

CHUNGHWA TELECOM CO LTD  
Form 6-K  
October 31, 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 Oct 31, 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: 2007/10/31

Chunghwa Telecom Co., Ltd.

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

Exhibit

<b>Exhibit</b>	<b>Description</b>
1.	Financial Statements for the Nine Months Ended September 30, 2007 and 2006 and Independent Accountants' Review Report

**Chunghwa Telecom Co., Ltd.**

**Financial Statements for the**

**Nine Months Ended September 30, 2007 and 2006 and**

**Independent Accountants' Review Report**

**INDEPENDENT ACCOUNTANTS REVIEW REPORT**

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have reviewed the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of September 30, 2007 and 2006, and the related statements of operations and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

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

As stated in Note 12 to the financial statements, we did not review all financial statements of equity-accounted investments, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The aggregate carrying values of the equity-accounted investments were NT\$2,237,667 thousand and NT\$1,793,109 thousand as of September 30, 2007 and 2006 and the equity in their net gains were NT\$162,021 thousand and NT\$591 thousand for the nine months then ended.

Based on our reviews, except for such adjustments, if any, as might have been determined to be necessary had the investment information mentioned in the preceding paragraph and related information been based on the investees' reviewed financial statements, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As 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.

October 18, 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 review such financial statements are those generally accepted and applied in the Republic of China.*

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

**CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS****SEPTEMBER 30, 2007 AND 2006****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)****(Reviewed, Not Audited)**

	2007		2006	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 54,079,967	12	\$ 40,475,668	9
Financial assets at fair value through profit or loss (Notes 2 and 5)	227,014			
Available-for-sale financial assets (Notes 2, 3 and 6)	21,152,088	5	13,798,586	3
Held-to-maturity financial assets (Notes 2 and 7)	57,324			
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$3,517,058 thousand in 2007 and \$3,467,076 thousand in 2006 (Notes 2 and 8)	12,133,650	3	11,952,355	3
Receivables from related parties (Note 25)	363,630		30,868	
Other current monetary assets (Notes 2, 9, 14 and 27)	6,774,724	1	5,774,250	1
Inventories, net (Notes 2 and 10)	2,784,022	1	1,730,182	1
Deferred income taxes (Notes 2 and 22)	245,073		1,645,816	
Other current assets (Note 11)	3,346,140	1	3,012,427	1
<b>Total current assets</b>	<b>101,163,632</b>	<b>23</b>	<b>78,420,152</b>	<b>18</b>
<b>LONG-TERM INVESTMENTS</b>				
Investments accounted for using equity method (Notes 2 and 12)	3,340,576	1	1,793,109	
Financial assets carried at cost (Notes 2, 3 and 13)	1,941,280		1,866,280	
Held-to-maturity financial assets (Notes 2 and 7)	322,291			
Other monetary assets (Notes 3, 14 and 26)	1,000,000		2,000,000	1
<b>Total investment</b>	<b>6,604,147</b>	<b>1</b>	<b>5,659,389</b>	<b>1</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 25)</b>				
<b>Cost</b>				
Land	100,917,029	23	101,166,851	23
Land improvements	1,479,005		1,480,695	
Buildings	59,654,629	13	58,885,494	13
Machinery and equipment	20,397,271	5	21,503,972	5
Telecommunications network facilities	640,909,723	143	632,376,768	144
Miscellaneous equipment	1,821,169		1,976,665	1
<b>Total cost</b>	<b>825,178,826</b>	<b>184</b>	<b>817,390,445</b>	<b>186</b>
Revaluation increment on land	5,823,991	1	5,850,205	1
	831,002,817	185	823,240,650	187
<b>Less: Accumulated depreciation</b>	<b>521,179,719</b>	<b>116</b>	<b>502,903,824</b>	<b>114</b>
	309,823,098	69	320,336,826	73
<b>Construction in progress and advances related to acquisitions of equipment</b>	<b>18,871,452</b>	<b>4</b>	<b>24,015,779</b>	<b>5</b>



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Property, plant and equipment, net	328,694,550	73	344,352,605	78
<b>INTANGIBLE ASSETS (Note 2)</b>				
3G concession	8,421,849	2	9,170,457	2
Other	316,531		168,290	
Total intangible assets	8,738,380	2	9,338,747	2
<b>OTHER ASSETS</b>				
Idle assets (Note 2)	928,166		929,038	
Refundable deposits	1,345,874	1	1,554,194	1
Deferred income taxes (Notes 2 and 22)	1,018,913		403,612	
Other	405,307		372,798	
Total other assets	3,698,260	1	3,259,642	1
<b>TOTAL</b>	<b>\$ 448,898,969</b>	<b>100</b>	<b>441,030,535</b>	<b>100</b>

**LIABILITIES AND STOCKHOLDERS EQUITY**

<b>CURRENT LIABILITIES</b>				
Financial liabilities at fair value through profit or loss (Notes 2 and 5)	\$ 904,144		\$	
Trade notes and accounts payable	7,289,690	2	7,138,056	2
Payables to related parties (Note 25)	1,238,548	1	303,986	
Income tax payable (Notes 2 and 22)	5,235,352	1	7,226,856	2
Accrued expenses (Note 16)	9,399,952	2	13,649,137	3
Current portion of long-term loans (Note 17)			300,000	
Other current liabilities (Notes 2, 18 and 27)	14,016,533	3	14,748,324	3
Total current liabilities	38,084,219	9	43,366,359	10
DEFERRED INCOME	1,400,253		874,789	
RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)	94,986		94,986	
<b>OTHER LIABILITIES</b>				
Accrued pension liabilities (Notes 2 and 24)	3,221,519	1	812,072	
Customers deposits	6,320,298	1	6,589,143	2
Other	730,741		153,820	
Total other liabilities	10,272,558	2	7,555,035	2
Total liabilities	49,852,016	11	51,891,169	12
<b>STOCKHOLDERS EQUITY (Notes 2, 3, 15, 19 and 20)</b>				
Common capital stock - \$10 par value;				
Authorized: 12,000,000 thousand shares				
Issued: 10,634,630 thousand shares in 2007; 9,667,845 thousand shares in 2006	106,346,296	24	96,678,451	22
Preferred stock \$10 par value				
<b>Capital surplus:</b>				
Paid-in capital in excess of par value	200,592,390	45	210,260,235	48
Donations	13,170		13,170	
Equity in capital surplus reported by equity-method investees				
Total capital surplus	200,605,560	45	210,273,405	48

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Retained earnings:				
Legal reserve	48,036,210	11	44,037,766	10
Special reserve	2,678,723	1	2,680,184	
Unappropriated earnings	37,854,980	8	29,264,068	7
Total retained earnings	88,569,913	20	75,982,018	17
Other adjustments				
Cumulative translation adjustments	(4,398)		(3,683)	
Unrealized gain on financial instruments	1,175,544		358,752	
Capital surplus from revaluation of land	5,824,210	1	5,850,423	1
Total other adjustments	6,995,356	1	6,205,492	1
Treasury stocks	(3,470,172)	(1)		
Total stockholders' equity	399,046,953	89	389,139,366	88
TOTAL	\$ 448,898,969	100	\$ 441,030,535	100

