CHUNGHWA TELECOM CO LTD
Form 6-K
August 30, 2007

**1934 Act Registration No. 1-31731**

# SECURITIES AND EXCHANGE COMMISSION

**Washington, DC 20549**

# FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER**

**PURSUANT TO RULE 13a-16 OR 15d-16 OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**Dated August 30, 2007**

# Chunghwa Telecom Co., Ltd.

**(Translation of Registrant s Name into English)**

**21-3 Hsinyi Road Sec. 1,**

**Taipei, Taiwan, 100 R.O.C.**

**(Address of Principal Executive Office)**

(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 x 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 x

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

SIGNATURE

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

Date: 2007/08/30

Chunghwa Telecom Co., Ltd.

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

Exhibit

| Exhibit | Description |
|---|---|
| 1 | Consolidated Financial Statements for the Six Months Ended June 30, 2007 and 2006 and Independent Auditors Report |
| 2 | Financial Statements for the Six Months Ended June 30, 2007 and 2006 and Independent Auditors Report |

**Exhibit 1**

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

**Subsidiaries**

**Consolidated Financial Statements for the**

**Six Months Ended June 30, 2007 and 2006 and**

**Independent Auditors Report**

**INDEPENDENT AUDITORS REPORT**

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have audited the accompanying consolidated balance sheets of Chunghwa Telecom Co., Ltd. and its subsidiaries as of June 30, 2007 and 2006, and the related consolidated statements of operations, changes in stockholders equity and cash flows for the six months then ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. However, we did not audit the financial statements of Taiwan International Standard Electronics Co., Ltd. and of Senao Networks, Inc. As of June 30, 2007, the carrying values of the investments in those companies were NT$796,430 thousand. The equity in their net gain amounted to NT$14,925 thousand for the six months ended June 30, 2007. The financial statements of Taiwan International Standard Electronics Co., Ltd. and of Senao Networks, Inc. as of and for the six months ended June 30, 2007, were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these investees, is based solely on the reports of the other auditors.

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

In our opinion, according to our audit result and auditor report of other auditors, the consolidated financial statements referred to first paragraph present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of June 30, 2007 and 2006, and the results of their operations and consolidated cash flows for the six months then ended in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

August 16, 2007

<u>*Notice to Readers*</u>

*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.*

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

**CONSOLIDATED BALANCE SHEETS**

**JUNE 30, 2007 AND 2006**

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

| | 2007 Amount | % | 2006 Amount | % |
|---|---|---|---|---|
| **ASSETS** | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | $ 82,369,585 | 17 | $ 63,206,044 | 14 |
| Financial assets at fair value through profit or loss (Notes 2 and 5) | 65,441 | | | |
| Available-for-sale financial assets (Notes 2, 3 and 6) | 17,673,506 | 4 | 15,956,060 | 3 |
| Held-to-maturity financial assets (Notes 2 and 7) | 50,672 | | | |
| Trade notes and accounts receivable, net of allowance for doubtful receivable of $3,686,360 in 2007 and $3,477,198 in 2006 (Notes 2 and 8) | 12,576,793 | 2 | 11,527,627 | 3 |
| Receivables from related parties (Note 28) | 27,947 | | 26,529 | |
| Other current monetary assets (Notes 2, 9 and 31) | 5,433,132 | 1 | 5,144,291 | 1 |
| Inventories, net (Notes 2 and 10) | 4,285,410 | 1 | 1,327,869 | |
| Deferred income taxes (Notes 2 and 25) | 65,205 | | 1,643,059 | |
| Pledged assets (Note 29) | 1,525 | | | |
| Other current assets (Note 11) | 3,481,180 | 1 | 3,043,387 | 1 |
| Total current assets | 126,030,396 | 26 | 101,874,866 | 22 |
| LONG-TERM INVESTMENTS | | | | |
| Investments accounted for using equity method (Notes 2 and 12) | 1,839,920 | | 1,482,548 | |
| Financial assets carried at cost (Notes 2, 3 and 13) | 1,956,730 | | 1,866,280 | |
| Held-to-maturity financial assets (Notes 2 and 7) | 243,222 | | | |
| Other monetary assets (Notes 3, 14 and 31) | 2,000,000 | 1 | 2,000,000 | 1 |
| Total investment | 6,039,872 | 1 | 5,348,828 | 1 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15, 28 and 29) | | | | |
| Cost | | | | |
| Land | 101,122,437 | 21 | 100,892,410 | 22 |
| Land improvements | 1,482,502 | | 1,477,700 | |
| Buildings | 59,929,972 | 13 | 58,623,832 | 13 |
| Machinery and equipment | 21,012,877 | 4 | 21,741,975 | 5 |
| Telecommunications network facilities | 639,089,382 | 133 | 629,229,969 | 134 |
| Miscellaneous equipment | 2,158,397 | 1 | 2,003,154 | |
| Total cost | 824,795,567 | 172 | 813,969,040 | 174 |
| Revaluation increment on land | 5,823,991 | 2 | 5,945,551 | 1 |
| | 830,619,558 | 174 | 819,914,591 | 175 |
| Less: Accumulated depreciation | 517,395,857 | 108 | 496,019,519 | 106 |
| | 313,223,701 | 66 | 323,895,072 | 69 |
| Construction in progress and advances related to acquisitions of equipment | 20,431,721 | 4 | 25,247,771 | 5 |
| Property, plant and equipment, net | 333,655,422 | 70 | 349,142,843 | 74 |

| | | | | |
|---|---|---|---|---|
| INTANGIBLE ASSETS (Note 2) | | | | |
| 3G concession | 8,609,001 | 2 | 9,357,610 | 2 |
| Trademark | 115,151 | | | |
| Goodwill | 72,411 | | | |
| Other | 205,454 | | 173,000 | |
| Total intangible assets | 9,002,017 | 2 | 9,530,610 | 2 |
| OTHER ASSETS | | | | |
| Lease assets (Notes 2, 16 and 29) | 354,003 | | | |
| Idle assets (Note 2) | 968,755 | | 929,256 | |
| Refundable deposits | 1,497,753 | 1 | 1,557,287 | 1 |
| Deferred income taxes (Notes 2 and 25) | 887,061 | | 417,868 | |
| Other | 500,097 | | 527,388 | |
| Total other assets | 4,207,669 | 1 | 3,431,799 | 1 |
| TOTAL | $ 478,935,376 | 100 | $ 469,328,946 | 100 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term loans (Note 17) | $ 240,000 | | $ | |
| Financial liabilities at fair value through profit or loss (Notes 2 and 5) | 19,828 | | | |
| Trade notes and accounts payable | 7,739,586 | 2 | 7,623,481 | 2 |
| Payables to related parties (Note 28) | 414,648 | | 412,695 | |
| Income tax payable (Notes 2 and 25) | 6,609,037 | 1 | 4,838,905 | 1 |
| Accrued expenses (Note 18) | 11,473,208 | 3 | 14,582,614 | 3 |
| Dividends payable (Note 21) | 34,750,513 | 7 | 40,659,617 | 9 |
| Current portion of long-term loans (Note 20) | 108,371 | | 300,000 | |
| Other current liabilities (Notes 19 and 21) | 14,635,442 | 3 | 15,742,273 | 3 |
| Total current liabilities | 75,990,633 | 16 | 84,159,585 | 18 |
| LONG-TERM LIABILITIES | | | | |
| Long-term loans (Note 20) | 492,045 | | | |
| Deferred income | 1,218,169 | | 674,602 | |
| Total long-term liabilities | 1,710,214 | | 674,602 | |
| RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15) | 94,986 | | 94,986 | |
| OTHER LIABILITIES | | | | |
| Accrued pension liabilities (Notes 2 and 27) | 2,571,417 | 1 | 368,025 | |
| Customers deposits | 6,510,567 | 1 | 6,878,193 | 2 |
| Other | 806,504 | | 130,312 | |
| Total other liabilities | 9,888,488 | 2 | 7,376,530 | 2 |
| Total liabilities | 87,684,321 | 18 | 92,305,703 | 20 |
| STOCKHOLDERS EQUITY OWNED BY THE PARENT COMPANY (Notes 2, 3, 15, 21 and 23) | | | | |
| Common capital stock - $10 par value; | | | | |
| Authorized: 12,000,000 thousand shares | | | | |
| Issued: 9,667,845 thousand shares in 2007 and 9,455,725 thousand shares in 2006 | 96,678,451 | 20 | 94,557,249 | 20 |
| Preferred stock $10 par value | | | | |
| Capital stock to be issued | 9,667,845 | 2 | 2,121,202 | |

| | | | | |
|---|---|---|---|---|
| Capital surplus: | | | | |
| Paid-in capital in excess of par value | 200,592,390 | 42 | 210,260,235 | 45 |
| Donations | 13,170 | | 13,170 | |
| Equity in capital surplus reported by equity-method investees | 3,309 | | | |
| Total capital surplus | 200,608,869 | 42 | 210,273,405 | 45 |
| Retained earnings: | | | | |
| Legal reserve | 48,036,210 | 10 | 44,037,765 | 9 |
| Special reserve | 2,678,723 | 1 | 2,680,184 | 1 |
| Unappropriated earnings | 24,674,913 | 5 | 17,280,390 | 4 |
| Total retained earnings | 75,389,846 | 16 | 63,998,339 | 14 |
| Other adjustments | | | | |
| Cumulative translation adjustments | (4,445) | | (3,683) | |
| Unrealized gain on financial instruments | 800,068 | | 226,166 | |
| Capital surplus from revaluation of land | 5,824,210 | 1 | 5,850,565 | 1 |
| Total other adjustments | 6,619,833 | 1 | 6,073,048 | 1 |
| Total stockholders equity owned by the parent company | 388,964,844 | 81 | 377,023,243 | 80 |
| Minority interest | 2,286,211 | 1 | | |
| Total stockholders equity | 391,251,055 | 82 | 377,023,243 | 80 |
| TOTAL | $ 478,935,376 | 100 | $ 469,328,946 | 100 |

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

(With Deloitte & Touche audit report dated August 16, 2007)

