | Cellular<br>Service | Paging<br>Service | Internet<br>and Data<br>Service<br>(Note 6) | All Other     | Adjustment | Total          |
|--|-------------------------------|---|--|---------------------|-------------------|---|---------------|------------|----------------|
| Reportable assets (Note 5)                       | \$ 192,305,526                | \$ 6,340,943                                    | \$ 11,778,224  | \$ 61,981,515       | \$ 244,828        | \$ 98,536,543                               | \$ 17,392,229 | \$         | \$ 388,579,808 |
| Investment in unconsolidated companies and funds |                               |   |  |                     |                   |   |               |            | 5,891,218      |
| Other assets                                     |                               |   |  |                     |                   |   |               |            | 64,431,582     |
| Total assets                                     |                               |   |  |                     |                   |   |               |            | \$ 458,902,608 |
| Depreciation expenses                            | \$ 19,202,843                 | \$ 727,827                                      | \$ 661,089   | \$ 6,979,627        | \$ 214,353        | \$ 12,370,013                               | \$ 578,434    |            |                |
| Expenditures for segment assets                  | \$ 4,895,549                  | \$ 301,447                                      | \$ 228,810   | \$ 4,481,786        |                   | \$ 12,388,182                               | \$ 618,653    |            |                |

Note 1: The major business segments operated by the Group are local telephone service, domestic long distance call service, international long distance call service, cellular service, paging service, Internet and data service and other service.

Note 2: Inter-division revenue from goods and services.

Note 3: Represents revenue minus costs and operating expenses. Operating expenses include costs and expenses directly pertaining to an industry segment, i.e., excluding general and interest expense.

Note 4: Represents general expense that cannot be allocated to each division.

Note 5: Represents tangible assets used by the industry segment, excluding:

- a. Assets maintained for general corporate purposes.
- b. Advances or loans to another industry segment.
- c. Long-term investments accounted for using equity method.

Note 6: Service revenues of internet and data service and electronic rent are included.

(Concluded)

**CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES****INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS****FOR THE YEAR ENDED DECEMBER 31, 2006****(Amount in Thousands of New Taiwan Dollars)**

| No.      | Nature of Relationship     | Transaction Details        |               | % to                               |                       |          |          |
|----------|----------------------------|----------------------------|---------------|------------------------------------|-----------------------|----------|----------|
|          |                            | Amount                     | Payment Terms |                                    | Total Sales or Assets |          |          |
| (Note 1) | <b>Company Name</b>        | <b>Related Party</b>       | (Note 2)      | <b>Financial Statement Account</b> | (Note 5)              | (Note 3) | (Note 4) |
| 0        | Chunghwa Telecom Co., Ltd. | CHIEF Telecom Inc.         | a             | Accounts receivable                | \$ 3,769              |          |          |
|          |                            |                            |               | Operating revenues                 | 33,667                |          |          |
| 1        | CHIEF Telecom Inc.         | Chunghwa Telecom Co., Ltd. | b             | Accounts payable -related parties  | 3,766                 |          |          |
|          |                            |                            |               | Accrued expenses -related parties  | 3                     |          |          |
|          |                            |                            |               | Operating costs                    | 33,504                |          |          |
|          |                            | Unigate Telecom Inc.       | c             | Operating expenses                 | 163                   |          |          |
|          |                            |                            |               | Estimated accounts payable         | 143                   |          |          |
|          |                            |                            |               | Operating revenues                 | 34                    |          |          |
|          |                            |                            |               | Operating costs                    | 3,132                 |          |          |
| 2        | Unigate Telecom Inc.       | CHIEF Telecom Inc.         | c             | Estimated accounts receivable      | 143                   |          |          |
|          |                            |                            |               | Operating revenues                 | 3,132                 |          |          |
|          |                            |                            |               | Operating costs                    | 34                    |          |          |

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

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

Note 2: Related party transactions are divided into three categories as follows:

- a. The Company to subsidiaries.
- b. Subsidiaries to the Company.
- c. Subsidiaries to subsidiaries.

Note 3: The related transaction prices are determined in accordance with mutual agreements.

Note 4: For assets and liabilities, amount is shown as a percentage to consolidated total assets as of December 31, 2006; while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the year ended December 31, 2006.

Note 5: The amount are eliminated upon consolidation.

**Chunghwa Telecom Co., Ltd.**

**Financial Statements for the**

**Years Ended December 31, 2006 and 2005 and**

**Independent Auditors Report**

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have audited the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of December 31, 2006 and 2005, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to first paragraph present fairly, in all material respects, the financial position of the Company as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended in conformity with relevant regulations (applied before August 12, 2005), the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Notes 2 and 4 to the financial statements, the Company completed its privatization on August 12, 2005 and the accounts before privatization were 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.

As stated in Note 3 to the financial statements, on January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, Accounting for Financial Instruments (SFAS No. 34), and No. 36, Disclosure and Presentation for Financial Instruments (SFAS No. 36), and related revisions of previously released standards.

We have also audited the consolidated financial statements of the Company and its subsidiaries as of and for the year ended December 31, 2006, and have expressed an modified unqualified opinion on those consolidated financial statements.

March 13, 2007

Notice to Readers

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

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

**CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS****DECEMBER 31, 2006 AND 2005**

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

|  | 2006               |            | 2005               |            |
|--|--------------------|------------|--------------------|------------|
|  | Amount             | %          | Amount             | %          |
| <b>ASSETS</b>  |                    |            |                    |            |
| <b>CURRENT ASSETS</b>  |                    |            |                    |            |
| Cash and cash equivalents (Notes 2 and 5)  | \$ 70,639,453      | 15         | \$ 41,890,668      | 9          |
| Financial assets at fair value through profit or loss (Notes 2, 3 and 6)   | 59,119             |            | 35,000             |            |
| Available-for-sale financial assets (Notes 2, 3 and 7)   | 6,950,642          | 2          | 14,067,017         | 3          |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$3,535,141 in 2006 and \$3,604,604 in 2005 (Notes 2, 8 and 25) | 12,586,976         | 3          | 12,839,005         | 3          |
| Other current monetary assets (Note 9)   | 5,963,897          | 1          | 5,706,740          | 1          |
| Inventories, net (Notes 2 and 10)  | 2,180,570          | 1          | 2,120,472          | 1          |
| Deferred income taxes (Notes 2 and 22)   | 56,564             |            | 2,321,399          | 1          |
| Other current assets (Note 11 and 24)  | 1,015,180          |            | 1,247,036          |            |
| <b>Total current assets</b>  | <b>99,452,401</b>  | <b>22</b>  | <b>80,227,337</b>  | <b>18</b>  |
| <b>LONG-TERM INVESTMENTS</b>   |                    |            |                    |            |
| Investments accounted for using equity method (Notes 2 and 12)   | 2,024,981          | 1          | 1,524,938          |            |
| Financial assets at fair value through profit or loss (Notes 2, 3 and 6)   |                    |            | 500,000            |            |
| Financial assets carried at cost (Notes 2, 3 and 13)   | 1,941,280          |            | 1,866,280          |            |
| Other monetary assets (Notes 3, 14 and 26)   | 2,000,000          |            | 2,000,000          | 1          |
| <b>Total investment</b>  | <b>5,966,261</b>   | <b>1</b>   | <b>5,891,218</b>   | <b>1</b>   |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 25)</b>  |                    |            |                    |            |
| <b>Cost</b>  |                    |            |                    |            |
| Land   | 100,937,183        | 22         | 101,784,869        | 22         |
| Land improvements  | 1,476,683          |            | 1,474,429          |            |
| Buildings  | 59,011,713         | 13         | 57,451,040         | 13         |
| Machinery and equipment  | 21,388,089         | 5          | 21,753,818         | 5          |
| Telecommunications network facilities  | 635,784,491        | 138        | 627,609,240        | 137        |
| Miscellaneous equipment  | 1,921,847          |            | 2,046,160          |            |
| <b>Total cost</b>  | <b>820,520,006</b> | <b>178</b> | <b>812,119,556</b> | <b>177</b> |
| Revaluation increment on land  | 5,824,381          | 1          | 5,945,850          | 1          |
|  | 826,344,387        | 179        | 818,065,406        | 178        |
| <b>Less: Accumulated depreciation</b>  | <b>506,729,726</b> | <b>110</b> | <b>485,063,949</b> | <b>105</b> |
|  | 319,614,661        | 69         | 333,001,457        | 73         |
| <b>Construction in progress and advances related to acquisitions of equipment</b>  | <b>23,488,441</b>  | <b>5</b>   | <b>27,881,012</b>  | <b>6</b>   |
| <b>Property, plant and equipment, net</b>  | <b>343,103,102</b> | <b>74</b>  | <b>360,882,469</b> | <b>79</b>  |
| <b>INTANGIBLE ASSETS (Note 2)</b>  |                    |            |                    |            |
| 3G concession  | 8,983,306          | 2          | 9,731,914          | 2          |
| Patents and computer software, net   | 208,849            |            | 183,404            |            |

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|  |                       |            |                       |            |
|--|-----------------------|------------|-----------------------|------------|
| Total intangible assets                | 9,192,155             | 2          | 9,915,318             | 2          |
| <b>OTHER ASSETS</b>                    |                       |            |                       |            |
| Idle assets (Note 2)                   | 928,820               |            |                       |            |
| Refundable deposits                    | 1,510,435             | 1          | 1,577,167             |            |
| Deferred income taxes (Notes 2 and 22) | 514,019               |            | 85,866                |            |
| Other                                  | 316,159               |            | 323,233               |            |
| Total other assets                     | 3,269,433             | 1          | 1,986,266             |            |
| <b>TOTAL</b>                           | <b>\$ 460,983,352</b> | <b>100</b> | <b>\$ 458,902,608</b> | <b>100</b> |

**LIABILITIES AND STOCKHOLDERS EQUITY**

**CURRENT LIABILITIES**

|   |            |    |            |   |
|---|------------|----|------------|---|
| Financial liabilities at fair value through profit or loss (Notes 2, 3 and 6) | 24,844     |    |            |   |
| Trade notes and accounts payable (Note 25)                                    | 9,859,679  | 2  | 10,332,306 | 2 |
| Income tax payable (Notes 2 and 22)   | 8,527,540  | 2  | 16,550     |   |
| Accrued expenses (Notes 16 and 25)  | 18,909,126 | 4  | 15,526,947 | 3 |
| Current portion of long-term loans (Note 18)                                  | 300,000    |    | 200,000    |   |
| Other current liabilities (Note 17)   | 13,884,177 | 3  | 17,605,916 | 4 |
| Total current liabilities   | 51,505,366 | 11 | 43,681,719 | 9 |

**LONG-TERM LIABILITIES**

|                             |         |  |         |  |
|-----------------------------|---------|--|---------|--|
| Long-term loans (Note 18)   |         |  | 300,000 |  |
| Deferred income             | 955,419 |  | 318,528 |  |
| Total long-term liabilities | 955,419 |  | 618,528 |  |

|  |        |  |        |  |
|--|--------|--|--------|--|
| RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15) | 94,986 |  | 94,986 |  |
|--|--------|--|--------|--|

**OTHER LIABILITIES**

|  |            |    |            |    |
|--|------------|----|------------|----|
| Accrued pension liabilities (Notes 2 and 24) | 1,253,701  |    |            |    |
| Customers deposits                           | 6,597,003  | 2  | 7,391,902  | 2  |
| Other  | 560,319    |    | 207,285    |    |
| Total other liabilities                      | 8,411,023  | 2  | 7,599,187  | 2  |
| Total liabilities                            | 60,966,794 | 13 | 51,994,420 | 11 |

**STOCKHOLDERS EQUITY (Notes 2, 3, 15, 19 and 20)**

|  |             |    |             |    |
|--|-------------|----|-------------|----|
| Common capital stock - 10 par values;<br>Authorized: 12,000,000 thousand shares in 2006; 9,647,725 thousand shares in 2005 |             |    |             |    |
| Issued: 9,667,845 thousand shares in 2006; 9,647,725 thousand shares in 2005   | 96,678,451  | 21 | 96,477,249  | 21 |
| Preferred stock \$10 par value   |             |    |             |    |
| <b>Capital surplus:</b>  |             |    |             |    |
| Paid-in capital in excess of par value   | 210,260,235 | 46 | 214,529,603 | 47 |
| Donations  | 13,170      |    | 13,170      |    |
| Equity in capital surplus reported by equity-method investees  | (69)        |    |             |    |
| Total capital surplus  | 210,273,336 | 46 | 214,542,773 | 47 |

Retained earnings:

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|  |                       |            |                       |            |
|--|-----------------------|------------|-----------------------|------------|
| Legal reserve                            | 44,037,765            | 9          | 39,272,477            | 9          |
| Special reserve                          | 2,680,184             | 1          | 2,680,184             | 1          |
| Unappropriated earnings                  | 39,984,454            | 9          | 48,087,583            | 10         |
| Total retained earnings                  | 86,702,403            | 19         | 90,040,244            | 20         |
| <b>Other adjustments</b>                 |                       |            |                       |            |
| Cumulative translation adjustments       | (3,304)               |            | (2,942)               |            |
| Unrealized gain on financial instruments | 541,072               |            |                       |            |
| Capital surplus from revaluation of land | 5,824,600             | 1          | 5,850,864             | 1          |
| Total other adjustments                  | 6,362,368             | 1          | 5,847,922             | 1          |
| Total stockholders' equity               | 400,016,558           | 87         | 406,908,188           | 89         |
| <b>TOTAL</b>                             | <b>\$ 460,983,352</b> | <b>100</b> | <b>\$ 458,902,608</b> | <b>100</b> |

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

(With Deloitte & Touche audit report dated March 13, 2007)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF OPERATIONS****FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

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

|  | 2006              |           | 2005              |           |
|--|-------------------|-----------|-------------------|-----------|
|  | Amount            | %         | Amount            | %         |
| REVENUES (Note 25)   | \$ 184,386,978    | 100       | \$ 183,381,851    | 100       |
| OPERATING COSTS (Note 25)                                  | 94,268,549        | 51        | 93,941,491        | 51        |
| <b>GROSS PROFIT</b>  | <b>90,118,429</b> | <b>49</b> | <b>89,440,360</b> | <b>49</b> |
| <b>OPERATING EXPENSES</b>                                  |                   |           |                   |           |
| Marketing  | 26,395,635        | 14        | 24,728,213        | 13        |
| General and administrative                                 | 3,195,867         | 2         | 2,982,882         | 2         |
| Research and development                                   | 3,306,784         | 2         | 3,164,981         | 2         |
| Total operating expenses                                   | 32,898,286        | 18        | 30,876,076        | 17        |
| <b>INCOME FROM OPERATIONS</b>                              | <b>57,220,143</b> | <b>31</b> | <b>58,564,284</b> | <b>32</b> |
| <b>OTHER INCOME</b>  |                   |           |                   |           |
| Penalties income   | 1,648,871         | 1         | 1,266,469         | 1         |
| Income from sale of scrap inventories                      | 846,881           | 1         | 477,948           |           |
| Interest   | 803,642           |           | 451,457           |           |
| Gains on sale of fixed assets                              | 537,058           |           | 107,050           |           |
| Gains on sale of financial instruments, net                | 135,242           |           | 162,660           |           |
| Equity in earnings of equity investees                     | 59,726            |           | 160,080           |           |
| Foreign exchange gain, net                                 |                   |           | 135,307           |           |
| Other  | 501,988           |           | 999,451           | 1         |
| Total other income   | 4,533,408         | 2         | 3,760,422         | 2         |
| <b>OTHER EXPENSES</b>                                      |                   |           |                   |           |
| Special termination benefit under early retirement program | 2,305,508         | 1         |                   |           |
| Losses on disposal of property, plant and equipment        | 267,076           |           | 65,809            |           |
| Foreign exchange loss, net                                 | 165,288           |           |                   |           |
| Losses arising from natural calamities                     | 29,877            |           | 137,864           |           |
| Interest   | 4,072             |           | 1,999             |           |
| Realized losses on long-term investments (Note 13)         |                   |           | 739,676           |           |
| Impairment loss on long-lived assets (Notes 2 and 15)      |                   |           | 343,463           |           |
| Other  | 1,338,414         | 1         | 1,433,044         | 1         |
| Total other expenses                                       | 4,110,235         | 2         | 2,721,855         | 1         |

