

CHUNGHWA TELECOM CO LTD  
Form 6-K  
March 31, 2006

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 March 30, 2006

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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: 2006/03/30

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 Years Ended December 31, 2005 and 2004 and Independent Auditors Report- ROC GAAP
2	Financial Statements as of December 31, 2004 and 2005, and for Each of the Years in the Three Year Period Ended December 31, 2005- US GAAP
3	Press Release on 2006/03/30

**Chunghwa Telecom Co., Ltd.**

**Financial Statements for the**

**Years Ended December 31, 2005 and 2004 and**

**Independent Auditors Report**

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have audited the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of December 31, 2005 and 2004, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Company as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with relevant regulations governing the preparation of financial statements of public companies (applied before August 12, 2005) and accounting principles generally accepted in the Republic of China.

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

March 17, 2006

Notice to Readers

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

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

## CHUNGHWA TELECOM CO., LTD.

## BALANCE SHEETS

DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Amount	%	(As Adjusted - Note 3) Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 41,890,668	9	\$ 29,282,811	6
Short-term investments (Notes 2 and 5)	14,102,017	3	9,114,513	2
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,550,738 in 2005 and \$ 2,585,089 in 2004 (Notes 2, 6 and 20)	12,507,182	3	13,555,006	3
Other current monetary assets (Notes 7 and 17)	5,706,740	1	1,516,204	1
Inventories, net (Notes 2 and 8)	2,120,472		1,438,997	
Deferred income taxes (Notes 2 and 17)	2,321,399	1	12,289,961	3
Other current assets (Notes 2, 9 and 19)	1,247,036		664,126	
Total current assets	79,895,514	17	67,861,618	15
<b>INVESTMENTS IN UNCONSOLIDATED COMPANIES AND FUNDS (Notes 2, 10 and 21)</b>				
Funds	2,500,000	1	2,000,000	
Investments accounted for using the equity method	1,524,938		1,429,035	
Investments accounted for using the cost method	1,866,280		2,605,956	1
Total investment in unconsolidated companies and funds	5,891,218	1	6,034,991	1
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 11 and 20)</b>				
<b>Cost</b>				
Land	101,784,869	22	101,835,826	22
Land improvements	1,474,429		1,455,683	
Buildings	57,451,040	13	56,050,758	12
Machinery and equipment	21,753,818	5	21,661,260	5
Telecommunications network facilities	627,609,240	137	620,949,036	133
Miscellaneous equipment	2,046,160		2,097,365	
Total cost	812,119,556	177	804,049,928	172
Revaluation increment on land	5,945,850	1	5,951,368	1
	818,065,406	178	810,001,296	173
Less: Accumulated depreciation	485,063,949	105	461,797,504	99
	333,001,457	73	348,203,792	74
Construction in progress and advances related to acquisitions of equipment	27,881,012	6	31,279,696	7
Property, plant and equipment, net	360,882,469	79	379,483,488	81
<b>INTANGIBLE ASSETS</b>				
3G concession (Note 2)	9,731,914	2	10,179,000	2
Deferred pension cost (Notes 2 and 19)			1,243,465	1



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Patents and computer software, net (Note 2)	183,404		207,661	
<b>Total intangible assets</b>	<b>9,915,318</b>	<b>2</b>	<b>11,630,126</b>	<b>3</b>
<b>OTHER ASSETS</b>				
Refundable deposits	1,577,167	1	1,357,219	
Overdue receivables, net of allowance for losses of \$1,053,866 in 2005 and \$1,888,344 in 2004 (Notes 2 and 6)	331,823		435,363	
Deferred income taxes - non-current (Notes 2 and 17)	85,866			
Other	323,233		334,485	
<b>Total other assets</b>	<b>2,318,089</b>	<b>1</b>	<b>2,127,067</b>	
<b>TOTAL</b>	<b>\$ 458,902,608</b>	<b>100</b>	<b>\$ 467,137,290</b>	<b>100</b>

**2004**

	<b>2005</b>		<b>(As Adjusted - Note 3)</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Trade notes and accounts payable (Note 20)	\$ 10,332,306	2	\$ 14,483,688	3
Income tax payable (Notes 2 and 17)	16,550		5,029,658	1
Accrued expenses (Notes 12 and 20)	15,526,947	3	14,331,715	3
Accrued pension liabilities (Notes 2 and 19)			2,016,930	1
Dividends payable (Note 3)			45,344,307	10
Long-term loans - current portion (Note 14)	200,000		200,000	
Other current liabilities (Notes 13 and 20)	17,605,916	4	19,126,724	4
<b>Total current liabilities</b>	<b>43,681,719</b>	<b>9</b>	<b>100,533,022</b>	<b>22</b>
<b>LONG-TERM LIABILITIES</b>				
Long-term loans (Note 14)	300,000		500,000	
Deferred income	318,528		361,129	
<b>Total long-term liabilities</b>	<b>618,528</b>		<b>861,129</b>	
<b>RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 11)</b>	<b>94,986</b>		<b>211,182</b>	
<b>OTHER LIABILITIES</b>				
Customers deposits	7,391,902	2	6,176,863	1
Other	207,285		203,298	
<b>Total other liabilities</b>	<b>7,599,187</b>	<b>2</b>	<b>6,380,161</b>	<b>1</b>
<b>Total liabilities</b>	<b>51,994,420</b>	<b>11</b>	<b>107,985,494</b>	<b>23</b>
<b>STOCKHOLDERS EQUITY</b>				
Capital stock - \$10 par value; authorized, issued and outstanding - 9,647,725 thousand shares	96,477,249	21	96,477,249	21
<b>Capital surplus:</b>				
Paid-in capital in excess of par value	214,529,603	47	214,538,597	46
Capital surplus from revaluation of land	5,850,864	1	5,740,185	1
Donations	13,170		13,170	
<b>Total capital surplus</b>	<b>220,393,637</b>	<b>48</b>	<b>220,291,952</b>	<b>47</b>

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Retained earnings:				
Legal reserve	39,272,477	9	39,272,477	8
Special reserve	2,680,184	1	2,680,184	1
Unappropriated earnings	48,087,583	10	434,699	
Total retained earnings	90,040,244	20	42,387,360	9
Cumulative translation adjustments	(2,942)		(4,765)	
Total stockholders' equity	406,908,188	89	359,151,796	77
<b>TOTAL</b>	<b>\$ 458,902,608</b>	<b>100</b>	<b>\$ 467,137,290</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated March 17, 2006)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF OPERATIONS****FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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

	2005		2004	
	Amount	%	(As Adjusted - Note 3) Amount	%
SERVICE REVENUES (Note 20)	\$ 183,381,851	100	\$ 182,562,682	100
COSTS OF SERVICES (Note 20)	93,941,491	51	92,959,810	51
<b>GROSS PROFIT</b>	<b>89,440,360</b>	<b>49</b>	<b>89,602,872</b>	<b>49</b>
<b>OPERATING EXPENSES</b>				
Marketing	24,728,213	13	24,037,167	13
General and administrative	2,982,882	2	2,767,150	1
Research and development	3,164,981	2	3,145,013	2
Total operating expenses	30,876,076	17	29,949,330	16
<b>INCOME FROM OPERATIONS</b>	<b>58,564,284</b>	<b>32</b>	<b>59,653,542</b>	<b>33</b>
<b>OTHER INCOME</b>				
Penalties income	1,266,469	1	1,011,479	1
Income from sale of scrap	477,948		576,694	
Interest income	451,457		223,454	
Rent income	248,593		194,746	
Gains on sale of short-term investments	162,660		34,264	
Equity in net income of unconsolidated companies	160,080		69,796	
Foreign exchange gain, net	135,307		140,542	
Gains on sale of fixed assets	107,050		17,397	
Dividends income	58,804		29,357	
Other income	692,054	1	445,308	
Total other income	3,760,422	2	2,743,037	1
<b>OTHER EXPENSES</b>				
Realized losses on long-term investments (Note 10)	739,676			
Impairment loss on long-term assets (Notes 2 and 11)	343,463			
Losses arising from natural calamities	137,864		182,981	
Losses on disposal of property, plant and equipment	65,809		186,422	
Interest expense	1,999		4,449	
Other expense	1,433,044	1	1,270,196	1
Total other expenses	2,721,855	1	1,644,048	1

(Continued)

	2005		2004	
	Amount	%	(As Adjusted - Note 3) Amount	%
INCOME BEFORE INCOME TAX	\$ 59,602,851	33	\$ 60,752,531	33
INCOME TAX (Notes 2 and 17)	11,949,967	7	10,889,233	6
NET INCOME	\$ 47,652,884	26	\$ 49,863,298	27

	2005		2004	
	Income Before Income Tax	Net Income	(As Adjusted - Note 3) Income Before Income Tax	Net Income
BASIC NET INCOME PER SHARE (Notes 2 and 18)	\$ 6.18	\$ 4.94	\$ 6.30	\$ 5.17

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

(With Deloitte & Touche audit report dated March 17, 2006)

(Concluded)

## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

## FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	Common Capital Stock		Capital Surplus (Notes 11 and 15) Capital				Retained Earnings (Note 15)				Cumulative Translation	Total Stockholders' Equity
	Shares (Thousands)	Amount	Paid-in Capital in Excess of Par Value	Surplus from Revaluation of Land	Donations	Total	Legal Reserve	Special Reserve	Unappropriated Earnings	Total		
BALANCE, JANUARY 1, 2004 (AS ADJUSTED)	9,647,725	\$ 96,477,249	\$ 214,538,597	\$ 5,740,358	\$ 13,170	\$ 220,292,125	\$ 34,286,147	\$ 2,675,941	\$ 906,281	\$ 37,868,369	\$ (522)	\$ 354,637,222
Classification of capital surplus from revaluation on disposal of intangible assets to income statement in 2004				(173)		(173)				49,863,298	49,863,298	49,863,298
Appropriation of 2004 earnings to legal reserve							4,986,330		(4,986,330)			
Special reserve for dividends - \$4.7 per share								4,243	(4,243)			
Cumulative translation adjustment for foreign-currency investments in consolidated companies									(45,344,307)	(45,344,307)		(45,344,307)
BALANCE, DECEMBER 31, 2004 (AS ADJUSTED - Note 3)	9,647,725	96,477,249	214,538,597	5,740,185	13,170	220,291,952	39,272,477	2,680,184	434,699	42,387,360	(4,765)	359,151,796
Classification of capital surplus from revaluation on disposal of intangible assets to income statement and transfer of property, plant and equipment to intangible assets and other government agencies				(5,489)		(5,489)						(5,489)
			(8,994)	(28)		(9,022)						(9,022)

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classification															
the reserve for															
d value															
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t income in															
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nslation															
ustment for															
oreign-currency															
estments in															
consolidated															
panies														1,823	1,823
ALANCE,															
CEMBER 31,															
05	9,647,725	\$ 96,477,249	\$ 214,529,603	\$ 5,850,864	\$ 13,170	\$ 220,393,637	\$ 39,272,477	\$ 2,680,184	\$ 48,087,583	\$ 90,040,244	\$ (2,942)	\$ 406,908,188			