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

(With Deloitte & Touche review report dated October 18, 2007)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF OPERATIONS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006****(Amounts in Thousands of New Taiwan Dollars, Except Basic Net Income Per Share Data)****(Reviewed, Not Audited)**

	2007		2006	
	Amount	%	Amount	%
REVENUES (Note 25)	\$ 139,940,095	100	\$ 137,494,423	100
OPERATING COSTS (Note 25)	69,244,583	49	68,782,558	50
GROSS PROFIT	70,695,512	51	68,711,865	50
OPERATING EXPENSES (Note 25)				
Marketing	17,695,556	13	19,090,828	14
General and administrative	2,232,612	2	2,393,959	1
Research and development	2,224,178	1	2,406,352	2
Total operating expenses	22,152,346	16	23,891,139	17
INCOME FROM OPERATIONS	48,543,166	35	44,820,726	33
OTHER INCOME				
Interest	1,057,026	1	563,223	1
Penalties income	649,748	1	1,219,619	1
Income from sale of scrap inventories	410,559		552,607	
Equity in earnings of equity investees	348,277		591	
Gains on disposal of property, plant and equipment	57,619		2,214	
Gains on sale of financial instruments, net	26,938		10,128	
Other	558,101		391,890	
Total other income	3,108,268	2	2,740,272	2
OTHER EXPENSES				
Special termination benefit under early retirement program	1,873,877	1	2,303,316	2
Valuation loss on financial instruments, net	881,591	1		
Losses on disposal of property, plant and equipment	95,631		251,790	
Foreign exchange loss, net	32,932		85,093	
Interest	754		2,123	
Other	770,452	1	814,615	1
Total other expenses	3,655,237	3	3,456,937	3
INCOME BEFORE INCOME TAX	47,996,197	34	44,104,061	32
INCOME TAX (Notes 2 and 22)	10,209,755	7	9,933,109	7
NET INCOME	\$ 37,786,442	27	\$ 34,170,952	25

(Continued)



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**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF OPERATIONS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006**

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

**(Reviewed, Not Audited)**

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	2007		2006	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
<b>EARNINGS PER SHARE (Note 23)</b>				
Basic net income per share	\$ 4.52	\$ 3.55	\$ 4.13	\$ 3.20
Diluted net income per share	\$ 4.51	\$ 3.55		

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

(With Deloitte & Touche review report dated October 18, 2007)

(Concluded)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

	<b>2007</b>	<b>2006</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 37,786,442	\$ 34,170,952
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	597,866	467,012
Depreciation and amortization	29,765,569	30,800,015
Losses on inventory valuation	6,102	
Gains on sale of financial instruments, net	(26,938)	(10,128)
Valuation loss on financial instruments, net	881,591	
Losses on disposal of property, plant and equipment	38,012	249,576
Equity in earnings of equity investees	(348,277)	(591)
Dividends received from equity investees	107,106	42,331
Deferred income taxes	(693,403)	357,837
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	(275,603)	
Trade notes and accounts receivable	(189,117)	350,813
Receivables from related parties	(315,862)	39,292
Other current monetary assets	195,209	(68,845)
Inventories	(37,086)	690,449
Other current assets	(2,330,960)	(1,765,391)
Increase (decrease) in:		
Trade notes and accounts payable	(2,371,802)	(3,370,801)
Payables to related parties	273,322	(247,040)
Income tax payable	(3,292,188)	7,210,306
Accrued expenses	(9,396,869)	(1,791,272)
Other current liabilities	969,190	842,694
Accrued pension liabilities	1,967,818	812,072
Deferred income	444,834	556,261
Net cash provided by operating activities	53,754,956	69,335,542
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of available-for-sale financial assets	(19,264,257)	(3,269,624)
Proceeds from disposal of available-for-sale financial assets	5,823,473	4,441,935
Acquisitions of held-to-maturity financial assets	(400,000)	
Proceeds from disposal of held-to-maturity financial assets	20,385	
Increase in long-term investment accounted for using equity method	(1,093,268)	(310,652)
Acquisitions of property, plant and equipment	(15,579,213)	(18,450,545)
Proceeds from disposal of property, plant and equipment	93,145	9,419
Increase of intangible assets	(206,258)	(86,974)
Decrease (increase) in other assets	46,500	(75,919)
Net cash used in investing activities	(30,559,493 )	(17,742,360 )

(Continued)



**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

	2007	2006
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on principal of long-term loans	\$ (300,000)	\$ (200,000)
Decrease in customers deposits	(251,791)	(702,767)
Increase (decrease) in other liabilities	170,422	(53,465)
Cash dividends paid	(35,903,408)	(40,659,617)
Repurchase in treasury stock	(3,470,172)	(11,392,333)
<b>Net cash used in financing activities</b>	<b>(39,754,949 )</b>	<b>(53,008,182 )</b>
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(16,559,486)</b>	<b>(1,415,000)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<b>70,639,453</b>	<b>41,890,668</b>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<b>\$ 54,079,967</b>	<b>\$ 40,475,668</b>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	\$ 754	\$ 2,123
Income tax paid	\$ 14,195,346	\$ 1,247,623
<b>NON-CASH FINANCING ACTIVITIES</b>		
Current portion of long-term loans	\$	\$ 300,000
Acquired Senao International Co., Ltd. for the nine months ended September 30, 2007, the assets and liabilities, based on their fair values are as follows:		
Cash		\$ 617,003
Financial assets at fair value through profit or loss		86,796
Trade notes and accounts receivable		2,024,443
Inventories		1,625,790
Other current assets		334,055
Long-term investment		12,941
Property, plant, and equipment		1,316,657
Identifiable intangible assets		365,920
Other assets		134,869
Short-term loans and current portion of long-term loans		(100,000)
Trade notes and accounts payable		(1,629,324)
Other current liabilities		(714,517)
Long-term liabilities		(580,000)
Other liabilities		(92,579)
<b>Total</b>		<b>3,402,054</b>
Percentage of ownership		31.3285%



Total amount of acquiring subsidiary	\$ 1,065,813
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(Continued)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

Acquired CHIEF Telecom for the nine months ended September 30, 2006, the assets and liabilities, based on their fair values are as follows:

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 loans and current portion of long-term loans	(133,750)
Trade notes and accounts payable	(80,529)
Other current liabilities	(62,291)
Long-term liabilities	(6,250)
Other liabilities	(67,738)
 Total	 340,342
Percentage of ownership	70%
 Goodwill	 238,240 72,412
 Total amount of acquiring subsidiary	 \$ 310,652

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

(With Deloitte & Touche review report dated October 18, 2007)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2006**

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

**(Reviewed, Not Audited)**

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**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 September 30, 2007 and 2006 are 24,079 and 25,835, respectively.