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

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

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

| | 2007 | | 2006 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| REVENUES (Note 28) | $ 95,709,767 | 100 | $ 90,594,341 | 100 |
| OPERATING COSTS (Note 28) | 49,815,887 | 52 | 45,601,157 | 51 |
| GROSS PROFIT | 45,893,880 | 48 | 44,993,184 | 49 |
| OPERATING EXPENSES | | | | |
| Marketing | 11,161,773 | 12 | 12,219,549 | 13 |
| General and administrative | 1,554,861 | 2 | 1,600,521 | 2 |
| Research and development | 1,523,899 | 1 | 1,580,588 | 2 |
| Total operating expenses | 14,240,533 | 15 | 15,400,658 | 17 |
| INCOME FROM OPERATIONS | 31,653,347 | 33 | 29,592,526 | 32 |
| OTHER INCOME | | | | |
| Interest | 692,275 | 1 | 314,434 | |
| Penalties income | 433,283 | 1 | 829,833 | 1 |
| Income from sale of scrap inventories | 375,180 | | 424,454 | 1 |
| Dividends income | 58,448 | | 31,776 | |
| Equity in earnings of equity investees | 47,927 | | 682 | |
| Gains on sale of investments, net | 28,366 | | | |
| Other | 137,122 | | 193,802 | |
| Total other income | 1,772,601 | 2 | 1,794,981 | 2 |
| OTHER EXPENSES | | | | |
| Special termination benefit under early retirement program | 1,873,930 | 2 | 2,302,035 | 3 |
| Losses on disposal of property, plant and equipment | 21,933 | | 65,794 | |
| Interest | 7,086 | | 1,413 | |
| Foreign exchange loss, net | 551 | | 70,857 | |
| Other | 385,135 | | 395,736 | |
| Total other expenses | 2,288,635 | 2 | 2,835,835 | 3 |
| INCOME BEFORE INCOME TAX | 31,137,313 | 33 | 28,551,672 | 31 |
| INCOME TAX (Notes 2 and 25) | 6,431,088 | 7 | 6,364,399 | 7 |
| CONSOLIDATED NET INCOME | $ 24,706,225 | 26 | $ 22,187,273 | 24 |

(Continued)

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

**CONSOLIDATED STATEMENTS OF OPERATIONS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

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

| | 2007 Amount | % | 2006 Amount | % |
|---|---|---|---|---|
| ATTRIBUTED TO | | | | |
| Shareholders of the parent | $ 24,598,845 | 26 | $ 22,187,273 | 24 |
| Minority interests | 107,380 | | | |
| | $ 24,706,225 | 26 | $ 22,187,273 | 24 |

| | 2007 Income Before Income Tax | 2007 Net Income | 2006 Income Before Income Tax | 2006 Net Income |
|---|---|---|---|---|
| EARNINGS PER SHARE (Note 26) | | | | |
| Basic net income per share | $ 2.91 | $ 2.31 | $ 2.67 | $ 2.07 |
| Diluted net income per share | $ 2.91 | $ 2.31 | | |

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

(With Deloitte & Touche audit report dated August 16, 2007) (Concluded)

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

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

**(Amounts in Thousands of New Taiwan Dollars)**

| | **Common Capital Stock** | | **Preferred Stock** | | | **Capital** | **Retained Earnings** | | |
|---|---|---|---|---|---|---|---|---|---|
| | **Shares (Thousands)** | **Amount** | **Shares (Thousands)** | **Amount** | **Capital Stock to be Issued** | **Surplus** | **Legal Reserve** | **Special Reserve** | **Unappropriated Earnings** |
| BALANCE, JANUARY 1, 2007 | 9,667,845 | $ 96,678,451 | | $ | $ | $ 210,273,336 | $ 44,037,765 | $ 2,680,184 | $ 39,984,454 |
| Reclassification of capital surplus from revaluation upon disposal of land to income | | | | | | | | | |
| Appropriations of prior years earnings | | | | | | | | | |
| Legal capital reserve | | | | | | | 3,998,445 | | (3,998,445) |
| Reverse for special reserve | | | | | | | | (1,461) | 1,461 |
| Cash dividend - NT$3.58 per share | | | | | | | | | (34,610,885) |
| Employees profit sharing - cash | | | | | | | | | (1,256,619) |
| Remuneration to directors and supervisors | | | | | | | | | (35,904) |
| Capital surplus transferred to common capital stock | | | | | 9,667,845 | (9,667,845) | | | |
| Minority interest | | | | | | | | | |
| Net income for the six months ended June 30, 2007 | | | | | | | | | 24,598,845 |
| Unrealized gain or loss on financial instruments in investees | | | | | | | | | |
| Adjustment arising from changes in percentage of ownership in investees | | | | | | 3,378 | | | (7,994) |
| Cumulative translation adjustment for foreign-currency investments in investees | | | | | | | | | |
| Unrealized gain or loss on financial | | | | | | | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| instruments | | | | | | | | |
| BALANCE, JUNE 30, 2007 | 9,667,845 | $ 96,678,451 | $ | $ 9,667,845 | $ 200,608,869 | $ 48,036,210 | $ 2,678,723 | $ 24,674,913 |
| BALANCE, JANUARY 1, 2006 | 9,647,725 | $ 96,477,249 | $ | $ | $ 214,542,773 | $ 39,272,477 | $ 2,680,184 | $ 48,087,583 |
| Effect of adopting the SFAS No. 34 | | | | | | | | |
| Issuance of preferred stock at par value of NT$10 - 2 shares (Note 21) | | | | | | | | |
| Reclassification of capital surplus from revaluation upon disposal of land to income | | | | | | | | |
| Appropriations of prior years earnings | | | | | | | | |
| Legal capital reserve | | | | | | 4,765,288 | | (4,765,288) |
| Cash dividend - NT$4.3 per share | | | | | | | | (40,659,617) |
| Stock dividend - NT$0.2 per share | | | | 1,891,145 | | | | (1,891,145) |
| Employees profit sharing - cash | | | | | | | | (230,057) |
| Employees profit sharing - dividends | | | | 230,057 | | | | (230,057) |
| Remuneration to directors and supervisors | | | | | | | | (15,337) |
| Net income for the six months ended June 30, 2006 | | | | | | | | 22,187,273 |
| Cumulative translation adjustment for foreign-currency investments in investees | | | | | | | | |
| Treasury stock repurchased by the Company - 192,000 thousand common shares | | | | | | | | |
| Retirement treasury stock - 192,000 thousand common shares (Note 23) | (192,000) | (1,920,000) | | | (4,269,368) | | | (5,202,965) |
| Unrealized gain on financial instruments | | | | | | | | |
| BALANCE, JUNE 30, 2006 | 9,455,725 | $ 94,557,249 | $ | $ 2,121,202 | $ 210,273,405 | $ 44,037,765 | $ 2,680,184 | $ 17,280,390 |

**Other Adjustments**

| | Cumulative Translation Adjustments | Unrealized Gain on Financial Instruments | Capital Surplus from Revaluation of Land | Treasury Stock | Minority Interest | Total Stockholders Equity |
|---|---|---|---|---|---|---|
| BALANCE, JANUARY 1, 2007 | $ (3,304) | $ 541,072 | $ 5,824,600 | $ | $ 97,641 | $ 400,114,199 |
| Reclassification of capital surplus from revaluation upon disposal of land to income | | | (390) | | | (390) |
| Appropriations of prior years earnings | | | | | | |
| Legal capital reserve | | | | | | |
| Reverse for special reserve | | | | | | |
| Cash dividend - NT$3.58 per share | | | | | | (34,610,885) |
| Employees profit sharing - cash | | | | | | (1,256,619) |
| Remuneration to directors and supervisors | | | | | | (35,904) |
| Capital surplus transferred to common capital stock | | | | | | |
| Minority interest | | | | | 2,081,190 | 2,081,190 |
| Net income for the six months ended June 30, 2007 | | | | | 107,380 | 24,706,225 |
| Unrealized gain or loss on financial instruments in investees | | (1,293) | | | | (1,293) |
| Adjustment arising from changes in percentage of ownership in investees | | | | | | (4,616) |
| Cumulative translation adjustment for foreign-currency investments in investees | (1,141) | | | | | (1,141) |
| Unrealized gain or loss on financial instruments | | 260,289 | | | | 260,289 |
| BALANCE, JUNE 30, 2007 | $ (4,445) | $ 800,068 | $ 5,824,210 | $ | $ 2,286,211 | $ 391,251,055 |
| BALANCE, JANUARY 1, 2006 | $ (2,942) | $ | $ 5,850,864 | $ | $ | $ 406,908,188 |
| Effect of adopting the SFAS No. 34 | | 51,675 | | | | 51,675 |
| Issuance of preferred stock at par value of NT$10 - 2 shares (Note 21) | | | | | | |
| Reclassification of capital surplus from revaluation upon disposal of land to income | | | (299) | | | (299) |
| Appropriations of prior years earnings | | | | | | |
| Legal capital reserve | | | | | | |
| Cash dividend - NT$4.3 per share | | | | | | (40,659,617) |
| Stock dividend - NT$0.2 per share | | | | | | |
| Employees profit sharing - cash | | | | | | (230,057) |
| Employees profit sharing - dividends | | | | | | |
| Remuneration to directors and supervisors | | | | | | (15,337) |
| Net income for the six months ended June 30, 2006 | | | | | | 22,187,273 |
| Cumulative translation adjustment for foreign-currency investments in investees | (741) | | | | | (741) |
| Treasury stock repurchased by the Company - 192,000 thousand common shares | | | | (11,392,333) | | (11,392,333) |
| Retirement treasury stock - 192,000 thousand common shares (Note 23) | | | | 11,392,333 | | |
| Unrealized gain on financial instruments | | 174,491 | | | | 174,491 |
| BALANCE, JUNE 30, 2006 | $ (3,683) | $ 226,166 | $ 5,850,565 | $ | $ | $ 377,023,243 |

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

(With Deloitte & Touche audit report dated August 16, 2007)