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

(With Deloitte & Touche audit report dated March 17, 2006)

## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CASH FLOWS

## FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

(Amounts in New Taiwan Thousand Dollars)

	2005	2004 (As Adjusted - Note 3)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 47,652,884	\$ 49,863,298
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	920,189	1,564,781
Depreciation and amortization	41,575,047	41,123,162
Impairment loss on long-term assets	343,463	
Unrealized loss (gain) on reduction of short-term investments to market	(12,416)	12,416
Gain on sale of short-term investments	(162,660)	(34,264)
Reversal of allowance for losses on inventories		(1,297)
Realized losses on long-term investments	739,676	
Net loss (gain) on disposal of property, plant and equipment	(41,241)	169,025
Equity in net income of unconsolidated companies	(160,080)	(69,796)
Cash dividend received from equity	66,000	56,000
Deferred income taxes	9,882,696	(205,015)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Trade notes and accounts receivable	1,069,313	170,489
Other current monetary assets	(4,204,578)	106,588
Inventories	(830,404)	(326,357)
Other current assets	(582,910)	(48,917)
Overdue receivables	(824,096)	(708,187)
Increase (decrease) in:		
Trade notes and accounts payable	(4,002,453)	2,879,208
Income tax payable	(5,013,108)	101,606
Accrued expenses	1,195,232	169,652
Accrued pension liabilities	(773,465)	(2,407,820)
Other current liabilities	645,274	925,532
Deferred income	(42,601)	(57,908)
<b>Net cash provided by operating activities</b>	<b>87,439,762</b>	<b>93,282,196</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of short-term investment, net	(4,812,428)	(9,092,665)
Proceeds from disposal of investments in unconsolidated companies		10
Acquisitions of investments in unconsolidated companies	(500,000)	(529,363)
Proceeds from disposal of property, plant and equipment	374,163	213,647
Acquisitions of property, plant and equipment	(22,930,075)	(22,888,985)
Acquisitions of patents and computer software	(130,011)	(122,028)
Decrease (increase) in other assets	(281,281)	742,578
<b>Net cash used in investing activities</b>	<b>(28,279,632)</b>	<b>(31,676,806)</b>

(Continued)





	2005	2004 (As Adjusted - Note 3)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payment on principal of long-term loans	\$ (200,000)	\$
Decrease in customers' deposits	(1,011,952)	(2,421,029)
Increase (decrease) in other liabilities	3,986	(39,817)
Cash dividends paid	(45,344,307)	(43,414,762)
Net cash used in financing activities	(46,552,273)	(45,875,608)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>12,607,857</b>	<b>15,729,782</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>29,282,811</b>	<b>13,553,029</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 41,890,668</b>	<b>\$ 29,282,811</b>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	\$ 1,999	\$ 4,449
Income tax paid	\$ 11,418,858	\$ 10,992,642
<b>NON-CASH FINANCING ACTIVITIES</b>		
Current portion of long-term loans	\$ 200,000	\$ 200,000
Reclassification of reserve for land value incremental tax to capital surplus	\$ 116,196	\$

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

(With Deloitte & Touche audit report dated March 17, 2006)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

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

**1. GENERAL**

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

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

Effective August 12, 2005, the MOTC had completed the process of privatizing the Company by reducing the government ownership to below 50% in various stages. In July 2000, the Company received approval from the Securities and Futures Commission (the SFC ) for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the TSE ) on October 27, 2000. Certain of the Company's common shares had been sold, by an auction in connection with the foregoing privatization plan, in domestic public offerings in June 2001, December 2002, March 2003, April 2003 and July 2003. Certain of the Company's common shares had also been sold in an international offering of securities in the form of American Depository Shares ( ADS ) in July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE ). The MOTC sold 289,431 thousand common shares of 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 number of employees as of December 31, 2005 and 2004 are 27,386 and 28,526, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **Basis of Accounting**

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

### **Current Assets and Liabilities**

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

### **Cash Equivalents**

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

### **Short-term Investments**

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

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

### **Allowance for Doubtful Accounts**

Allowance for doubtful accounts is provided on the basis of a review of the collectibility of individual receivables. The Company evaluates the collectibility of individual receivables according to its aging analysis and other factors on a periodic basis.

### **Inventories**

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

### **Investments in Unconsolidated Companies**

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

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

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

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

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

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

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

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

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

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 will be amortized upon the MOTC approval of using the straight-line method over the lower of the legal useful life or estimated useful life. Patents are amortized using the straight-line method over the estimated useful lives ranging from 10 to 20 years. Computer software costs are capitalized and amortized using the straight-line method over the estimated useful lives of three years.

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

### **Pension Costs**

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

### **Revenue Recognition**

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

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

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

Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized upon activation, (b) fixed-monthly fees (on fixed-line services, wireless, 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 expire.

### **Expense Recognition**

Expenses including commissions paid to agencies and handset subsidy costs paid to vendors that sell handsets to customers who subscribe to the service (as an inducement to enter into a service contract) are charged to income as incurred.

### **Income Tax**

The Company accounts for income tax using the asset and liability method. Under this method, deferred income tax is recognized for investment tax credits and tax consequences of differences between financial statement carrying amounts and their respective tax bases. A valuation 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 non-current depending on the expected reversal date of the temporary difference.

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

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

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

### **Earnings Per Share**

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

### **Foreign-currency Transactions**

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

- a. Long-term stock investments accounted for by the equity method - as cumulative translation adjustment under stockholders' equity;  
and

- b. Other financial assets and liabilities - credited or charged to current income.

### Foreign Currency Forward Exchange Contracts

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

### 3. ADJUSTMENTS OF FINANCIAL STATEMENTS

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

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

	As Previously Reported	Adjustment Increase (Decrease)	As Adjusted
<b>Balance sheet</b>			
<b>Assets</b>			
Current assets	\$ 67,893,025	\$ (31,407)	\$ 67,861,618
Investments in unconsolidated companies and Funds	6,034,991		6,034,991
Property, plant and equipment, net	379,483,488		379,483,488
Intangible assets	11,630,126		11,630,126
Other assets	2,127,067		2,127,067
<b>Total assets</b>	<b>\$ 467,168,697</b>	<b>\$ (31,407)</b>	<b>\$ 467,137,290</b>
<b>Liabilities</b>			
Current liabilities	\$ 55,213,108	\$ 45,319,914	\$ 100,533,022
Long-term liabilities	861,129		861,129
Reserve for land value incremental tax	211,182		211,182
Other liabilities	6,380,161		6,380,161
<b>Total liabilities</b>	<b>62,665,580</b>	<b>45,319,914</b>	<b>107,985,494</b>
<b>Total stockholders' equity</b>	<b>404,503,117</b>	<b>(45,351,321)</b>	<b>359,151,796</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 467,168,697</b>	<b>\$ (31,407)</b>	<b>\$ 467,137,290</b>

(Continued)

	As Previously Reported	Adjustment Increase (Decrease)	As Adjusted
<b>Statement of income</b>			
Service revenues	\$ 182,562,682	\$	\$ 182,562,682
Costs of services	92,951,836	7,974	92,959,810
Operating expenses	29,947,953	1,377	29,949,330
Other income	2,743,037		2,743,037
Other expenses	1,644,048		1,644,048
Income before income tax	60,761,882	(9,351)	60,752,531
Income tax	10,891,570	(2,337)	10,889,233
Net income	49,870,312	(7,014)	49,863,298

The adjustments made by the government agencies that increased income before income tax by \$9,351 thousand were due to the different bases of estimates used by the MOA in determining certain accruals. The increase to current liabilities of \$45,319,914 thousand and the decrease to total stockholders' equity of \$45,351,321 thousand were due to the appropriations of 2004 earnings recorded by the MOA.

#### 4. CASH AND CASH EQUIVALENTS

	December 31	
	2005	2004
<b>Cash</b>		
Cash on hand	\$ 96,839	\$ 103,415
Cash in banks	2,257,796	1,854,464
Negotiable Certificate of Deposit, annual yield rate - ranging from 1.00%-1.92% and 1.13%-1.27% for the years ended December 31, 2005 and 2004, respectively	10,906,936	8,900,000
	13,261,571	10,857,879
<b>Cash equivalents</b>		
Commercial paper, annual yield rate - ranging from 1.27%-1.45% and 1.00%-1.10% for the years ended December 31, 2005 and 2004, respectively	28,629,097	18,424,932
	\$ 41,890,668	\$ 29,282,811

#### 5. SHORT-TERM INVESTMENTS

	December 31	
	2005	2004
Open-end bond mutual funds	\$ 13,898,188	\$ 8,900,000
Real estate investment trust fund	100,000	
Listed stocks	68,829	
Credit linked investment	35,000	
Repurchaseable bond		226,929
	14,102,017	9,126,929
Less: Allowance for losses		12,416
	\$ 14,102,017	\$ 9,114,513
Market value	\$ 14,171,181	\$ 9,114,513





The market value of short-term investments was based on the net asset value as of December 31, 2005 and 2004 or the average price for the month ended December 31 2005.

#### 6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Years Ended December 31	
	2005	2004
Balance, beginning of year	\$ 4,473,433	\$ 7,786,037
Provision for doubtful accounts	906,148	1,521,656
Accounts receivable written off	(1,774,977)	(4,834,260)
Balance, end of year	\$ 3,604,604	\$ 4,473,433

The balance of allowance for doubtful accounts consisted of the allowance for notes and accounts receivable as well as overdue receivables.

#### 7. OTHER CURRENT MONETARY ASSETS

	December 31	
	2005	2004
Tax refund receivable	\$ 4,338,479	\$
Other receivable	1,368,261	1,516,204
	\$ 5,706,740	\$ 1,516,204

#### 8. INVENTORIES, NET

	December 31	
	2005	2004
Supplies	\$ 1,276,160	\$ 1,111,580
Work in process	19,856	1,689
Materials in transit	824,456	325,728
	\$ 2,120,472	\$ 1,438,997

The insurance coverage on inventories as of December 31, 2005 amounted to \$1,143,343 thousand.

#### 9. OTHER CURRENT ASSETS

	December 31	
	2005	2004
Prepaid rents	\$ 489,074	\$ 479,042
Prepaid pension costs	458,052	
Other	299,910	185,084

\$ 1,247,036    \$ 664,126

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

	December 31			
	2005	% of Owner- ship	2004	% of Owner- ship
	Carrying Value		Carrying Value	
<b>Funds</b>				
Fixed Line Funds	\$ 1,000,000		\$ 1,000,000	
Piping Funds	1,000,000		1,000,000	
Yuanta Structured Principal Protected Private Placement	500,000			
	2,500,000		2,000,000	
<b>Investments in unconsolidated companies</b>				
<b>Equity investees:</b>				
Chunghua Investment ( CHI )	950,054	49	929,801	49
Taiwan International Standard Electronics ( TISE )	574,884	40	499,234	40
	1,524,938		1,429,035	
<b>Cost investees:</b>				
Taipei Financial Center ( TFC )	1,789,530	12	2,529,206	12
RPTI International ( RPTI )	71,500	12	71,500	12
Siemens Telecommunication Systems ( Siemens )	5,250	15	5,250	15
	1,866,280		2,605,956	
Total investments in unconsolidated companies	3,391,218		4,034,991	
	\$ 5,891,218		\$ 6,034,991	

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

Yuanta Structured Principal Protected Private Placement is an open-end structured principal protected mutual fund. The maturity date is September 28, 2008. The Company has the positive intent and ability to hold it to maturity. Therefore, the mutual fund is classified as non-current asset.