(Continued)

**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF OPERATIONS**

**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

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

|                             | 2006                 |           | 2005                 |           |
|-----------------------------|----------------------|-----------|----------------------|-----------|
|                             | Amount               | %         | Amount               | %         |
| INCOME BEFORE INCOME TAX    | \$ 57,643,316        | 31        | \$ 59,602,851        | 33        |
| INCOME TAX (Notes 2 and 22) | 12,751,979           | 7         | 11,949,967           | 7         |
| <b>NET INCOME</b>           | <b>\$ 44,891,337</b> | <b>24</b> | <b>\$ 47,652,884</b> | <b>26</b> |

|   | 2006          |               | 2005          |               |
|---|---------------|---------------|---------------|---------------|
|   | Income        | Net Income    | Income        | Net Income    |
| <b>EARNINGS PER SHARE</b>                   | <b>Before</b> | <b>Income</b> | <b>Before</b> | <b>Net</b>    |
|   | <b>Income</b> | <b>Tax</b>    | <b>Income</b> | <b>Income</b> |
| Basic net income per share (Notes 2 and 23) | \$ 5.94       | \$ 4.63       | \$ 6.05       | \$ 4.83       |

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

(With Deloitte & Touche audit report dated March 13, 2007)

(Concluded)

**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

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

|  | Common Capital Stock  |               | Preferred Stock       | Retained Earnings |                 |                  |                    | Other Adjustments<br>Capital Surplus |   | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |                                |
|--|-----------------------|---------------|-----------------------|-------------------|-----------------|------------------|--------------------|--------------------------------------|---|-------------------|----------------------------------|--------------------------------|
|  | Shares<br>(Thousands) | Amount        | Shares<br>(Thousands) | Amount            | Capital Surplus | Legal<br>Reserve | Special<br>Reserve | Unappropriated<br>Earnings           | Cumulative Gain on<br>Unrealized<br>Translation<br>Financial<br>Instruments |                   |                                  | from<br>Revaluation<br>of Land |
| CE,<br>RY 1,<br>S<br>TED,  | 9,647,725             | \$ 96,477,249 |                       | \$ 214,551,767    | \$ 39,272,477   | \$ 2,680,184     | \$ 434,699         | \$ (4,765)                           |   | \$ 5,740,185      |                                  | \$ 359,1                       |
| ification<br>al surplus<br>valuation<br>posal of<br>ncome<br>fer of<br>, plant<br>pment to |                       |               |                       |                   |                 |                  |                    |                                      |   | (5,489)           |                                  |                                |
| es<br>and other<br>ent   |                       |               |                       | (8,994)           |                 |                  |                    |                                      |   | (28)              |                                  |                                |
| ification<br>serve for<br>e<br>ntal tax<br>l surplus<br>me in                              |                       |               |                       |                   |                 |                  | 47,652,884         |                                      |   | 116,196           |                                  | 1                              |
| ive<br>on<br>ent for<br>currency<br>ents in<br>lidated<br>es                               |                       |               |                       |                   |                 |                  |                    | 1,823                                |   |                   |                                  | 47,6                           |
| CE,<br>BER 31,   | 9,647,725             | 96,477,249    |                       | 214,542,773       | 39,272,477      | 2,680,184        | 48,087,583         | (2,942)                              |   | 5,850,864         |                                  | 406,9                          |
| e;<br>o. 34<br>of<br>d stock -<br>(Note  |                       |               |                       |                   |                 |                  |                    |                                      | 51,675  |                   |                                  |                                |
| ification<br>al surplus<br>valuation   |                       |               |                       |                   |                 |                  |                    |                                      |   | (26,264)          |                                  |                                |



## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(Amounts in Thousands of New Taiwan Dollars)

|   | 2006                | 2005                |
|---|---------------------|---------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                     |                     |
| Net income  | \$ 44,891,337       | \$ 47,652,884       |
| Adjustments to reconcile net income to net cash provided by operating activities: |                     |                     |
| Provision for doubtful accounts   | 616,760             | 920,189             |
| Depreciation and amortization   | 41,009,679          | 41,575,047          |
| Impairment loss on long-lived assets  |                     | 343,463             |
| Gain on sale of financial instruments, net  | (135,242)           | (162,660)           |
| Valuation loss (gain) on financial instruments, net                               | 20,582              | (12,416)            |
| Losses on inventory valuation   | 501                 |                     |
| Realized losses on long-term investments  |                     | 739,676             |
| Gains on sale of property, plant and equipment, net                               | (269,982)           | (41,241)            |
| Equity in earnings of equity investees  | (59,726)            | (160,080)           |
| Dividends received from equity investees  | 42,331              | 66,000              |
| Deferred income taxes   | 1,836,682           | 9,882,696           |
| Changes in operating assets and liabilities:                                      |                     |                     |
| Decrease (increase) in:   |                     |                     |
| Financial assets held for trading   | (51,775)            | (35,000)            |
| Trade notes and accounts receivable   | (370,191)           | 245,217             |
| Other current monetary assets   | (251,697)           | (4,204,578)         |
| Inventories   | 578,822             | (830,404)           |
| Other current assets  | 231,856             | (582,910)           |
| Increase (decrease) in:   |                     |                     |
| Trade notes and accounts payable  | (1,112,048)         | (4,002,453)         |
| Income tax payable  | 8,510,990           | (5,013,108)         |
| Accrued expenses  | 3,382,179           | 1,195,232           |
| Other current liabilities   | 33,173              | 645,274             |
| Deferred income   | 636,891             | (42,601)            |
| Accrued pension liabilities   | 1,253,701           | (773,465)           |
| <b>Net cash provided by operating activities</b>                                  | <b>100,794,823</b>  | <b>87,404,762</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                     |                     |
| Decrease (increase) of financial assets at fair value through profit or loss      | 473,666             | (500,000)           |
| Acquisition of available-for-sale financial assets                                | (4,149,141)         | (31,080,687)        |
| Proceeds from disposal of available-for-sale financial assets                     | 12,000,064          | 26,303,259          |
| Acquisitions of financial assets carried at cost                                  | (75,000)            |                     |
| Increase in long-term investment accounted for using equity method                | (483,061)           |                     |
| Proceeds from disposal of property, plant and equipment                           | 778,842             | 374,163             |
| Acquisitions of property, plant and equipment                                     | (27,675,950)        | (22,930,075)        |
| Increase of intangible assets   | (170,564)           | (130,011)           |
| Increase in other assets  | 102,890             | (281,281)           |
| <b>Net cash used in investing activities</b>                                      | <b>(19,198,254)</b> | <b>(28,244,632)</b> |

(Continued)



**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005****(Amounts in Thousands of New Taiwan Dollars)**

|   | <b>2006</b>          | <b>2005</b>          |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                   |                      |                      |
| Payment on principal of long-term loans                                       | \$ (200,000)         | \$ (200,000)         |
| Decrease in customers deposits  | (703,474)            | (1,011,952)          |
| Increase in other liabilities   | 353,034              | 3,986                |
| Cash dividends paid   | (40,659,617)         | (45,344,307)         |
| Remuneration to directors and supervisors and bonus to employees paid         | (245,394)            |                      |
| Repurchase of treasury stock  | (11,392,333)         |                      |
| Net cash used in financing activities   | (52,847,784)         | (46,552,273)         |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                              | <b>28,748,785</b>    | <b>12,607,857</b>    |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>                           | <b>41,890,668</b>    | <b>29,282,811</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>                                 | <b>\$ 70,639,453</b> | <b>\$ 41,890,668</b> |
| <b>SUPPLEMENTAL INFORMATION</b>   |                      |                      |
| Interest paid   | \$ 4,072             | \$ 1,999             |
| Income tax paid   | \$ 1,286,964         | \$ 11,418,858        |
| <b>NON-CASH FINANCING ACTIVITIES</b>  |                      |                      |
| Current portion of long-term loans  | \$ 300,000           | \$ 200,000           |
| Reclassification of reserve for land value incremental tax to capital surplus | \$                   | \$ 116,196           |

Acquired subsidiary, based on their fair values are as follow:

|  | <b>2006</b> |
|--|-------------|
| Cash   | \$ 40,191   |
| Trade notes and accounts receivable                    | 64,077      |
| Inventories  | 2,505       |
| Other current assets                                   | 22,811      |
| Long-term investment                                   | 16,256      |
| Property, plant, and equipment                         | 454,165     |
| Identifiable intangible assets                         | 2,700       |
| Other assets   | 88,195      |
| Short-term loan and long-term loan due within one year | (133,750)   |
| Trade notes and accounts payable                       | (80,529)    |
| Other current liabilities                              | (62,291)    |

(Continued)



**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

(Amounts in Thousands of New Taiwan Dollars)

|   | <b>2006</b>       |
|---|-------------------|
| Long-term liabilities                       | \$ (6,250)        |
| Other liabilities                           | (67,738)          |
| <b>Total</b>                                | <b>340,342</b>    |
| Percentage of ownership                     | 70%               |
|   | 238,240           |
| Goodwill                                    | 72,412            |
| <b>Total amount of acquiring subsidiary</b> | <b>\$ 310,652</b> |

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

(With Deloitte & Touche audit report dated March 13, 2007)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

**(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 to Chunghwa. The DGT continues to be the telecom industry regulator in the ROC.

As a 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.

Effective August 12, 2005, the MOTC had completed 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 had been sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of the Company s common shares had also been sold in an international offering of securities in the form of American Depository Shares ( ADS ) on July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE ). The MOTC sold 289,431 thousand common shares of the Company by auction in the ROC on August 9, 2005 and 1,350,682 thousand common shares of the Company on August 10, 2005 in an international offering. Upon completion of the share transfers associated with these offerings on August 12, 2005, the MOTC owned less than 50% of the outstanding shares of the Company and completed the privatization plan.

The numbers of employees as of December 31, 2006 and 2005 are 25,873 and 27,386, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements were prepared in conformity with relevant regulations (applied before August 12, 2005), the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the ROC ( ROC GAAP ). 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 Presentation**

As a stated-owned company before August 12, 2005 (privatization date), the accounts of the Company are subject to annual examinations by the Directorate General of Budget, Accounting and Statistics (the DGBAS) of the Executive Yuan and by the Ministry of Auditing (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, sold or consumed within one year. Current liabilities are obligations which mature within one year. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

### **Cash Equivalents**

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

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

Derivatives that do not meet the criteria for hedge accounting are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value subsequently with the changes in fair value recognized in earnings. Cash dividends received (including the year of investment) is recognized in earnings. For regular way purchase or sale of financial assets is accounted for using trade date accounting.

Fair value is estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Hybrid instruments are designated as financial assets or financial liabilities at fair value through profit or loss.

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

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

The basis for determining the fair value of financial instruments is as follows: List stocks, closing prices as of balance sheet date; open-end bond mutual funds, net assets value as of balance sheet date; bonds, quotes in the OTC market as of balance sheet date; financial instruments without active market, fair value are estimated using valuation techniques incorporating estimates and assumptions that are consistent with prevailing market conditions.

Cash dividends are recognized as investment income upon the grant day but are accounted for as reductions to the original cost of investment if such dividends are declared on the earnings of the investees attributable to periods prior to the purchase of the investments. Stock dividends are recorded as an increase in the number of shares held and do not affect investment income. The cost per share is recalculated based on the new number of shares.

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

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

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

Service revenue is based on the fair value of the sales price, after business discount and quantity discount, between the Company and customer. The sales price of service revenue is the amount which matures within one year. The difference between fair value and maturity value is not material and the transactions occur frequently so the interest factor is not included in calculating the 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 (on fixed-line services) are deferred and recognized over the average expected customer service periods, (b) fixed-monthly fees (on fixed-line services, wireless and Internet and data services) are accrued every month, and (c) prepaid services (fixed line, cellular and Internet) are recognized as income based upon actual usage by customers or when the right to use those services expires.

Allowance for doubtful receivables is provided on the basis of the aging of the receivables and estimated collectibility of individual receivables. The Company periodically evaluates the collectibility of receivables in consideration of clients' receivable aging analysis.

#### **Inventories**

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

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

Investments in 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, depending on whether the investor has controlling power over investees or not. Unrealized profits and losses on sales to investees over which the Company has a controlling power are totally eliminated. Otherwise should be deferred in proportion to the Company's ownership percentage. Profits and losses arising from equipment purchases from equity investees are eliminated and recognized over the estimated remaining useful life of the equipment.

With respect to investment purchase or adoption of the equity method of accounting, effective on January 1, 2006, in accordance with the revised accounting pronouncement, goodwill is recognized by the difference that the cost of investment is exceeding the fair value of the acquisition. Goodwill can not be amortized, but is subject to a goodwill impairment test. If there is a triggering event or change in circumstance, the goodwill impairment test will be performed.

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

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at original cost, such as non-publicly traded stocks. If there is objective evidence that a financial asset is impaired, a loss is recognized. No recording of a subsequent recovery in fair value is allowed.

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

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

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 shareholder's equity-other adjustments from revaluation under the heading shareholder's equity-other adjustments 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.

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

#### **Intangible Assets**

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

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

#### **Idle Assets**

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

### **Pension Costs**

Pension costs subject to defined benefit plan are recognized according to the actuarial report. Pension costs subject to defined contribution plan are recognized according to the amount of contributions by the Company during the employees' service period.

### **Expense Recognition**

Expenses including commissions paid to agencies and incentives paid to a third party dealer 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.

### **Treasury Stock**

Cost of treasury stock is shown as a deduction to stockholders' equity. Treasury stock is recorded and is shown as a reduction to stockholders' equity. Upon cancellation of treasury stock, the accounts of common stock and treasury stock are reversed out based on the number of shares registered to be cancelled. The account of additional paid-in capital is adjusted for the difference of the repurchase price and the par value of common stock. If capital surplus is not enough for debiting purposes, the difference is debited to unappropriated retained earnings.