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

The financial statements were prepared in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law, Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC ( ROC GAAP ). The preparation of financial statements requires management to make 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:

### **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, bond with resale agreements and treasury bills purchased with maturities of three months or less from the date of acquisition. The carrying amount approximates fair value.

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

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

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss. At each balance sheet date subsequent to issue of initial recognition, financial assets or financial liabilities at FVTPL are remeasured at fair value, with changes in fair value recognized directly in profit or loss in the period in which they arise. Cash dividends received subsequently (including those received in the period of investment) are recognized as income for the period. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in profit or loss. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

A derivative that does not meet the criteria for hedge accounting is classified as a financial asset or a financial liability held for trading. If the fair value of the derivative is positive, the derivative is recognized as a financial asset; otherwise, the derivative is recognized as a financial liability.

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

Available-for-sale financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are remeasured at fair value, with changes in fair value recognized in equity until the financial assets are disposed of, at which time, the cumulative gain or loss previously recognized in equity is included in profit or loss for the period. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

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

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

Cash dividends are recognized on the ex-dividend date, except for dividends distributed from the pre-acquisition profit which are treated as a reduction of investment cost. Stock dividends are not recognized as investment income but are recorded as an increase in the number of shares. The total number of shares subsequent to the increase is used for recalculation of cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. Any subsequent decrease in impairment loss for an equity instrument classified as available-for-sale is recognized directly in equity. If the fair value of a debt instrument classified as available-for-sale subsequently increases as a result of an event which occurred after the impairment loss was recognized, the decrease in impairment loss is reversed to profit.

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

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. Held-to-maturity financial assets are initially measured at fair value plus transaction costs that are directly attributable to the acquisition. Profit or loss is recognized when the financial assets are derecognized, impaired, or amortized. All regular way purchases or sales of financial assets are accounted for using a trade date basis.

An impairment loss is recognized when there is objective evidence that the investment is impaired. The impairment loss is reversed if an increase in the investment's recoverable amount is due to an event which occurred after the impairment loss was recognized; however, the adjusted carrying amount of the investment may not exceed the carrying amount that would have been determined had no impairment loss been recognized for the investment in prior years.

#### **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 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. If the fair value of the identifiable net assets exceeds the cost of investment, the difference should be allocated to the noncurrent assets (with exception of non-equity financial assets, assets in the suspense accounts, deferred tax assets and liabilities, and prepaid pension costs or other expenses related to pension plans) and reduced in proportion to the amount of their fair value. If there is still a difference after the purchase price allocation, the difference will be accounted for as extraordinary profits.

When the Company subscribes for additional investees shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company share of the investee equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to capital surplus. If the capital surplus account is not enough for debiting purposes, any remaining decrease is debited to unappropriated retained earnings.

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

Investments in equity instruments with no quoted prices in an active market and with fair values that cannot be reliably measured, such as non-publicly traded stocks, are measured at their original cost. An impairment loss is recognized when there is objective evidence that the asset is impaired. A reversal of this impairment loss is disallowed.

### **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. Computer software costs and patents amortized using the straight-line method over the estimated useful lives of ranging from 3-20 years.

From January 1, 2007, the Company adopted the newly released Statements of Financial Accounting Standards No. 37, Intangible Assets. Expenditure on research shall be recognized as an expense when it is incurred. Development Costs are capitalized when those costs meet relative criteria and are amortized upon the asset's estimated useful life using the straight-line method. Development costs not meet relative criteria shall be recognized as expenses when it is incurred.

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 handset subsidy costs paid to vendors that sell handsets to a customers who subscribe to the services 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 noncurrent 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.

### **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.

### **Hedging Derivative Financial Instruments**

Derivatives that qualify as effective hedging instruments are measured at fair value, with subsequent changes in fair value recognized in profit or loss depending on the nature of the hedging relationship.



**Hedge Accounting**

Hedge accounting recognizes the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item as follows:

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

**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.

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 were recognized as adjustments to stockholders equity.

**4. CASH AND CASH EQUIVALENTS**

	September 30	
	2007	2006
<b>Cash</b>		
Cash on hand	\$ 75,625	\$ 101,441
Cash in banks	7,087,078	8,323,219
Negotiable certificate of deposit, annual yield rates-ranging from 1.82-5.39% and 1.00-1.95% for 2007 and 2006, respectively	32,673,069	16,152,500
	39,835,772	24,577,160
<b>Cash equivalents</b>		
Commercial paper, annual yield rate-ranging from 1.90-5.22% and 1.52-1.55% for 2007 and 2006, respectively	13,887,837	15,898,508
Bond with resale agreements, annual yield rate-ranging from 2.10-2.30%	250,000	
U.S. Treasury bills, annual yield rate 4.41%	106,358	
	14,244,195	15,898,508
	\$ 54,079,967	\$ 40,475,668

As of September 30, 2007 and 2006, foreign deposits in bank were as following:

	September 30	
	2007	2006
United States of America - New York (US\$41,879 thousand and US\$604 thousand for the nine months ended September 30, 2007 and 2006, respectively)	\$ 1,364,412	\$ 19,988

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Hong Kong (EUR856 thousand, JPY36,329 thousand and GBP208 thousand)

59,893

\$ 1,424,305 \$ 19,988

- 15 -

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

	September 30, 2007
Derivatives - financial assets	
Index future contracts	\$ 111,994
Forward exchange contracts	14,022
	126,016
Designated as at fair value through profit or loss - Goldman USD TWD Window KO Option	100,998
	\$ 227,014
Derivatives - financial liabilities	
Currency option contracts	\$ 795,881
Forward exchange contracts	84,727
Index future contracts	23,536
	\$ 904,144

The Company entered into investment management agreements with a well-known financial institutions (fund managers) to manage its investment portfolios in 2006. As of September 30, 2007, 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.

