CHUNGHWA TELECOM CO LTD
Form 6-K
March 28, 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 Mar 28, 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: 2007/03/28

Chunghwa Telecom Co., Ltd.

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

Exhibit

Exhibit	**Description**
1.	Consolidated Financial Statements for the Years Ended December 31, 2006 and 2005 and Independent Auditors Report
2.	Financial Statements for the Years Ended December 31, 2006 and 2005 and Independent Auditors Report

Exhibit 1

Chunghwa Telecom Co., Ltd. and its Subsidiaries

Consolidated Financial Statements for the

Years Ended December 31, 2006 and 2005 and

Independent Auditors Report

REPRESENTATION LETTER

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

Very truly yours,

CHUNGHWA TELECOM CO., LTD.

By

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

INDEPENDENT AUDITORS REPORT

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

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

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

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

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

As stated in Notes 2 and 4 to the financial statements, the Company completed its privatization on August 12, 2005 and the accounts before privatization were subject to examination by the Executive Yuan and by the Ministry of Audit of the Control Yuan. The accounts as of and for the year ended December 31, 2004 have been examined by these government agencies, and adjustments from this examinations have been recognized in the accompanying financial statements.

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

March 13, 2007

Notice to Readers

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

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

CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

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

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

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

LIABILITIES AND STOCKHOLDERS EQUITY

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

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

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

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

CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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

(Continued)

CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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

	2006 Income Before Income Tax	2006 Net Income	2005 Income Before Income Tax	2005 Net Income
CONSOLIDATED EARNINGS PER SHARE (Notes 2 and 24)				
Basic net income per share	$ 5.94	$ 4.63	$ 6.05	$ 4.83

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

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

CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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

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

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

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

CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(Amounts in Thousands of New Taiwan Dollars)

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

(Continued)

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CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(Amounts in Thousands of New Taiwan Dollars)

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

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

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

(Continued)

CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

(Amounts in Thousands of New Taiwan Dollars)

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

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

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

CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

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

1. GENERAL

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

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

Effective August 12, 2005, the MOTC had completed the process of privatizing the Company by reducing the government ownership to below 50% in various stages. In July 2000, the Company received approval from the Securities and Futures Commission (the SFC) for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the TSE) on October 27, 2000. Certain of the Company s common shares had been sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of the Company s common shares had also been sold in an international offering of securities in the form of American Depository Shares (ADS) on July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE). The MOTC sold 289,431 thousand common shares of the Company by auction in the ROC on August 9, 2005 and 1,350,682 thousand common shares of the Company on August 10, 2005 in an international offering. Upon completion of the share transfers associated with these offerings on August 12, 2005, the MOTC owned less than 50% of the outstanding shares of the Company and completed the privatization plan.

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

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basic of Consolidated Financial Statements

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

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

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

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

Basis of Presentation

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

Current Assets and Liabilities

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

Cash Equivalents

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

Financial Assets and Liabilities at Fair Value Through Profit or Loss

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

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

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

Available-for-sale Financial Assets

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

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

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

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

Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables

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

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

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

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

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

Inventories

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

Investments Accounted for Using Equity Method

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

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

Financial Assets Carried at Cost

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

Property, Plant and Equipment

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

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

Depreciation expense is determined based upon the asset s estimated useful life using the straight-line method. The estimated useful lives are as follows: land improvements, 10 to 30 years; buildings, 10 to 60 years; machinery and equipment, 6 to 10 years; telecommunication network facilities, 5 to 30 years; and miscellaneous equipment, 3 to 10 years.

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

Intangible Assets

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

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

Idle Assets

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

Pension Costs

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

Expense Recognition

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

Treasury Stock

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

Income Tax

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

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

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

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

Consolidated Earnings Per Share

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

Foreign-currency Transactions

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

a. Financial assets and liabilities - credited or charged to current income; and

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

3. REASON AND EFFECT OF THE CHANGES OF ACCOUNTING PRINCIPLE

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

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

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

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

	Recognized as a Separate Component of Stockholders Equity (Net of Tax)
Available-for-sale financial assets	$ 51,675

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

b. Reclassifications

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

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

<u>Short-term investments</u>

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

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

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

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

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

The Company s financial statements for the year ended December 31, 2004 have been examined by the Executive Yuan and the Ministry of Audit of the Control Yuan (government agencies), and the resulting adjustments have been recorded retroactively as of December 31, 2004. The adjustments made by the government agencies that decreased income before income tax of $9,351 thousand were due to the different bases of estimates used by the MOA in determining certain accruals. Increased current liabilities of $45,319,914 thousand and decreased total stockholders equity of $45,351,321 thousand on December 31, 2004 were due to the appropriations of 2004 earnings recorded by the MOA.

5. CASH AND CASH EQUIVALENTS

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

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

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

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

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

(Continued)

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

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

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

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

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

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

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

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

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

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

7. AVAILABLE-FOR-SALES FINANCIAL ASSETS

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

8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

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

9. OTHER CURRENT MONETARY ASSETS

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

10. INVENTORIES, NET

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

11. OTHER CURRENT ASSETS

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

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

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

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

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

13. FINANCIAL ASSETS CARRIED AT COST

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

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

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

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

14. OTHER NONCURRENT MONETARY ASSETS

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

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

15. PROPERTY, PLANT AND EQUIPMENT

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

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

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

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

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

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

Lease payable was as follow:

	December 31, 2006
Lease payable	$ 1,647
Less: Unamortization interest	68
Lease payable, net	1,579
Less: Current portion	1,138
Noncurrent portion of lease payable	$ 441