### **Income Tax**

The Company accounts for income tax using the asset and liability method. Under this method, deferred income tax is recognized for investment tax credits and tax consequences of differences between financial statement carrying amounts and their respective tax bases. A valuation 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 noncurrent 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 is recorded 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. Financial assets and liabilities - credited or charged to current income; and
- b. Long-term stock investments accounted for by the equity method - as cumulative translation adjustment under stockholders' equity.

**3. REASON AND EFFECT OF THE CHANGES OF ACCOUNTING PRINCIPLE**

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, Accounting for Financial Instruments, ( SFAS No. 34 ) and No. 36, Disclosure and Presentation for Financial Instruments ( SFAS No. 36 ), and related revisions of previously released SFASs.

a. Effect of adopting the newly released SFASs and related revisions of previously released SFASs

The Company had categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as available-for-sale financial assets as adjustments to stockholders' equity were recognized.

The effect of adopting the newly released SFASs is summarized as follows:

**Recognized as  
a Separate  
Component of  
Stockholders  
Equity**

**(Net of Tax)**

|                                     |           |
|-------------------------------------|-----------|
| Available-for-sale financial assets | \$ 51,675 |
|-------------------------------------|-----------|

For the year ended December 31, 2006, the adoption of the newly released SFASs had no impact on net income before income tax, net income after income tax and basic earnings per share.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the year ended December 31, 2005 were reclassified to conform to the financial statements as of and for the year ended December 31, 2006. The previous issued financial statements as of and for the year ended December 31, 2005 are not required to be restated.

For accounting policies applied to financial instruments in 2006, refer to the Note 2 to the financial statements. Certain accounting policies prior to the adoption of the newly released SFASs are summarized as follows:

Short-term investments

Short-term 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.

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Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the classifications prescribed by the newly released and revised SFASs. The reclassifications of the whole or a part of the account balances of certain accounts are summarized as follows:

|   | Before<br>Reclassification | After<br>Reclassification |
|---|----------------------------|---------------------------|
| <b>Balance sheets</b>   |                            |                           |
| Short-term investments  | \$ 14,102,017              | \$                        |
| Funds   | 2,500,000                  |                           |
| Investments accounted for using the cost method                                     | 1,866,280                  |                           |
| Financial assets at fair value through profit or loss - current                     |                            | 35,000                    |
| Available-for-sale financial assets - current                                       |                            | 14,067,017                |
| Financial assets carried at cost - noncurrent                                       |                            | 1,866,280                 |
| Financial assets at fair value through profit or loss - noncurrent                  |                            | 500,000                   |
| Other monetary assets - noncurrent  |                            | 2,000,000                 |
|   | \$ 18,468,297              | \$ 18,468,297             |
| <b>Statements of operations</b>   |                            |                           |
| Reversal of allowance on short-term investments (included in other income - other ) | \$ 12,416                  | \$                        |
| Gain on sale of short-term investments  | 162,660                    |                           |
| Valuation gain on financial instruments (included in other income - other )         |                            | 12,416                    |
| Gain on sale of financial instruments, net  |                            | 162,660                   |
|   | \$ 175,076                 | \$ 175,076                |
| <b>Statements of cash flows</b>   |                            |                           |
| Cash flows from operating activities  |                            |                           |
| Gain on sale of short-term investments  | \$ (162,660)               | \$                        |
| Reversal of allowance on short-term investments                                     | (12,416)                   |                           |
| Valuation gain on financial instruments, net  |                            | (12,416)                  |
| Gain on sale of financial instruments, net  |                            | (162,660)                 |
| Financial assets held for trading   |                            | (35,000)                  |
|   | (175,076)                  | (210,076)                 |
| Cash flows from investing activities  |                            |                           |
| Acquisition of short-term investment, net   | (4,812,428)                |                           |
| Acquisition of investments in unconsolidated companies                              | (500,000)                  |                           |
| Acquisition of financial assets at fair value through profit or loss                |                            | (500,000)                 |
| Acquisition of available-for-sale financial assets                                  |                            | (31,080,687)              |
| Proceeds from disposal of available-for-sale financial assets                       |                            | 26,303,259                |
|   | (5,312,428)                | (5,277,428)               |
|   | \$ (5,487,504)             | \$ (5,487,504)            |

**4. ADJUSTMENTS OF FINANCIAL STATEMENTS****For the Year Ended December 31, 2004**

The Company's financial statements for the year ended December 31, 2004 have been examined by the Executive Yuan and the Ministry of Audit of the Control Yuan (government agencies), and the resulting adjustments have been recorded retroactively as of December 31, 2004. 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 on December 31, 2004 were due to the appropriations of 2004 earnings recorded by the MOA.

**5. CASH AND CASH EQUIVALENTS**

|  | <b>December 31</b>   |                      |
|--|----------------------|----------------------|
|  | <b>2006</b>          | <b>2005</b>          |
| <b>Cash</b>  |                      |                      |
| Cash on hand   | \$ 106,314           | \$ 96,839            |
| Cash in banks  | 7,846,332            | 2,257,796            |
| Negotiable certificate of deposit, annual yield rate - ranging from 1.26-1.95% and 1.00-1.92% for the years ended December 31, 2006 and 2005, respectively | 25,750,500           | 10,906,936           |
|  | <b>33,703,146</b>    | <b>13,261,571</b>    |
| <b>Cash equivalents</b>  |                      |                      |
| Commercial paper, annual yield rate - ranging from 1.26-1.33% and 1.27-1.45% for the years ended December 31, 2006 and 2005, respectively                  | 36,936,307           | 28,629,097           |
|  | <b>\$ 70,639,453</b> | <b>\$ 41,890,668</b> |

As of December 31, 2006 and 2005, foreign deposits in bank were as following:

|   | <b>December 31</b>  |                  |
|---|---------------------|------------------|
|   | <b>2006</b>         | <b>2005</b>      |
| United States of America - New York (US\$21,378 thousand and US\$573 thousand for the years ended December 31, 2006 and 2005, respectively) | \$ 696,920          | \$ 18,823        |
| Hong Kong (US\$54,051 thousand, EUR10 thousand, JPY872 thousand and GBP2 thousand)  | 1,762,601           |                  |
|   | <b>\$ 2,459,521</b> | <b>\$ 18,823</b> |

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

|   | December 31 |            |
|---|-------------|------------|
|   | 2006        | 2005       |
| <u>Current</u>  |             |            |
| Derivatives - financial assets  |             |            |
| Forward exchange contracts  | \$ 4,044    | \$         |
| Index future contracts  | 55,075      |            |
| Credit linked investment  |             | 35,000     |
|   | \$ 59,119   | \$ 35,000  |
| <u>Derivatives - financial liabilities</u>  |             |            |
| Forward exchange contracts  | \$ 11,266   | \$         |
| Index future contracts  | 13,578      |            |
|   | \$ 24,844   | \$         |
| <u>Noncurrent</u>   |             |            |
| Financial assets at fair value through profit or loss - Yuanta Structured Principal Protected Private Placement | \$          | \$ 500,000 |

The Company entered into forward exchange contracts and index future contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates underlying the value of assets denominated in foreign currencies until such assets are received and fluctuations in stock prices. However, these financial assets and liabilities are not qualified for hedge accounting and categorized as trading financial assets and liabilities.

Yuanta Structured Principal Protected Private Placement is an open-end structured principal protected mutual fund. The maturity date is September 28, 2008. On June 28, 2006, the Company sold the contract to a third party and recognized an investment loss of \$26,334 thousand.

Outstanding forward exchange contracts as of December 31, 2006:

|                          |          |                 | Contract<br>Amount |
|--------------------------|----------|-----------------|--------------------|
| <u>December 31, 2006</u> | Currency | Maturity Date   | (in Thousands)     |
| Sell                     | JPY/USD  | 2006.11-2007.01 | JPY 490,000        |
|                          | EUR/USD  | 2006.11-2007.01 | EUR 6,900          |
|                          | GBP/USD  | 2006.11-2007.01 | GBP 2,085          |

Outstanding index future contracts as of December 31, 2006:

|                          | Maturity Date | Units | Contract Amount<br>(in Thousands) |         |
|--------------------------|---------------|-------|-----------------------------------|---------|
| <b>December 31, 2006</b> |               |       |                                   |         |
| Index future contracts   |               |       |                                   |         |
| AMSTERDAM IDX FUT        | 2007.01       | 8     | EUR                               | 769     |
| CAC40 10 EURO FUT        | 2007.01       | 45    | EUR                               | 2,450   |
| DAX INDEX FUTURE         | 2007.03       | 11    | EUR                               | 1,795   |
| IBEX 35 INDEX FUTR       | 2007.01       | 7     | EUR                               | 992     |
| MINI S&P/MIB FUT         | 2007.03       | 23    | EUR                               | 950     |
| FTSE 100 IDX FUT         | 2007.03       | 33    | GBP                               | 2,044   |
| TOPIX INDEX FUTURE       | 2007.03       | 32    | JPY                               | 512,595 |
| S&P 500 FUTURE           | 2007.03       | 23    | USD                               | 8,195   |
| S&P 500 EMINI FUTURE     | 2007.03       | 13    | USD                               | 927     |

As of December 31, 2006, the amount paid for future deposit was \$54,857 thousand (classified as financial assets held for trading).

Net losses arising from derivative financial instruments for the year ended December 31, 2006 were \$52,370 thousand (including realized settlement losses of \$31,788 thousand and valuation losses of \$20,582 thousand).

The Company entered into investment management agreements with a well-known financial institutions (fund managers) to manage its investment portfolios in 2006. As of December 31, 2006, the Company's investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. The investment portfolios included derivative instruments, listed stocks and mutual funds. Listed stocks and mutual funds were classified as available-for-sales financial assets.

## 7. AVAILABLE-FOR-SALES FINANCIAL ASSETS

|                                   | December 31  |               |
|-----------------------------------|--------------|---------------|
|                                   | 2006         | 2005          |
| <b>Current</b>                    |              |               |
| Open-end mutual funds             | \$ 5,788,345 | \$ 13,898,188 |
| Foreign listed stocks             | 885,797      |               |
| Real estate investment trust fund | 179,200      | 100,000       |
| Listed stocks                     | 97,300       | 68,829        |
|                                   | \$ 6,950,642 | \$ 14,067,017 |

## 8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

|                                 | Years Ended December 31 |              |
|---------------------------------|-------------------------|--------------|
|                                 | 2006                    | 2005         |
| Balance, beginning of year      | \$ 3,604,604            | \$ 4,473,433 |
| Provision for doubtful accounts | 622,220                 | 906,148      |
| Accounts receivable written off | (691,683)               | (1,774,977)  |
| Balance, end of year            | \$ 3,535,141            | \$ 3,604,604 |



**9. OTHER CURRENT MONETARY ASSETS**

|                       | December 31         |                     |
|-----------------------|---------------------|---------------------|
|                       | 2006                | 2005                |
| Tax refund receivable | \$ 3,221,136        | \$ 4,338,479        |
| Other receivable      | 2,742,761           | 1,368,261           |
|                       | <b>\$ 5,963,897</b> | <b>\$ 5,706,740</b> |

**10. INVENTORIES, NET**

|                            | December 31         |                     |
|----------------------------|---------------------|---------------------|
|                            | 2006                | 2005                |
| Supplies                   | \$ 1,580,255        | \$ 1,276,160        |
| Work in process            | 73,497              | 19,856              |
| Merchandise                | 159,055             |                     |
| Materials in transit       | 368,264             | 824,456             |
|                            | <b>2,181,071</b>    | <b>2,120,472</b>    |
| Less: Allowance for losses | 501                 |                     |
|                            | <b>\$ 2,180,570</b> | <b>\$ 2,120,472</b> |

**11. OTHER CURRENT ASSETS**

|                       | December 31         |                     |
|-----------------------|---------------------|---------------------|
|                       | 2006                | 2005                |
| Prepaid rents         | \$ 581,541          | \$ 489,074          |
| Prepaid expenses      | 323,412             | 201,523             |
| Prepaid pension costs |                     | 458,052             |
| Miscellaneous         | 110,227             | 98,387              |
|                       | <b>\$ 1,015,180</b> | <b>\$ 1,247,036</b> |

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

|  | December 31 |        |            |        |
|--|-------------|--------|------------|--------|
|  | 2006        | %      | 2005       | %      |
|  | Carrying    | of     | Carrying   | of     |
|  | Value       | Owner- | Value      | Owner- |
|  |             | ship   |            | Ship   |
| Equity investee:                                   |             |        |            |        |
| Chunghwa Investment ( CHI )                        | \$ 974,805  | 49     | \$ 950,054 | 49     |
| Taiwan International Standard Electronics ( TISE ) | 609,004     | 40     | 574,884    | 40     |
| CHIEF Telecom ( CHIEF )                            | 273,411     | 70     |            |        |
| Spring House Entertainment ( Spring House )        | 17,761      | 30     |            |        |

(Continued)



|  | December 31    |                |                |                |
|--|----------------|----------------|----------------|----------------|
|  | 2006           |                | 2005           |                |
|  | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| New Prospect Investments Holdings (B.V.I.) ( NPIH )  | \$             | 100            | \$             |                |
| Prime Asia Investments Group (B.V.I.) ( PAIG )   |                | 100            |                |                |
|  | 1,874,981      |                | 1,524,938      |                |
| Prepayment for long-term investment - Chunghwa International Yellow Pages Co., Ltd. ( CIYP ) | 150,000        | 100            |                |                |
|  | \$ 2,024,981   |                | \$ 1,524,938   |                |

(Concluded)

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

The Company invested CHIEF Telecom in September 2006, for a purchase price of \$310,652 thousand. CHIEF engages mainly in internet communication and internet data center ( IDC ) service.

The Company invested Spring House in October 2006, for a purchase price of \$22,409 thousand. Spring House engages mainly in network content manufacture broadcasts and information software.

The Company intended to acquire 100% shares of Chunghwa International Yellow Pages Co., Ltd. ( CIYP ) by prepaying \$150,000 thousand in December 2006. CIYP engages mainly in yellow pages sales and advertisement service. CIYP finished registration on January 2, 2007.

The carrying values of the equity investees and the equity in their net loss and net income are based on audited financial statements.

All accounts of the Company's subsidiaries, CHIEF, NPIH and PAIG were included in the Company's consolidated financial statements.

### 13. FINANCIAL ASSETS CARRIED AT COST

|   | December 31    |                |                |                |
|---|----------------|----------------|----------------|----------------|
|   | 2006           |                | 2005           |                |
|   | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| Cost investees:                               |                |                |                |                |
| Taipei Financial Center ( TFC )               | \$ 1,789,530   | 12             | \$ 1,789,530   | 12             |
| iD Branding Ventures ( iDBV )                 | 75,000         | 8              |                |                |
| RPTI International ( RPTI )                   | 71,500         | 12             | 71,500         | 12             |
| Siemens Telecommunication Systems ( Siemens ) | 5,250          | 15             | 5,250          | 15             |
|   | \$ 1,941,280   |                | \$ 1,866,280   |                |

The Company invested iDBV on November 13, 2006, for a purchase price of \$75,000 thousand. iDBV engages mainly in investment.