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

Outstanding forward exchange contracts as of September 30, 2007:

	Currency	Holding Period	Contract Amount
<u>September 30, 2007</u>			
Sell	EUR/USD	2007.09-2007.11	EUR 29,000
	JPY/USD	2007.09-2007.11	JPY 700,000
	GBP/USD	2007.09-2007.11	GBP 2,630
	USD/NTD	2007.09-2007.12	USD 10,000
	USD/NTD	2007.09-2007.12	USD 10,000
	USD/NTD	2007.09-2007.12	USD 10,000
	USD/NTD	2007.09-2008.01	USD 10,000
	USD/NTD	2007.09-2007.12	USD 5,000
	USD/NTD	2007.09-2007.12	USD 5,000
	USD/NTD	2007.09-2007.12	USD 5,000
	EUR/NTD	2007.08-2007.11	EUR 10,000
	EUR/NTD	2007.08-2007.11	EUR 10,000
	EUR/NTD	2007.08-2007.11	EUR 5,000
	EUR/NTD	2007.08-2007.11	EUR 5,000
	EUR/NTD	2007.08-2007.11	EUR 5,000
	EUR/NTD	2007.08-2007.11	EUR 5,000

(Continued)



			<b>Contract</b>	
			<b>Amount</b>	
	<b>Currency</b>	<b>Holding Period</b>	<b>(in Thousands)</b>	
	EUR/NTD	2007.08-2007.11	EUR	5,000
	EUR/NTD	2007.09-2007.12	EUR	5,000
	NTD/USD	2007.09-2007.12	NTD	328,000
	NTD/USD	2007.08-2007.10	NTD	327,590
	NTD/USD	2007.08-2007.10	NTD	327,540
	NTD/USD	2007.09-2007.12	NTD	326,600
	NTD/USD	2007.09-2007.12	NTD	326,550
	NTD/USD	2007.09-2008.01	NTD	323,550
	NTD/USD	2007.09-2007.12	NTD	197,274
	NTD/USD	2007.08-2007.11	NTD	163,200

(Concluded)

Outstanding index future contracts as of September 30, 2007:

			<b>Contract</b>	
			<b>Amount</b>	
	<b>Maturity Date</b>	<b>Units</b>	<b>(in Thousands)</b>	
<u>September 30, 2007</u>				
Index future contracts				
AMSTERDAM IDX FUT	2007.10	13	EUR	1,366
CAC40 10 EURO FUT	2007.10	9	EUR	498
IBEX 35 INDEX FUTR	2007.10	7	EUR	958
DAX INDEX FUTURE	2007.12	3	EUR	574
MINI S&P/MIB FUT	2007.12	34	EUR	1,326
FTSE 100 IDX FUT	2007.12	35	GBP	2,194
TOPIX INDEX FUTURE	2007.12	28	JPY	424,200
S&P 500 FUTURE	2007.12	16	USD	6,132
S&P 500 EMINI FUTURE	2007.12	14	USD	1,077

As of September 30, 2007, the amount paid for future deposit was \$111,994 thousand.

Outstanding currency option contracts as of September 30, 2007:

			<b>Contract</b>	
			<b>Amount</b>	
<b>Contracts</b>	<b>Rate</b>	<b>Holding Period</b>	<b>(in Thousands)</b>	
Buy USD call/NTD put	32.80	2007.09-2007.12	USD	10,000
Sell USD put/NTD call	32.65	2007.09-2007.12	USD	20,000
Buy USD call/NTD put	32.75	2007.09-2007.12	USD	1,750
Sell USD put/NTD call	32.75	2007.09-2007.12	USD	1,750
Buy USD call/NTD put	32.80	2007.09-2007.12	USD	500
Sell USD put/NTD call	32.80	2007.09-2007.12	USD	500
Buy USD call/NTD put	Notes 1 and 3	2007.09-2017.09	USD	2,000
Sell USD put/NTD call	Notes 2 and 3	2007.09-2017.09	USD	4,000

Note 1: From September 20, 2007, the spot exchange rate is determined as a period biweekly. There are 260 periods totally and the contract amount is US \$2,000 thousand each period. If the spot exchange rate is above or at 31.50 at each maturity date, it will be settled at 30.00 USD/NTD from the first period to the 6th period. Starting from the 7th period it will be settled at 30.00 USD/NTD if the exchange rate is between 31.50 (inclusive) to 32.70 (exclusive) at each maturity date, it will be settled at 30.00 USD/NTD.

Note 2 From September 20, 2007, the spot exchange rate is determined as a period biweekly. There are 260 periods totally and the contract amount is US\$4,000 thousands each period. If the spot exchange rate is below 31.50 at each maturity date, it will be settled at 31.50 USD/NTD.

Note 3: The 7th period is starting from December 11, 2007. During the period from the December 11, 2007 to the expiration date of the contract, if exchange rate is at or above 32.70 USD/NTD at any time, the contract will be terminated at that time. Goldman USD NTD Window KO Option is hybrid instruments. The Company deposited US\$3,000 thousand. The spot exchange rate is determined as a period biweekly with 8% annual yield rate. The holding period is from September 2007 to September 2017, which are 260 periods totally. If the exchange rate of USD/NTD is at or above 32.7 at any time, the contract will be terminated.

Net losses arising from financial assets and liabilities at fair value through profit or loss for the nine months ended September 30, 2007 were \$987,008 thousand (including realized settlement losses of \$120,725 thousand and valuation losses of \$866,283 thousand). The Company did not enter into any forward exchange contracts, index future contracts and currency option contracts as of September 30, 2006.

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.

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

	September 30	
	2007	2006
Open-end mutual funds	\$ 19,771,582	\$ 13,675,344
Foreign listed stocks	971,178	
Real estate investment trust fund	256,250	107,400
Listed stocks	153,078	15,842
	<b>\$ 21,152,088</b>	<b>\$ 13,798,586</b>

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

	September 30, 2007
Collateralized loan obligation	\$ 129,615
Corporate bonds	250,000
	<b>379,615</b>
Less: Current portion	57,324
	<b>\$ 322,291</b>

**8. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

	Nine Months Ended September 30	
	2007	2006
Balance, beginning of period	\$ 3,535,141	\$ 3,604,605
Provision for doubtful accounts	594,675	465,677
Accounts receivable written off	(612,758)	(603,206)
Balance, end of period	\$ 3,517,058	\$ 3,467,076

**9. OTHER CURRENT MONETARY ASSETS**

	September 30	
	2007	2006
Tax refund receivable	\$ 3,221,136	\$ 3,221,136
Fixed-Line Fund	1,000,000	
Hedging derivative financial assets	9,227	
Other receivable	2,544,361	2,553,114
	\$ 6,774,724	\$ 5,774,250

**10. INVENTORIES, NET**

	September 30	
	2007	2006
Supplies	\$ 1,601,732	\$ 1,419,002
Work in process	76,856	80,630
Merchandise	294,167	48,445
Materials in transit	817,870	182,105
	2,790,625	1,730,182
Less: Valuation allowance	6,603	
	\$ 2,784,022	\$ 1,730,182

**11. OTHER CURRENT ASSETS**

	September 30	
	2007	2006
Prepayments	\$ 2,519,501	\$ 2,285,093
Prepaid rents	624,690	657,936
Miscellaneous	201,949	69,398
	\$ 3,346,140	\$ 3,012,427





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

	September 30			
	2007		2006	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<b>Listed</b>				
Senao International Co., Ltd. ( SENAO )	\$ 1,189,721	31	\$	
<b>Non-Listed</b>				
Chunghwa Investment Co., Ltd. ( CHI )	1,001,121	49	965,882	49
Taiwan International Standard Electronics Co., Ltd. ( TISE )	559,819	40	520,661	40
CHIEF Telecom Inc. ( CHIEF )	254,774	70	306,566	70
Chunghwa International Yellow Pages Co., Ltd. ( CIYP )	291,944	100		
ELTA Technology Co., Ltd. ( ELTA )	27,075	21		
Spring House Entertainment Inc. ( SHE )	16,122	30		
New Prospect Investments Holdings Ltd. (B.V.I.) ( NPIH )		100		100
Prime Asia Investments Group Ltd. (B.V.I.) ( PAIG )		100		100
	2,150,855		1,793,109	
	<b>\$ 3,340,576</b>		<b>\$ 1,793,109</b>	

The Company invested ELTA Technology Co., Ltd. in April 2007, for a purchase price of \$27,455 thousand. ELTA engages mainly in professional on-line and mobile value-added content aggregative services.