16. SHORT-TERM LOANS

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

17. ACCRUED EXPENSES

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

18. OTHER CURRENT LIABILITIES

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

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

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

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

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

20. STOCKHOLDERS EQUITY

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

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

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

a. Exercise their voting rights,

b. Sell their ADSs, and

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

	Years Ended December 31 2006	2005
As of January 1, 2006		
Increase	192,000	
Decrease	192,000	
As of December 31, 2006		

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

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

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

22. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

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

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

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

23. INCOME TAX

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

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

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

b. Income tax expense consisted of the following:

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

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

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

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

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

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	21,979	21,979	2011
	$ 136,940	$ 136,940	

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

December 31

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

The estimated ICA rate for the 2006 earnings as of December 31, 2006 and the actual ICA rate for the 2005 earnings were 24.51% and 6.97%, respectively. The credit of the Company available for allocation to the stockholders is calculated on the basis of the balance of ICA on the date of distribution of dividends. Accordingly, the estimated rate as of December 31, 2006 may differ from the actual rate determined based on the balance of the ICA on the dividend distribution date.

f. Undistributed earnings information

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

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

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

24. BASIC NET INCOME PER SHARE

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

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

25. PENSION PLAN

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

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

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

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

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

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

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

a. Components of net periodic pension cost for the year

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

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

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

	Years Ended December 31	
	2006	**2005**
Benefit obligation		
Vested benefit obligation	$ (2,308,643)	$ (995,410)
Non-vested benefit obligation	(1,535,267)	(406,068)
Accumulated benefit obligation	(3,843,910)	(1,401,478)
Additional benefit obligation	(689,587)	(281,909)
Projected benefit obligation	(4,533,497)	(1,683,387)
Fair values of plan assets	2,921,811	1,637,730
Funded status	(1,611,686)	(45,657)
Unrecognized net transition obligation	7,844	
Actuarial gain or loss	(9,448)	
Unrecognized net loss	349,867	503,709
(Accrued pension liabilities) prepaid pension cost (recognized as other current assets)	$ (1,263,423)	$ 458,052
2) Vested benefit	$ 3,174,285	$ 1,226,327

3) Actuarial assumptions

	2006	2005
Chunghwa		
Discount rate used in determining present value	2.00%	2.25%
Rate of compensation increase	1.50%	2.00%
Rate of return on plan assets	3.00%	3.00%
CHIEF		
Discount rate used in determining present value	2.75%	
Rate of compensation increase	3.00%	
Rate of return on plan assets	2.75%	

4) Contributions and payments of the Fund

	December 31	
	2006	**2005**
Chunghwa		
Contributions	$ 1,543,744	$ 585,560
Payments	$ 6,869	$ 9,918
CHIEF		
Contributions	$ 710	$
Payments	$	$

26. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

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

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

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

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

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

27. PLEDGED ASSETS

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

28. COMMITMENTS AND CONTINGENT LIABILITIES

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

a. Acquisitions of buildings of $1,575,422 thousand.

b. Acquisitions of telecommunications equipment of $15,479,152 thousand.

c. Unused letters of credit of approximately $1,364,451 thousand.

d. Contract to print billing, envelopes and telephone directories of approximately $346,414 thousand.

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

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

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

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

h. A portion of the land used by the Company during the period July 1, 1996 to December 31, 2004 was co-owned by the Company and Taiwan Post Co., Ltd. (the former Chunghwa Post Co., Ltd. directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to the Company to reimburse Taiwan Post Co., Ltd. in the amount of $767,852 thousand for land usage compensation due to the portion of land usage area in excess of the Company s ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, the Company believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, the Company has filed an appeal at the Taiwan Taipei District Court. As of March 13, 2007, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.

29. SUBSEQUENT EVENTS

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

30. FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Fair value of financial instruments were as follows:

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

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

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

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

2) If the financial assets/liabilities at fair value through profit or loss and the available-for-sale financial assets have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market price of the available-for-sale financial assets are not immediately available, they must be calculated using standard valuation models on the basis of current market parameters. The Group adopt fair value of accounting for estimates and assumptions for derivatives; these estimates and assumptions are used consistently by the investors in the market and can be obtained by the Group.

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

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

c. Fair value of financial instruments were as follow:

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

d. Information about financial risks

1) Market risk

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

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

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

2) Credit risk

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

3) Liquidation risk

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

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

31. ADDITIONAL DISCLOSURES

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

a. Financing provided: Please see Table 1.

b. Endorsement/guarantee provided: None.

c. Marketable securities held: Please see Table 2.

d. Marketable securities acquired and disposed of at costs or prices at least $100 million or 20% of the paid-in capital: Please see Table 3.

e. Acquisition of individual real estate at costs of at least $100 million or 20% of the paid-in capital: Please see Table 4.

f. Disposal of individual real estate at prices of at least $100 million or 20% of the paid-in capital: Please see Table 5.

g. Total purchase from or sale to related parties amounting to at least $100 million or 20% of the paid-in capital: None.

h. Receivables from related parties amounting to $100 million or 20% of the paid-in capital: None.

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

j. Financial transaction: Please see Notes 6 and 30.

k. Investment in Mainland China: None.

l. Intercompany relationships and significant intercompany transaction: Please see Table 8.

32. SEGMENT INFORMATION

a. Industry

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

b. Geographic

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

c. Foreign revenue

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

d. Major customers

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

TABLE 1

CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

FINANCING PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2006

(Amounts in Thousands of New Taiwan Dollars)

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

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

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

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

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

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TABLE 2

CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2006

(Amounts in Thousands of New Taiwan Dollars)

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