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



After evaluating the carrying value of the investment in TFC, the Company concluded that a permanent impairment loss had occurred and recognized a loss of \$739,676 thousand for the year ended December 31, 2005.

#### 14. OTHER NONCURRENT MONETARY ASSETS

|                 | December 31  |              |
|-----------------|--------------|--------------|
|                 | 2006         | 2005         |
| Fixed-Line Fund | \$ 1,000,000 | \$ 1,000,000 |
| Piping Fund     | 1,000,000    | 1,000,000    |
|                 | \$ 2,000,000 | \$ 2,000,000 |

As part of the government's effort to upgrade the existing telecommunications infrastructure, the Company and other public utility companies were required by the ROC government to contribute a total of \$2,000,000 thousand to a Fixed-Line Fund managed by the Ministry of Interior Affairs and a Piping Fund administered by the Taipei City Government. These funds will be used to finance various telecommunications infrastructure projects. Upon completion of the construction projects, the funds will be proportionally allocated their assets to their contributors. If the balance of the Fixed-Line Fund is not sufficient for its operation, the above three parties will determine when to raise additional funds and the contribution amounts from each party.

#### 15. PROPERTY, PLANT AND EQUIPMENT

|   | December 31           |                       |
|---|-----------------------|-----------------------|
|   | 2006                  | 2005                  |
| <b>Cost</b>   |                       |                       |
| Land  | \$ 100,937,183        | \$ 101,784,869        |
| Land improvements   | 1,476,683             | 1,474,429             |
| Buildings   | 59,011,713            | 57,451,040            |
| Machinery and equipment   | 21,388,089            | 21,753,818            |
| Telecommunications network facilities                                     | 635,784,491           | 627,609,240           |
| Miscellaneous equipment   | 1,921,847             | 2,046,160             |
| Total cost  | 820,520,006           | 812,119,556           |
| Revaluation increment on land   | 5,824,381             | 5,945,850             |
|   | 826,344,387           | 818,065,406           |
| <b>Accumulated depreciation</b>   |                       |                       |
| Land improvements   | 807,767               | 753,224               |
| Buildings   | 14,230,739            | 13,246,759            |
| Machinery and equipment   | 16,378,560            | 15,869,654            |
| Telecommunications network facilities                                     | 473,644,304           | 453,438,139           |
| Miscellaneous equipment   | 1,668,356             | 1,756,173             |
|   | 506,729,726           | 485,063,949           |
| Construction in progress and advances related to acquisition of equipment | 23,488,441            | 27,881,012            |
| <b>Property, plant and equipment, net</b>                                 | <b>\$ 343,103,102</b> | <b>\$ 360,882,469</b> |

Pursuant to the related regulation, the Company revalued its land owned as of April 30, 2000 based on the publicly announced value on July 1, 1999. These revaluations which have been approved by the MOA resulted in increases in the carrying values of property, plant and equipment of

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\$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 stockholders' equity - other adjustments.

Because of the improvements on telecommunication technology and changes of the market, the recoverable amount of telecommunications network facilities of paging division is less than its carrying value. Therefore, an impairment loss amounted to \$343,463 thousand was recognized for the year ended December 31, 2005.

Depreciation on property, plant and equipment for the years ended December 31, 2006 and 2005 amounted to \$40,049,605 thousand and \$40,870,177 thousand, respectively. No interest expense was capitalized for the years ended December 31, 2006 and 2005.

#### 16. ACCRUED EXPENSES

|                                 | December 31   |               |
|---------------------------------|---------------|---------------|
|                                 | 2006          | 2005          |
| Accrued salary and compensation | \$ 11,996,686 | \$ 9,863,026  |
| Accrued franchise fees          | 2,413,579     | 2,539,494     |
| Accrued advertisement expenses  | 960,327       | 751,039       |
| Other accrued expenses          | 3,538,534     | 2,373,388     |
|                                 | \$ 18,909,126 | \$ 15,526,947 |

#### 17. OTHER CURRENT LIABILITIES

|                                       | December 31   |               |
|---------------------------------------|---------------|---------------|
|                                       | 2006          | 2005          |
| Advances from subscribers             | \$ 4,532,128  | \$ 4,749,623  |
| Amounts collected in trust for others | 4,013,654     | 3,323,278     |
| Payables to equipment suppliers       | 1,659,700     | 4,142,230     |
| Payables to constructors              | 1,073,285     | 2,405,748     |
| Refundable customers' deposits        | 949,776       | 858,351       |
| Miscellaneous                         | 1,655,634     | 2,126,686     |
|                                       | \$ 13,884,177 | \$ 17,605,916 |

#### 18. LONG-TERM LOANS (INCLUDING LONG-TERM LOANS - CURRENT PORTION)

|  | December 31 |            |
|--|-------------|------------|
|  | 2006        | 2005       |
| Loan from the Fixed-line Fund            | \$ 300,000  | \$ 500,000 |
| Less: Current portion of long-term loans | 300,000     | 200,000    |
|  | \$          | \$ 300,000 |

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

## 19. STOCKHOLDERS EQUITY

Under the revised Company's Articles of Incorporation dated May 30, 2006, the Company's authorized capital is \$120,000,000,020, which is divided into 12,000,000,000 common shares (at \$10 par value per share), which are issued and outstanding 9,667,845,093 shares, and 2 preferred shares (at \$10 par value per share), which are issued and approved by the board of directors on March 28, 2006, and the MOTC purchased 2 preferred shares at par value on April 4, 2006.

For the purpose of privatizing the company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of the company, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. As of December 31, 2006, the MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of December 31, 2006, the outstanding ADSs were 307,399 thousand units, which equaled approximately 3,073,988 thousand common shares and represented 31.8% of the Company's total outstanding common shares.

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.

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 with par value within three years from the date of their issuance.

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

regulations.

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

Telecommunications service is a Taiwan's capital-intensive industry and the Company requires capital expenditures to sustain its competitive position in high-growth market. Thus, 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.

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 appropriations and distributions of the 2005 earnings of the company have been approved and resolved by the stockholders on May 30, 2006 as follows:

|  | Appropriation and Distribution |                    |
|--|--------------------------------|--------------------|
|  | Amount                         | Dividend Per Share |
| Legal reserve                                      | \$ 4,765,288                   | \$                 |
| Cash dividends                                     | 40,659,617                     | 4.3                |
| Stock dividends                                    | 1,891,145                      | 0.2                |
| Employee bonus - cash                              | 230,057                        |                    |
| Employee bonus - stock                             | 230,057                        |                    |
| Remuneration to board of directors and supervisors | 15,337                         |                    |
|  | \$ 47,791,501                  | \$ 4.5             |

The appropriation and distributions of the 2004 earnings of the Company have been approved and resolved by the stockholders on June 21, 2005, for 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 in accordance with the applicable government regulations (see Note 4).

The appropriation of earnings in 2005 approved by the stockholders in their meeting was as follows:

|  | <b>Actual<br/>Distribution<br/>Approved by<br/>Stockholders</b> | <b>Proposed<br/>Distribution<br/>Approved by<br/>Board of Directors</b> | <b>Difference</b> |
|--|---|---|-------------------|
| Appropriation of earnings                          |   |   |                   |
| Employee bonus - cash                              | \$ 230,057  | \$ 230,057  |                   |
| Employee bonus - stock                             | 230,057   | 230,057   |                   |
| Remuneration to board of directors and supervisors | 15,337  | 15,337  |                   |
| Earnings per share                                 |   |   |                   |
| Basic earnings per share                           | 4.94  | 4.94  |                   |
| Imputed earnings per share                         | 4.89  | 4.89  |                   |

The appropriation of the Company's 2006 earnings had not been proposed by the board of directors as of March 13, 2007, the independent auditors' report date. Information on the appropriation of 2006 earnings proposed by the board of directors and resolved by the shareholders can be accessed through the Market Observation Post System on the Taiwan Stock Exchange Corporation's website.

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.

## 20. TREASURY STOCK (COMMON STOCK IN THOUSANDS OF SHARES)

|                       | <b>Years Ended December 31</b> |             |
|-----------------------|--------------------------------|-------------|
|                       | <b>2006</b>                    | <b>2005</b> |
| As of January 1, 2006 |                                |             |
| Increase              | 192,000                        |             |
| Decrease              | 192,000                        |             |

As of December 31, 2006

According to the Securities and Exchange Law of the ROC, total shares of treasury stock shall not exceed 10% of the Company's stock issued. The total amount of the shares bought back shall not be more than the amount of retained earnings, premium on capital stock and realized capital reserve.

The shares bought back by the Company in accordance with Securities and Exchange Law of the ROC shall not be pledged. Before transfer, the shareholder's rights shall not be enjoyed.

In order to maintain its credit and shareholders' equity by repurchasing treasury stock 192,000 thousand shares, from February 10, 2006 to April 7, 2006, for \$11,392,333 thousand. On June 30, 2006, the company cancelled the treasury stock by reducing common stock of \$1,920,000 thousand, capital surplus of \$4,269,368 thousand and retained earnings of \$5,202,965 thousand.

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

|                      | Year Ended December 31, 2006 |                    |               |
|----------------------|------------------------------|--------------------|---------------|
|                      | Cost of Services             | Operating Expenses | Total         |
| Compensation expense |                              |                    |               |
| Salaries             | \$ 13,266,008                | \$ 8,365,679       | \$ 21,631,687 |
| Insurance            | 702,646                      | 452,043            | 1,154,689     |
| Pension              | 1,923,416                    | 1,254,946          | 3,178,362     |
| Other compensation   | 8,072,509                    | 5,090,964          | 13,163,473    |
|                      | 23,964,579                   | 15,163,632         | 39,128,211    |
| Depreciation expense | 37,845,485                   | 2,204,120          | 40,049,605    |
| Amortization expense | 857,544                      | 101,803            | 959,347       |
|                      | \$ 62,667,608                | \$ 17,469,555      | \$ 80,137,163 |

|                      | Year Ended December 31, 2005 |                    |               |
|----------------------|------------------------------|--------------------|---------------|
|                      | Cost of Services             | Operating Expenses | Total         |
| Compensation expense |                              |                    |               |
| Salaries             | \$ 15,058,999                | \$ 9,183,602       | \$ 24,242,601 |
| Insurance            | 672,367                      | 428,995            | 1,101,362     |
| Pension              | 1,288,393                    | 829,690            | 2,118,083     |
| Other compensation   | 6,671,240                    | 4,036,292          | 10,707,532    |
|                      | 23,690,999                   | 14,478,579         | 38,169,578    |
| Depreciation expense | 38,606,346                   | 2,263,831          | 40,870,177    |
| Amortization expense | 577,544                      | 109,837            | 687,381       |
|                      | \$ 62,874,889                | \$ 16,852,247      | \$ 79,727,136 |

**22. INCOME TAX**

The Income Basic Tax Act (the IBT Act), which took effect on January 1, 2006, requires that the income basic tax should be 10% of the sum of the taxable income as calculated in accordance with the Income Tax Act plus tax benefit regulated by the Income Tax Act or other laws. The tax payable of the current year would be the higher of the income basic tax and income tax payable calculated in accordance with the Income Tax Act. The Company has considered the impact of the IBT Act in the determination of the current year's income tax expense.

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

|   | Years Ended December 31 |               |
|---|-------------------------|---------------|
|   | 2006                    | 2005          |
| Income tax expense computed at statutory income tax rate of 25% to income before income tax | \$ 14,410,819           | \$ 14,900,703 |
| Deduct tax effects of:  |                         |               |
| Permanent differences   | (360,032)               | (38,069)      |
| Temporary differences   | (1,296,301)             | (10,887,822)  |
| Additional tax at 10% on undistributed earnings   | 182                     |               |
| Investment tax credits  | (3,092,983)             | (1,987,406)   |

|                    |              |              |
|--------------------|--------------|--------------|
| Income tax payable | \$ 9,661,685 | \$ 1,987,406 |
|--------------------|--------------|--------------|

- 27 -

b. Income tax expense consists of the following:

|                                       | Years Ended December 31 |               |
|---------------------------------------|-------------------------|---------------|
|                                       | 2006                    | 2005          |
| Income tax payable                    | \$ 9,661,685            | \$ 1,987,406  |
| Income tax - separated                | 135,631                 | 84,615        |
| Income tax - deferred                 | 2,845,671               | 9,882,696     |
| Adjustments of prior years income tax | 108,410                 | (4,750)       |
| Other                                 | 582                     |               |
|                                       | \$ 12,751,979           | \$ 11,949,967 |

The balance of income tax payable as of December 31, 2006 was shown net of prepaid income tax. Tax refund receivable as of December 31, 2005 was shown net of income tax payable (classified as other current monetary assets). The balance of income tax payable as of December 31, 2005 was derived from the adjustment of the government agencies in examining the accounts for the year ended December 31, 2004.

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

|  | December 31 |              |
|--|-------------|--------------|
|  | 2006        | 2005         |
| Current                                |             |              |
| Deferred income tax assets:            |             |              |
| Provision for doubtful accounts        | \$ 217,942  | \$ 233,638   |
| Unrealized foreign exchange loss       | 38,901      |              |
| Accrued pension cost                   |             | 1,772,248    |
| Investment tax credits                 |             | 553,924      |
| Other                                  | 17,663      | 48,931       |
|  | 274,506     | 2,608,741    |
| Less: Valuation allowance              | (217,942)   | (233,638)    |
|  | 56,564      | 2,375,103    |
| Deferred income tax liability:         |             |              |
| Unrealized foreign exchange gain       |             | (53,704)     |
| Net deferred income tax assets         | \$ 56,564   | \$ 2,321,399 |
| Noncurrent deferred income tax assets: |             |              |
| Accrued pension cost                   | \$ 428,153  | \$           |
| Losses on impairment                   | 85,866      | 85,866       |
|  | \$ 514,019  | \$ 85,866    |

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

|  | December 31  |              |
|--|--------------|--------------|
|  | 2006         | 2005         |
| Balance of Imputation Credit Account ( ICA ) | \$ 1,116,033 | \$ 2,115,000 |

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The estimated ICA rate for the 2006 earnings as of December 31, 2006 and the actual ICA rate for the 2005 earnings were 24.12% and 6.97%, 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, 2006 may differ from the actual rate determined based on the balance of the ICA on the dividend distribution date.

- 28 -

e. Undistributed earnings information

As of December 31, 2006, the Company's undistributed earnings generated in June 30, 1998 and onward was zero.