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

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

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

Part of the carrying values of the equity investees and the equity in their net earnings as of and for the nine months ended September 30, 2007 and 2006 are based on unreviewed financial statements. The aggregate carrying values of the equity-accounted investments were \$2,237,667 thousand and \$1,793,109 thousand as of September 30, 2007 and 2006, respectively. The equity in their net gains were \$162,021 thousand and \$591 thousand for the nine months ended September 30, 2007 and 2006, respectively.

**13. FINANCIAL ASSETS CARRIED AT COST**

	2007		September 30		2006	
	Carrying	% of	Carrying	% of	Carrying	% of
	Value	Ownership	Value	Ownership	Value	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.

**14. OTHER NONCURRENT MONETARY ASSETS**

	September 30	
	2007	2006
Piping Fund	\$ 1,000,000	\$ 1,000,000
Fixed-Line Fund		1,000,000
	\$ 1,000,000	\$ 2,000,000

As part of the government's effort to upgrade the existing telecommunications infrastructure, 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 the Interior 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. According to the communication letter (#0960004447) dated August 6, 2007, the Executive Yuan ratified that the Ministry of the Interior (the Interior) can dissolve the Fixed-Line Fund effective on or after January 1, 2008. In connection with the dissolution, the Interior will dispose the assets and liabilities related to the Fixed-Line Fund during the final accounting of the fiscal year 2007, therefore, the Company reclassified the Fixed-Line Fund from other noncurrent monetary assets to other current monetary assets.

**15. PROPERTY, PLANT AND EQUIPMENT**

	September 30	
	2007	2006
Cost		
Land	\$ 100,917,029	\$ 101,166,851
Land improvements	1,479,005	1,480,695
Buildings	59,654,629	58,885,494
Machinery and equipment	20,397,271	21,503,972
Telecommunications network facilities	640,909,723	632,376,768
Miscellaneous equipment	1,821,169	1,976,665
<b>Total cost</b>	<b>825,178,826</b>	<b>817,390,445</b>
Revaluation increment on land	5,823,991	5,850,205
	831,002,817	823,240,650
Accumulated depreciation		
Land improvements	840,344	795,510
Buildings	14,939,790	14,009,360
Machinery and equipment	16,144,612	16,413,792
Telecommunications network facilities	487,665,240	469,963,875
Miscellaneous equipment	1,589,733	1,721,287
	521,179,719	502,903,824
Construction in progress and advances related to acquisition of equipment	18,871,452	24,015,779
<b>Property, plant and equipment, net</b>	<b>\$ 328,694,550</b>	<b>\$ 344,352,605</b>

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

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went 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 stockholder's equity - other adjustments. As of September 30, 2007, capital surplus from revaluation of land had decreased to \$5,824,210 thousand due to disposal of certain revalued lands.

Depreciation on property, plant and equipment for the nine months ended September 30, 2007 and 2006 amounted to \$29,051,569 thousand and \$30,084,675 thousand, respectively. No interest expense was capitalized for the nine months ended September 30, 2007 and 2006.

**16. ACCRUED EXPENSES**

	September 30	
	2007	2006
Accrued salary and compensation	\$ 5,819,818	\$ 8,073,034
Accrued franchise fees	1,654,964	1,817,370
Accrued advertisement expenses	2,200	1,376,532
Other accrued expenses	1,922,970	2,382,201
	\$ 9,399,952	\$ 13,649,137



**17. CURRENT PORTION OF LONG-TERM LOANS**

	September 30	
	2007	2006
Loan from the Fixed-Line Fund	\$	\$ 300,000
Less: Current portion of long-term loans		300,000
	\$	\$

The loan amount of \$700,000 thousand 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 \$1,000,000 thousand until March 12, 2007, with a restricted lending term of five years. The outstanding principal was payable in three annual installments (\$200,000 thousand, \$200,000 thousand and \$300,000 thousand) starting on March 12, 2005. The Company has totally repaid the amount in March 2007.

**18. OTHER CURRENT LIABILITIES**

	September 30	
	2007	2006
Advances from subscribers	\$ 4,900,289	\$ 4,798,184
Amounts collected in trust for others	3,288,017	4,272,746
Payables to equipment suppliers	1,239,249	2,371,855
Refundable customers' deposits	974,690	958,343
Payables to constructors	636,950	503,399
Hedging derivative financial liabilities	767	
Miscellaneous	2,976,571	1,843,797
	\$ 14,016,533	\$ 14,748,324

**19. STOCKHOLDERS' EQUITY**

Under the Company's Articles of Incorporation 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). As of September 30, 2007, the Company issued and outstanding 10,634,629,602 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 September 30, 2007, the outstanding ADSs were 3,238,433 thousand units (including appropriation and capital stock transferred from capital surplus), which equaled approximately 323,843 thousand common shares and represented 30.45% 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 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. 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 NT\$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 2006 and 2005 earnings of the company have been approved and resolved by the shareholders on June 15, 2007 and May 30, 2006 as follows:

	Appropriation and Distribution		Dividend Per Share	
	2006	2005	2006	2005
Legal reserve	\$ 3,998,445	\$ 4,765,288	\$	\$
Reverse for special reserve	1,461			
Cash dividends	34,610,885	40,659,617	3.58	4.3
Stock dividends		1,891,145		0.2
Employee profit sharing - cash	1,256,619	230,057		
Employee profit sharing - stock		230,057		
Remuneration to directors and supervisors	35,904	15,337		

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

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

In addition, the shareholders meeting resolved to reduce capital in the amount of NT\$9,667,845 thousand after the aforementioned capital increase is completed and will return the equivalent cash to its shareholders in order to restructure its capital. The company obtained the approval letter from Financial Supervisory Commission, Executive Yuan which stated the effective registration date of capital reduction is October 17, 2007. The Company decided October 19, 2007 as the record date of capital reduction.