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

**STATEMENTS OF CASH FLOWS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

**(Amounts in Thousands of New Taiwan Dollars)**

| | 2007 | 2006 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated net income | $ 24,706,225 | $ 22,187,273 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for doubtful accounts | 425,194 | 320,723 |
| Depreciation and amortization | 19,961,984 | 20,581,559 |
| Losses on inventory valuation | 6,893 | |
| Valuation loss on financial instruments, net | (2,537) | |
| Loss (gain) on sale of investments, net | (28,366) | 17,549 |
| Losses on disposal of property, plant and equipment, net | 15,582 | 64,485 |
| Losses on disposal deferred expenses | 54 | |
| Equity in earnings of equity investees | (47,927) | (682) |
| Dividends received from equity investees | 44,000 | 42,331 |
| Deferred income taxes | (277,616) | 346,338 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Financial assets held for trading | (85,780) | |
| Trade notes and accounts receivable | 738,741 | 921,597 |
| Receivables from related parties | (808,238) | 43,631 |
| Other current monetary assets | 599,513 | 561,347 |
| Inventories | (536,084) | 880,597 |
| Other current assets | (3,700,091) | (1,796,351) |
| Increase (decrease) in: | | |
| Trade notes and accounts payable | (2,705,269) | (2,673,211) |
| Payables to related parties | 841,846 | (138,331) |
| Income tax payable | (2,018,720) | 4,822,355 |
| Accrued expenses | (7,654,076) | (857,795) |
| Other current liabilities | 1,619,450 | 573,926 |
| Deferred income | 287,850 | 356,074 |
| Accrued pension liabilities | 1,297,485 | 368,025 |
| Net cash provided by operating activities | 32,680,113 | 46,621,440 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of available-for-sale financial assets | (11,028,111) | (2,986,894) |
| Proceeds from disposal of available-for-sale financial assets | 707,545 | 1,841,468 |
| Acquisitions of held-to-maturity financial assets | (300,000) | |
| Proceeds from disposal of held-to-maturity financial assets | 6,106 | |
| Increase in long-term investment accounted for using equity method | (1,093,268) | |
| Proceeds from disposal of long-term investment | 69,475 | |
| Acquisitions of property, plant and equipment | (9,691,679) | (11,947,382) |
| Proceeds from disposal of property, plant and equipment | 12,114 | 6,472 |
| Increase of intangible assets | (59,958) | (57,293) |
| Increase in other assets | (63,532) | (62,824) |
| Net cash used in investing activities | (21,441,308) | (13,206,453) |

(Continued)

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

**STATEMENTS OF CASH FLOWS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

**(Amounts in Thousands of New Taiwan Dollars)**

| | 2007 | 2006 |
|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase in short-term loans | $ 114,000 | $ |
| Payment on principal of long-term loans | (330,056) | (200,000) |
| Increase in long-term loans | 21,944 | |
| Decrease in customers deposits | (165,897) | (430,305) |
| Increase (decrease) in other liabilities | 245,625 | (76,973) |
| Proceeds from exercise of employee stock option | 15,339 | |
| Repurchase of treasury stock | | (11,392,333) |
| Net cash used in financing activities | (99,045) | (12,099,611) |
| EFFECT OF EXCHANGE RATE | (486) | |
| EFFECT OF CONSOLIDATED OF SUBSIDIARIES CHANGE | 557,337 | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 11,696,611 | 21,315,376 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD | 70,672,974 | 41,890,668 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | $ 82,369,585 | $ 63,206,044 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | $ 12,173 | $ 1,413 |
| Income tax paid | $ 8,753,949 | $ 78,363 |
| NON-CASH FINANCING ACTIVITIES | | |
| Dividend payable | $ 34,750,513 | $ 40,659,617 |
| Payables to employees profit sharing and remuneration to directors and supervisors | $ 1,300,059 | $ 245,394 |
| Current portion of long-term loans | $ 108,371 | $ 300,000 |

(Continued)

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

**STATEMENTS OF CASH FLOWS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

**(Amounts in Thousands of New Taiwan Dollars)**

Acquired Senao International Co., Ltd., the assets and liabilities, based on their fair values are as follows:

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

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

(With Deloitte & Touche audit report dated August 16, 2007) (Concluded)

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**

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

## 1. GENERAL

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

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

Effective August 12, 2005, the MOTC had completed the process of privatizing the Company by reducing the government ownership to below 50% in various stages. In July 2000, the Company received approval from the Securities and Futures Commission (the SFC ) for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the TSE ) on October 27, 2000. Certain of the Company s common shares had been sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of the Company s common shares had also been sold in an international offering of securities in the form of American Depository Shares ( ADS ) 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.

SENAO International Co., Ltd. ( SENAO ) was incorporated in 1979. SENAO engages mainly in Telecommunication facilities sales. The Company acquired 31.33% shares of SENAO on January 15, 2007 and has control in SENAO by obtaining the concurrence of one-half or more directors on April 12, 2007.

The Company invested Chunghwa International Yellow Pages Co., Ltd. ( CIYP ) in January, 2007. CIYP engages mainly in yellow pages sales and advertisement services.

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

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

Taiwan Icon, Inc. ( Taiwan Icon ) which is the subsidiary of SENAO was incorporated in October, 2003. Taiwan Icon engages mainly in Telecommunication facilities sales.

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

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

As of June 30, 2007 and 2006, the Company and its subsidiaries had 25,757 and 25,407 employees, respectively.

The following diagram presents information regarding the relationship and ownership percentages between the Company and its subsidiaries as of June 30, 2007:

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements were prepared in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of Business Accounting Law, Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC ( ROC GAAP ). The preparation of consolidated financial statements requires management to make certain estimates and assumptions that affect the recorded amounts of assets, liabilities, revenues and expenses of the Group. The Group continually evaluates these estimates, including those related to allowances for doubtful accounts, valuation allowances on inventories, useful lives of long term assets, pension plans and income tax. The Group bases its estimates on historical experience and other assumptions, which it believes to be reasonable under the circumstances. Actual results may differ from these estimates. The significant accounting policies are summarized as follows:

**Basic of Consolidated Financial Statements**

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

The consolidated financial statements as of and for the six months ended June 30, 2007 include the accounts of the Company and its subsidiaries-SENAO, CIYP, CHIEF, New Prospect, Prime Asia, Taiwan Icon, Unigate and CHIEF (HK). As of and for the six months ended June 30, 2006 include the accounts of the Company and its subsidiaries - New Prospect and Prime Asia.

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

**Current Assets and Liabilities**

Current assets are commonly identified as those which are reasonably expected to be realized in cash, sold or consumed within one year. Current liabilities are obligations which mature within one year. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

**Cash Equivalents**

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

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

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value with fair value changes recognized in profit or loss. On initial recognition, the financial instruments are recognized at fair value plus transaction costs and are subsequently measured at fair value with fair value changes recognized in profit or loss. Once the Company becomes contractual in a financial instrument arrangement, the financial instruments are eligible for classification as assets or liabilities. If the contractual arrangement is outside the control of the Company, the financial instruments will be derecognized in assets. If the contractual arrangement gives the Company a right of redemption, cancellation or elimination upon expiration, the financial instruments will be derecognized in liabilities.

Derivatives are initially recognized at fair value, with transaction costs expensed as incurred. The derivatives are remeasured at fair value subsequently with the changes in fair value recognized in earnings. Cash dividends received (including the year of investment) is recognized in earnings. When the financial instruments are derecognized, the difference between sales proceeds or cash payment and principal amount shall be accounted for as profits and losses. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

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

**Available-for-sale Financial Assets**

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

The policy for recognition and derecognition of available-for-sale financial assets are similar to financial assets and liabilities at fair value through profit or loss.

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

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

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

**Held-to-maturity Financial Assets**

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

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

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

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

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

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

**Inventories**

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

**Investments Accounted for Using Equity Method**

Investments in shares of stock in companies where the Company exercises significant influence in their operating and financial policy decisions are accounted for using the equity method. Under the equity method, the investment is initially stated at cost and subsequently adjusted for its proportionate share in the net earnings of the investee companies. Any cash dividends received are recognized as a reduction in the carrying value of the investments. Unrealized profits arising from downstream transactions to equity investees are deferred in the Company s portion of equity income or loss, depending on whether the investor has controlling power over investees or not. Unrealized profits and losses on sales to investees over which the Company has a controlling power are totally eliminated. Otherwise should be deferred in proportion to the Company s ownership percentage. Profits and losses arising from equipment purchases from equity investees are eliminated and recognized over the estimated remaining useful life of the equipment.

With respect to investment purchase or adoption of the equity method of accounting, effective on January 1, 2006, in accordance with the revised accounting pronouncement, goodwill is recognized by the difference that the cost of investment is exceeding the fair value of the acquisition. Goodwill can not be amortized, but is subject to a goodwill impairment test. If there is a triggering event or change in circumstance, the goodwill impairment test will be performed. If the fair value of the identifiable net assets exceeds the cost of investment, the difference should be allocated to the noncurrent assets (with exception of non-equity financial assets, assets in the suspense accounts, deferred tax assets and liabilities, and prepaid pension costs or other expenses related to pension plans) and reduced in proportion to the amount of their fair value. If there is still a difference after the purchase price allocation, the difference will be accounted for as extraordinary profits.

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

**Financial Assets Carried at Cost**

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

**Property, Plant and Equipment**

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

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

Depreciation expense is determined based upon the asset s estimated useful life using the straight-line method. The estimated useful lives are as follows: land improvements, 10 to 30 years; buildings, 10 to 60 years; machinery and equipment, 5 to 10 years; telecommunication network facilities, 5 to 30 years; and miscellaneous equipment, 2 to 10 years.

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

**Intangible Assets**

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

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

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

**Non-operating Assets**

Idle assets and lease assets which are classified other assets are carried at the lower of fair value or carrying amount. Depreciation expenses are classified as other expenses.

**Pension Costs**

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

**Expense Recognition**

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

**Treasury Stock**

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

**Share-based Compensation**

Employee stock option plans that are amended or have options granted on or after January 1, 2004 are accounted for by the interpretations issued by the Accounting Research and Development Foundation. The Group adopted the intrinsic value method and any compensation cost determined using this method is recognized in earnings over the employee vesting period.