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

**23. EARNINGS PER SHARE**

|                                     | Amount (Numerator)   |               | Weighted-average<br>Number of<br>Common<br>Shares<br>Outstanding<br>(Denominator) | Net Income<br>Per Share<br>(Dollars) |         |
|-------------------------------------|----------------------|---------------|---|--------------------------------------|---------|
|                                     | Income               |               |   | Income                               |         |
|                                     | Before<br>Income Tax | Net Income    | Before<br>Income Tax  | Net<br>Income                        |         |
| <u>Year ended December 31, 2006</u> |                      |               |   |                                      |         |
| Net income                          | \$ 57,643,316        | \$ 44,891,337 |   |                                      |         |
| Basic net income per share          |                      |               | 9,704,136   | \$ 5.94                              | \$ 4.63 |
| <u>Year ended December 31, 2005</u> |                      |               |   |                                      |         |
| Net income                          | \$ 59,602,851        | \$ 47,652,884 |   |                                      |         |
| Basic net income per share          |                      |               | 9,859,845   | \$ 6.05                              | \$ 4.83 |

The impact of stock dividends was considered in calculating basic net income per share for 2005. The basic EPS before income tax and the basic EPS after income tax in 2005 are restated from \$6.18 to \$6.05 and from \$4.94 to \$4.83, respectively.

**24. PENSION PLAN**

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

Before privatization, the funding of the pension plan for employees classified as staff was based on the budget approved by the Legislative Yuan and a supplementary budget approved by the Executive Yuan. The staff pension fund was 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 Company.

The Company completed privatization plans on August 12, 2005. The Company is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in accordance with the Statute Governing Privatization of Stated-owned Enterprises (the Privatization Fund). After paying all pension obligations for privatization, the plan assets of the Company should be transferred to the Fund for Privatization of Government-owned Enterprises under the Executive Yuan. However, according to the instructions of MOTC, the Company would, on behalf of the MOTC pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization. As of December 31, 2006, the remaining balance of funds to be disbursed to employees has totally transferred to Privatization Fund. On March 27, 2006 and August 7, 2006, the Company transferred \$5,088,879 thousand and the remaining balance of \$542,579 thousand, respectively, from the pension plan to the Privatization Fund.

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

After privatization, the pension plan in accordance with the Labor Standards Law is considered as a defined benefit plan. The payments of pension are subject to the service periods and average salaries of six months of employees prior to retirement. The pension assets 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 Company.

Pension costs amounted to \$3,320,263 thousand (\$3,256,357 thousand subject to defined benefit plan and \$63,906 thousand subject to defined contribution plan) and \$2,300,790 thousand (\$2,285,275 thousand subject to defined benefit plan and \$15,515 thousand subject to defined contributed plan) for the years ended December 31, 2006 and 2005, respectively.

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

a. Components of net periodic pension cost for the year

|                                     | 2006         | 2005 (After Privatization) |
|-------------------------------------|--------------|----------------------------|
| Service costs                       | \$ 3,072,678 | \$ 1,191,790               |
| Interest costs                      | 58,200       |                            |
| Projected return on plan assets     | (65,636)     | (14,253)                   |
| Amortization                        | 46,690       |                            |
| Effect of curtailment or settlement | 144,425      |                            |
|                                     | \$ 3,256,357 | \$ 1,177,537               |

b. Reconciliation between the funded status of the plan and accrued pension cost is summarized as follows:

|   | December 31    |              |
|---|----------------|--------------|
|   | 2006           | 2005         |
| <b>Benefit obligation</b>   |                |              |
| Vested benefit obligation   | \$ (2,308,643) | \$ (995,410) |
| Non-vested benefit obligation   | (1,526,250)    | (406,068)    |
| Accumulated benefit obligation  | (3,834,893)    | (1,401,478)  |
| Additional benefit obligation   | (683,674)      | (281,909)    |
| Projected benefit obligation  | (4,518,567)    | (1,683,387)  |
| Fair values of plan assets  | 2,914,999      | 1,637,730    |
| Funded status   | (1,603,568)    | (45,657)     |
| Unrecognized net loss   | 349,867        | 503,709      |
| (Accrued pension liabilities)/prepaid pension cost (recognized as other current assets) | \$ (1,253,701) | \$ 458,052   |
| c. Vested benefit   | \$ 3,174,285   | \$ 1,226,327 |

d. Actuarial assumptions

|   |       |       |
|---|-------|-------|
| Discount rate used in determining present value | 2.00% | 2.25% |
| Rate of compensation increase                   | 1.50% | 2.0%  |
| Rate of return on plan assets                   | 3.00% | 3.0%  |

e. Contributions and payments of the Fund

|               | 2006         | 2005 (After Privatization) |
|---------------|--------------|----------------------------|
| Contributions | \$ 1,543,744 | \$ 585,560                 |
| Payments      | \$ 6,869     | \$ 9,918                   |

## 25. TRANSACTIONS WITH RELATED PARTIES

As the Company was a state-owned enterprise, the ROC Government is one of the Company's 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 would be incurred as a result of the privatization being completed.

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

| Company   | Relationship                              |
|---|---|
| CHIEF Telecom, Inc. ( CHIEF )                           | Subsidiary                                |
| New Prospect Investments Holdings Ltd. (B.V.I.)         | Subsidiary                                |
| Prime Asia Investments Group Ltd. (B.V.I.)              | Subsidiary                                |
| Taiwan International Standard Electronics Ltd. ( TISE ) | Equity-accounted investee                 |
| Chunghwa System Integration Co., Ltd. ( CSI )           | Subsidiary of equity - accounted investee |
| Chunghwa Precision Test Technical Co., Ltd. ( CHPT )    | Subsidiary of equity - accounted investee |
| Chunghwa Telecom Global, Inc. ( CHTG )                  | Subsidiary of equity - accounted investee |



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

|   | December 31 |   |            |   |
|---|-------------|---|------------|---|
|   | 2006        |   | 2005       |   |
|   | Amount      | % | Amount     | % |
| <b>1) Receivables</b>   |             |   |            |   |
| Trade notes and accounts receivable                                       |             |   |            |   |
| CHTG  | \$ 43,999   |   | \$ 49,436  |   |
| CHIEF   | 3,769       |   |            |   |
| CHPT  |             |   | 20,724     |   |
|   | \$ 47,768   |   | \$ 70,160  |   |
| <b>2) Payables</b>  |             |   |            |   |
| Trade notes and accounts payable  |             |   |            |   |
| TISE  | \$ 202,205  | 2 | \$ 41,058  |   |
| CSI   | 191,662     | 2 | 54,832     | 1 |
| CHTG  | 18,211      |   | 27,718     |   |
|   | \$ 412,078  | 4 | \$ 123,608 | 1 |
| Accrued expenses  |             |   |            |   |
| TISE  | \$ 92,156   |   | \$ 48,852  |   |
| CHTG  | 18,632      |   | 11,119     |   |
| CSI   | 1,517       |   | 26,567     |   |
|   | \$ 112,305  |   | \$ 86,538  |   |
| Payable to construction supplier (included in other current liabilities ) |             |   |            |   |
| TISE  | \$ 345,246  | 3 | \$ 318,653 | 2 |
| CSI   | 13,331      |   | 22,227     |   |
|   | \$ 358,577  | 3 | \$ 340,880 | 2 |
| <b>3) Revenues</b>  |             |   |            |   |
| CHTG  | \$ 95,127   |   | \$ 101,086 |   |
| CHIEF   | 33,667      |   |            |   |
| CHPT  | 13,774      |   | 24,492     |   |
|   | \$ 142,568  |   | \$ 125,578 |   |
| <b>4) Operating costs and expenses</b>                                    |             |   |            |   |
| TISE  | \$ 374,209  |   | \$ 135,268 |   |
| CSI   | 306,075     |   | 89,137     |   |
| CHTG  | 101,059     |   | 80,360     |   |
|   | \$ 781,343  |   | \$ 304,765 |   |

(Continued)

|                              | December 31  |   |            |   |
|------------------------------|--------------|---|------------|---|
|                              | 2006         |   | 2005       |   |
|                              | Amount       | % | Amount     | % |
| 5) Acquisition of properties |              |   |            |   |
| TISE                         | \$ 920,236   | 3 | \$ 477,988 | 2 |
| CSI                          | 283,309      | 1 | 315,830    | 1 |
| CHTG                         | 864          |   | 12,992     |   |
|                              | \$ 1,204,409 | 4 | \$ 806,810 | 3 |

(Concluded)

The foregoing transactions with related parties were conducted under normal commercial terms.

## 26. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2006, the Company's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of buildings of \$1,575,422 thousand.
- b. Acquisitions of telecommunications equipment of \$15,479,152 thousand.
- c. Unused letters of credit of approximately \$1,364,451 thousand.
- d. Contract to print billing, envelopes and telephone directories of approximately \$346,414 thousand.
- e. The Company also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operation system software under contracts that expire in various years. Minimum rental commitments under those leases are as follows:

| Year                | Rental Amount |
|---------------------|---------------|
| 2007                | \$ 1,094,372  |
| 2008                | 730,291       |
| 2009                | 471,241       |
| 2010                | 264,500       |
| 2011 and thereafter | 131,184       |

- 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 the contribution amounts 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. When the fund is not sufficient, the Company will contribute the remaining \$1,000,000 thousand after getting the notification from the Taipei City Government.



- 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 Taiwan Post Co., Ltd. (the former Chunghwa Post Co., Ltd. directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to the Company to reimburse Taiwan 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. As of March 13, 2007, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.

## 27. SUBSEQUENT EVENTS

The Company has acquired 31.5% shares of SENA International Co., Ltd. ( SENA ) amounted 70,373 thousand common shares by public tender on January 8, 2007, for purchasing price of \$15.1 each share, totally \$1,062,632 thousand. SENA engages in communication machine sales and software service.

## 28. FAIR VALUE OF FINANCIAL INSTRUMENTS

- a. Fair value of financial instruments were as follows:

|   | December 31        |               |                    |               |
|---|--------------------|---------------|--------------------|---------------|
|   | 2006               |               | 2005               |               |
|   | Carrying<br>Amount | Fair Value    | Carrying<br>Amount | Fair Value    |
| <b>Assets</b>   |                    |               |                    |               |
| Cash and cash equivalents   | \$ 70,639,453      | \$ 70,639,453 | \$ 41,890,668      | \$ 41,890,668 |
| Financial assets at fair value through profit or loss -<br>current    | 59,119             | 59,119        | 35,000             | 34,986        |
| Available-for-sale financial assets                                   | 6,950,642          | 6,950,642     | 14,067,017         | 14,136,195    |
| Trade notes and accounts receivable, net                              | 12,586,976         | 12,586,976    | 12,839,005         | 12,839,005    |
| Other current monetary assets   | 5,963,897          | 5,963,897     | 5,706,740          | 5,706,740     |
| Financial assets at fair value through profit or loss -<br>noncurrent |                    |               | 500,000            | 481,410       |
| Investments accounted for using equity method                         | 2,024,981          | 2,134,951     | 1,524,938          | 1,763,711     |
| Financial assets carried at cost                                      | 1,941,280          | 1,941,280     | 1,866,280          | 1,866,280     |
| Other noncurrent monetary assets                                      | 2,000,000          | 2,000,000     | 2,000,000          | 2,000,000     |
| Refundable deposits   | 1,510,435          | 1,510,435     | 1,577,167          | 1,577,167     |
| <b>Liabilities</b>  |                    |               |                    |               |
| Financial liabilities at fair value through profit or<br>loss         | 24,844             | 24,844        |                    |               |
| Trade notes and accounts payable                                      | 9,859,679          | 9,859,679     | 10,332,306         | 10,332,306    |
| Accrued expenses  | 18,909,126         | 18,909,126    | 15,526,947         | 15,526,947    |
| Current portion of long-term loans                                    | 300,000            | 300,000       | 200,000            | 200,000       |
| Long-term loans   |                    |               | 300,000            | 300,000       |
| Customers deposits  | 6,597,003          | 6,597,003     | 7,391,902          | 7,391,902     |

On January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, Accounting for Financial Instruments ( SFAS No. 34 ), and the related information refers to the Note 3 to the financial statements.

b. Methods and assumptions used in the determination of fair values of financial instruments:

- 1) The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. Because of the short maturities of these instruments, the carrying value represents a reasonable basis to estimate fair values. This method does not apply to the financial instruments discussed in notes 2, 3, and 4 below.
- 2) If the financial assets and liabilities at fair value through profit or loss and the available-for-sale financial assets have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market price of the available-for-sale financial assets are not immediately available, they must be calculated using standard valuation models on the basis of current market parameters. The Company adopt fair value of accounting for estimates and assumptions for derivatives; these estimates and assumptions are used consistently by the investors in the market and can be obtained by the Company.
- 3) Long-term investments are based on the net asset values of the investments in unconsolidated companies, if quoted market prices are not available.
- 4) The fair value of long-term loans (including current portion) is discounted value based on projected cash flow. The projected cash flows were discounted using the maturity dates of long-term loans.

c. Fair value of financial instruments were as follow:

|  | Amount Based on Quoted<br>Market Price |            | Amount Determined Using<br>Valuation Techniques |         |
|--|--|------------|---|---------|
|  | December 31                            |            | December 31                                     |         |
|  | 2006                                   | 2005       | 2006  | 2005    |
| <b>Assets</b>  |  |            |   |         |
| Financial assets at fair value through profit or loss-current    | \$ 59,119                              | \$ 34,986  | \$  | \$      |
| Available-for-sale financial assets                              | 6,950,642                              | 14,136,195 |   |         |
| Financial assets at fair value through profit or loss-noncurrent |  |            |   | 481,410 |
| <b>Liabilities</b>   |  |            |   |         |
| Financial liabilities at fair value through profit or loss       | 24,844                                 |            |   |         |

d. Information about financial risks

1) Market risk

The foreign exchange rate fluctuations would result in the Company's foreign-currency-dominated assets and liabilities and open forward exchange contracts exposed to fair value risk and cash flow risk.

The fluctuations of market price would result in the index future contracts exposed to fair value risk and cash flow risk.

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



2) Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the foregoing financial instruments are reputable financial institutions and business organizations. Management believes that the Company's exposure to default by those parties is low.

3) Liquidation risk

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

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

## 29. ADDITIONAL DISCLOSURES

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

- a. Financing provided: Please see Table 1.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Please see Table 2.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: Please see Table 5.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: None.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: None.
- i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 6.
- j. Financial transaction: Please see Notes 6 and 28.

k. Investment in Mainland China: None.

**30. SEGMENT INFORMATION**

a. Industry

The financial information of the Company by industry: Please see Table 7.

- 36 -

b. Geographic

As of December 31, 2006, the Company had established a foreign operation in Hong Kong, but not on operating stage yet.

c. Foreign revenue

The foreign revenue of the Company is less than 10% of total sales.

d. Major customers

No single customer accounts for more than 10% of total revenues.

**TABLE 1****CHUNGHWA TELECOM CO., LTD.****FINANCING PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2006**

(Amounts in Thousands of New Taiwan Dollars)

| No. | Financing Name       | Counter-party                     | Financial Statement Account      | Maximum Balance for the Period | Ending Balance | Interest Rate | Type of Financing                   | Transaction Amounts | Reasons for Short-term Financing | Allowance for Doubtful Accounts | Collateral Value | Financing Limit for Each Company | Financing Amount Limits |
|-----|----------------------|-----------------------------------|----------------------------------|--------------------------------|----------------|---------------|-------------------------------------|---------------------|----------------------------------|---------------------------------|------------------|----------------------------------|-------------------------|
| 1   | CHIEF Telecom        | CHIEF Telecom (Hong Kong) Limited | Other receivable - related party | \$ 879                         | \$ (Note 1)    |               | Necessary for short-term financing. | \$                  | For revolving fund               | \$                              | \$               | \$                               | \$ 274,069 (Note 4)     |
| 2   | Unigate Telecom Inc. | CHIEF Telecom                     | Other receivable - related party | 9,877                          | (Note 2)       | 4%            | Necessary for short-term financing. |                     | For revolving fund               |                                 |                  | 813,696 (Note 3)                 | 274,069 (Note 4)        |

Note 1: CHIEF Telecom received the payment on October 27, 2006.