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)

	Nine Months Ended September 30	
	2007	2006
Balance, beginning of period	\$	\$
Increase	59,389	192,000
Decrease		192,000
Balance, end of period	\$ 59,389	\$

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, the Company is planning to repurchase treasury stock from August 29, 2007 to October 28, 2007. As of October 18, 2007, Company has repurchased 100,580 thousand shares of treasury stock, for \$5,981,929 thousand. In 2006, the Company repurchased 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

	Nine Months Ended September 30, 2007		
	Cost of		Total
	Services	Operating Expenses	
Compensation expense			
Salaries	\$ 9,231,319	\$ 6,053,738	\$ 15,285,057
Insurance	450,292	293,090	743,382
Pension	1,316,951	889,895	2,206,846
Other compensation	5,366,725	3,516,334	8,883,059
	16,365,287	10,753,057	27,118,344
Depreciation expense	27,432,270	1,619,299	29,051,569
Amortization expense	647,397	65,949	713,346
	\$ 44,444,954	\$ 12,438,305	\$ 56,883,259

	Nine Months Ended September 30, 2006		
	Cost of		Total
	Services	Operating Expenses	
Compensation expense			
Salaries	\$ 9,917,471	\$ 6,237,873	\$ 16,155,344
Insurance	459,921	292,573	752,494
Pension	1,486,445	958,259	2,444,704
Other compensation	5,662,709	3,551,817	9,214,526
	17,526,546	11,040,522	28,567,068
Depreciation expense	28,416,566	1,668,109	30,084,675
Amortization expense	641,310	74,030	715,340
	\$ 46,584,422	\$ 12,782,661	\$ 59,367,083

## 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:

	Nine Months Ended September 30	
	2007	2006
Income tax expense computed at statutory income tax rate of 25% to		
income before income tax	\$ 11,999,039	\$ 11,026,005
Add (deduct) tax effect of:		
Permanent differences	(380,898)	(138,038)
Temporary differences	790,471	(1,367,396)
Additional tax at 10% on undistributed earnings	8,260	182
Investment tax credits	(1,761,824)	(1,163,833)
Income tax payable	\$ 10,655,048	\$ 8,356,920

- b. Income tax expense consists of the following:

	Nine Months Ended September 30	
	2007	2006
Income tax payable	\$ 10,655,048	\$ 8,356,920
Income tax-separated	186,817	100,999
Income tax-deferred	(693,403)	1,364,584
Adjustment of prior years income tax	61,293	110,606
	\$ 10,209,755	\$ 9,933,109

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

	September 30	
	2007	2006
Current		
Deferred income tax assets:		
Provision for doubtful receivables	\$ 320,155	\$ 234,839
Valuation loss on financial instruments, net	225,543	
Unrealized foreign exchange losses	342	36,336
Investment tax credits		1,562,913
Other	19,188	46,567
	565,228	1,880,655
Less: Valuation allowance	(320,155)	(234,839)
	\$ 245,073	\$ 1,645,816
Noncurrent deferred income tax assets:		
Accrued pension cost	\$ 920,077	\$ 317,746
Losses on impairment	85,866	85,866
Losses on disposal of property, plant and equipment	12,970	

\$ 1,018,913      \$ 403,612

- 27 -

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

	September 30	
	2007	2006
Balance of Imputation Credit Account (ICA)	\$ 83,684	\$ 65,269

The actual ICA rate for the year ended December 31, 2006 and 2005 were 24.42% and 6.97%, respectively.

f. Undistributed earnings information

As of September 30, 2007 and 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 Number of Common Shares Outstanding (Denominator)	Net Income per Share (Dollars)	
	Income			Income Before Income Tax	Net Income
	Before Income Tax	Net Income			
Nine months ended					
<u>September 30, 2007</u>					
Net income					
Basic net income per share	\$ 47,996,197	\$ 37,786,442	10,629,909	\$ 4.52	\$ 3.55
Diluted net income per share	\$ 47,986,582	\$ 37,776,827	10,629,909	\$ 4.51	\$ 3.55
Nine months ended					
<u>September 30, 2006</u>					
Net income					
Basic net income per share	\$ 44,104,061	\$ 34,170,952	10,683,151	\$ 4.13	\$ 3.20

The diluted net income per share for the nine months ended September 30, 2007 has effective of dilution due to issuing employee stock options by SENA0.

The impact of transferring to common capital stock out of capital surplus was considered in calculating basic net income per share for 2006. The basic EPS before income tax and the basic EPS after income tax in 2006 are restated from \$4.54 to \$4.13 and from \$3.52 to \$3.20, respectively

#### **24. PENSION PLAN**

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. On August 7, 2006, the Company transferred the remaining balance of fund 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 which had combined with the Bank of Taiwan on July 1, 2007.

The balance of the Company's plan assets subject to defined benefit plan were \$2,609,668 thousand and \$2,575,901 thousand as of September 30, 2007 and 2006, respectively.

Pension costs amounted to \$2,291,856 thousand (\$2,244,312 thousand subject to defined benefit plan and \$47,544 thousand subject to defined contribution plan) and \$2,553,963 thousand (\$2,518,480 thousand subject to defined benefit plan and \$35,483 thousand subject to defined contribution plan) for the nine months ended September 30, 2007 and 2006, respectively.

#### **25. TRANSACTIONS WITH RELATED PARTIES**

The ROC Government, one of the Company's customers, held significant equity interest in the Company. 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
Senao International Co., Ltd. ( SENAO )	Subsidiary
CHIEF Telecom, Inc. ( CHIEF )	Subsidiary
Chunghwa International Yellow Pages Co., Ltd. ( CIYP )	Subsidiary
New Prospect Investments Holdings Ltd. (B.V.I.)	Subsidiary
Prime Asia Investments Group Ltd. (B.V.I.)	Subsidiary
Taiwan International Standard Electronics Co., Ltd. ( TISE )	Equity-accounted investee
Spring House Entertainment Inc.( SHE )	Equity-accounted investee
ELTA Technology Co., Ltd. ( ELTA )	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:

	September 30			
	2007		2006	
	Amount	%	Amount	%
1) Receivables from related parties				
Trade notes receivable, accounts receivable and other receivable				
SENAO	\$ 321,304	88	\$	
CHIEF	20,465	6		
CHTG	16,780	5	30,868	100
Others	5,081	1		
	\$ 363,630	100	\$ 30,868	100
2) Payables to related parties				
Trade notes payable, accounts payable and accrued expenses				
SENAO	\$ 499,513	40	\$	
CSI	150,948	12	82,848	27
TISE	56,554	5	221,138	73
CHTG	9,829	1		
Others	6,353	1		
	723,197	59	303,986	100
Payable to construction supplier				
TISE	77,577	6		
Amounts collected in trust for others				
SENAO	434,143	35		
Others	3,631			
	437,774	35		
	\$ 1,238,548	100	\$ 303,986	100

	Nine Months Ended September 30 2007		2006	
	Amount	%	Amount	%
3) Revenues				
SENAO	\$ 696,252	1	\$	
CHIEF	132,879			
CHTG	60,627		82,780	
Others	34,808		12,265	
	\$ 924,566	1	\$ 95,045	
4) Operating costs and expenses				
SENAO	\$ 3,407,309	5	\$	
CSI	398,830	1	250,443	
TISE	269,232		298,838	
CHIEF	49,292			
CHTG	49,076		79,580	
ELTA	39,594			
Others	5,558			
	\$ 4,218,891	6	\$ 628,861	
5) Acquisition of properties				
TISE	\$ 538,729	4	\$ 437,152	2
CSI	223,289	1	42,935	
CHTG	35,292		877	
SENAO	203			
	\$ 797,513	5	\$ 480,964	2

Except part transaction prices of SENAO and CHIEF were determined in accordance with mutual agreements, the foregoing transactions with related parties were conducted under normal commercial terms.