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

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

The equity ownership in the net assets of investments in unconsolidated companies accounted for using the cost method, which were computed by the percentage of ownership, were \$2,099,200 thousand and \$2,401,412 thousand as of December 31, 2005 and 2004, respectively

**11. PROPERTY, PLANT AND EQUIPMENT**

	December 31	
	2005	2004
Cost		
Land	\$ 101,784,869	\$ 101,835,826
Land improvements	1,474,429	1,455,683
Buildings	57,451,040	56,050,758
Machinery and equipment	21,753,818	21,661,260
Telecommunications network facilities	627,609,240	620,949,036
Miscellaneous equipment	2,046,160	2,097,365
	812,119,556	804,049,928
Revaluation increment on land	5,945,850	5,951,368
	818,065,406	810,001,296
Accumulated depreciation		
Land improvements	753,224	694,748
Buildings	13,246,759	12,242,637
Machinery and equipment	15,869,654	15,298,966
Telecommunications network facilities	453,438,139	431,790,829
Miscellaneous equipment	1,756,173	1,770,324
	485,063,949	461,797,504
Construction in progress and advances related to acquisition of equipment	27,881,012	31,279,696
Property, plant and equipment, net	\$ 360,882,469	\$ 379,483,488

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

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

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

Depreciation on property, plant and equipment for the years ended December 31, 2005 and 2004 amounted to \$40,870,177 thousand and \$40,840,195 thousand, respectively. No interest expense was capitalized for the years ended December 31, 2005 and 2004.

The insurance coverage on property, plant and equipment as of December 31, 2005 aggregated \$1,795,625 thousand.

**12. ACCRUED EXPENSES**

	December 31	
	2005	2004
Accrued compensation	\$ 9,863,026	\$ 9,184,906
Accrued franchise fees	2,539,494	2,500,028
Accrued advertisement	751,039	255,343
Other accrued expenses	2,373,388	2,391,438
	<b>\$ 15,526,947</b>	<b>\$ 14,331,715</b>

**13. OTHER CURRENT LIABILITIES**

	December 31	
	2005	2004
Advances from subscribers	\$ 4,749,623	\$ 3,896,655
Payables to equipment suppliers	4,142,230	4,150,304
Amounts collected from subscribers on behalf of other telecommunications companies and carriers	3,323,278	3,467,379
Payables to contractors	2,405,748	2,317,819
Deposit from subscribers	858,351	3,085,342
Miscellaneous	2,126,686	2,209,225
	<b>\$ 17,605,916</b>	<b>\$ 19,126,724</b>

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

	December 31	
	2005	2004
Loan from the Common Tunnel Fund	\$ 500,000	\$ 700,000
Less: Current portion of long-term loans	200,000	200,000
	<b>\$ 300,000</b>	<b>\$ 500,000</b>

The loan amount of NT\$ 700,000 thousand from the Common Tunnel Fund was obtained pursuant to a long-term loan agreement with the Common Tunnel Fund managed by Ministry of Interior that allows the Company to obtain unsecured interest-free credit of NT\$ 1,000,000 thousand until March 12, 2007, with a restricted lending term of five years. The outstanding principal is payable in three annual installments of NT\$ 200,000 thousand, NT\$ 200,000 thousand and NT\$ 300,000 thousand starting on March 12, 2005.

As of December 31, 2005, the Company had unused credit lines totaling approximately \$40,350,000 thousand, which are available for short-term and long-term borrowings.

**15. STOCKHOLDERS EQUITY**

Under the Company's Articles of Incorporation, authorized capital is \$96,477,249,020, which is divided into 9,647,724,900 common shares (at \$10 par value per share), all of which are issued and outstanding, and 2 preferred shares (at \$10 par value per share), all of which are not issued and outstanding. Under the Company's Articles of Incorporation, the board of directors have authority to issue the preferred shares.



For the purpose of privatizing the Company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange in July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. As of December 31, 2005, the MOTC has sold 2,460,432 thousand common shares in the form of ADS amounting to 246,043 thousand units.

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

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

As of December 31, 2005, the outstanding ADSs were 246,043 thousand units, which equaled approximately 2,460,431 thousand common shares and represented 25.50% of the Company's total outstanding common shares.

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

- a. The holder of the preferred shares, or its nominated representative, will act as a director and/or supervisor during the entire period in which the preferred shares are outstanding.
- b. The holder of preferred shares has the same pre-emptive rights as holders of common shares when the Company raises capital by issuing new shares.
- c. The holder of the preferred shares will have 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: No less than 1% of distributable earnings shall be distributed to employees as employee bonus and no more than 0.2% of distributable earnings shall be distributed to board of directors and supervisors as remuneration in the following years after privatization. During the year of privatization, the distributable earnings are limited to the earnings generated after privatization. The remaining distributable earnings can be distributed to the shareholders based on the resolution of shareholders' meeting. Cash dividends to be distributed shall not be less than 10% 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 Corporation requires capital expenditures to sustain its competitive position in high-growth market. Thus, the Company's dividend policy takes into account future capital expenditure outlays. In this regard, a portion of the earnings may be retained to finance these capital expenditures. The remaining earnings can then be distributed as dividends if approved by the stockholders in the following year and will be recorded in the financial statements of that year.

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

The appropriations and distributions of the 2005 earnings of the Company have not been approved by the board of directors and stockholders as of March 17, 2006. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation. The Company did not distribute bonuses for employees and remunerations of directors and supervisors for the 2004 earnings.

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 since 1998. An Imputation Credit Account (ICA) is maintained by the Company for such income tax and the tax credit is allocated to each stockholder.

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

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

	Year Ended December 31, 2004		
	Cost of Services	Operating Expenses	Total
Compensation expense			
Salaries	\$ 14,964,449	\$ 8,935,195	\$ 23,899,644
Insurance	649,713	411,242	1,060,955
Pension	2,107,149	1,278,560	3,385,709
Other compensation	6,039,531	3,535,534	9,575,065
	23,760,842	14,160,531	37,921,373
Depreciation expense	38,608,374	2,231,821	40,840,195
Amortization expense	153,524	121,815	275,339
	\$ 62,522,740	\$ 16,514,167	\$ 79,036,907



**17. INCOME TAX**

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

	<b>Years Ended December 31</b>	
	<b>2005</b>	<b>2004</b>
Income tax expense computed at statutory income tax rate of 25% to income before income tax	\$ 14,900,703	\$ 15,188,124
Add (deduct) tax effects of:		
Permanent differences	(38,069)	(78,429)
Temporary differences	(10,887,822)	(724,453)
Investment tax credits	(1,987,406)	(3,378,713)
Income tax payable	\$ 1,987,406	\$ 11,006,529

- b. Income tax expense consisted of the following:

	<b>Years Ended December 31</b>	
	<b>2005</b>	<b>2004</b>
Income tax payable	\$ 1,987,406	\$ 11,006,529
Income tax - separated	84,615	38,407
Income tax - deferred	9,882,696	(205,015)
Adjustments of prior years income tax	(4,750)	49,312
	\$ 11,949,967	\$ 10,889,233

Tax refund receivable as of December 31, 2005 was shown net of income tax payable amounting to \$4,338,479 thousand (classified as other current monetary assets). The balance of income tax payable as of December 31, 2005 was derived from the adjustment of the government agencies in examining the accounts for the year ended December 31, 2004. The balance of income tax payable as of December 31, 2004 was shown net of prepaid income tax.

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

	<b>December 31</b>	
	<b>2005</b>	<b>2004</b>
Current		
Deferred income tax assets:		
Accrued pension cost	\$ 1,772,248	\$ 12,203,142
Investment tax credits	553,924	
Provision for doubtful accounts	233,638	684,839
Other	48,931	98,844
	2,608,741	12,986,825
Less: Valuation allowance	(233,638)	(684,839)
	2,375,103	12,301,986
Deferred income tax liability:		
Unrealized foreign exchange gain	(53,704)	(12,025)

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Net deferred income tax assets	\$ 2,321,399	\$ 12,289,961
<b>Noncurrent deferred income tax assets:</b>		
Unrealized losses on disposal of property, plant and equipment	\$ 85,866	\$

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d. As of December 31, 2005, investment tax credits consisted of the following:

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Statute for Upgrading Industries	Purchase of machinery and equipment	\$ 1,736,204	\$ 553,924	2009
	Research and development expenditures	644,376		
	Personnel training	160,750		
		\$ 2,541,330	\$ 553,924	

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

	December 31	
	2005	2004
Balance of Imputation Credit Account (ICA)	\$ 2,115,000	\$ 6,324,278

The estimated ICA rate for the 2005 earnings as of December 31, 2005 and the actual ICA rate for the 2004 earnings were 4.4% and 22.49%, respectively. The credit available for allocation to the stockholders is calculated on the basis of the balance of ICA on the date of distribution of dividends. Accordingly, the estimated rate as of December 31, 2005 may differ from the actual rate determined based on the balance of the ICA on the dividend distribution date.

f. Undistributed earnings information

As of December 31, 2005, the Company's undistributed earnings generated in June 30, 1998 and onward was zero. As of December 31, 2004, the Company's undistributed earnings generated in June 30, 1998 and onward was \$32,336 thousand.

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

## 18. BASIC NET INCOME PER SHARE

	Amount (Numerator)		Weighted-average	Net Income Per Share (Dollars)	
	Income	Net		Income Before Tax	Net Income
	Before Tax	Income	Number of Common Shares Outstanding		
<u>Year ended December 31, 2005</u>					
Net income	\$ 59,602,851	\$ 47,652,884			
Basic net income per share			9,647,725	\$ 6.18	\$ 4.94
<u>Year ended December 31, 2004</u>					

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Net income	\$ 60,752,531	\$ 49,863,298			
Basic net income per share			9,647,725	\$ 6.30	\$ 5.17

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**19. PENSION PLAN**

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

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

The Company completed privatization plans on August 12, 2005. The Company is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in accordance with the Statute Governing Privatization of Stated-owned Enterprises (the Privatization Fund). After paying all pension obligations for privatization, the plan assets of the Company should be transferred to the Fund for Privatization of Government-owned Enterprises under the Executive Yuan. However, according to the instructions of MOTC, the Company would, on behalf of the MOTC pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization. As of December 31, 2005 the plan assets amounted to NT\$7.1 billion subtracting the amount paid by the Company is planned to be transferred to Privatization Fund on March 27, 2006.