Note 2: CHIEF Telecom repaid the payment on October 20, 2006.

Note 3: According to CHIEF Telecom's Operational Procedures for Loaning Funds to Others, the amount shall not exceed 2.5 times of the lender's net worth.

Note 4: According to CHIEF Telecom's Operational Procedures for Loaning Funds to Others, the amount shall not exceed 50% of CHIEF Telecom's paid-up capital.

**TABLE 2****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****DECEMBER 31, 2006****(Amounts in Thousands of New Taiwan Dollars)**

|                 |   | December 31, 2006                |   |                                |                            |                            |    |                               |
|-----------------|---|----------------------------------|---|--------------------------------|----------------------------|----------------------------|----|-------------------------------|
|                 |   |                                  |   | Shares                         |                            |                            |    |                               |
|                 |   |                                  |   | (Thousands/<br>Thousand Units) | Carrying Value<br>(Note 6) | Percentage of<br>Ownership |    | Market Va<br>Net Ass<br>Value |
| Company Name    | Marketable Securities Type and Name             | Relationship with the<br>Company | Financial Statement Account                   |                                |                            |                            |    |                               |
| Chungwa Telecom | <u>Common stock</u>                             |                                  |   |                                |                            |                            |    |                               |
|                 | Chunghwa Investment Co., Ltd.                   | Equity-accounted investee        | Investments accounted for using equity method | 98,000                         | \$ 974,805                 | 49                         | \$ | 974,805                       |
|                 | Taiwan International Standard Electronics       | Equity-accounted investee        | Investments accounted for using equity method | 1,760                          | 609,004                    | 40                         |    | 780,000                       |
|                 | Spring House Entertainment Inc.                 | Equity-accounted investee        | Investments accounted for using equity method | 2,016                          | 17,761                     | 30                         |    | 20,000                        |
|                 | CHIEF Telecom                                   | Subsidiary                       | Investments accounted for using equity method | 38,370                         | 273,411                    | 70                         |    | 227,000                       |
|                 | New Prospect Investments Holdings Ltd. (B.V.I.) | Subsidiary                       | Investments accounted for using equity method |                                | US\$ (1)                   | 100                        |    | US\$                          |
|                 | Prime Asia Investments Group Ltd. (B.V.I.)      | Subsidiary                       | Investments accounted for using equity method |                                | US\$ (1)                   | 100                        |    | US\$                          |
|                 | Chunghwa International                          | Subsidiary                       | Prepayment for long-term investment           | 15,000                         | 150,000                    | 100                        |    | 150,000                       |
|                 | Yellow Pages Co., Ltd.                          |                                  |   |                                |                            |                            |    |                               |
|                 | Taipei Financial Center                         |                                  | Financial assets carried at cost              | 288,211                        | 1,789,530                  | 12                         |    | 1,577,000                     |
|                 | RPTI International                              |                                  | Financial assets carried at cost              | 9,234                          | 71,500                     | 12                         |    | 108,000                       |
|                 | iD Branding Ventures                            |                                  | Financial assets carried at cost              | 7,500                          | 75,000                     | 8                          |    | 74,000                        |
|                 | Siemens Telecommunication Systems               |                                  | Financial assets carried at cost              | 75                             | 5,250                      | 15                         |    | 218,000                       |
|                 | Formosa Chemicals & Fiber Corporation           |                                  | Available-for-sale financial assets           | 90                             | 4,548                      |                            |    | 4,548                         |
|                 | Fu Sheng Group                                  |                                  | Available-for-sale financial assets           | 240                            | 7,201                      |                            |    | 7,201                         |
|                 | Oriental Union Chemical Corporation             |                                  | Available-for-sale financial assets           | 320                            | 6,521                      |                            |    | 6,521                         |
|                 | China Motor Corporation                         |                                  | Available-for-sale financial assets           | 417                            | 12,149                     |                            |    | 12,149                        |
|                 | Lite-On Technology Corporation                  |                                  | Available-for-sale financial assets           | 150                            | 5,994                      |                            |    | 6,000                         |
|                 | D-Link Corporation                              |                                  | Available-for-sale financial assets           | 258                            | 8,216                      |                            |    | 11,000                        |
|                 | Realtek Semiconductor Corp.                     |                                  | Available-for-sale financial assets           | 21                             | 668                        |                            |    | 1,000                         |
|                 | Sinoking Technology Development Ltd.            |                                  | Available-for-sale financial assets           | 250                            | 7,351                      |                            |    | 7,351                         |
|                 | ZyXEL Communications Corp.                      |                                  | Available-for-sale financial assets           | 268                            | 10,742                     |                            |    | 10,742                        |
|                 | Sunplus Innovation Technology Inc.              |                                  | Available-for-sale financial assets           | 160                            | 5,160                      |                            |    | 6,000                         |
|                 | Taiwan Life Insurance                           |                                  | Available-for-sale financial assets           | 142                            | 5,587                      |                            |    | 6,000                         |
|                 | Lite-On IT Corporation                          |                                  | Available-for-sale financial assets           | 350                            | 9,429                      |                            |    | 10,000                        |

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|                               |                                     |     |       |   |
|-------------------------------|-------------------------------------|-----|-------|---|
| Norm Pacific Automation Corp. | Available-for-sale financial assets | 130 | 3,739 | 4 |
| <u>Stock</u>                  |                                     |     |       |   |
| Acerinox Sa EUR0.25           | Available-for-sale financial assets | 10  | 7,014 | 9 |
| Agf - Assur Gen De France     | Available-for-sale financial assets | 2   | 7,156 | 8 |
| Air France-Klm EUR8.50        | Available-for-sale financial assets | 7   | 6,943 | 9 |

(Continued)





|          |              |   |                               | December 31, 2006                   |                |                |                         |                           |        |
|----------|--------------|---|-------------------------------|-------------------------------------|----------------|----------------|-------------------------|---------------------------|--------|
|          |              |   |                               | Shares                              |                |                |                         |                           |        |
|          |              |   |                               | (Thousands)                         |                | Carrying Value |                         | Market Value or Net Asset |        |
| No. Held | Company Name | Marketable Securities Type and Name           | Relationship with the Company | Financial Statement Account         | Thousand Units | (Note 6)       | Percentage of Ownership | Value                     | Note   |
|          |              | Stanley Electric Co Ltd.                      |                               | Available-for-sale financial assets | 5              | \$ 3,484       |                         | \$ 3,529                  | Note 5 |
|          |              | Sumitomo Corporation                          |                               | Available-for-sale financial assets | 8              | 3,436          |                         | 3,904                     | Note 5 |
|          |              | Sumitomo Heavy Ind Npv                        |                               | Available-for-sale financial assets | 11             | 3,392          |                         | 3,768                     | Note 5 |
|          |              | Sumitomo Metal Mining Co Ltd.                 |                               | Available-for-sale financial assets | 9              | 3,580          |                         | 3,766                     | Note 5 |
|          |              | Sumitomo Rubber Industries                    |                               | Available-for-sale financial assets | 9              | 3,491          |                         | 3,622                     | Note 5 |
|          |              | Sumitomo Trust & Banking Co Npv               |                               | Available-for-sale financial assets | 10             | 3,224          |                         | 3,420                     | Note 5 |
|          |              | Taiheiyo Cement Corporation                   |                               | Available-for-sale financial assets | 27             | 3,347          |                         | 3,448                     | Note 5 |
|          |              | Taiyo Yuden Co Ltd.                           |                               | Available-for-sale financial assets | 7              | 3,690          |                         | 4,028                     | Note 5 |
|          |              | Teijin Ltd. Com                               |                               | Available-for-sale financial assets | 17             | 3,345          |                         | 3,415                     | Note 5 |
|          |              | Terumo Corporation                            |                               | Available-for-sale financial assets | 3              | 3,362          |                         | 3,334                     | Note 5 |
|          |              | Tokyo Electron Ltd. Shs                       |                               | Available-for-sale financial assets | 1              | 3,511          |                         | 3,599                     | Note 5 |
|          |              | Toto Limited Ord                              |                               | Available-for-sale financial assets | 11             | 3,457          |                         | 3,593                     | Note 5 |
|          |              | Toyota Mtr Com                                |                               | Available-for-sale financial assets | 2              | 3,245          |                         | 3,708                     | Note 5 |
|          |              | Abbott Laboratories Com Npv                   |                               | Available-for-sale financial assets | 4              | 5,380          |                         | 5,559                     | Note 5 |
|          |              | Allstate Corp Com                             |                               | Available-for-sale financial assets | 3              | 5,453          |                         | 5,641                     | Note 5 |
|          |              | American International Group Com USD2.50      |                               | Available-for-sale financial assets | 2              | 5,470          |                         | 5,837                     | Note 5 |
|          |              | Archer Daniels Midland Com                    |                               | Available-for-sale financial assets | 5              | 5,439          |                         | 4,691                     | Note 5 |
|          |              | Baker Hughes Inc Com                          |                               | Available-for-sale financial assets | 3              | 5,590          |                         | 6,140                     | Note 5 |
|          |              | Bear Stearns Companies Inc Com USD1           |                               | Available-for-sale financial assets | 1              | 5,490          |                         | 6,049                     | Note 5 |
|          |              | Becton Dickinson & Co Com                     |                               | Available-for-sale financial assets | 2              | 5,710          |                         | 5,586                     | Note 5 |
|          |              | Bmc Software Inc Com                          |                               | Available-for-sale financial assets | 5              | 5,576          |                         | 5,579                     | Note 5 |
|          |              | Caremark Rx Inc Com                           |                               | Available-for-sale financial assets | 3              | 5,566          |                         | 5,618                     | Note 5 |
|          |              | Carnival Corp Com USD0.01 Paired Stock        |                               | Available-for-sale financial assets | 4              | 5,492          |                         | 5,617                     | Note 5 |
|          |              | Chevrontexaco Corp Com                        |                               | Available-for-sale financial assets | 3              | 5,499          |                         | 6,347                     | Note 5 |
|          |              | Citrix Systems Inc Com Stk USD0.001           |                               | Available-for-sale financial assets | 5              | 5,570          |                         | 4,356                     | Note 5 |
|          |              | Cooper Inds Ltd. Cl A                         |                               | Available-for-sale financial assets | 2              | 5,525          |                         | 5,766                     | Note 5 |
|          |              | Csx Corp Com                                  |                               | Available-for-sale financial assets | 5              | 5,521          |                         | 5,630                     | Note 5 |
|          |              | Emerson Electric Co Com                       |                               | Available-for-sale financial assets | 4              | 5,480          |                         | 5,700                     | Note 5 |
|          |              | Freepport-Memoran Coppe Cl B                  |                               | Available-for-sale financial assets | 3              | 5,383          |                         | 6,116                     | Note 5 |
|          |              | General Mills Inc General Mills Inc           |                               | Available-for-sale financial assets | 3              | 5,467          |                         | 5,614                     | Note 5 |
|          |              | Gilead Sciences Inc Com                       |                               | Available-for-sale financial assets | 3              | 5,633          |                         | 5,687                     | Note 5 |
|          |              | Goldman Sachs Group In Com                    |                               | Available-for-sale financial assets | 1              | 5,508          |                         | 6,219                     | Note 5 |
|          |              | Google Inc-Cl A Cl A                          |                               | Available-for-sale financial assets |                | 5,597          |                         | 6,199                     | Note 5 |
|          |              | Heinz H J Co Com                              |                               | Available-for-sale financial assets | 4              | 5,488          |                         | 5,880                     | Note 5 |
|          |              | Hilton Hotels Corp Com                        |                               | Available-for-sale financial assets | 6              | 5,458          |                         | 6,852                     | Note 5 |
|          |              | Intl Game Tech Com USD0.000625                |                               | Available-for-sale financial assets | 4              | 5,516          |                         | 6,090                     | Note 5 |
|          |              | Intuit Com                                    |                               | Available-for-sale financial assets | 5              | 5,674          |                         | 5,049                     | Note 5 |
|          |              | Johnson & Johnson Com                         |                               | Available-for-sale financial assets | 2              | 4,883          |                         | 4,887                     | Note 5 |
|          |              | Kohls Corp Com                                |                               | Available-for-sale financial assets | 2              | 5,563          |                         | 5,505                     | Note 5 |
|          |              | Lehman Bros Hldgs Inc Com                     |                               | Available-for-sale financial assets | 2              | 5,465          |                         | 5,617                     | Note 5 |
|          |              | Limited Brands Com                            |                               | Available-for-sale financial assets | 6              | 5,500          |                         | 5,686                     | Note 5 |
|          |              | Lockheed Martin Corp Com                      |                               | Available-for-sale financial assets | 2              | 5,500          |                         | 5,762                     | Note 5 |
|          |              | Marriott International-Cl A Com USD0.01 Class |                               | Available-for-sale financial assets |                |                |                         |                           |        |
|          |              | A   |                               |                                     | 4              | 5,535          |                         | 6,465                     | Note 5 |
|          |              | Mcdonald s Corp Com USD0.01                   |                               | Available-for-sale financial assets | 4              | 5,477          |                         | 6,069                     | Note 5 |
|          |              | Metlife Inc Com                               |                               | Available-for-sale financial assets | 3              | 5,541          |                         | 5,701                     | Note 5 |