## 26. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2007, the Company's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of buildings of \$1,078,552 thousand.
- b. Acquisitions of telecommunications equipment of \$18,865,580 thousand.
- c. Unused letters of credit of approximately \$838,795 thousand.
- d. Contracts to print billing, envelopes and telephone directories of approximately \$228,028 thousand.

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

Year	Rental Amount
2007 (from October 1, 2007 to December 31, 2007)	\$ 318,061
2008	1,109,075
2009	839,204
2010	541,864
2011 and thereafter	615,416

- f. 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.
- g. 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 Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of the Company's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, the Company believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, the Company has filed an appeal at the Taiwan Taipei District Court. As of October 18, 2007, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.

## 27. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

	September 30		September 30	
	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 54,079,967	\$ 54,079,967	\$ 40,475,668	\$ 40,475,668
Financial assets at fair value through profit or loss	227,014	227,014		
Available-for-sale financial assets	21,152,088	21,152,088	13,798,586	13,798,586
Held-to-maturity financial assets - current	57,324	57,324		
Trade notes and accounts receivable, net	12,133,650	12,133,650	11,952,355	11,952,355
Receivable from related parties	363,630	363,630	30,868	30,868
Other current monetary assets	6,774,724	6,774,724	5,774,250	5,774,250
Investments accounted for using equity method	3,340,576	5,776,387	1,793,109	1,926,712
Financial assets carried at cost	1,941,280	1,941,280	1,866,280	1,866,280
Held-to-maturity financial assets - noncurrent	322,291	322,291		
Other noncurrent monetary assets	1,000,000	1,000,000	2,000,000	2,000,000
Refundable deposits	1,345,874	1,345,874	1,554,194	1,554,194

(Continued)



	September 30			
	2007		2006	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	\$ 904,144	\$ 904,144	\$	\$
Trade notes and accounts payable	7,289,690	7,289,690	7,138,056	7,138,056
Payables to related parties	1,238,548	1,238,548	303,986	303,986
Accrued expenses	9,399,952	9,399,952	13,649,137	13,649,137
Current portion of long-term loans			300,000	300,000
Customers deposits	6,320,298	6,320,298	6,589,143	6,589,143

(Concluded)

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 and 3 below.
- 2) If the financial assets at fair value through profit and loss have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market price of the financial assets are not immediately available, they must be calculated using standard valuation models on the basis of current market parameters.
- 3) Long-term investments are based on the net asset values of the investments in investees, if quoted market prices are not available.

c. Fair value of financial instruments were as follow:

	Amount Based on Quoted Market Price September 30		Amount Determined Using Valuation Techniques September 30	
	2007	2006	2007	2006
	<b>Assets</b>			
Financial assets measured at fair value through profit or loss	\$ 115,020	\$	\$	\$
Available-for-sale financial assets	21,152,088	13,798,586		
Hedging derivative financial assets (classified as other current monetary assets)	9,227			
<b>Liabilities</b>				
Financial liabilities at fair value through profit or loss	108,263		795,881	
Hedging derivative financial liabilities (classified as other current liabilities)	767			

d. Information about financial risks

- 1) Market risk

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The foreign exchange rate fluctuations would result in the Company's foreign-currency-dominated assets and liabilities, open forward exchange contracts and currency option 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.

- 33 -

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.

4) Cash flow interest rate risk

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

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

e. Fair value hedge

The Company entered into forward exchange contracts is mainly to hedge the fluctuation of beneficiary certificate valuating by foreign currency in exchange rates, which is fair value hedge. The transaction was assessed effectiveness for the nine months ended September 30, 2007, we regard it as highly effective.

Outstanding forward exchange contracts of hedging as of September 30, 2007:

			Contract
			Amount
	Currency	Holding Period	(in Thousands)
<u>September 30, 2007</u>			
Sell	USD/NTD	2007.08-2007.10	USD 10,000
	USD/NTD	2007.08-2007.10	USD 10,000
	USD/NTD	2007.08-2007.11	USD 7,000
	USD/NTD	2007.09-2007.12	USD 6,000
	USD/NTD	2007.07-2007.10	USD 5,000
	USD/NTD	2007.08-2007.11	USD 5,000
	USD/NTD	2007.08-2007.11	USD 5,000

(Continued)



			<b>Contract</b>
			<b>Amount</b>
	<b>Currency</b>	<b>Holding Period</b>	<b>(in Thousands)</b>
	USD/NTD	2007.07-2007.10	USD 3,000
	USD/NTD	2007.07-2007.11	USD 3,000
	USD/NTD	2007.07-2007.11	USD 3,000
	USD/NTD	2007.08-2007.11	USD 3,000
	USD/NTD	2007.09-2007.12	USD 3,000
	USD/NTD	2007.09-2007.12	USD 3,000
	USD/NTD	2007.09-2007.12	USD 3,000
	USD/NTD	2007.07-2007.10	USD 2,000

(Concluded)

As of September 30, 2007, the forward exchange contract was measured at fair value of \$9,227 thousand (classified as other current monetary assets) and \$767 thousand (classified as other current liabilities).

According to the regulations of Securities and Futures Bureau, the Company should disclose the derivative transactions of the Company's investees, SENA0, which was as follows:

1) Holding period and contract amounts

SENA0 entered into a forward exchange contract for the nine months ended September 30, 2007 to reduce the exposure to foreign currency risk.

Outstanding forward exchange contracts as of September 30, 2007:

			<b>Contract</b>
			<b>Amount</b>
	<b>Currency</b>	<b>Holding Period</b>	<b>(in Thousands)</b>
<b>September 30, 2007</b>			
Sell	USD/NTD	2007.09-2007.10	USD 5,322

2) Market risk

SENA0 engaged in financial assets and liabilities at fair value through profit or loss which are mainly domestic open-end mutual fund and convertible bonds. Therefore, the market risk is the fluctuations of the market price. In order to manage this risk, SENA0 would assess the risk before investing, therefore, no material market risk are anticipated. SENA0 uses forward contracts to hedge the fluctuations of adverse exchange rate on foreign currency assets and liabilities. The gain and loss from the fluctuation of exchange rate under forward contracts was offset by that of the hedged assets or liabilities. Therefore, the market risk was not significant.