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.

Pension costs amounted to \$2,300,790 thousand (\$2,285,275 thousand subject to defined benefit plan and \$15,515 thousand subject to defined contribution plan) and \$3,514,461 thousand for the years ended December 31, 2005 and 2004, respectively.

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

- a. Reconciliation between the fund status and accrued pension cost is summarized as follows:

<b>Year ended December 31, 2005</b>	
Benefit obligation	\$ (995,410)
Vested benefit obligation	(406,068)
Non-vested benefit obligation	(1,401,478)
Accumulated benefit obligation	(281,909)
Additional benefit obligation	(1,683,387)
Projected benefit obligation	1,637,730
Fair values of plan assets	(45,657)
Funded status	503,709
<b>Unrecognized net loss</b>	
Prepaid pension cost (recognized as other current assets)	\$ 458,052

**Year ended December 31, 2004****Staff**

Benefit obligation	
Vested benefit obligation	\$ (53,377,588)
Non-vested benefit obligation	(33,843,822)
Accumulated benefit obligation	(87,221,410)
Additional benefit obligation	(1,816,642)
Projected benefit obligation	(89,038,052)
Fair values of plan assets	84,924,329
Funded status	(4,113,723)
Unrecognized net transition obligation	3,060,107
Additional liability (deferred pension costs)	(1,243,465)
Accrued pension cost	\$ (2,297,081)

**Worker**

Benefit obligation	
Vested benefit obligation	\$ (338,629)
Non-vested benefit obligation	
Accumulated benefit obligation	(338,629)
Additional benefit obligation	(10,159)
Projected benefit obligation	(348,788)
Fair values of plan assets	946,248
Funded status	597,460
Unrecognized net transition asset	(317,309)
Prepaid pension cost (deducted from accrued pension cost)	\$ 280,151

## b. Vested benefit

Vested benefit for the year ended December 31, 2005 amounted to \$1,226,327 thousand. Vested benefit of staff and worker for the year ended December 31, 2004 amounted to \$54,178,252 thousand and \$343,708 thousand, respectively.

## c. Actuarial assumptions

**Years ended December 31, 2005**

Discount rate used in determining present value	2.25%
Rate of compensation increase	
All employees	2.0%
Rate of return on plan assets	
Labor retirement fund account	3.0%



Years ended December 31, 2004	Before Privatization	After Privatization
Discount rate used in determining present value	1.5%	3.2%
Rate of compensation increase		
All employees	3.5%	2.0%
Annuity increase for retirees	3.0%	2.0%
Rate of return on plan assets		
Staff retirement fund account	1.5%	
Labor retirement fund account	1.5%	3.2%

The balance of the Company's plan assets subject to defined benefit plan were \$1,637,730 thousand and \$946,248 thousand as of December 31, 2005 and 2004, respectively.

## 20. TRANSACTIONS WITH RELATED PARTIES

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

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

Company	Relationship
Taiwan International Standard Electronics ( TISE )	Equity-accounted investee
Chunghwa System Integration ( CSI )	Subsidiary of equity - accounted investee
Chunghwa Precision Test Technical Co., Ltd. ( CHPT )	Subsidiary of equity - accounted investee
Chunghwa Telecom Global, Inc. ( CHTG )	Subsidiary of equity - accounted investee

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

	December 31		December 31	
	2005	2004	2005	2004
	Amount	%	Amount	%
1) Receivables				
Trade notes and accounts receivable				
CHTG	\$ 49,436		\$	
CHPT	20,724			
	\$ 70,160		\$	

(Continued)

	December 31			
	2005		2004	
	Amount	%	Amount	%
<b>2) Payables</b>				
Trade notes and accounts payable				
CSI	\$ 54,832	1	\$ 460	
TISE	41,058		46,850	
CHTG	27,718			
	\$ 123,608	1	\$ 47,310	
Accrued expenses				
TISE	\$ 48,852		\$ 58,219	
CSI	26,567			
CHTG	11,119			
	\$ 86,538		\$ 58,219	
Payable to construction supplier (included in other current liabilities )				
TISE	\$ 318,653	2	\$ 76,946	
CSI	22,227		17,236	
	\$ 340,880	2	\$ 94,182	
	Years Ended December 31			
	2005		2004	
	Amount	%	Amount	%
<b>3) Service revenues</b>				
CHTG	\$ 101,086		\$	
CHPT	24,492			
	\$ 125,578		\$	
<b>4) Cost of services</b>				
TISE	\$ 135,268		\$ 192,733	
CSI	89,137		120,842	
CHTG	80,360			
	\$ 304,765		\$ 313,575	
<b>5) Acquisition of properties</b>				
TISE	\$ 477,988	2	\$ 878,582	4
CSI	315,830	1	155,444	1
CHTG	12,992			
	\$ 806,810	3	\$ 1,034,026	5

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

**21. COMMITMENTS AND CONTINGENT LIABILITIES**

As of December 31, 2005, the Company's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of buildings of \$2,666,212 thousand.
- b. Acquisitions of telecommunications equipment of \$16,422,413 thousand.
- c. Unused letters of credit of about \$4,914,024 thousand.
- d. Contract to print billing, envelopes and telephone directories of approximately \$334,704 thousand.
- e. The Company also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operation system software under contracts that expire in various years. Minimum rental commitments under those leases are as follows:

Year	Rental Amount
2006	\$ 1,311,149
2007	920,322
2008	582,646
2009	320,329
2010 and thereafter	138,160

- f. A commitment to contribute \$2,500,000 thousand to a Fixed Line Fund administered by the Ministry of Interior Affairs and Taiwan Power Company, of which \$1,000,000 thousand has been contributed by the Company on June 30, 1995. If the balance of the Fixed Line Fund is not sufficient for its purpose, the above three parties will determine when to raise additional funds and the contribution amounts from each party.
- g. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by the Company on August 15, 1996.
- h. A portion of the land used by the Company during the period July 1, 1996 to December 31, 2004 was co-owned by the Company and Chunghwa Post Co., Ltd. (the former Directorate General of Postal Service). In accordance with the 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 March 17, 2006, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.

**22. SUBSEQUENT EVENTS**

In order to improve the Company's financial condition and utilize excess funds, the Company decided to buyback treasury shares and cancelled them. The purchase of treasury shares was approved by the board of directors on February 9, 2006. The Company plans to acquire 250,000 thousand treasury shares (2.59% of total outstanding shares) from the TSE market within two months from February 10, 2006.



The estimated range of purchased prices is from \$40 to \$70. As of March 17, 2006, the Company has purchased 120,653 thousand common shares amounted to \$7,101,040 thousand.

## 23. FAIR VALUE OF FINANCIAL INSTRUMENTS

### a. Derivative financial instruments

The Company entered into forward contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates underlying the value of liabilities denominated in foreign currencies until such liabilities are paid. The Company did not engage in foreign currency forward exchange contracts for the year ended December 31, 2005. There were no foreign currency forward exchange contracts outstanding as of December 31, 2004.

#### 1) Transaction risk

##### a) Credit risk

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

##### b) Market risk

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

##### c) Liquidation risk and cash flow risk

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

#### 2) Transaction gains and losses

Net foreign exchange loss for the year ended December 31, 2004 was \$26,784 thousand.

### b. Short-term investment in credit linked investment

The Company entered into credit linked investment transaction to gain interest revenue.

#### 1) Contract amount

The Company invested \$35,000 thousand in credit linked investment in October 2005. The net asset value of credit linked investment as of December 31, 2005 was \$34,986 thousand.

2) Credit risk

The Company is exposed to credit risk in the default by the issuers and the borrower fails to pay. In order to manage this risk, the Company conducted transactions only with financial institutions with good credit ratings and chose the reference entity deliberately. As a result, no material losses resulting from counter party defaults are anticipated.

3) Liquidation risk

After issuer evaluates the net asset value of credit linked investment, the Company is able to have the credit linked investments redeem or called before maturity, which being the liquidity risk. The Company redeemed the credit linked investment on January 9, 2006 and loss on sale of investment was \$175 thousand.

c. Fair value of nonderivative financial instruments:

	December 31			
	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b><u>Nonderivative financial instruments</u></b>				
<b>Assets</b>				
Cash and cash equivalents	\$ 41,890,668	\$ 41,890,668	\$ 29,282,811	\$ 29,282,811
Short-term investments	14,102,017	14,171,181	9,114,513	9,114,513
Trade notes and accounts receivable, net	12,507,182	12,507,182	13,555,006	13,555,006
Other current monetary assets	5,706,740	5,706,740	1,516,204	1,516,204
Investments in unconsolidated companies and funds	5,891,218	6,344,321	6,034,991	6,168,577
Refundable deposits	1,577,167	1,577,167	1,357,219	1,357,219
Overdue receivables, net	331,823	331,823	435,363	435,363
<b>Liabilities</b>				
Trade notes and accounts payable	10,332,306	10,332,306	14,483,688	14,483,688
Accrued expenses	15,526,947	15,526,947	14,331,715	14,331,715
Current portion of long-term loans	200,000	200,000	200,000	200,000
Long-term loans	300,000	300,000	500,000	500,000
Customers deposits	7,391,902	7,391,902	6,176,863	6,176,863

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

- 1) Financial instruments except those mentioned in 2) and 3) - the carrying values reported in the balance sheet approximate the fair values of these assets.
- 2) Fair values of investments in unconsolidated companies and funds are based on the net asset values of the investments in unconsolidated companies, if quoted market prices are not available.
- 3) Long-term loans (including current portion). The fair value is discounted value based on projected cash flow. The projected cash flows were discounted using the maturity dates of long-term loans.

**24. ADDITIONAL DISCLOSURES**

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

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

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- c. Marketable securities held: Please see Table 1.
  
- d. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Please see Table 2.

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- e. Acquisition of individual real estate of at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- f. Disposal of individual real estate of at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: None.
- h. Receivables from related parties of \$100 million or 20% of the paid-in capital: None.
- i. Names, locations, and other information of investees on which the Company exercises significant influences: Please see Table 5.
- j. Derivative financial transaction: Please see Note 23.
- k. Investment in Mainland China: None.