(Continued)

|              |  | December 31, 2006             |                                     |                          |            |
|--------------|--|-------------------------------|-------------------------------------|--------------------------|------------|
|              |  | Shares                        |                                     | Market V                 |            |
|              |  | (Thousands/ Carrying Value    |                                     | Net                      |            |
| Company Name | Marketable Securities Type and Name                      | Relationship with the Company | Financial Statement Account         | Percentage of Ownership  | Asses Valu |
|              |  |                               |                                     | Thousand Units) (Note 6) | Value      |
|              | Molex Inc Com USD0.05                                    |                               | Available-for-sale financial assets | 4 \$ 5,462               | \$ 4,      |
|              | Newell Rubbermaid Inc Com                                |                               | Available-for-sale financial assets | 6 5,467                  | 5,         |
|              | Nordstrom Inc Com  |                               | Available-for-sale financial assets | 4 5,576                  | 6,         |
|              | Novellus Sys Inc Com                                     |                               | Available-for-sale financial assets | 6 5,621                  | 6,         |
|              | Nucor Corp Com Stk USD0.40                               |                               | Available-for-sale financial assets | 3 5,478                  | 6,         |
|              | Office Depot Inc Com                                     |                               | Available-for-sale financial assets | 4 5,479                  | 5,         |
|              | Omnicom Group Inc Com                                    |                               | Available-for-sale financial assets | 1 4,903                  | 5,         |
|              | Oracle Corp Com  |                               | Available-for-sale financial assets | 9 5,524                  | 5,         |
|              | Pactiv Corp Com  |                               | Available-for-sale financial assets | 6 5,500                  | 6,         |
|              | Principal Financial Group Com USD0.01                    |                               | Available-for-sale financial assets | 3 5,475                  | 5,         |
|              | Quest Diagnostics Inc Com USD0.01                        |                               | Available-for-sale financial assets | 3 5,460                  | 5,         |
|              | Robert Half Intl Inc Com                                 |                               | Available-for-sale financial assets | 5 5,844                  | 5,         |
|              | Rockwell Collins Com                                     |                               | Available-for-sale financial assets | 3 5,527                  | 6,         |
|              | Schlumberger Ltd. Com USD0.01                            |                               | Available-for-sale financial assets | 3 5,505                  | 5,         |
|              | United States Steel Corp Com                             |                               | Available-for-sale financial assets | 3 5,522                  | 7,         |
|              | V F Corp Com   |                               | Available-for-sale financial assets | 2 5,440                  | 5,         |
|              | Waste Mgmt Inc Del Com                                   |                               | Available-for-sale financial assets | 5 5,434                  | 5,         |
|              | Wellpoint Inc Common                                     |                               | Available-for-sale financial assets | 2 5,464                  | 5,         |
|              | <b>Beneficiary certificates (mutual fund)</b>            |                               |                                     |                          |            |
|              | Sinopia Alt-Gl Bd M/N 600\$ I Gbl Bd Mkt Neutr 600 USD I |                               | Available-for-sale financial assets | 618,324                  | 629,       |
|              | Fuh Hwa Heirloom No. 2 Balanced Fund                     |                               | Available-for-sale financial assets | 17,750 250,000           | 257,       |
|              | HSBC Taiwan Safe & Rich Fund                             |                               | Available-for-sale financial assets | 4,827 80,000             | 91,        |
|              | HSBC Global Balanced Select Fund                         |                               | Available-for-sale financial assets | 5,284 60,000             | 65,        |
|              | AIG Flagship Global Balanced Fund of Funds               |                               | Available-for-sale financial assets | 4,274 50,000             | 54,        |
|              | ING CHB Tri-Gold Balanced Portfolio                      |                               | Available-for-sale financial assets | 8,143 100,000            | 108,       |
|              | Fubon Global Reit Fund                                   |                               | Available-for-sale financial assets | 11,000 110,000           | 131,       |
|              | Jih Sun Navigation No. 1 Fund                            |                               | Available-for-sale financial assets | 5,000 50,050             | 54,        |
|              | HSBC Trinity Balanced Fund                               |                               | Available-for-sale financial assets | 8,000 80,000             | 86,        |
|              | JF (Taiwan) Pacific Balanced Fund                        |                               | Available-for-sale financial assets | 10,000 100,000           | 106,       |
|              | Polaris Global Reits Fund                                |                               | Available-for-sale financial assets | 16,018 200,000           | 221,       |
|              | JF (Taiwan) Global Balance Fund                          |                               | Available-for-sale financial assets | 13,331 150,000           | 167,       |
|              | JF (Taiwan) Wealth Management Fund                       |                               | Available-for-sale financial assets | 7,362 78,636             | 85,        |
|              | Shinkong Strategy Balanced Fund                          |                               | Available-for-sale financial assets | 18,348 199,108           | 208,       |
|              | Fuh-Hua Home Run Fund                                    |                               | Available-for-sale financial assets | 9,977 100,000            | 101,       |
|              | Fuh-Hua Total Return Fund                                |                               | Available-for-sale financial assets | 9,872 100,000            | 104,       |
|              | Fuh-Hua Elite Angel Fund                                 |                               | Available-for-sale financial assets | 947 10,000               | 10,        |
|              | JF (Taiwan) Balanced Fund                                |                               | Available-for-sale financial assets | 2,875 50,000             | 51,        |
|              | Primasia S&P Global Fixed Income Fund                    |                               | Available-for-sale financial assets | 4,673 50,000             | 50,        |
|              | Franklin Templeton Global Bond Fund of Funds             |                               | Available-for-sale financial assets | 9,196 100,000            | 100,       |
|              | HSBC European Stars Fund                                 |                               | Available-for-sale financial assets | 2,844 50,000             | 52,        |
|              | Fuh-Hua Olympic Global Fund                              |                               | Available-for-sale financial assets | 8,993 100,000            | 100,       |
|              | PCA Quality-Quantity Fund                                |                               | Available-for-sale financial assets | 4,514 50,000             | 52,        |
|              | Capital Asset Allocation                                 |                               | Available-for-sale financial assets | 7,753 100,000            | 108,       |
|              | Fubon No. 1 Fund   |                               | Available-for-sale financial assets | 10,000 100,000           | 121,       |
|              | Cathay No. 2 REIT  |                               | Available-for-sale financial assets | 5,000 50,000             | 57,        |

(Continued)

|              |  |                               |   | December 31, 2006          |            |                         |
|--------------|--|-------------------------------|---|----------------------------|------------|-------------------------|
|              |  |                               |   | Shares                     |            |                         |
|              |  |                               |   | (Thousands/ Carrying Value |            | Marke                   |
| Company Name | Marketable Securities Type and Name    | Relationship with the Company | Financial Statement Account                   | Thousand Units)            | (Note 6)   | Percentage of Ownership |
|              | Fidelity Euro Bond Fund                |                               | Available-for-sale financial assets           | 695                        | \$ 334,593 | \$ 3                    |
|              | Credit Suisse BF (Lux) Euro Bond Fund  |                               | Available-for-sale financial assets           | 16                         | 236,233    | 2                       |
|              | Fidelity European Highyield Fund       |                               | Available-for-sale financial assets           | 1,443                      | 541,806    | 5                       |
|              | Parvest European Convertible Bond Fund |                               | Available-for-sale financial assets           | 65                         | 324,708    | 3                       |
|              | MFS Emerging Market Debt Fund          |                               | Available-for-sale financial assets           | 622                        | 354,450    | 4                       |
|              | GAM USD Special Bond Fund              |                               | Available-for-sale financial assets           | 25                         | 353,540    | 3                       |
|              | Fidelity US High Yield Fund            |                               | Available-for-sale financial assets           | 458                        | 172,709    | 1                       |
|              | Fidelity Euro Balanced Fund            |                               | Available-for-sale financial assets           | 379                        | 203,104    | 2                       |
| Telecom Inc. | Unigate Telecom Inc.                   | Subsidiary                    | Investments accounted for using equity method | 1,000                      | 10,159     | 100                     |
|              | CHIEF Telecom (Hong Kong) Limited      | Subsidiary                    | Investments accounted for using equity method | 10                         | 1,373      | 99                      |
|              | eASPNet Inc.                           |                               | Financial assets carried at cost              | 1,000                      |            | 2                       |
|              | 3 Link Information Service Co., Ltd.   |                               | Financial assets carried at cost              | 374                        | 3,450      | 12                      |
|              | Purple Communications Ltd.             |                               | Financial assets carried at cost              | 857                        |            |                         |
|              | Truswell Pegasus Fund                  |                               | Available-for-sale financial assets           | 6                          | 95         |                         |

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: New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) were incorporated in March 2006, but not on operating stage yet.

Note 4: The net asset values of beneficiary certification (mutual fund) were based on the net asset values as of December 31, 2006.

Note 5: Market value was based on the closing price of December 31, 2006.

Note 6: Available-for-sale financial assets and financial assets at fair value through profit and loss were showed at their original carrying amounts without the adjustments of fair values.

Note 7: The Company has acquired 100% shares of Chunghwa International Yellow Pages Co., Ltd. ( CIYP ) by prepaying \$150,000 thousand in December 2006. CIYP finished registration on January 2, 2007.

(Concluded)

**TABLE 3****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 YEAR ENDED DECEMBER 31, 2006****(Amounts in Thousands of New Taiwan Dollars)**

| Marketable Securities Type and Name    | Financial Statement Account         | Counter-party | Nature of Relationship | Beginning Balance                 |                 | Acquisition                       |         | Disposal                          |                 | Gain (Loss) on Disposal | Ending Shares (Thousands) |
|--|-------------------------------------|---------------|------------------------|-----------------------------------|-----------------|-----------------------------------|---------|-----------------------------------|-----------------|-------------------------|---------------------------|
|  |                                     |               |                        | Shares (Thousands/Thousand Units) | Amount (Note 1) | Shares (Thousands/Thousand Units) | Amount  | Shares (Thousands/Thousand Units) | Amount (Note 1) |                         |                           |
| Beneficiary certificates (mutual fund) |                                     |               |                        |                                   |                 |                                   |         |                                   |                 |                         |                           |
| ADAM Global Bond Fund                  | Available-for-sale financial assets |               |                        | 9,286                             | \$ 100,000      |                                   | \$      | 9,286                             | \$ 98,888       | \$ 100,000              | \$ (1,112)                |
| ANITC Taiwan Bond Fund                 | Available-for-sale financial assets |               |                        |                                   |                 | 14,385                            | 200,000 | 14,385                            | 202,532         | 200,000                 | 2,532                     |
| Prudential Financial Bond Fund         | Available-for-sale financial assets |               |                        |                                   |                 | 13,867                            | 200,000 | 13,867                            | 202,538         | 200,000                 | 2,538                     |
| Yuh Sun Bond Fund                      | Available-for-sale financial assets |               |                        |                                   |                 | 14,847                            | 200,000 | 14,847                            | 202,448         | 200,000                 | 2,448                     |
| INVESTCO ROC Bond Fund                 | Available-for-sale financial assets |               |                        | 45,998                            | 675,000         |                                   |         | 45,998                            | 679,933         | 675,000                 | 4,933                     |
| Barits Bond Fund                       | Available-for-sale financial assets |               |                        | 40,857                            | 490,000         |                                   |         | 40,857                            | 494,147         | 490,000                 | 4,147                     |
| FUBON Ju-I III Fund                    | Available-for-sale financial assets |               |                        | 41,413                            | 500,000         |                                   |         | 41,413                            | 504,046         | 500,000                 | 4,046                     |
| Fuhwa APEX Bond Fund                   | Available-for-sale financial assets |               |                        | 25,752                            | 300,000         |                                   |         | 25,752                            | 302,629         | 300,000                 | 2,629                     |
| Fuh-Hwa Albatross Fund                 | Available-for-sale financial assets |               |                        | 11,679                            | 130,000         |                                   |         | 11,679                            | 131,218         | 130,000                 | 1,218                     |
| Shinkong Chi-Shin Fund                 | Available-for-sale financial assets |               |                        | 77,829                            | 1,100,000       |                                   |         | 77,829                            | 1,113,221       | 1,100,000               | 13,221                    |
| FIIM High Yield Fund                   | Available-for-sale financial assets |               |                        | 42,545                            | 519,555         | 4,907                             | 60,000  | 47,452                            | 588,374         | 579,555                 | 8,819                     |
| Fuh-Hwa YouLi Fund                     | Available-for-sale financial assets |               |                        |                                   |                 | 16,345                            | 200,000 | 16,345                            | 202,664         | 200,000                 | 2,664                     |
| MFS Emerging Market Debt Fund          | Available-for-sale financial assets |               |                        | 351                               | 192,600         | 271                               | 161,850 |                                   |                 |                         |                           |
| GAM USD Special Bond Fund              | Available-for-sale financial assets |               |                        | 14                                | 191,520         | 11                                | 162,020 |                                   |                 |                         |                           |
| Fidelity US High Yield Fund            | Available-for-sale financial assets |               |                        |                                   |                 | 458                               | 172,709 |                                   |                 |                         |                           |
| IF (Taiwan) First Bond Fund            | Available-for-sale financial assets |               |                        | 72,139                            | 1,000,000       |                                   |         | 72,139                            | 1,013,310       | 1,000,000               | 13,310                    |
| IF (Taiwan) Bond Fund                  | Available-for-sale financial assets |               |                        | 66,450                            | 1,000,000       |                                   |         | 66,450                            | 1,013,423       | 1,000,000               | 13,423                    |
| Dresdner Bond DAM                      | Available-for-sale financial assets |               |                        | 70,008                            | 800,000         |                                   |         | 70,008                            | 810,886         | 800,000                 | 10,886                    |
| ABN AMRO Bond Fund                     | Available-for-sale financial assets |               |                        | 60,579                            | 900,000         |                                   |         | 60,579                            | 912,552         | 900,000                 | 12,552                    |
| ABN AMRO Select Bond Fund              | Available-for-sale financial assets |               |                        | 89,476                            | 1,000,000       |                                   |         | 89,476                            | 1,013,726       | 1,000,000               | 13,726                    |
| HSBC Taiwan Dragon                     | Available-for-sale financial assets |               |                        | 13,147                            | 200,000         |                                   |         | 13,147                            | 202,523         | 200,000                 | 2,523                     |

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|  |                                     |        |           |        |         |        |           |           |          |
|--|-------------------------------------|--------|-----------|--------|---------|--------|-----------|-----------|----------|
| NITC Bond                                    | Available-for-sale financial assets | 12,326 | 2,000,000 |        |         | 12,326 | 2,027,524 | 2,000,000 | 27,524   |
| Tasihin Lucky Fund                           | Available-for-sale financial assets | 9,881  | 100,000   |        |         | 9,881  | 101,272   | 100,000   | 1,272    |
| Fuh-Hwa Heirloom No. 2 Balance               | Available-for-sale financial assets |        |           | 28,051 | 390,000 | 10,301 | 148,452   | 140,000   | 8,452    |
| Fund   |                                     |        |           |        |         |        |           |           |          |
| Capital Asset Allocation                     | Available-for-sale financial assets |        |           | 7,753  | 100,000 |        |           |           |          |
| Polaris Global Reits Fund                    | Available-for-sale financial assets | 10,000 | 100,000   | 21,018 | 252,250 | 15,000 | 171,649   | 152,250   | 19,399   |
| HSBC Taiwan Safe & Rich Fund                 | Available-for-sale financial assets |        |           | 6,637  | 110,000 | 1,810  | 31,878    | 30,000    | 1,878    |
| ING CHB Tri-Gold Balanced                    | Available-for-sale financial assets |        |           | 8,143  | 100,000 |        |           |           |          |
| Portfolio                                    |                                     |        |           |        |         |        |           |           |          |
| HSBC Trinity Balanced Fund                   | Available-for-sale financial assets | 25,000 | 250,000   |        |         | 17,000 | 176,117   | 170,000   | 6,117    |
| Franklin Templeton Global Bond Fund of Funds | Available-for-sale financial assets |        |           | 9,196  | 100,000 |        |           |           |          |
| SKIT Strategy Balanced Fund                  | Available-for-sale financial assets | 9,396  | 100,000   | 13,641 | 150,000 | 4,689  | 52,251    | 50,892    | 1,359    |
| Fuh-Hwa Olympic Global Fund                  | Available-for-sale financial assets |        |           | 8,993  | 100,000 |        |           |           |          |
| Fidelity Euro Bond Fund                      | Available-for-sale financial assets | 1,256  | 604,960   | 26     | 12,427  | 587    | 280,897   | 282,794   | (1,897)  |
| Credit Suisse BF (Lux) Euro Bond             | Available-for-sale financial assets | 41     | 601,003   |        |         | 25     | 365,907   | 364,770   | 1,137    |
| Fund   |                                     |        |           |        |         |        |           |           |          |
| Fidelity European Highyield Fund             | Available-for-sale financial assets | 539    | 193,500   | 904    | 348,306 |        |           |           |          |
| Pervekt European Convertible                 | Available-for-sale financial assets |        |           | 65     | 324,708 |        |           |           |          |
| Bond Fund                                    |                                     |        |           |        |         |        |           |           |          |
| Sinopia Alt-Gl Bd M/N 600 SI                 | Available-for-sale financial assets |        |           |        | 618,324 |        |           |           |          |
| GBI Bd Mkt Neutr 600 USD                     |                                     |        |           |        |         |        |           |           |          |
| Fidelity Euro Balanced Fund                  | Available-for-sale financial assets |        |           | 379    | 203,104 |        |           |           |          |
| Yuanta Structured Principal                  | Available-for-sale financial assets | 50,000 | 500,000   |        |         | 50,000 | 473,666   | 500,000   | (26,334) |
| Protected Private Placement                  |                                     |        |           |        |         |        |           |           |          |
|  | - noncurrent                        |        |           |        |         |        |           |           |          |

Note 1: Available-for-sale financial assets and financial assets at fair value through profit and loss are showed at their original carrying amounts without the adjustments of fair values.