**Income Tax**

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

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

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

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

**Foreign-currency Transactions**

The functional currency of the Group is the local currency, the New Taiwan dollar. Thus, the transactions of the Group 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. Financial assets and liabilities - credited or charged to current income; and

b. Long-term stock investments accounted for by the equity method - as cumulative translation adjustment under stockholders equity.

**Derivative Financial Assets for Hedging**

The derivative financial assets for hedging is measured at fair value with fair value changes recognized in profit or loss.

**Hedge Accounting**

Gains and losses on a qualifying fair value hedge shall be accounted for as follows:

a. The gain or loss on the hedging instrument shall be currently recognized in earnings.

b. The gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be currently recognized in earnings.

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

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

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

**4. CASH AND CASH EQUIVALENTS**

| | June 30 | |
|---|---|---|
| | **2007** | **2006** |
| Cash | | |
| Cash on hand | $ 112,009 | $ 87,770 |
| Cash in banks | 5,507,857 | 4,132,744 |
| Negotiable certificate of deposit, annual yield rate - ranging from 1.40%-5.38% and 1.00%-1.95% for 2007 and 2006, respectively | 38,918,596 | 13,802,500 |
| | 44,538,462 | 18,023,014 |
| Cash equivalents | | |
| Commercial paper purchased, annual yield rate - ranging from 1.36%-5.36% and 1.15%-1.18% for 2007 and 2006, respectively | 37,181,123 | 45,183,030 |
| Bond with resale agreements, annual yield rate - ranging from 2.50%-2.90% | 650,000 | |
| | 37,831,123 | 45,183,030 |
| | $ 82,369,585 | $ 63,206,044 |

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

| | **June 30, 2007** |
|---|---|
| Derivatives - financial assets | |
| Index future contracts | $ 65,441 |
| Derivatives - financial liabilities | |
| Forward exchange contracts | $ 11,956 |
| Index future contracts | 7,872 |
| | $ 19,828 |

The Company entered into investment management agreements with a well-known financial institutions (fund managers) to manage its investment portfolios in 2006. As of June 30, 2007, the Company s investment portfolios managed by these fund managers aggregated to an original amount of US$100,000 thousand. The investment portfolios included derivative instruments, listed stocks and mutual funds.

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

Outstanding forward exchange contracts as of June 30, 2007:

| | Currency | Holding Period | Contract Amount (in Thousands) | |
|---|---|---|---|---|
| June 30, 2007 | | | | |
| Buy | USD/TWD | 2007.06-2007.07 | USD | 966 |
| Sell | USD/GBP | 2007.06-2007.09 | USD | 150 |
| | EUR/USD | 2007.06-2007.09 | EUR | 31,300 |
| | GBP/USD | 2007.06-2007.09 | GBP | 2,675 |
| | JPY/USD | 2007.06-2007.09 | JPY | 653,950 |

Outstanding index future contracts as of June 30, 2007:

| | Maturity Date | Units | Contract Amount (in Thousands) | |
|---|---|---|---|---|
| June 30, 2007 | | | | |
| Index future contracts | | | | |
| AMSTERDAM IDX FUT | 2007.07 | 9 | EUR | 970 |
| CAC40 10 EURO FUT | 2007.07 | 45 | EUR | 2,679 |
| IBEX 35 INDEX FUTR | 2007.07 | 7 | EUR | 1,037 |
| DAX INDEX FUTURE | 2007.09 | 10 | EUR | 1,941 |
| MINI S&P/MIB FUT | 2007.09 | 23 | EUR | 965 |
| FTSE 100 IDX FUT | 2007.09 | 36 | GBP | 2,378 |
| TOPIX INDEX FUTURE | 2007.09 | 34 | JPY | 604,860 |
| S&P 500 FUTURE | 2007.09 | 23 | USD | 8,755 |
| S&P 500 EMINI FUTURE | 2007.09 | 10 | USD | 761 |

As of June 30, 2007, the amount paid for future deposit was $63,619 thousand.

Net losses arising from derivative financial instruments for the six months ended June 30, 2007 were $74,366 thousand (including realized settlement losses of $77,018 thousand and valuation gains of $2,652 thousand). The Group did not enter into any forward exchange contracts and index future contract in the half-year of 2006.

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

## 6. AVAILABLE-FOR-SALES FINANCIAL ASSETS

| | June 30 2007 | June 30 2006 |
|---|---|---|
| Open-end mutual funds | $ 16,134,674 | $ 15,822,206 |
| Foreign listed stocks | 961,850 | |
| Real estate investment trust fund | 291,824 | 114,300 |
| Listed stocks | 240,828 | 19,554 |
| Convertible bonds | 44,330 | |
| | $ 17,673,506 | $ 15,956,060 |

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

| | June 30, 2007 |
|---|---|
| Collateralized loan obligation | $ 143,894 |
| Corporate bonds | 150,000 |
| | 293,894 |
| Less: Current portion | 50,672 |
| | $ 243,222 |

**8. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

| | Six Months Ended June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Balance, beginning of period | $ 3,660,644 | $ 3,604,605 |
| Provision for doubtful accounts | 427,076 | 319,620 |
| Accounts receivable written off | (401,360) | (447,027) |
| Balance, end of period | $ 3,686,360 | $ 3,477,198 |

**9. OTHER CURRENT MONETARY ASSETS**

| | June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Tax refund receivable | $ 3,221,496 | $ 3,221,136 |
| Other receivable | 2,208,775 | 1,923,155 |
| Derivative financial assets for hedging | 2,861 | |
| | $ 5,433,132 | $ 5,144,291 |

**10. INVENTORIES, NET**

| | June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Supplies | $ 1,829,318 | $ 1,110,087 |
| Work in process | 155,546 | 40,263 |
| Merchandise | 1,625,780 | 14,685 |
| Materials in transit | 730,867 | 162,834 |
| | 4,341,511 | 1,327,869 |
| Less: Valuation allowance | 56,101 | |

| | | |
|---|---|---|
| | $ 4,285,410 | $ 1,327,869 |

## 11. OTHER CURRENT ASSETS

| | June 30 2007 | June 30 2006 |
|---|---|---|
| Prepayments | $ 2,574,992 | $ 2,275,144 |
| Prepaid rents | 622,311 | 629,765 |
| Miscellaneous | 283,877 | 138,478 |
| | $ 3,481,180 | $ 3,043,387 |

## 12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | June 30 | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| Non-listed | | | | |
| Chunghwa Investment Co., Ltd. ( CHI ) | $ 999,655 | 49 | $ 963,922 | 49 |
| Taiwan International Standard Electronics Co., Ltd. ( TISE ) | 532,107 | 40 | 518,626 | 40 |
| Senao Networks, Inc. ( SNI ) | 264,323 | 48 | | |
| ELTA Technology Co., Ltd. ( ELTA ) | 26,784 | 21 | | |
| Spring House Entertainment Inc. ( SHE ) | 17,051 | 30 | | |
| | $ 1,839,920 | | $ 1,482,548 | |

SENAO sets up Senao Networks, Inc. on October 1, 2006 according to the Business Mergers and Acquisitions Law separated the wireless communication enterprise group.

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

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

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

## 13. FINANCIAL ASSETS CARRIED AT COST

| | June 30 | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| Cost investees | | | | |
| Taipei Financial Center ( TFC ) | $ 1,789,530 | 12 | $ 1,789,530 | 12 |
| iD Branding Ventures ( iDBV ) | 75,000 | 8 | | |
| RPTI International ( RPTI ) | 71,500 | 12 | 71,500 | 12 |
| N.T.U Innovation Incubation Corporation ( NTUI ) | 12,000 | 9 | | |

(Continued)

| | June 30 | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| Siemens Telecommunication Systems ( Siemens ) | $ 5,250 | 15 | $ 5,250 | 15 |
| 3 Link Information Service Co., Ltd. ( 3 Link ) | 3,450 | 12 | | |
| | $ 1,956,730 | | $ 1,866,280 | |

(Concluded)

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

## 14. OTHER NONCURRENT MONETARY ASSETS

| | June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Fixed - Line Fund | $ 1,000,000 | $ 1,000,000 |
| Piping Fund | 1,000,000 | 1,000,000 |
| | $ 2,000,000 | $ 2,000,000 |

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

## 15. PROPERTY, PLANT AND EQUIPMENT

| | June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Cost | | |
| Land | $ 101,122,437 | $ 100,892,410 |
| Land improvements | 1,482,502 | 1,477,700 |
| Buildings | 59,929,972 | 58,623,832 |
| Machinery and equipment | 21,012,877 | 21,741,975 |
| Telecommunications network facilities | 639,089,382 | 629,229,969 |
| Miscellaneous equipment | 2,158,397 | 2,003,154 |
| Total cost | 824,795,567 | 813,969,040 |
| Revaluation increment on land | 5,823,991 | 5,945,551 |
| | 830,619,558 | 819,914,591 |

(Continued)

| | June 30 2007 | 2006 |
|---|---|---|
| Accumulated depreciation | | |
| Land improvements | $ 834,481 | $ 780,935 |
| Buildings | 14,795,560 | 13,753,731 |
| Machinery and equipment | 16,487,483 | 16,279,217 |
| Telecommunications network facilities | 483,471,382 | 463,466,682 |
| Miscellaneous equipment | 1,806,951 | 1,738,954 |
| | 517,395,857 | 496,019,519 |
| Construction in progress and advances related to acquisitions of equipment | 20,431,721 | 25,247,771 |
| Property, plant and equipment-net | $ 333,655,422 | $ 349,142,843 |

(Concluded)

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

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

Depreciation on property, plant and equipment for the six months ended June 30, 2007 and 2006 amounted to $19,477,659 thousand and $20,104,132 thousand, respectively. Capitalized interest expense for the six months ended June 30, 2007 amounted to $1,010 thousand, capitalized rate was 2.49%. No interest expense was capitalized for the six months ended June 30, 2006.