**25. SEGMENT INFORMATION**

a. Industry

The financial information of the Company by industry: Please see Table 6.

b. Geographic

The Company had no foreign operations as of December 31, 2005.

c. Foreign revenue

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

d. Major customers

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

**TABLE 1****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****DECEMBER 31, 2005****(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2005		Percentage of Ownership	Market Value
				Shares (Thousands/Thousand Units)	Carrying Value		
<u>Common stock</u>							
Chunghwa Investment Co., Ltd.		Equity method investee	Investments in unconsolidated companies	98,000	\$ 950,054	49	\$ 9,000
Taiwan International Standard Electronics		Equity method investee	Investments in unconsolidated companies	1,760	574,884	40	8,000
Taipei Financial Center			Investments in unconsolidated companies	288,211	1,789,530	12	1,700
RPTI International			Investments in unconsolidated companies	9,234	71,500	12	1,000
Siemens Telecommunication Systems			Investments in unconsolidated companies	75	5,250	15	1,000
<u>Beneficiary certificates (mutual fund)</u>							
Yuanta Structured Principal Protected Private Placement			Long-term investment	50,000	500,000		4,000
<u>Common stock</u>							
Nan Ya Plastics Corporation			Short-term investment	124	4,787		
Nien Hsing Textile Co., Ltd.			Short-term investment	333	7,969		
China Steel Corporation			Short-term investment	154	4,069		
China Motor Corporation			Short-term investment	503	14,972		
KINPO Electronics, Inc.			Short-term investment	292	3,822		
D-Link Corporation			Short-term investment	267	8,809		
Benq Corporation			Short-term investment	402	11,863		
Inventec Corporation			Short-term investment	116	1,582		
Gigabyte Technology Co., Ltd.			Short-term investment	283	8,618		
Realtek Semiconductor Corp.			Short-term investment	70	2,338		
<u>Beneficiary certificates (mutual fund)</u>							
JF (Taiwan) First Bond Fund			Short-term investment	72,139	1,000,000		1,000
JF (Taiwan) Taiwan Bond Fund			Short-term investment	66,450	1,000,000		1,000
Dresdner Bond DAM Fund			Short-term investment	70,008	800,000		8,000
Invesco ROC Bond Fund			Short-term investment	45,998	675,000		6,000
ABN AMRO Bond Fund			Short-term investment	60,579	900,000		9,000
ABN AMRO Select Bond Fund			Short-term investment	89,476	1,000,000		1,000
HSBC Taiwan Dragon Fund			Short-term investment	13,147	200,000		2,000
FUBON Ju-I III Fund			Short-term investment	41,413	500,000		5,000
Shinkong Chi-Shin Fund			Short-term investment	77,829	1,100,000		1,100
NITC Bond Fund			Short-term investment	12,326	2,000,000		2,000
Barits Bond Fund			Short-term investment	40,857	490,000		4,000
Taishin Lucky Fund			Short-term investment	9,881	100,000		1,000
TIIM High Yield Fund			Short-term investment	42,545	519,555		5,000

(Continued)

		December 31, 2005					
		Shares					
		(Thousands/					
Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Thousand Units	Carrying Value	Percentage of Ownership	Market Value
	Fuh-Hwa Albatross Fund		Short-term investment	11,679	\$ 130,000		\$ 130,000
	Fuhwa Atex Bond Fund		Short-term investment	25,752	300,000		300,000
	ADAM Global Bond Fund		Short-term investment	9,286	100,000		99,000
	Invesco Global Income Fund		Short-term investment	4,629	50,000		50,000
	Fubon Global Reit Fund		Short-term investment	20,000	200,000		200,000
	Jih Sun Navigation No. 1 Fund		Short-term investment	5,000	50,050		50,050
	HSBC Trinity Balanced Fund		Short-term investment	25,000	250,000		250,000
	JF (Taiwan) Pacific Balanced Fund		Short-term investment	10,000	100,000		100,000
	Polaris Global Reits Fund		Short-term investment	10,000	100,000		100,000
	Bowa Successful Balance Fund		Short-term investment	5,000	50,000		50,000
	JF (Taiwan) Global Balance Fund		Short-term investment	9,036	100,000		100,000
	JF (Taiwan) Wealth Management Fund		Short-term investment	9,362	100,000		100,000
	Shinkong Strategy Balanced Fund		Short-term investment	9,396	100,000		100,000
	Fuh-Hua Home Run Fund		Short-term investment	9,977	100,000		100,000
	Fuh-Hua Total Return Fund		Short-term investment	9,872	100,000		100,000
	Fidelity Euro Bond Fund		Short-term investment	1,256	604,960		599,000
	Credit Suisse BF (Lux) Euro Bond Fund		Short-term investment	41	601,003		599,000
	Fidelity European Highyield Fund		Short-term investment	539	193,500		193,500
	MFS Emerging Market Debt Fund		Short-term investment	351	192,600		200,000
	GAM USD Special Bond Fund		Short-term investment	14	191,520		200,000
	<u>Real estate investment trust fund</u>						
	Fubon No. 1		Short-term investment	10,000	100,000		100,000
	<u>Common stock</u>						
Chunghwa Telecom Co., Ltd.							
	Chunghwa System Integration Co., Ltd.	Subsidiary	Investments in unconsolidated companies	60,000	628,452	100	628,452
	Chunghwa Telecom Global, Inc.	Subsidiary	Investments in unconsolidated companies	6,000	101,680	100	101,680
	Chunghwa Precision Test Technical Co., Ltd.	Subsidiary	Investments in unconsolidated companies	6,000	70,034	60	70,034
	Chunghwa Investment Holding Company	Subsidiary	Investments in unconsolidated companies	589	7,133	100	7,133
	PandaMonium Company	Equity method investee	Investments in unconsolidated companies	602	19,951	43	19,951
	Wayia Com Inc.		Investments in unconsolidated companies	4,000	40,000	19	40,000
	TVbean Co. Ltd. Wayia Com Inc.		Investments in unconsolidated companies	1,200	12,000	12	12,000
	Vantech Software Company		Investments in unconsolidated companies	1,223	12,960	7	12,960
	Digimax Production Center		Investments in unconsolidated companies	2,000	60,000	5	19,000
	Genius		Short-term investment	5	1,190		1,190
	Simple		Short-term investment	5	383		383
	Wellypower		Short-term investment	5	315		315
	<u>Beneficiary certification (mutual fund)</u>						
	Cathay Capital Income Growth Bond Fund		Short-term investment	9,130	98,303		98,303
	Cathay Bond Fund		Short-term investment	1,990	22,652		22,652
	Fuhwa Bond Fund		Short-term investment	3,609	45,241		45,241
	Fuhwa Atex Bond Fund		Short-term investment	3,821	44,225		44,225
	Home Ren Bond Fund		Short-term investment	2,076	31,354		31,354
	PCA Bond Fund		Short-term investment	1,132	17,266		17,266
	Polaris De-Bao Fund		Short-term investment	2,899	31,500		31,500
	HSBC NTD Money Manager Fund 2		Short-term investment	2,675	36,896		36,896

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							December 31, 2005	
							Shares	
							(Thousands/	
							Thousand Units)	
							Carrying Value	
							Ownership	
							Percentage of	
							Market Value	
							Net Asset	
							Value	
Parent Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Thousand Units	Carrying Value	Ownership	Market Value	
	FGIT Duoli-2 Bond Fund		Short-term investment	3,510	\$ 50,327		\$ 50,630	
	Mega Diamond Bond Fund		Short-term investment	3,600	40,253		40,860	
	PIIM Bond Fund		Short-term investment	2,880	40,000		40,250	
	NITC Bond Fund		Short-term investment	124	20,000		20,130	
	JF (Taiwan) Bond Fund		Short-term investment	1,663	24,857		25,020	
	Cash Reserves Capital fund		Short-term investment	3,489	40,074		40,350	
	Safe Income Capital Fund		Short-term investment	1,514	22,000		22,190	
	Grand Cathay Bond Fund		Short-term investment	786	10,000		10,040	
	JF (Taiwan) Pacific Balanced Fund		Short-term investment	962	10,010		10,010	
	Cathay Small Cap Growth Bond Fund		Short-term investment	911	17,688		18,830	
	Cathay Technology Fund		Short-term investment	1,063	20,000		20,380	
	Cathay Fund		Short-term investment	1,876	20,000		20,290	
	Jih Sun Neo Taiwan Enterprises Fund		Short-term investment	1,827	20,000		20,760	
	Grand Cathay Hi-Tech Fund		Short-term investment	2,486	30,000		31,450	
	Fuhwa II Fund		Short-term investment	1,531	15,000		15,000	
	Cathay Global Aggressive Fund		Short-term investment	1,000	10,000		10,020	
	Cathay Global Balanced Fund		Short-term investment	2,000	20,000		20,020	
	Cathay No. 1 REIT		Short-term investment	5,000	50,000		50,750	
	94 Anshin Card 02A1		Short-term investment		30,000		30,000	
Chunghwa System	<u>Beneficiary certification (mutual fund)</u>							
Integration Co., Ltd.	Fuh-Hwa Bond Fund		Short-term investment	3,239	42,600		42,600	
	Mega Diamond Bond Fund		Short-term investment	4,405	50,000		50,000	
	Polaris Fu-Li Strategic Income Fund		Short-term investment	959	10,000		10,060	
	Cathay Fund		Short-term investment	2,112	20,000		22,850	
	Cathay Small Cap Growth Bond Fund		Short-term investment	1,093	20,000		22,600	
	Cathay Technology Fund		Short-term investment	1,165	20,515		22,330	
	Cathay Bond Fund		Short-term investment	5,179	58,893		58,950	
	The IIT Wan Pao Fund		Short-term investment	2,069	31,000		31,000	
	Grand Cathay High-Tech Fund		Short-term investment	808	10,000		10,210	
	Fuhwa II Fund		Short-term investment	2,041	20,000		20,000	
	Cathay Global Aggressive Fund		Short-term investment	3,000	30,000		30,060	
	Cathay No. 1 REIT		Short-term investment	5,000	50,000		50,750	
	94 Anshin Card 02A1		Short-term investment		30,000		30,000	
	Fuh-Hua Albatross Fund		Short-term investment	2,830	31,507		31,510	
Chunghwa Investment	<u>Common stock</u>							
Holding Company	Donghua Telecom Co., Limited	Subsidiary	Investments in unconsolidated companies	4,590	7,091	100	7,091	

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

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

Note 3: The net asset values of beneficiary certification (mutual fund) were base on the net asset values as of December 31, 2005.

Note 4: Market value was based on the average price of December 2005.