**TABLE 4****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 YEAR ENDED DECEMBER 31, 2006****(Amounts in Thousands of New Taiwan Dollars)**

| Company Name                | Property | Transaction Date | Transaction Amount | Payment Term | Counter-party                                  | Prior Transactions with Related Counter-party |       |              | Transfer Date | Price Reference | Purpose of Acquisition | Other Terms |
|-----------------------------|----------|------------------|--------------------|--------------|--|---|-------|--------------|---------------|-----------------|------------------------|-------------|
|                             |          |                  |                    |              |  | Nature of Relationship                        | Owner | Relationship |               |                 |                        |             |
| Chunghwa Telecom. Co., Ltd. | Building | 2006.2.17        | \$ 754,444         | Paid         | Steve Lin Architect and Associates             | None  |       |              | \$            | Bidding         | New office             | None        |
|                             | Building | 2006.3.13        | 178,880            | Paid         | Bank of Taiwan                                 | None  |       |              |               | Bidding         | New office             | None        |
|                             | Building | 2006.9.25        | 191,996            | Paid         | Joe-Team Machinery Engineering Co., Ltd., etc. | None  |       |              |               | Bidding         | Operating purpose      | None        |

**TABLE 5****CHUNGHWA TELECOM CO., LTD.****DISPOSAL OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2006**

(Amounts in Thousands of New Taiwan Dollars)

| Company Name               | Property   | Date of Disposal | Date of Obtained                        | Carrying Amount | Transaction Amount | Receipt Condition | Disposed Gain (Loss) | Parties Involved          | Relation with the Corporation | Purpose            | Reference for Price Settlement                  | Other Limitation |
|----------------------------|--|------------------|---|-----------------|--------------------|-------------------|----------------------|---------------------------|-------------------------------|--------------------|---|------------------|
| Chunghwa Telecom Co., Ltd. | Land and building (No. 23 and 26, Jing Ping Duan, Zhong He City) | 2006.12.28       | Acquired from October 1965 to June 2000 | \$ 229,600      | \$ 764,436         | Received          | \$ 534,836           | Kindom Construction Corp. |                               | Revitalized assets | According to appraisal report: negotiated price |                  |

**TABLE 6****CHUNGHWA TELECOM CO., LTD.****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****FOR THE YEAR ENDED DECEMBER 31, 2006****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Investor Company           | Investee Company                                | Location  | Main Businesses and Products  | Original Investment Amount |                   | Balance as of December 31, 2006 |                             |                   | Net Income (Loss) of the Investee | Recognized Gain (Loss) | Note                      |
|----------------------------|---|---|---|----------------------------|-------------------|---------------------------------|-----------------------------|-------------------|-----------------------------------|------------------------|---------------------------|
|                            |   |   |   | December 31 2006           | December 31, 2005 | Shares (Thousands)              | Percentage of Ownership (%) | Carrying Value    |                                   |                        |                           |
| Chunghwa Telecom Co., Ltd. | Chunghwa Investment Co., Ltd.                   | 24F, No. 456, Hsinyi Rd., Sec. 4, Taipei                                    | Investment  | \$ 980,000                 | \$ 980,000        | 98,000                          | 49                          | \$ 974,805        | \$ 51,269                         | \$ 25,122 (Note 1)     | Equity-accounted investee |
|                            | Taiwan International Standard Electronics       | 7F., No.409, Sec. 2, Tiding Blvd., Nei Hu District, Taipei                  | Manufacturing, selling, designing and maintaining of telecommunications systems and equipment | 164,000                    | 164,000           | 1,760                           | 40                          | 609,004           | 22,877                            | 76,451 (Note 2)        | Equity-accounted investee |
|                            | CHIEF Telecom                                   | 1F., No. 250, Yang Guang Street, Nei Hu District, Taipei                    | Network communication and engine room hiring  | 310,652                    |                   | 38,370                          | 70                          | 273,411           | (44,239)                          | (37,178) (Note 3)      | Subsidiary                |
|                            | Spring House Entertainment Inc.                 | 3F-3, NO.3-2, Li Yuan District, San Zhong, Nan Gang District Street, Taipei | Network content manufacture broadcasts and information software                               | 22,409                     |                   | 2,016                           | 30                          | 17,761            | (15,564)                          | (4,669) (Note 1)       | Equity-accounted investee |
|                            | New Prospect Investments Holdings Ltd. (B.V.I.) | British Virgin Islands  | Investment  | US\$ (1) (Note 4)          |                   |                                 | 100                         | US\$ (1) (Note 4) |                                   | (Note 1)               | Subsidiary                |
|                            | Prime Asia Investments Group Ltd. (B.V.I.)      | British Virgin Islands  | Investment  | US\$ (1) (Note 4)          |                   |                                 | 100                         | US\$ (1) (Note 4) |                                   | (Note 1)               | Subsidiary                |
| CHIEF Telecom              | Unigate Telecom Inc.                            | 1F., No. 250, Yang Guang Street, Nei Hu District, Taipei                    | Network communication and engine room hiring.   | 10,000                     | 10,000            | 1,000                           | 100                         | 10,159            | 121                               | 121 (Note 1)           | Subsidiary                |
|                            | CHIET Telecom (Hong Kong) Limited               | Hong Kong   | Telecom and Internet Service  | 44                         | 44                | 10                              | 99                          | 1,373             | (78)                              | (78) (Note 1)          | Subsidiary                |

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 \$9,151 thousand was calculated from audited financial statements plus a gain on realized upstream transactions of \$114,481 thousand less a gain on unrealized upstream transactions of \$47,181 thousand.

Note 3: The equity in net loss of an unconsolidated Company amounted to \$30,967 thousand was calculated from audited financial statements less amortization between the investment cost and net value \$6,211 thousand.

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Note 4: New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) were incorporated in March, 2006 but not on operating stage yet.

- 48 -

**TABLE 6****CHUNGHWA TELECOM CO., LTD.****INDUSTRY FINANCIAL INFORMATION****FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005**

(Amount in Thousands of New Taiwan Dollars)

|   | Local<br>Telephone<br>Service | Domestic Long<br>Distance<br>Call<br>Service | International<br>Long Distance<br>Call Service | Cellular<br>Service  | Paging<br>Service | Internet and<br>Data Service<br>(Note 6) | All Other           | Adjustment             | Total                 |
|---|-------------------------------|--|--|----------------------|-------------------|--|---------------------|------------------------|-----------------------|
| <u>Year ended</u>   |                               |  |  |                      |                   |  |                     |                        |                       |
| <u>December 31, 2006</u>                                  |                               |  |  |                      |                   |  |                     |                        |                       |
| Service revenues<br>from external<br>customers            | \$ 37,364,097                 | \$ 9,824,358                                 | \$ 13,977,600                                  | \$ 72,976,557        | \$ 67,891         | \$ 46,185,427                            | \$ 3,991,048        | \$                     | \$ 184,386,978        |
| Intersegment service<br>revenues (Note 2)                 | 18,789,602                    | 2,528,553                                    | 883  | 3,201,930            | 820               | 14,562,054                               | 164,527             | (39,248,369)           |                       |
| <b>Total service<br/>revenues</b>                         | <b>\$ 56,153,699</b>          | <b>\$ 12,352,911</b>                         | <b>\$ 13,978,483</b>                           | <b>\$ 76,178,487</b> | <b>\$ 68,711</b>  | <b>\$ 60,747,481</b>                     | <b>\$ 4,155,575</b> | <b>\$ (39,248,369)</b> | <b>\$ 184,386,978</b> |
| Segment income<br>before income tax<br>(Note 3)           | \$ 1,390,422                  | \$ 6,861,933                                 | \$ 2,861,437                                   | \$ 29,824,367        | \$ (34,422)       | \$ 20,745,419                            | \$ (286,274)        | \$                     | \$ 61,362,882         |
| Interest income   |                               |  |  |                      |                   |  |                     |                        | 803,642               |
| Equity in net gain of<br>unconsolidated<br>companies      |                               |  |  |                      |                   |  |                     |                        | 59,726                |
| Other income  |                               |  |  |                      |                   |  |                     |                        | 3,670,040             |
| Interest expense  |                               |  |  |                      |                   |  |                     |                        | (4,072)               |
| General expense<br>(Note 4)                               |                               |  |  |                      |                   |  |                     |                        | (4,143,467)           |
| Other expense   |                               |  |  |                      |                   |  |                     |                        | (4,105,435)           |
| <b>Income before tax</b>                                  |                               |  |  |                      |                   |  |                     |                        | <b>\$ 57,643,316</b>  |
| Reportable assets<br>(Note 5)                             | \$ 180,609,843                | \$ 5,078,010                                 | \$ 9,860,159                                   | \$ 59,829,886        | \$ 281,589        | \$ 91,005,358                            | \$ 23,391,302       | \$                     | \$ 370,056,147        |
| Investment in<br>unconsolidated<br>companies and<br>funds |                               |  |  |                      |                   |  |                     |                        | 5,996,261             |
| Other assets  |                               |  |  |                      |                   |  |                     |                        | 84,930,944            |
| <b>Total assets</b>                                       |                               |  |  |                      |                   |  |                     |                        | <b>\$ 460,983,352</b> |
| Depreciation<br>expenses                                  | \$ 18,131,845                 | \$ 662,368                                   | \$ 549,986                                     | \$ 7,516,539         | \$ 3,911          | \$ 12,381,491                            | \$ 685,403          |                        |                       |
| Expenditures for<br>segment assets                        | \$ 5,066,412                  | \$   | \$ 349,797                                     | \$ 9,405,460         | \$                | \$ 12,477,445                            | \$ 359,593          |                        |                       |

(Continued)

- 49 -

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|  | Local Telephone Service | Domestic Long Distance Call Service | International Long Distance Call Service | Cellular Service | Paging Service | Internet and Data Service (Note 6) | All Other     | Adjustment      | Total          |
|--|-------------------------|-------------------------------------|--|------------------|----------------|------------------------------------|---------------|-----------------|----------------|
| <b>Year ended December 31, 2005</b>              |                         |                                     |  |                  |                |                                    |               |                 |                |
| Service revenues from external customers         | \$ 39,817,093           | \$ 10,867,980                       | \$ 14,480,885                            | \$ 72,770,629    | \$ 133,981     | \$ 42,144,613                      | \$ 3,166,670  | \$              | \$ 183,381,851 |
| Intersegment service revenues (Note 2)           | 17,358,793              | 2,400,164                           | 753                                      | 1,167,342        | 956            | 14,806,290                         | 15,788        | (35,750,086)    |                |
| Total service revenues                           | \$ 57,175,886           | \$ 13,268,144                       | \$ 14,481,638                            | \$ 73,937,971    | \$ 134,937     | \$ 56,950,903                      | \$ 3,182,458  | \$ (35,750,086) | \$ 183,381,851 |
| Segment income before income tax (Note 3)        | \$ 3,504,990            | \$ 7,786,794                        | \$ 3,320,315                             | \$ 31,068,922    | \$ (242,698)   | \$ 17,532,971                      | \$ (302,810)  | \$              | \$ 62,668,484  |
| Interest income                                  |                         |                                     |  |                  |                |                                    |               |                 | 451,457        |
| Equity in net gain of unconsolidated companies   |                         |                                     |  |                  |                |                                    |               |                 | 160,080        |
| Other income                                     |                         |                                     |  |                  |                |                                    |               |                 | 3,148,885      |
| Interest expense                                 |                         |                                     |  |                  |                |                                    |               |                 | (1,999)        |
| General expense (Note 4)                         |                         |                                     |  |                  |                |                                    |               |                 | (4,121,689)    |
| Other expense                                    |                         |                                     |  |                  |                |                                    |               |                 | (2,702,367)    |
| Income before tax                                |                         |                                     |  |                  |                |                                    |               |                 | \$ 59,602,851  |
| Reportable assets (Note 5)                       | \$ 192,305,526          | \$ 6,340,943                        | \$ 11,778,224                            | \$ 61,981,515    | \$ 244,828     | \$ 98,536,543                      | \$ 17,392,229 | \$              | \$ 388,579,808 |
| Investment in unconsolidated companies and funds |                         |                                     |  |                  |                |                                    |               |                 | 5,891,218      |
| Other assets                                     |                         |                                     |  |                  |                |                                    |               |                 | 64,431,582     |
| Total assets                                     |                         |                                     |  |                  |                |                                    |               |                 | \$ 458,902,608 |
| Depreciation expenses                            | \$ 19,202,843           | \$ 727,827                          | \$ 661,089                               | \$ 6,979,627     | \$ 214,353     | \$ 12,370,013                      | \$ 578,434    |                 |                |
| Expenditures for segment assets                  | \$ 4,895,549            | \$ 301,447                          | \$ 228,810                               | \$ 4,481,786     | \$             | \$ 12,388,182                      | \$ 618,653    |                 |                |

Note 1: The major business segments operated by the Group are local telephone service, domestic long distance call service, international long distance call service, cellular service, paging service, internet and data service and other service.

Note 2: Inter-division revenue from goods and services.

Note 3: Represents revenue minus costs and operating expenses. Operating expenses include costs and expenses directly pertaining to an industry segment, i.e., excluding general and interest expense.

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Note 4: Represents general expense that cannot be allocated to each division.

Note 5: Represents tangible assets used by the industry segment, excluding:

- a. Assets maintained for general corporate purposes.
- b. Advances or loans to another industry segment.
- c. Long-term investments accounted for using equity method.

Note 6: Service revenues of internet and data service and electronic rent are included.

(Concluded)

- 50 -