## 16. LEASE ASSETS

| | June 30, 2007 Land | Buildings | Computer Equipment | Total |
|---|---|---|---|---|
| Lessee company | | | | |
| Senao Networks, Inc. | $ 64,755 | $ 228,196 | $ | $ 292,951 |
| Ultrapower Technology, Inc. | 42,782 | 15,280 | | 58,062 |
| Other | | | 2,990 | 2,990 |
| | $ 107,537 | $ 243,476 | $ 2,990 | $ 354,003 |

## 17. SHORT-TERM LOANS

| | June 30, 2007 |
|---|---|
| Unsecured loans - annual yield rate 2.955% | $ 240,000 |

## 18. ACCRUED EXPENSES

| | June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Accrued salary and compensation | $ 7,896,351 | $ 9,589,569 |
| Accrued franchise fees | 1,117,852 | 1,207,665 |
| Special termination benefit under early retirement program | 719,987 | 775,318 |
| Other accrued expenses | 1,739,018 | 3,010,062 |
| | $ 11,473,208 | $ 14,582,614 |

## 19. OTHER CURRENT LIABILITIES

| | June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Advances from subscribers | $ 4,747,492 | $ 4,740,846 |
| Amounts collected in trust for others | 2,833,716 | 3,960,462 |
| Payables to equipment suppliers | 1,413,142 | 3,179,947 |
| Payables to employees profit sharing and remuneration to directors and supervisors | 1,300,059 | 245,394 |
| Refundable customers deposits | 959,830 | 941,755 |
| Payables to constructors | 408,002 | 711,956 |
| Miscellaneous | 2,973,201 | 1,961,913 |
| | $ 14,635,442 | $ 15,742,273 |

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

| | June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Secured loans - annual yield rate 2.42%-3.05% for the six months ended June 30, 2007 | $ 510,416 | $ |
| Unsecured loans - annual yield rate 2.42%-2.79% for the six months ended June 30, 2007 | 90,000 | |
| Loan from the Fixed-Line Fund | | 300,000 |
| | 600,416 | 300,000 |
| Less: Current portion of long-term loans | 108,371 | 300,000 |
| | $ 492,045 | $ |

SENAO obtained a secured loan from Land Bank. The principal amount is payable semiannually, with final payment due on June 15, 2013; CHIEF obtained a secured loan from Chinatrust Commercial Bank. The principal amount is payable monthly, with final payment due on November 18, 2007.

SENAO obtained unsecured loans from Industrial Bank of Taiwan and Land Bank. All principal amount are payable semiannually and with final payment due on May 4, 2008 and June 15, 2011, respectively.

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

**21. STOCKHOLDERS EQUITY**

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

For the purpose of privatizing the company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares ( ADS ) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of the company, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. As of December 31, 2006, the MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of June 30, 2007, the outstanding ADSs were 3,061,488 thousand units, which equaled approximately 306,149 thousand common shares and represented 31.67% of the Company s total outstanding common shares.

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

a. Exercise their voting rights;

b. Sell their ADSs; and

c. Receive dividends declared and subscribe to the issuance of new shares.

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

a. The holder of the preferred shares, or its nominated representative, will act as a director and/or supervisor during the entire period in which the preferred shares are outstanding.

b. The holder of preferred shares has the same pre-emptive rights as holders of common shares when the Company raises capital by issuing new shares.

c. The holder of the preferred shares will have the right to veto on any change in the name of the Company or the nature of its business and any transfer of a substantial portion of the Company s business or property.

d. The holder of the preferred shares may not transfer the ownership. The Company must redeem all outstanding preferred shares within three years from the date of their issuance.

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

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

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

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

The appropriations and distributions of the 2006 and 2005 earnings of the company have been approved and resolved by the stockholders on June 15, 2007 and May 30, 2006 as follows:

| | Appropriation and Distribution | | Dividend Per Share (Amount) | |
|---|---|---|---|---|
| | 2006 | 2005 | 2006 | 2005 |
| Legal reserve | $ 3,998,445 | $ 4,765,288 | $ | $ |
| Reverse for special reserve | 1,461 | | | |
| Cash dividends | 34,610,885 | 40,659,617 | 3.58 | 4.30 |
| Stock dividends | | 1,891,145 | | 0.20 |
| Employee bonus - cash | 1,256,619 | 230,057 | | |
| Employee bonus - stock | | 230,057 | | |
| Remuneration to directors and supervisors | 35,904 | 15,337 | | |

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

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

In addition, the shareholders meeting resolved to reduce capital in the amount of NT$9,667,845 thousand after the aforementioned capital increase is completed and will return the equivalent cash to its shareholders in order to restructure its capital.

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

## 22. SENAO STOCK-BASED COMPENSATION PLANS

The SENAO has several stock-based compensation plans (the Plans ) were described as follows:

| Effective Date | Grant Date | Stock Options Units (Thousand) | Exercise Price |
|---|---|---|---|
| 2003.09.03 | 2003.10.17 | 3,981 | $ 18.7 (Original price $ 20.2) |
| 2003.09.03 | 2004.03.04 | 385 | 22.1 (Original price $ 23.9) |
| 2004.12.01 | 2004.12.28 | 6,500 | 11.6 |
| 2004.12.01 | 2005.11.28 | 1,500 | 18.3 |
| 2005.09.30 | 2006.05.05 | 10,000 | 16.9 |
| | | 22,366 | |

Each option is eligible to subscribe for one common share when exercisable. Under the terms of the Plans, the options are granted at an exercise price depending on the closing price of the SENAO s common shares listed on the TSE on the granted or par value, whatever is lower. The exercise price of the stock option will be adjusted by the formula according to the Plan when the Corporation s earnings are divided in cash or the Corporation has any variation in its common stock, after the effective date. The options of all the Plans are valid for six years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

A summary of stock option activity under the Plans for the six months ended June 30, 2007 was presented as follows:

| | Stock Options Outstanding | |
|---|---|---|
| | Number Outstanding (Thousand) | Weighted Average Exercise Price Per Share |
| Options outstanding, beginning of period | 16,488 | $ 15.84 |
| Options granted | | |
| Options exercised | (2,611) | 13.39 |
| Options confiscation | | |
| Options canceled/expired | (448) | |
| Options outstanding, end of period | 13,429 | $ 16.30 |
| Options exercisable, end of period | 1,685 | |

As of June 30, 2007, information about SENAO s outstanding and exercisable options was as follows:

| | Options Outstanding | | | Options Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Price (NT$) | Number of Options (Thousand) | Weighted-Average Remaining Contractual Life (Years) | Weighted Average Exercise Price (NT$) | Number of Options (Thousand) | Weighted Average Exercise Price (NT$) |
| $11.6-$22.1 | 13,429 | 2.80 | $ 16.30 | 1,685 | $ 14.14 |

SENAO elected to attribute the value of share-based compensation to expense using the intrinsic value method over the requisite service period of the award. No compensation cost was recognized under the intrinsic value method for the six months ended June 30, 2007.

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

| | Six Months Ended June 30 2007 | 2006 |
|---|---|---|
| Balance, beginning of period | | |
| Increase | | 192,000 |
| Decrease | | 192,000 |
| Balance, end of period | | |

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

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

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

## 24. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

| | Six Months Ended June 30, 2007 | | |
|---|---|---|---|
| | Cost of Services | Operating Expenses | Total |
| Compensation expense | | | |
| Salaries | $ 6,362,244 | $ 4,286,502 | $ 10,648,746 |
| Insurance | 296,088 | 203,423 | 499,511 |
| Pension | 886,274 | 596,089 | 1,482,363 |
| Other compensation | 3,881,622 | 2,529,964 | 6,411,586 |
| | 11,426,228 | 7,615,978 | 19,042,206 |
| Depreciation expense | 18,394,472 | 1,083,187 | 19,477,659 |
| Amortization expense | 428,433 | 52,140 | 480,573 |

| | | | |
|---|---|---|---|
| | $ 30,249,133 | $ 8,751,305 | $ 39,000,438 |

| | Six Months Ended June 30, 2006 | | |
|---|---|---|---|
| | Cost of Services | Operating Expenses | Total |
| Compensation expense | | | |
| Salaries | $ 6,708,557 | $ 4,182,893 | $ 10,891,450 |
| Insurance | 291,560 | 179,858 | 471,418 |
| Pension | 992,999 | 634,009 | 1,627,008 |
| Other compensation | 3,970,186 | 2,441,459 | 6,411,645 |
| | 11,963,302 | 7,438,219 | 19,401,521 |
| Depreciation expense | 18,995,298 | 1,108,834 | 20,104,132 |
| Amortization expense | 425,967 | 51,460 | 477,427 |
| | $ 31,384,567 | $ 8,598,513 | $ 39,983,080 |

## 25. INCOME TAX

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

a. Income tax expense consists of the following:

| | Six Months Ended June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Income tax payable | $ 6,520,121 | $ 4,839,763 |
| Income tax - separated | 120,150 | 60,946 |
| Income tax - deferred | (277,616) | 1,353,084 |
| Adjustments of prior years income tax | 68,433 | 110,606 |
| | $ 6,431,088 | $ 6,364,399 |

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

| | June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Current | | |
| Deferred income tax assets: | | |
| Provision for doubtful accounts | $ 366,735 | $ 254,672 |
| Loss carryforward | 38,881 | |
| Investment tax credits | | 1,562,913 |
| Other | 62,303 | 80,782 |
| | 467,919 | 1,898,367 |
| Valuation allowance | (391,867) | (254,672) |
| | 76,052 | 1,643,695 |

| | | |
|---|---|---|
| Deferred income tax liability: | | |
| Unrealized foreign exchange gain | (10,847) | (636) |
| Net deferred income tax assets | $ 65,205 | $ 1,643,059 |

| | June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Noncurrent deferred income tax assets: | | |
| Accrued pension cost | $ 756,501 | $ 332,002 |
| Loss carryforward | 116,341 | |
| Losses on impairment | 88,501 | 85,866 |
| Other | 12,512 | |
| | 973,855 | 417,868 |
| Valuation allowance | (86,794) | |
| | $ 887,061 | $ 417,868 |

c. As of June 30, 2007, CHIEF s and CIYP s loss carryforward consisted of the following:

| Regulation | Total Creditable Amounts | Remaining Creditable Amounts | Expiry Year |
|---|---|---|---|
| Loss carryforward | $ 38,881 | $ 38,881 | 2007 |
| Loss carryforward | 28,261 | 28,261 | 2008 |
| Loss carryforward | 22,427 | 22,427 | 2009 |
| Loss carryforward | 25,392 | 25,392 | 2010 |
| Loss carryforward | 21,976 | 21,976 | 2011 |
| Loss carryforward | 18,285 | 18,285 | 2012 |
| | $ 155,222 | $ 155,222 | |

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

| | June 30 | |
|---|---|---|
| | 2007 | 2006 |
| Balance of Imputation Credit Account ( ICA ) Chunghwa | $ 9,746,573 | $ 3,314,620 |

The actual ICA rate for 2006 and 2005 earnings were 24.42% and 6.97%, respectively.

e. Undistributed earnings information

As of June 30, 2007 and 2006, the Company s undistributed earnings generated in June 30, 1998 and onward was zero.