**TABLE 2****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF****AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2005****(Amounts in Thousands of New Taiwan Dollars)**

Marketable Securities	Financial Statement	Counter-party	Nature of Relationship	Beginning		Acquisition		Disposal		Gain (Loss) on Disposal	Share Units	
				Shares (Thousands/Thousand Units)	Amount	Shares (Thousands/Thousand Units)	Amount	Shares (Thousands/Thousand Units)	Amount			Carrying Value
Beneficiary certificates (mutual fund)												
JF (Taiwan) First Bond Fund	Short-term investment			43,812	\$ 600,000	115,696	\$ 1,600,000	87,369	\$ 1,207,303	\$ 1,200,000	\$ 7,303	
JF (Taiwan) Taiwan Bond Fund	Short-term investment			33,652	500,000	99,903	1,500,000	67,105	1,006,404	1,000,000	6,404	
Dresdner Bond DAM Fund	Short-term investment			79,876	900,000	140,503	1,600,000	150,371	1,711,335	1,700,000	11,335	
Invesco ROC Bond Fund	Short-term investment			68,986	1,000,000	114,558	1,675,000	137,546	2,011,629	2,000,000	11,629	
ABN AMRO Bond Fund	Short-term investment			47,725	700,000	135,147	2,000,000	122,293	1,810,929	1,800,000	10,929	
ABN AMRO Select Bond Fund	Short-term investment			63,451	700,000	224,711	2,500,000	198,686	2,213,243	2,200,000	13,243	
PCA Well Pool Fund	Short-term investment			106,401	1,300,000	81,372	1,000,000	187,773	2,311,039	2,300,000	11,039	
HSBC Taiwan Dragon Fund	Short-term investment			19,967	300,000	13,147	200,000	19,967	303,441	300,000	3,441	
HSBC NTD Money Management Fund 2	Short-term investment			36,468	500,000	61,662	850,000	98,130	1,356,899	1,350,000	6,899	
FUBON Ju-III Fund	Short-term investment			75,498	900,000	133,151	1,600,000	167,236	2,010,765	2,000,000	10,765	
Shinkong Chi-Shin Fund	Short-term investment			107,498	1,500,000	255,989	3,600,000	285,658	4,023,634	4,000,000	23,634	
NITC Bond Fund	Short-term investment					37,203	6,000,000	24,877	4,023,061	4,000,000	23,061	
Barits Bond Fund	Short-term investment					91,286	1,090,000	50,429	604,799	600,000	4,799	
Taishin Lucky Fund	Short-term investment					19,846	200,000	9,965	100,859	100,000	859	
						76,272	930,000	33,727	412,261	410,445	1,816	

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TIIM High Yield Fund	Short-term investment						
Fuh-Hwa Albatross Fund	Short-term investment	23,422	260,000	11,743	130,724	130,000	724
Fuwha Atex Bond Fund	Short-term investment	60,221	700,000	34,469	401,544	400,000	1,544
ADAM Global Bond Fund	Short-term investment	9,286	100,000				
JF (Taiwan) Wealth Management Fund	Short-term investment	9,362	100,000				
Fubon Global Reit Fund	Short-term investment	20,000	200,000				
Hua Nan Global Henry Fund	Short-term investment	10,000	100,000	10,000	100,192	100,000	192
Fuh-Hua Home Run Fund	Short-term investment	9,977	100,000				
Fuh-Hua Total Return Fund	Short-term investment	9,872	100,000				
HSBC Trinity Balanced Fund	Short-term investment	25,000	250,000				
Shinkong Strategy Balanced Fund	Short-term investment	9,396	100,000				
JF (Taiwan) Global Balance Fund	Short-term investment	9,036	100,000				
JF (Taiwan) Pacific Balanced Fund	Short-term investment	10,000	100,000				
Polaris Global Reits Fund	Short-term investment	20,000	200,000	10,000	106,399	100,000	6,399
Bowa Successful Balance Fund	Short-term investment	10,000	100,000	5,000	54,099	50,000	4,099
Credit Suisse BF (Lux) Euro	Short-term investment	41	604,960		4,009	3,957	52
MFS Emerging Market Debt Fund	Short-term investment	351	192,600				
Fidelity Euro Bond Fund	Short-term investment	1,256	604,960				
Fidelity European High Yield Fund	Short-term investment	539	193,500				
GAM USD Special Bond Fund	Short-term investment	14	191,520				
Yuanta Structured Principal Protected Private Placement	Long-term investment	50,000	500,000				

Real estate  
investment  
trust fund

Fubon No. 1 Short-term  
investment

10,000 100,000

(Continued)

Marketable													
Company Name	Securities Type	Financial and Statement	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal		Gain (Loss)		Ending Balance
					Shares (Thousands/Thousand Units)	Amount	Shares (Thousands/Thousand Units)	Amount	Shares (Thousands/Thousand Units)	Amount	Carrying Value	on Disposal	
Chung Hwa Telecom Co.,	Beneficiary certificates												
	PCA Bond Fund	Short-term investment			6,665	\$ 101,013	7,893	\$ 120,191	13,426	\$ 204,518	\$ 203,938	\$ 580	1,000
	FGIT Duoli-2 Bond Fund	Short-term investment			3,510	50,000	7,020	100,497	7,020	100,497	100,170	327	3,000
	FGIT Duoli Bond Fund	Short-term investment					7,386	120,000	7,386	120,169	120,000	169	
	Fuhwa Bond Fund	Short-term investment			8,330	103,710	9,604	120,200	14,325	179,277	178,669	608	3,000
	Jamef Bond Fund	Short-term investment			5,199	71,064	2,916	40,000	8,115	111,409	111,064	345	
	Cathay Capital Income Growth Bond Fund	Short-term investment			8,523	90,655	24,624	263,766	24,017	257,119	256,118	1,001	9,000
	Mega Diamond Bond Fund	Short-term investment			13,415	150,000			9,815	110,168	109,747	421	3,000
	NITC Bond Fund	Short-term investment					966	155,000	842	135,352	135,000	352	
	HSBC Taiwan Dragon Fund	Short-term investment			3,435	51,602	3,434	51,775	6,869	103,672	103,377	295	
	Sheng-hua 1699 Bond Fund	Short-term investment					9,891	120,000	9,891	120,432	120,000	432	
	Cathay Bond Fund	Short-term investment			5,339	60,000	8,575	97,001	11,924	134,712	134,349	363	1,000
	Cathay Small Cap Growth Bond Fund	Short-term investment					9,060	148,500	8,149	138,302	130,812	7,490	9,000
	Cathay Technology Fund	Short-term investment					7,028	110,500	5,965	97,249	90,500	6,749	1,000
Chung Hwa Telecom Co.,	Beneficiary certificates												
	Mega Diamond Bond Fund	Short-term investment					18,694	210,500	14,289	161,352	160,500	852	4,000
	Fuhwa Bond Fund	Short-term investment			881	10,974			881	11,001	10,974	27	
	Fuh-Hwa Bond Fund	Short-term investment			3,239	42,000	6,479	84,916	6,479	84,917	84,316	601	3,000
	Cathay Bond Fund	Short-term investment					11,726	133,016	6,547	74,193	74,123	70	5,000



**TABLE 3****CHUNGHWA TELECOM CO., LTD.****ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2005****(Amounts in Thousands of New Taiwan Dollars)**

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

**TABLE 4****CHUNGHWA TELECOM CO., LTD.****DISPOSED OF INDIVIDUAL REAL ESTATE AT PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE YEAR ENDED DECEMBER 31, 2005**

(Amounts in Thousands of New Taiwan Dollars)

Company Name	Property	Date of Disposal	Date of Obtained	Carrying Amount	Transaction Receipt Amount	Condition	Disposed Gain/Loss	Parties Involved	Relation with the Corporation	Reference for Price Settlement	Other Purpose	Limitation
Chunghwa Telecom. Co., Ltd.	Land and buildings	2005.12.13	1951.05.30	\$ 56,805	\$ 105,660	Received	\$ 48,855	Liang, Shen-Meijhen	None	Idle assets	Bidding	None

**TABLE 5****CHUNGHWA TELECOM CO., LTD.****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****FOR THE YEAR ENDED DECEMBER 31, 2005****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2005			Net Income (Loss) of the Investee	Recognized Gain (Loss)	Notes		
				December 31, 2005	December 31, 2004	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value					
Chungghwa Telecom Ltd.	Chungghwa Investment Co., Ltd.	24F, No. 456, Hsinyi Rd., Sec. 4, Taipei	Investment	\$ 980,000	\$ 980,000	98,000	49	\$ 950,054	\$ 37,613	\$ 18,430 (Note 1)	Equity account investee		
	Taiwan International Standard Electronics	No. 4, Min Sheng St., Tu-Chen Taipei Hsien	Manufacturing, selling, designing and maintaining of telecommunications systems and equipment	164,000	164,000	1,760	40	574,884	106,897	141,650 (Note 2)	Equity account investee		
Chungghwa Investment Co.,	Chungghwa System Integration Co., Ltd.	24F, No. 458, Hsinyi Rd., Sec. 4, Taipei	Integrated communication and information services	600,000	600,000	60,000	100	628,452	24,432	24,432 (Note 1)	Subsidiary		
	Chungghwa Telecom Global	United States	Multinational enterprise data service, Internet gateway and voice wholesale, mobile commerce value-added services, and content services	US\$ 204,271 thousand	US\$ 204,271 thousand	6,000	100	US\$ 101,680 thousand	US\$ (25,460) thousand	US\$ (793) thousand	(25,460) (Note 1)	Subsidiary	
	Chungghwa Precision Test Technical Co., Ltd.	No. 12, Lane 551, Sec. 5, Minzu Rd., Yangmei Township, Taoyuan County	Electronics parts manufacturing industry Computer and peripheral device manufacturing industry Data storage manufacturing industry	60,000		6,000	60	70,034	16,723	10,034 (Note 1)	Subsidiary		
	Chungghwa Investment Holding Company	Brunei	Investment	US\$ 20,000 thousand	US\$ 20,000 thousand	589	100	US\$ 7,133 thousand	US\$ (7,845) thousand	US\$ (217) thousand	US\$ (244) thousand	(7,845) (Note 1)	Subsidiary
	PandaMomum Company	British Virgin	Develop PandaMomum	¥ 20,000	¥ 20,000	602	43	19,951	813	406 (Note 1)	Equity account investee		

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	Islands	project and provide multimedia services	thousand	thousand						invest
Chung Hwa Investment Holding Company	Donghua Telecom Co., Ltd.	Hong Kong	Engage in telecom related investments, provide international private leased circuits (IPLC), internet protocol virtual private network (IPVPN), and internet transit	20,000	20,000	7,091	(7,948)	US\$	(242)	(7,948)
				US\$ (589) thousand	US\$ (589) thousand	4,590	100	HK\$ (1,691) thousand	HK\$ (1,896) thousand	thousand (Note 1) Subsidiary

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

Note 2: The equity in net gain of an unconsolidated company amounted to \$42,759 thousand was calculated from audited financial statements plus a gain on realized upstream transactions of \$142,582 thousand less a gain on unrealized upstream transactions of \$43,691 thousand.