3) Credit risk

Financial assets represents the potential loss that would be incurred by SENA0 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 maximum credit risk amount of all kinds of financial instruments is equal to its book value.



4) Liquidation risk

SENAO's investments in domestic open-end mutual fund and convertible bonds are publicly-traded, easily converted to cash. Therefore, no material cash flow risks 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 would be anticipated. SENAO uses forward contracts to hedge the fluctuations of adverse exchange rate on foreign currency assets and liabilities. There will be corresponding cash inflows or outflows upon maturity dates, and SENAO has sufficient cash flow and operating capital to meet the cash demand, thus; there shall be no risk on raising capital. In addition, the exchange rates in the forward contracts are fixed; therefore, there is no significant risk of cash flow.

**28. ADDITIONAL DISCLOSURES**

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

- a. Financing provided: None.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Please see Table 1.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 2.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 5.
- 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 5 and 27.
- k. Investment in Mainland China: None.

**TABLE 1****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****SEPTEMBER 30, 2007****(Amounts in Thousands of New Taiwan Dollars)**

				September 30, 2007				
				Shares				
Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	(Thousands/ Thousand Units)	Carrying Value (Note 6)	Percentage of Ownership	Market Value Net Asset Value	
Chunghwa Telecom Co., Ltd.	Common stock	Subsidiary	Investments accounted for using equity method	71,074 (Note 1)	\$ 1,189,721	31	\$ 3,518,100	
	Senao International Co., Ltd.							
	Chunghwa Investment Co., Ltd.	Equity-accounted investee	Investments accounted for using equity method	98,000	1,001,121	49	1,001,121	
	Taiwan International Standard Electronics Co., Ltd.	Equity-accounted investee	Investments accounted for using equity method	1,760	559,819	40	731,600	
	CHIEF Telecom Inc.	Subsidiary	Investments accounted for using equity method	27,791	254,774	70	208,800	
				(Note 7)				
	Chunghwa International Yellow Pages Co., Ltd.	Subsidiary	Investments accounted for using equity method	15,000	291,944	100	291,944	
	Spring House Entertainment Inc.	Equity-accounted investee	Investments accounted for using equity method	2,016	16,122	30	1,500	
	ELTA Technology Co., Ltd.	Equity-accounted investee	Investments accounted for using equity method	2,586	27,075	21	23,000	
	New Prospect Investments Holdings Ltd. (B.V.I.)	Subsidiary	Investments accounted for using equity method			100		
					( US\$ 1)		( US\$ 1)	
	Prime Asia Investments Group Ltd. (B.V.I.)	Subsidiary	Investments accounted for using equity method			100		
					( US\$ 1)		( US\$ 1)	
	Taipei Financial Center		Financial assets carried at cost	288,211	1,789,530	12	1,477,700	
	RPTI International		Financial assets carried at cost	9,234	71,500	12	67,700	
	iD Branding Ventures		Financial assets carried at cost	7,500	75,000	8	74,200	
	Siemens Telecommunication Systems		Financial assets carried at cost	75	5,250	15	192,700	
	Oriental Union Chemical Corporation		Available-for-sale financial assets	306	6,113		12,200	
	ZyXEL Communications Corporation		Available-for-sale financial assets	207	8,136		12,200	
	Taiwan Life Insurance		Available-for-sale financial assets	156	5,587		8,800	
	Mega Financial Holding Co., Ltd.		Available-for-sale financial assets	5,800	119,781		119,781	
	ABBOTT LABORATORIES COM NPV		Available-for-sale financial assets	4	5,377		6,100	
	ACERINOX SA EUR0.25		Available-for-sale financial assets	10	7,010		9,500	
	AGGREKO PLC ORD		Available-for-sale financial assets	15	3,332		5,600	
	AIR FRANCE-KLM EUR8.50		Available-for-sale financial assets	6	5,879		6,900	



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	Available-for-sale financial assets			
AIR PRODUCTS & CHEMICALS INC COM	Available-for-sale financial assets	2	5,728	7,4
AISIN SEIKI CO LTD	Available-for-sale financial assets	3	3,635	4,1
ALLIANZ SE-REG NPV (REGD) (VINKULIERT)	Available-for-sale financial assets	1	6,895	9,0
ALLIED IRISH BANKS PLC ORD EURO.32	Available-for-sale financial assets	10	9,050	7,4
ALSTOM	Available-for-sale financial assets	1	4,433	8,2
AMADA CO LTD	Available-for-sale financial assets	9	3,357	3,2
AMERICAN EXPRESS CO COM USD0.20	Available-for-sale financial assets	3	5,707	5,2

(Continued)

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Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	September 30, 2007		Market Value
				Shares	Carrying Value	
				(Thousands/ Thousand Units)	(Note 6) Percentage of Ownership	
	AMERICAN INTERNATIONAL GROUP COM USD2.50		Available-for-sale financial assets	2	\$ 5,468	\$
	APPLE COMPUTER INC COM STK NPV		Available-for-sale financial assets	1	3,911	
	ARM HOLDINGS PLC ORD GBP0.0005		Available-for-sale financial assets	65	4,726	
	ASML HOLDING NV EUR0.02		Available-for-sale financial assets	9	6,835	
	BANCO ESPIRITO SANTO-REG EUR5		Available-for-sale financial assets	10	6,681	
	BANCO SANTANDER SA BANCO SANTANDER SA		Available-for-sale financial assets	13	6,832	
	BARCLAYS ORD GBP0.25		Available-for-sale financial assets	11	4,692	
	BAXTER INTERNATIONAL INC COM USD1		Available-for-sale financial assets	3	5,628	
	BECTON DICKINSON & CO COM		Available-for-sale financial assets	2	5,707	
	BHP BILLITON PLC USD0.50		Available-for-sale financial assets	7	4,691	
	BMC SOFTWARE INC COM		Available-for-sale financial assets	5	5,573	
	BOUYGUES EUR1		Available-for-sale financial assets	3	8,404	
	BP PLC ORD USD0.25		Available-for-sale financial assets	16	5,964	
	BT GROUP PLC SHS		Available-for-sale financial assets	27	4,783	
	BULGARI SPA EUR0.07		Available-for-sale financial assets	16	8,337	
	BURBERRY GROUP PLC ORD GBP0.0005		Available-for-sale financial assets	14	4,774	
	BUSINESS OBJECTS EUR0.10		Available-for-sale financial assets	6	8,012	
	CAPITA GROUP PLC ORD GBP0.02066667		Available-for-sale financial assets	12	5,005	
	CARPHONE WAREHOUSE GROUP SHS		Available-for-sale financial assets			