The Group, except for CIYP which was incorporated in this period and CHIEF (HK) which was overseas subsidiary, others income tax returns through the year ended December 31, 2004 had been examined by the tax authorities.

**26. EARNINGS PER SHARE**

| | Amount (Numerator) | | Weighted-average Number of | Net Income per Share (Dollars) | |
|---|---|---|---|---|---|
| | Income Before Income Tax | Net Income | Common Shares Outstanding (Denominator) | Income Before Income Tax | Net Income |
| Six months ended June 30, 2007 | | | | | |
| Consolidated net income | | | | | |
| Basic net income per share | $ 30,965,675 | $ 24,598,845 | 10,634,630 | $ 2.91 | $ 2.31 |
| Diluted net income per share | $ 30,954,341 | $ 24,587,511 | | $ 2.91 | $ 2.31 |
| Six months ended June 30, 2006 | | | | | |
| Net income | | | | | |
| Basic net income per share | $ 28,551,672 | $ 22,187,273 | 10,707,153 | $ 2.67 | $ 2.07 |

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

The impact of transferring to common capital stock out of capital surplus was considered in calculating basic net income per share for 2006. The basic EPS before income tax and the basic EPS after income tax in 2006 are restated from $2.93 to $2.67 and from $2.28 to $2.07, respectively.

**27. PENSION PLAN**

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

The Labor Pension Act of ROC is effective beginning July 1, 2005 and this pension mechanism is considered as a defined contribution plan. The employees who were subject to the Labor Standards Law prior to the enforcement of this Act may choose to be subject to the pension mechanism under this Act or continue to remain to be subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to June 30, 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 Group contributes 6% of each employee s monthly salary per month beginning July 1, 2005.

After privatization, the Group s pension plan in accordance with the Labor Standards Law is considered as a defined benefit plan. The payments of pension are subject to the service periods and average salaries of six months of employees prior to retirement. The pension assets of the Group is funded monthly at 15% or less of their wages and is also administered by a pension committee and deposited in its name in the Central Trust of China Company.

Pension costs of the Group amounted to $1,537,443 thousand ($1,503,178 thousand subject to defined benefit plan and $34,265 thousand subject to defined contribution plan) and $1,699,345 thousand ($1,678,987 thousand subject to defined benefit plan and $20,358 thousand subject to defined contribution plan) for the six months ended June 30, 2007 and 2006, respectively.

**28. TRANSACTIONS WITH RELATED PARTIES**

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

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

| **Company** | **Relationship** |
|---|---|
| Senao International Co., Ltd. ( SENAO ) | Equity-accounted investee before the Company has control over SENAO on April 12, 2007 |
| Taiwan International Standard Electronics Ltd. ( TISE ) | Equity-accounted investee |
| Spring House Entertainment Inc.( SHE ) | Equity-accounted investee |
| ELTA Technology Co., Ltd. ( ELTA ) | Equity-accounted investee |
| Chunghwa System Integration Co., Ltd. ( CSI ) | Subsidiary of CHI |
| Chunghwa Telecom Global, Inc. ( CHTG ) | Subsidiary of CHI |
| Tai Zhong He | Former chairman of CHIEF, as a current member of the board of directors of CHIEF. |
| Senao Networks, Inc. ( SNI ) | Subsidiary of SENAO before May 23, 2007 |
| SENAO Technology Education Foundation ( STEF ) | A nonprofit organization of which the funds donated by SENAO exceeds one third of its total funds. |
| Paul Lin | Vice chairman concurrent general manager of SENAO |
| Senao International Miami Inc. (SIM) | This company chairman is vice chairman concurrent general manager of SENAO |
| Senora Trading Company (STC) | This company chairman is vice chairman concurrent general manager s first-class parents of SENAO |

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

| | June 30 | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Amount | % | Amount | % |
| 1) Receivables from related parties | | | | |
| Trade notes and accounts receivable | | | | |
| CHTG | $ 16,349 | 59 | $ 24,690 | 93 |
| Others | 11,598 | 41 | 1,839 | 17 |
| | $ 27,947 | 100 | $ 26,529 | 100 |
| 2) Payables to related parties | | | | |
| Trade notes payable, accounts payable, and accrued expenses | | | | |
| TISE | $ 127,719 | 31 | $ 61,074 | 15 |
| CSI | 117,545 | 28 | 75,614 | 18 |
| CHTG | 11,896 | 3 | 24,527 | 6 |
| ELTA | 10,618 | 3 | | |
| Others | 13,324 | 3 | | |
| | 281,102 | 68 | 161,215 | 39 |
| Payable to construction supplier | | | | |
| TISE | 95,657 | 23 | 251,480 | 61 |
| ELTA | 14,494 | 4 | | |
| | 110,151 | 27 | 251,480 | 61 |
| Amounts collected in trust for others | | | | |
| Others | 3,289 | | | |
| Other payables | | | | |
| Tai Zhong He | 20,056 | 5 | | |
| Paul Lin | 50 | | | |
| | 20,106 | 5 | | |
| | $ 414,648 | 100 | $ 412,695 | 100 |

In 2005, CHIEF agreed to provide compensation to Tai Zhong He for assets that were pledged as collateral in connection with a financing arrangement during the period from 2002 to 2005. According to the number of days for which the pledged assets were used by CHIEF and an annual interest rate not to exceed 5%, the compensation is calculated to be a total amount of NT$20,056 thousand as of June 30, 2007.

| | Six Months Ended June 30 | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Amount | % | Amount | % |
| 3) Revenues | | | | |
| SENAO | $ 234,793 | | $ | |
| STC | 59,272 | | | |
| CHTG | 34,692 | | 52,401 | |
| Others | 47,442 | | 10,461 | |

| | | |
|---|---|---|
| | $ 376,199 | $ 62,862 |

| | Six Months Ended June 30 | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Amount | % | Amount | % |
| 4) Operating costs and expenses | | | | |
| SENAO | $ 1,174,966 | 2 | $ | |
| TISE | 178,184 | | 249,215 | |
| CSI | 152,232 | | 83,212 | |
| CHTG | 36,188 | | 59,207 | |
| SIM | 15,583 | | | |
| ELTA | 12,130 | | | |
| Others | 895 | | | |
| | $ 1,570,178 | 2 | $ 391,634 | |

| | June 30 | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Amount | % | Amount | % |
| 5) Acquisition of properties | | | | |
| TISE | $ 392,491 | 5 | $ 239,504 | 2 |
| CSI | 127,520 | 1 | 25,660 | |
| CHTG | 35,292 | | 860 | |
| SNI | 64 | | | |
| | $ 555,367 | 6 | $ 266,024 | 2 |

Above transaction amount between the Company and SENAO was happened before the Company has control over SENAO on April 12, 2007. After the date, the amount are eliminated upon consolidation.

SENAO rents a building of Paul Lin as retail sales and service centers. The rent was paid monthly.

The transaction terms, except of SENAO, CSI, SNI, STEF, STC, SIM, and other payable to Tai, Zhong-He and Paul Lin were determined in accordance with mutual agreements. The foregoing transactions with related parties were conducted under normal commercial terms.

**29. PLEDGED ASSETS**

The assets pledged as collaterals for long-term loans by SENAO were as follows:

| | June 30, 2007 |
|---|---|
| Property, plant and equipment, net | $ 512,664 |
| Lease assets, net | 292,950 |
| | $ 805,614 |

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

**30. COMMITMENTS AND CONTINGENT LIABILITIES**

As of June 30, 2007, the Group s remaining commitments under non-cancellable contracts with various parties were as follows:

a. Acquisitions of buildings of $943,964 thousand.

b. Acquisitions of telecommunications equipment of $14,456,905 thousand.

c. Unused letters of credit of approximately $1,027,604 thousand.

d. Contracts to print billing, envelops, telephone directories and advertisement services of approximately $159,305 thousand.

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

| **Year** | **Rental Amount** |
|---|---|
| The six months ended December 31, 2007 | $ 766,749 |
| 2008 | 1,181,897 |
| 2009 | 900,114 |
| 2010 | 512,049 |
| 2011 and thereafter | 591,334 |

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 (classified as long-term investments-other monetary assets). According to the communication letter (#0960004447) dated August 6, 2007, the Executive Yuan ratified that the Ministry of Interior Affair (the Ministry ) can dissolve the Fixed-Line Fund effective on or after January 1, 2008. In connection with the dissolution, the Ministry will dispose the assets and liabilities related to the Fixed Line Fund during the final accounting of the fiscal year 2007.

g. A commitment to contribute $2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which $1,000,000 thousand was contributed by the Company on August 15, 1996. When the fund is not sufficient, the Company will contribute the remaining $1,000,000 thousand after getting the notification from the Taipei City Government.

h. A portion of the land used by the Company during the period July 1, 1996 to December 31, 2004 was co-owned by the Company and Taiwan Post Co., Ltd. (the former Chunghwa Post Co., Ltd. Directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to the Company to reimburse 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 August 16, 2007, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.

i.

One ex-general manager of SENAO s investees made a lawsuit which was accused SENAO of unpaying the bonus. This case is carrying on the legal proceeding. Based on the conservatism, SENAO has already estimate USD$1,000 thousand to enter the account in 2003.