**TABLE 6****CHUNGHWA TELECOM CO., LTD.****INDUSTRY FINANCIAL INFORMATION****FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004****(Amount in Thousands of New Taiwan Dollars)**

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

(Continued)

Year ended December 31, 2004	Domestic Long						All Other	Adjustment	Total
	Local Telephone Service	Distance Call Service	International Long Distance Call Service	Cellular Service	Paging Service	Internet and Data Service			
Service revenues from external customers	\$ 42,517,702	\$ 11,907,447	\$ 15,156,121	\$ 70,135,081	\$ 297,971	\$ 39,310,130	\$ 3,238,230	\$	\$ 182,562,682
Intersegment service revenues	17,451,661	2,417,003	3,359	1,080,766	1,348	10,842,714	16,585	(31,813,436)	
<b>Total service revenues</b>	<b>\$ 59,969,363</b>	<b>\$ 14,324,450</b>	<b>\$ 15,159,480</b>	<b>\$ 71,215,847</b>	<b>\$ 299,319</b>	<b>\$ 50,152,844</b>	<b>\$ 3,254,815</b>	<b>\$ (31,813,436)</b>	<b>\$ 182,562,682</b>
Segment income before income tax	\$ 4,761,672	\$ 8,372,157	\$ 3,761,529	\$ 32,581,138	\$ (279,854)	\$ 13,892,652	\$ 809,635	\$	\$ 63,898,929
Interest income									223,454
Equity in net gain of unconsolidated companies									69,796
Other income									2,449,787
Interest expense									(4,449)
General expense									(4,253,015)
Other expense									(1,631,971)
<b>Income before tax</b>									<b>\$ 60,752,531</b>
Reportable assets	\$ 199,037,825	\$ 6,406,768	\$ 13,834,139	\$ 65,830,559	\$ 647,747	\$ 106,363,871	\$ 15,375,857	\$	\$ 407,496,766
Investment in unconsolidated companies and funds									6,034,991
Other assets									53,605,533
<b>Total assets</b>									<b>\$ 467,137,290</b>
Depreciation expenses	\$ 20,167,342	\$ 834,146	\$ 668,285	\$ 5,908,732	\$ 306,591	\$ 12,324,660	\$ 480,469		
Expenditures for segment assets	\$ 4,474,586	\$ 308,676	\$ 255,087	\$ 5,512,310	\$	\$ 11,571,760	\$ 722,421		

Note: The Company organizes its business segments based on the various types of telecommunications services provided to customers. The major business segments operated by the Company are local telephone service, domestic long distance call service, international long distance call service, cellular service, paging service, Internet and data service and other service.

**Chunghwa Telecom Co., Ltd.**

**Financial Statements for the  
Years Ended December 31, 2004 and 2005, and for  
Each of the Years in the Three Year Period Ended  
December 31, 2005**

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

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

	2004	December 31	
	NT\$	2005	US\$
	NT\$	NT\$	US\$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	\$ 29,283	\$ 41,891	\$ 1,277
Short-term investments	9,115	14,171	432
Trade notes and accounts receivable, net	13,673	12,839	392
Inventories	1,439	2,120	65
Prepaid expenses	602	1,149	35
Deferred income taxes	17,283	3,353	102
Other current assets	1,609	5,805	177
Total current assets	73,004	81,328	2,480
LONG-TERM INVESTMENTS	4,035	3,391	103
INVESTMENT IN PRIVATE MUTUAL FUND		481	15
PROPERTY, PLANT AND EQUIPMENT, NET	311,638	293,525	8,949
<b>INTANGIBLE ASSETS</b>			
Deferred pension cost	33,222		
3G concession, net	10,179	9,732	297
Patents and computer software, net	207	184	5
Total intangible assets	43,608	9,916	302
<b>OTHER ASSETS</b>			
Deferred income taxes - non-current	2,444	2,626	80
Other	3,692	3,901	119
Total other assets	6,136	6,527	199
<b>TOTAL</b>	<b>\$ 438,421</b>	<b>\$ 395,168</b>	<b>\$ 12,048</b>

**LIABILITIES AND STOCKHOLDERS EQUITY**

<b>CURRENT LIABILITIES</b>			
Trade notes and accounts payable	\$ 14,484	\$ 10,332	\$ 315
Income tax payable	5,032	997	30
Accrued expenses	14,368	16,010	488
Accrued pension liabilities	44,252		
Current portion of deferred income	2,633	1,486	45
Current portion of long-term loans	200	200	6
Customers deposits	9,262	8,250	252
Other current liabilities	18,966	19,411	592
Total current liabilities	109,197	56,686	1,728



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LONG-TERM LIABILITIES			
Deferred income, net of current portion	9,778	10,147	309
Long-term loans, net of current portion	500	300	9
Other	203	207	7
<b>Total long-term liabilities</b>	<b>10,481</b>	<b>10,654</b>	<b>325</b>
<b>Total liabilities</b>	<b>119,678</b>	<b>67,340</b>	<b>2,053</b>
COMMITMENTS AND CONTINGENT LIABILITIES			
STOCKHOLDERS EQUITY			
Capital stock - NT\$10 (US \$0.3) par value; authorized, issued and outstanding - 9,647,724,900 common shares	96,477	96,477	2,941
Capital surplus	136,362	157,490	4,802
Retained earnings	85,909	73,864	2,252
Accumulated other comprehensive loss	(5)	(3)	
<b>Total stockholders equity</b>	<b>318,743</b>	<b>327,828</b>	<b>9,995</b>
<b>TOTAL</b>	<b>\$ 438,421</b>	<b>\$ 395,168</b>	<b>\$ 12,048</b>

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME**

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

	Year Ended December 31			
	2003 NT\$	2004 NT\$	2005 NT\$	US\$
SERVICE REVENUES	\$ 182,466	\$ 185,163	\$ 184,696	\$ 5,631
<b>OPERATING COSTS AND EXPENSES</b>				
Costs of services, excluding depreciation and amortization	59,633	60,256	70,122	2,138
Marketing, excluding depreciation and amortization	19,992	19,298	23,650	721
General and administrative, excluding depreciation and Amortization	2,726	2,550	3,505	107
Research and development, excluding depreciation and Amortization	2,581	2,476	3,144	96
Depreciation and amortization - cost of services	39,170	38,358	38,800	1,183
Depreciation and amortization other operating expenses	2,399	2,345	2,363	72
Total operating costs and expenses	126,501	125,283	141,584	4,317
INCOME FROM OPERATIONS	55,965	59,880	43,112	1,314
<b>OTHER INCOME</b>				
Interest	100	224	452	14
Other income	2,101	2,493	3,576	109
Total other income	2,201	2,717	4,028	123
<b>OTHER EXPENSES</b>				
Interest	43	5	2	
Impairment loss on long-term investments			740	23
Other expense	509	415	366	11
Total other expenses	552	420	1,108	34
INCOME BEFORE INCOME TAX	57,614	62,177	46,032	1,403
INCOME TAX	10,299	11,259	12,733	388
NET INCOME	\$ 47,315	\$ 50,918	\$ 33,299	\$ 1,015
NET INCOME PER SHARE	\$ 4.90	\$ 5.28	\$ 3.45	\$ 0.11
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	9,647,724,900	9,647,724,900	9,647,724,900	9,647,724,900
NET INCOME PER PRO FORMA EQUIVALENT ADS	\$ 49.04	\$ 52.78	\$ 34.51	\$ 1.05
	964,772,490	964,772,490	964,772,490	964,772,490

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WEIGHTED AVERAGE NUMBER OF PRO  
FORMA EQUIVALENT ADSs OUTSTANDING

COMPREHENSIVE INCOME								
Net income	\$	47,315	\$	50,918	\$	33,299	\$	1,015
Cumulative translation adjustments				(5)		2		
Comprehensive income	\$	47,315	\$	50,913	\$	33,301	\$	1,015

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## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Amounts in Millions, Except Shares Data)

	Capital Stock		Retained Earnings				Accumulated Other Comprehensive Income (Loss) NT\$	Total Stockholders Equity NT\$
	Common Shares	Amount NT\$	Capital Surplus NT\$	Legal Reserve NT\$	Losses on Reserve NT\$	Unappropriated Earnings NT\$		
BALANCE, DECEMBER 31, 2002 (IN NT\$)	9,647,724,900	\$ 96,477	\$ 133,862	\$ 25,106	\$ 2,675	\$ 41,900	\$ 69,681	\$ 300,020
Additional capital contributed by government			80					80
Additional capital contributed by the MOTC through selling shares to employees at a discounted price			1,931					1,931
Appropriations and distributions of 2002 earnings:								
Legal reserve				4,331		(4,331)		
Dividends						(38,591)	(38,591)	(38,591)
Net income						47,315	47,315	47,315
BALANCE, DECEMBER 31, 2003 (IN NT\$)	9,647,724,900	96,477	135,873	29,437	2,675	46,293	78,405	310,755
Additional capital contributed by government			32					32
Additional capital contributed by the MOTC through selling shares to employees at a discounted price			457					457
Appropriations and distributions of 2003 earnings:								
Legal reserve				4,850		(4,850)		
Special reserve					1	(1)		
Dividends declared						(43,414)	(43,414)	(43,414)
Net income						50,918	50,918	50,918
Cumulative translation adjustment for foreign-currency investments in unconsolidated companies								(5)
BALANCE, DECEMBER 31, 2004 (IN NT\$)	9,647,724,900	96,477	136,362	34,287	2,676	48,946	85,909	(5)
Additional capital contributed by government			6					6
Additional capital contributed by the MOTC			12,770					12,770

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through selling shares to employees at a discounted price										
Additional capital contributed by MOTC - pension			8,352							8,352
Appropriations and distributions of 2004 earnings:										
Legal reserve			4,986				(4,986)			
Special reserve					4		(4)			
Dividends declared							(45,344)	(45,344)		(45,344)
Net income							33,299	33,299		33,299
Cumulative translation adjustment for foreign-currency investments in unconsolidated companies									2	2
<b>BALANCE, DECEMBER 31, 2005 (IN NT\$)</b>	9,647,724,900	\$ 96,477	\$ 157,490	\$ 39,273	\$ 2,680	\$	31,911	\$ 73,864	\$	(3) \$ 327,828
<b>BALANCE, DECEMBER 31, 2005 (IN US\$)</b>	9,647,724,900	\$ 2,941	\$ 4,802	\$ 1,197	\$ 82	\$	973	\$ 2,252	\$	\$ 9,995

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS**

(Amounts in Millions)

	Year Ended December 31			US\$
	2003 NT\$	2004 NT\$	2005 NT\$	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income	\$ 47,315	\$ 50,918	\$ 33,299	\$ 1,015
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for doubtful accounts	3,239	1,565	920	28
Depreciation and amortization	41,569	40,703	41,163	1,255
Impairment loss on long-live assets			343	10
Impairment loss on long-term investments			740	23
Net unrealized loss (gain) on short-term investments		12	(69)	(2)
Gain on sales of short-term investments			(163)	(5)
Net loss (gain) on disposal of scrap inventories and property, plant and equipment	143	168	(305)	(9)
Equity in earnings of unconsolidated companies	(3)	(70)	(160)	(5)
Cash dividends received from equity investees		56	66	2
Unrealized losses on investment in private mutual fund			19	1
Stock compensation expenses for shares issued to employees at a discount	1,931	457	12,770	389
Deferred income taxes	425	157	9,689	295
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Trade notes and accounts receivable	(760)	(382)	(72)	(2)
Inventories	(1,719)	(326)	(831)	(25)
Prepaid expenses	(8)	(108)	(547)	(17)
Other current assets	145	134	(4,210)	(128)
Other assets	(1,235)	742	(274)	(8)
Increase (decrease) in:				
Trade notes and accounts payable	2,159	2,879	(4,002)	(122)
Income tax payable	(1,249)	109	(4,035)	(123)
Accrued expenses	402	162	1,642	50
Customers deposits	(1,018)	(2,421)	(1,012)	(31)
Other current liabilities	1,138	464	587	18
Accrued pension liabilities	4,065	(1,229)	1,381	42
Deferred income	(3,016)	(2,385)	(778)	(24)
Other liabilities	90	(40)	4	
Net cash provided by operating activities	93,613	91,565	86,165	2,627
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Purchase and sales of short-term investments, net		(9,127)	(4,824)	(147)
Acquisition of investments in unconsolidated companies		(530)		
Acquisition of investment in private mutual fund			(500)	(15)
Proceeds from disposal of investments in unconsolidated companies	234			
Acquisitions of property, plant and equipment	(32,248)	(22,889)	(22,930)	(699)