**31. FAIR VALUE OF FINANCIAL INSTRUMENTS**

a. Fair value of financial instruments were as follows:

| | June 30 | | | |
|---|---|---|---|---|
| | 2007 | | 2006 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets | | | | |
| Cash and cash equivalents | $ 82,369,585 | $ 82,369,585 | $ 63,206,004 | $ 63,206,004 |
| Financial assets at fair value through profit or loss - current | 65,441 | 65,441 | | |
| Available-for-sale financial assets | 17,673,506 | 17,673,506 | 15,956,060 | 15,956,060 |
| Held-to-maturity financial assets - current | 50,672 | 50,672 | | |
| Trade notes and accounts receivable, net | 12,576,793 | 12,576,793 | 11,527,627 | 11,527,627 |
| Receivable from related parties | 27,947 | 27,947 | 26,529 | 26,529 |
| Other current monetary assets | 5,433,132 | 5,433,132 | 5,144,291 | 5,144,291 |
| Pledged assets | 1,525 | 1,525 | | |
| Investments accounted for using equity method | 1,839,920 | 2,001,169 | 1,482,548 | 1,679,484 |
| Financial assets carried at cost | 1,956,730 | 1,956,730 | 1,866,280 | 1,866,280 |
| Held-to-maturity financial assets- noncurrent | 243,222 | 243,222 | | |
| Other noncurrent monetary assets | 2,000,000 | 2,000,000 | 2,000,000 | 2,000,000 |
| Refundable deposits | 1,497,753 | 1,497,753 | 1,557,287 | 1,557,287 |
| Liabilities | | | | |
| Short-term loans | 240,000 | 240,000 | | |
| Financial liabilities at fair value through profit or loss | 19,828 | 19,828 | | |
| Trade notes and accounts payable | 7,739,586 | 7,739,586 | 7,623,481 | 7,623,481 |
| Payables to related parties | 414,648 | 414,648 | 412,695 | 412,695 |
| Accrued expenses | 11,473,208 | 11,473,208 | 14,582,614 | 14,582,614 |
| Dividend payable | 34,813,849 | 34,813,849 | 40,659,617 | 40,659,617 |
| Current portion of long-term loans | 108,371 | 108,371 | 300,000 | 300,000 |
| Long-term loans | 492,045 | 492,045 | | |
| Customers deposits | 6,510,567 | 6,510,567 | 6,878,193 | 6,878,193 |

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

1) The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. Because of the short maturities of these instruments, the carrying value represents a reasonable basis to estimate fair values. This method does not apply to the financial instruments discussed in Notes 2, 3 and 4 below.

2) If the financial assets at fair value through profit and loss have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market price of the financial assets are not immediately available, they must be calculated using standard valuation models on the basis of current market parameters.

3) Long-term investments are based on the net asset values of the investments in investees, if quoted market prices are not available.

4) The fair value of long-term loans (including current portion) is discounted value based on projected cash flow. The projected cash flows were discounted using the maturity dates of long-term loans.

c. The Group s fair value of financial instruments were as follow:

| | Amount Based on Quoted Market Price June 30 2007 | Amount Based on Quoted Market Price June 30 2006 | Amount Determined Using Valuation Techniques June 30 2007 | Amount Determined Using Valuation Techniques June 30 2006 |
|---|---|---|---|---|
| Assets | | | | |
| Financial assets measured at fair value through profit or loss-current | $ 1,822 | $ | $ | $ |
| Available-for-sale financial assets | 17,673,506 | 15,956,060 | | |
| Derivative financial assets for hedging (classified as other current monetary assets) | | | 2,861 | |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 7,872 | | 11,956 | |

d. Information about financial risks

1) Market risk

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

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

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

2) Credit risk

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

3) Liquidation risk

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

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

4) Cash flow interest rate risk

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

e. Fair value hedge

The Company entered into forward exchange contracts is mainly to hedge the fluctuation in exchange rates, which is fair value hedge. The transaction was assessed effectiveness during the first half year the hedge of 2007, we regard it as highly effective.

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

| | **Currency** | **Holding Period** | **Contract Amount (in Thousands)** |
|---|---|---|---|
| June 30, 2007 | | | |
| Sell | USD/NTD | 2007.06-2007.09 | US$ 15,000 |

As of June 30, 2007, the forward exchange contract was measured at fair value of $ 2,861 thousand (classified as other current monetary assets).

## 32. ADDITIONAL DISCLOSURES

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

a. Financing provided: None.

b. Endorsement/guarantee provided: None.

c. Marketable securities held: Please see Table 1.

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

e. Acquisition of individual real estate at costs of at least $100 million or 20% of the paid-in capital: Please see Table 3.

f. Disposal of individual real estate at prices of at least $100 million or 20% of the paid-in capital: None.

g. Total purchase from or sale to related parties amounting to at least $100 million or 20% of the paid-in capital: Please see Table 4.

h. Receivables from related parties amounting to $100 million or 20% of the paid-in capital: Please see Table 5.

i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 6.

j. Financial transactions: Please see Notes 5 and 31.

k. Investment in Mainland China: None.

l. Intercompany relationships and significant intercompany transaction: Please see Table 7.

**TABLE 1**

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

**MARKETABLE SECURITIES HELD**

**JUNE 30, 2007**

**(Amounts in Thousands of New Taiwan Dollars)**

| | | | | June 30, 2007 | | | |
|---|---|---|---|---|---|---|---|
| Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares (Thousands/ Thousand Units) | Carrying Value (Note 6) | Percentage of Ownership | Market Valu Net Asset Value |
| ghwa Telecom td. | Common stock | | | | | | |
| | Senao International Co., Ltd. | Subsidiary | Investments accounted for using equity method | 70,373 | $ 1,107,259 (Note 7) | 31 | $ 3,560,8 |
| | Chunghwa Investment Co., Ltd. | Equity-accounted investee | Investments accounted for using equity method | 98,000 | 999,655 | 49 | 999,6 |
| | Taiwan International Standard Electronics Co., Ltd. | Equity-accounted investee | Investments accounted for using equity method | 1,760 | 532,107 | 40 | 712,3 |
| | CHIEF Telecom, Inc. | Subsidiary | Investments accounted for using equity method | 38,370 | 253,553 (Note 7) | 70 | 207,8 |
| | Chunghwa International Yellow Pages Co., Ltd. | Subsidiary | Investments accounted for using equity method | 15,000 | 116,432 (Note 7) | 100 | 116,4 |
| | Spring House Entertainment Inc. | Equity-accounted investee | Investments accounted for using equity method | 2,016 | 17,051 | 30 | 2,0 |
| | ELTA Technology Co., Ltd. | Equity-accounted investee | Investments accounted for using equity method | 2,586 | 26,784 | 21 | 22,7 |
| | New Prospect Investments Holdings Ltd. (B.V.I.) | Subsidiary | Investments accounted for using equity method | | ( US$ 1) (Note 7) | 100 | ( US$ |
| | Prime Asia Investments Group Ltd. (B.V.I.) | Subsidiary | Investments accounted for using equity method | | ( US$ 1) (Note 7) | 100 | ( US$ |
| | Taipei Financial Center | - | Financial assets carried at cost | 288,211 | 1,789,530 | 12 | 1,504,0 |
| | RPTI International | - | Financial assets carried at cost | 9,234 | 71,500 | 12 | 77,2 |
| | iD Branding Ventures | - | Financial assets carried at cost | 7,500 | 75,000 | 8 | 74,4 |
| | Siemens Telecommunication Systems | - | Financial assets carried at cost | 75 | 5,250 | 15 | 183,4 |
| | Fu Sheng Group | - | | 240 | 7,201 | | 8,9 |

| | | | | | |
|---|---|---|---|---|---|
| | | Available-for-sale financial assets | | | |
| Oriental Union Chemical Corporation | - | Available-for-sale financial assets | 320 | 6,521 | 8,9 |
| ZyXEL Communications Corporation | - | Available-for-sale financial assets | 203 | 8,136 | 12,3 |
| Taiwan Life Insurance | - | Available-for-sale financial assets | 142 | 5,587 | 8,7 |
| Mega Financial Holding Co.,Ltd. | - | Available-for-sale financial assets | 8,400 | 186,076 | 186,9 |
| Lite-On IT Corporation | - | Available-for-sale financial assets | 300 | 8,082 | 10,2 |
| Norm Pacific Automation Corporation | - | Available-for-sale financial assets | 130 | 3,739 | 4,7 |
| 31 GROUP PLC ORD GBP0.62784 | - | Available-for-sale financial assets | 7 | 5,442 | 5,3 |
| ABBOTT LABORATORIES COM NPV | - | Available-for-sale financial assets | 4 | 5,403 | 6,1 |
| ACERINOX SA EUR0.25 | - | Available-for-sale financial assets | 10 | 7,044 | 7,8 |
| AGGREKO PLC ORD | - | Available-for-sale financial assets | 21 | 4,825 | 7,9 |
| AIR FRANCE-KLM EUR8.50 | - | Available-for-sale financial assets | 6 | 5,907 | 8,8 |