(Continued)

	Year Ended December 31			
	2003 NT\$	2004 NT\$	2005 NT\$	US\$
Proceeds from disposal of property, plant and equipment	\$ 6	\$ 215	\$ 374	\$ 11
Acquisitions of patents and computer software	(193)	(122)	(139)	(4)
Net cash used in investing activities	(32,201)	(32,453)	(28,019)	(854)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Payments on principal of long-term loans	(17,000)		(200)	(6)
Cash dividends paid	(38,591)	(43,414)	(45,344)	(1,382)
Additional capital contributed by government	80	32	6	
Net cash used in financing activities	(55,511)	(43,382)	(45,538)	(1,388)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>5,901</b>	<b>15,730</b>	<b>12,608</b>	<b>385</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>7,652</b>	<b>13,553</b>	<b>29,283</b>	<b>892</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 13,553</b>	<b>\$ 29,283</b>	<b>\$ 41,891</b>	<b>\$ 1,277</b>
<b>SUPPLEMENTAL INFORMATION</b>				
Interest paid	\$ 66	\$ 4	\$ 2	\$
Income tax paid	\$ 11,121	\$ 10,993	\$ 11,419	\$ 348
<b>NON-CASH FINANCING ACTIVITIES</b>				
Current portion of long-term loans	\$	\$ 200	\$ 200	\$ 6
Accrued pension liabilities	\$	\$	\$ 46,915	\$ 1,430
Deferred pension cost			(34,504)	(1,052)
Deferred income taxes			(4,059)	(124)
Additional capital contributed by MOTC- pension	\$	\$	\$ 8,352	\$ 254

(Concluded)

### Chunghwa Telecom Reports Operating Results for 2005

Taipei, Taiwan, R.O.C. March 30, 2006 Chunghwa Telecom Co., Ltd (TAIEX: 2412, NYSE: CHT) ( Chunghwa or the Company ), today announced its un-audited operating results for the fourth quarter of 2005 and audited operating results for the full year of 2005 . All figures were prepared in accordance with US GAAP unless otherwise stated.

Net income figures according to US GAAP were affected by the employee stock subscription that was granted as a part of the Company's privatization in August 2005. According to US GAAP, the discounts provided to employees for the shares to which they subscribed are considered compensation and need to be accounted for as an operating expense. In the third quarter of 2005, Chunghwa recognized NT\$1.7 billion. However, upon further research during the fourth quarter, it was determined that Chunghwa's employee stock subscription program was not the same as typical stock option programs that are offered at other companies. The main difference was that there was no obligation for employees participating in the program to stay with the Company during the lock-up period; therefore, the Company should recognize the total compensation cost of NT\$12.8 billion as a one-time charge. This charge will not affect the Company's cash position. Additionally, the dividend payout will be based on ROC GAAP financials and will be unaffected by the US accounting treatment of the employee stock subscription.

#### Operating Results for 2005 and the Fourth Quarter of 2005

	US GAAP		ROC GAAP	
	Amount(NT\$bn)	YoY Change	Amount(NT\$bn)	YoY Change
<b>2005</b>				
Revenue	184.7	(0.3)%	183.4	0.4%
Net income	33.3	(34.6)%	47.7	(4.4)%
Fully diluted EPS(NT\$)	3.45	(34.6)%	4.94	(4.4)%
		<b>QoQ</b>		<b>QoQ</b>
<b>4Q 2005</b>				
Revenue	46.2	(3.1)%	46.5	(1.6)%
Net income	(2.63)	(123.7)%	9.5	(31.4)%
Fully diluted EPS(NT\$)	(0.27)	(123.7)%	0.98	(31.4)%

(Note) The dividend payout will be based on ROC GAAP financials.



## Financial Summary

### Revenue

On a segmental basis, total Internet and data service revenue for 2005 increased 7.2% year-over-year (YoY). Of this, Internet service revenue increased 8.6% due to strong broadband subscriber growth while data revenue increased 3.0%. Mobile revenue increased 3.9% as a result of solid subscriber growth and higher value-added services revenue. Fixed-line revenue for 2005 decreased 8.0%. Local service revenue decreased 9.3% due to mobile and ADSL substitution. Domestic long distance revenue decreased 8.3%. This drop was mainly due to mobile substitution and a decrease in transit revenue as alternative operators built and used their own circuits instead of our own. International long distance revenue decreased 4.1% due to stiff competition and the impact from VOIP.

On a quarter-over-quarter (QoQ) basis, total Internet and data revenues increased 3.4%. Mobile services reported a decline in revenue of 3.1% due to seasonal effects. In the fixed-line business, local revenues decreased by 9.3%. This was mainly due to a modification of the amortization schedule of connection fees that are recognized as deferred revenue. Under the modified schedule, the expected patronage life of a customer has been increased, and the result is that we now recognize a lower periodic amount of deferred revenue. Domestic long distance revenue decreased 4.8%, due to typical seasonal effects. International long distance revenue increased by 1.6% compared to 3Q05.

### Operating costs and expenses

For year 2005, operating costs and expenses increased 13% on a year-over-year basis to NT\$141.6bn. This was mainly due to the NT\$12.5bn increase related to the employee stock purchases mentioned above, an increase in performance-based bonuses of 1,348 million and an increase in handset subsidies of NT\$939 million. On a sequential basis, operating costs and expenses increased by 37.5% to NT\$46.1 billion. This was due again to the employee stock subscription and performance-based bonus.

### **EBITDA and net income**

EBITDA for year 2005 decreased 16.2% to NT\$84.3bn, representing a margin of 45.6%. This compares to 54.3% for the same period in 2004. EBITDA for the fourth quarter of 2005 decreased to NT\$10.50bn, representing a margin of 22.7%.

Net income for year 2005 decreased 34.6% to NT\$33.3bn, representing a net margin of 18.0%, compared to 27.5% for the same period in 2004. The net loss for the fourth quarter was NT\$2.6bn, representing a decline of 123.7% over the third quarter. This represents a net margin of -5.7% for the period compared to 23.2% in the third quarter.

The decline in net income for year 2005 and the fourth quarter was mainly due to the previously mentioned employee stock purchase plan and performance-based bonus.

### **Capex**

Capital expenditures totaled NT\$22.9bn for year 2005, which was similar to 2004.

### **Cash Flows**

Cash flow from operations remained strong, reaching NT\$86.2bn for year 2005 compared to NT\$91.6bn for the same period in 2004. As of December 31, 2005, our cash and cash equivalents totaled NT\$41.9bn and we had only NT\$0.5bn of total debt outstanding.

### **Businesses Performance Highlights**

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

Internet and data revenue for year 2005 increased by 7.2% YoY to approximately NT\$42.1bn. Revenue in the fourth quarter of 2005 was NT\$11.1bn, a 3.4% QoQ increase. This was primarily driven by a continued increase in broadband subscriber numbers.

The total number of Internet subscribers was about 4.1mn as of December 31, 2005, a 7.6% YoY increase. In the fourth quarter of 2005, we added 54,000 subscribers.

ADSL subscribers totaled 3.65mn as of December 31, 2005, a 19.0% YoY increase. We continued our growth in this business by adding 116,000 ADSL subscribers in the fourth quarter of 2005.

Data revenue increased 3% in 2005 due to a 13.1% increase in managed data services.

IPTV service was first offered in the Taipei metropolitan area in March 2004, and by the end of 2005, Chunghwa accumulated around 100 thousand subscribers. The

company expanded the service island-wide in August, and it now covers 75% of the island's population. Currently, there are 33 broadcasting channels and approximately 1,600 on-demand programs. Chunghwa also launched home banking and karaoke as a part of IPTV value-added services in August 2005.

### **Mobile Service**

Mobile revenue for 2005 increased by 3.9% YoY to NT\$73.0bn due to an increase in postpaid customers and increased VAS revenue. For the fourth quarter of 2005, mobile revenue decreased by 3.1%. This was due to typical seasonal weakness.

At the end of 2005, the total number of mobile subscribers was 8.16mn. The 0.4% YoY decrease was primarily due to our clean-up of inactive prepaid subscribers.

Our blended Average Revenue per User (ARPU) was NT\$744 in 2005, an increase of 4.5% from NT\$712 in 2004. ARPU for the fourth quarter of 2005 was NT\$755.

We rolled out our 3G service on July 26, 2005. By the end of December, we had around 296 thousand 3G subscribers and 86% of them were 2G subscribers who migrated without changing their phone number. As of the end of 2005, 25% of our 3G subscribers chose packages with monthly fees higher than NT\$900, whereas only 4.1% of customers paid fees that were this high for 2G and 2.5G subscribers.

Mobile Number Portability became effective on October 13, 2005. According to DGT statistics, till the end of 2005, Chunghwa turns out to be the beneficiary.

Mobile VAS revenue was NT\$3.2 billion in 2005, representing a 39% YoY increase. It now represents 4.39% of total mobile revenue compared to 3.28% in 2004.

### **Fixed Line Services**

Total fixed line revenues for 2005 declined by 8.0% to NT\$66.3bn, mainly due to mobile substitution and a continuous migration of dial-up subscribers to ADSL broadband services and market competition. Fixed-line revenue for the fourth quarter of 2005 was NT\$15.9bn, a decrease of 6.2% QoQ.

Chunghwa's total fixed line subscriber base stood at approximately 13.3mn as of December 31, 2005, a 0.1% YoY increase.

**Webcast**

[www.cht.com.tw/ir/](http://www.cht.com.tw/ir/)

**Financial Statements**

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

**About Chunghwa Telecom**

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

**Note Concerning Forward-looking Statements**

Except for statements in respect of historical matters, the statements made in this presentation contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual performance, financial condition or results of operations of Chunghwa Telecom to be materially different from what may be implied by such forward-looking statements. Investors are cautioned that actual events and results could differ materially from those statements as a result of a number of factors including, among other things: extensive regulation of telecom industry; the intensely competitive telecom industry; our relationship with our labor union; general economic and political conditions, including those related to the telecom industry; possible disruptions in commercial activities caused by natural and human induced events and disasters, including terrorist activity, armed conflict and highly contagious diseases, such as SARS; and those risks identified in the section entitled Risk Factors in Chunghwa Telecom's Form F-1 and F-3 filed with the U.S. Securities and Exchange Commission in connection with our ADR public offering.

The financial statements included in this presentation were audited, and prepared and published in accordance with US GAAP. Investors are cautioned that there are many differences between US GAAP and ROC GAAP. As a result, our results under U.S. GAAP and ROC GAAP may in many events be substantially different.

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

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