(Continued)

| | | | | | June 30, 2007 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares (Thousands/ Thousand Units) | Carrying Value (Note 6) | Percentage of Ownership | Market Value or Net Asset Value | Note |
| | | AIR PRODUCTS & CHEMICALS INC COM | - | Available-for-sale financial assets | 2 | $ 5,755 | | $ 6,164 | Note 5 |
| | | AISIN SEIKI CO LTD | - | Available-for-sale financial assets | 3 | 3,653 | | 3,843 | Note 5 |
| | | ALLIANZ SE-REG NPV(REGD)(VINKULIERT) | - | Available-for-sale financial assets | 1 | 6,928 | | 9,182 | Note 5 |
| | | ALLIED IRISH BANKS PLC ORD EUR0.32 | - | Available-for-sale financial assets | 10 | 9,093 | | 8,490 | Note 5 |
| | | ALSTOM | - | Available-for-sale financial assets | 2 | 5,848 | | 9,016 | Note 5 |
| | | AMADA CO LTD | - | Available-for-sale financial assets | 9 | 3,373 | | 3,677 | Note 5 |
| | | AMERICAN EXPRESS CO COM USD.20 | - | Available-for-sale financial assets | 3 | 5,734 | | 5,483 | Note 5 |
| | | AMERICAN INTERNATIONAL GROUP COM USD2.50 | - | Available-for-sale financial assets | 2 | 5,494 | | 5,729 | Note 5 |
| | | ANGLO IRISH BANK PLC EURO.16 | - | Available-for-sale financial assets | 13 | 7,026 | | 8,448 | Note 5 |
| | | APPLE COMPUTER INC COM STK NPV | - | Available-for-sale financial assets | 1 | 3,929 | | 5,757 | Note 5 |
| | | ARM HOLDINGS PLC ORD GBP0.0005 | - | Available-for-sale financial assets | 65 | 4,748 | | 6,199 | Note 5 |
| | | ASAHI KASEI CORP ORD | - | Available-for-sale financial assets | 17 | 3,446 | | 3,650 | Note 5 |
| | | ASML HOLDING NV ORD | - | Available-for-sale financial assets | 9 | 6,868 | | 8,122 | Note 5 |
| | | ASSICURAZIONI GENERALI EUR1 | - | Available-for-sale financial assets | - | - | | 1 | Note 5 |
| | | AVIVA PLC ORDINARY 25P SHARES | - | Available-for-sale financial assets | 10 | 4,703 | | 4,757 | Note 5 |
| | | BAE SYSTEMS ORD 2.5P | - | Available-for-sale financial assets | 18 | 4,644 | | 4,840 | Note 5 |
| | | BANCO SANTANDER CENTRAL HISP EUR0.50(REGD) | - | Available-for-sale financial assets | 13 | 6,864 | | 7,965 | Note 5 |
| | | BARCLAYS ORD GBP0.25 | - | Available-for-sale financial assets | 11 | 4,714 | | 4,905 | Note 5 |
| | | BECTON DICKINSON & CO COM | - | Available-for-sale financial assets | 2 | 5,735 | | 5,958 | Note 5 |
| | | BHP BILLITON PLC USD0.50 | - | Available-for-sale financial assets | 7 | 4,713 | | 6,671 | Note 5 |
| | | BMC SOFTWARE INC COM | - | Available-for-sale financial assets | 5 | 5,599 | | 5,272 | Note 5 |
| | | BNP PARIBAS EUR2 | - | Available-for-sale financial assets | 2 | 6,959 | | 7,569 | Note 5 |
| | | BP PLC ORD USD0.25 | - | Available-for-sale financial assets | 16 | 5,993 | | 6,438 | Note 5 |
| | | BT GROUP PLC SHS | - | Available-for-sale financial assets | 27 | 4,806 | | 5,958 | Note 5 |
| | | BURBERRY GROUP PLC ORD GBP0.0005 | - | Available-for-sale financial assets | 14 | 4,797 | | 6,105 | Note 5 |
| | | BUSINESS OBJECTS EUR0.10 | - | Available-for-sale financial assets | 6 | 8,050 | | 7,931 | Note 5 |
| | | CAPITA GROUP PLC SHS | - | Available-for-sale financial assets | 12 | 5,029 | | 5,686 | Note 5 |
| | | CENTRICA ORD GBP0.061728395 | - | Available-for-sale financial assets | 23 | 5,551 | | 5,781 | Note 5 |
| | | CHEVRONTEXACO CORP COM | - | Available-for-sale financial assets | 3 | 5,522 | | 7,302 | Note 5 |
| | | CHIYODA CORP NPV | - | Available-for-sale financial assets | 5 | 3,565 | | 3,115 | Note 5 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | COGNIZANT TECHNOLOGY S WHEN DISTRIB | - | Available-for-sale financial assets | 2 | 5,739 | 5,587 | Note 5 |
| | CONAGRA FOODS INC COM | - | Available-for-sale financial assets | 6 | 5,776 | 5,676 | Note 5 |
| | COOPER INDS LTD CL A | - | Available-for-sale financial assets | 4 | 5,548 | 7,311 | Note 5 |
| | CREDIT AGRICOLE SA EUR3 | - | Available-for-sale financial assets | 7 | 9,285 | 8,791 | Note 5 |
| | CRH PLC ORD EUR0.32 | - | Available-for-sale financial assets | 5 | 7,781 | 8,708 | Note 5 |
| | DAIKIN INDUSTRIES LTD | - | Available-for-sale financial assets | 3 | 3,608 | 3,809 | Note 5 |
| | DAILY MAIL&GENERAL TST-A NV A ORD(NON-VTG)GBP0.125 | - | Available-for-sale financial assets | 10 | 4,882 | 4,884 | Note 5 |
| | DAITO TRUST CONSTRUCT CO LTD | - | Available-for-sale financial assets | 3 | 4,427 | 4,202 | Note 5 |
| | DE LA RUE ORD GBP0.2777 | - | Available-for-sale financial assets | 12 | 4,770 | 6,262 | Note 5 |
| | DELL INC-T COM USD0.01 | - | Available-for-sale financial assets | 7 | 6,212 | 6,542 | Note 5 |
| | DEUTSCHE BANK AG-REGISTEREDNPV (REGD) | - | Available-for-sale financial assets | 2 | 9,264 | 8,646 | Note 5 |

(Continued)

| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares (Thousands/ Thousand Units) | June 30, 2007 Carrying Value (Note 6) | Percentage of Ownership | Market Value or Net Asset Value | Note |
|---|---|---|---|---|---|---|---|---|---|
| | | DEUTSCHE BOERSE AG NPV(REGD) | | Available-for-sale financial assets | 3 | $ 7,841 | | $ 9,687 | Note 5 |
| | | DEXIA SA NPV | | Available-for-sale financial assets | 8 | 8,620 | | 8,382 | Note 5 |
| | | EBAY INC COM | | Available-for-sale financial assets | 5 | 5,755 | | 5,517 | Note 5 |
| | | EISAI CO LTD | | Available-for-sale financial assets | 3 | 4,988 | | 4,136 | Note 5 |
| | | EMERSON ELECTRIC CO COM | | Available-for-sale financial assets | 4 | 5,503 | | 6,076 | Note 5 |
| | | ENEL | | Available-for-sale financial assets | 23 | 6,828 | | 7,994 | Note 5 |
| | | EPCOS AG ORD NPV | | Available-for-sale financial assets | 11 | 8,204 | | 7,195 | Note 5 |
| | | EQUIFAX INC COM | | Available-for-sale financial assets | 4 | 6,342 | | 6,398 | Note 5 |
| | | FANUC LTD | | Available-for-sale financial assets | 1 | 3,550 | | 4,047 | Note 5 |
| | | FIRSTGROUP PLC | | Available-for-sale financial assets | 14 | 4,785 | | 6,231 | Note 5 |
| | | FOMENTO DE CONSTRUC Y CONTRA | | Available-for-sale financial assets | 3 | 8,205 | | 8,495 | Note 5 |
| | | FORTIS NPV | | Available-for-sale financial assets | 6 | 8,710 | | 8,832 | Note 5 |
| | | FRANKLIN RESOURCES COM USD0.01 SHARES - COMMON | | Available-for-sale financial assets | 1 | 5,664 | | 6,153 | Note 5 |
| | | FUGRO NV-CVA EUR0.05 | | Available-for-sale financial assets | 4 | 5,679 | | 8,885 | Note 5 |
| | | FURUKAWA ELEC LTD ORD | | Available-for-sale financial assets | 22 | 4,487 | | 3,928 | Note 5 |
| | | GENERAL MILLS INC GENERAL MILLS INC | | Available-for-sale financial assets | 3 | 5,491 | | 5,718 | Note 5 |
| | | GILEAD SCIENCES INC COM | | Available-for-sale financial assets | 7 | 8,324 | | 9,486 | Note 5 |
| | | GLAXOSMITHKLINE PLC ORD GBP0.25 | | Available-for-sale financial assets | 3 | 2,708 | | 2,612 | Note 5 |
| | | GLORY LTD NPV | | Available-for-sale financial assets | 6 | 3,515 | | 4,295 | Note 5 |
| | | GOLDMAN SACHS GROUP IN COM | | Available-for-sale financial assets | 1 | 5,531 | | 6,790 | Note 5 |
| | | GOOGLE INC-CL A CL A | | Available-for-sale financial assets | | 5,621 | | 7,076 | Note 5 |
| | | HANKYU DEPARTMENT STORES | | Available-for-sale financial assets | 13 | 3,424 | | 4,522 | Note 5 |
| | | HBOS PLC ORD GBP0.25 | | Available-for-sale financial assets | 7 | 4,965 | | 4,445 | Note 5 |
| | | HEINEKEN NV ORD NR | | Available-for-sale financial assets | 5 | 6,818 | | 8,780 | Note 5 |
| | | HEINZ H J CO COM | | Available-for-sale financial assets | 4 | 5,511 | | 6,228 | Note 5 |
| | | HITACHI CONSTRUCTION MACHINE | | Available-for-sale financial assets | 4 | 3,267 | | 4,214 | Note 5 |
| | | HOME RETAIL GROUP ORD NPV | | Available-for-sale financial assets | 19 | 5,615 | | 5,841 | Note 5 |

| | | | | | |
|---|---|---|---|---|---|
| INBEV NV NPV | Available-for-sale financial assets | 3 | 5,919 | 8,535 | Note 5 |
| INDITEX REG SHS | Available-for-sale financial assets | 4 | 6,856 | 8,663 | Note 5 |
| INPEX HOLDINGS INC COM STK JPY1 | Available-for-sale financial assets | | 3,669 | 4,268 | Note 5 |
| INTL BUSINESS MACHINES CORP COM STK USD0.20 | Available-for-sale financial assets | 2 | 5,696 | 6,081 | Note 5 |
| JFE HOLDINGS INC NPV | Available-for-sale financial assets | 2 | 3,263 | 3,554 | Note 5 |
| K+S AG NPV | Available-for-sale financial assets | 2 | 5,856 | 9,035 | Note 5 |
| KAWASAKI KISEN KAISHA LTD NPV | Available-for-sale financial assets | 11 | 2,460 | 4,395 | Note 5 |
| KOHLS CORP COM | Available-for-sale financial assets | 2 | 5,586 | 5,739 | Note 5 |
| KOMATSU LTD NPV | Available-for-sale financial assets | 6 | | | |