

CHUNGHWA TELECOM CO LTD  
Form 6-K  
October 30, 2008

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 October 30, 2008

### 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  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

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(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: 2008/10/30

Chunghwa Telecom Co., Ltd.

By: /s/ Joseph C.P. Shieh

Name: Joseph C.P. Shieh

Title: Senior Vice President CFO

Exhibit

| <b>Exhibit</b> | <b>Description</b>  |
|----------------|---|
| 1              | Press Release to Report First Nine Months and Third Quarter 2008 Results  |
| 2              | Financial Statements for the Nine Months Ended September 30, 2008 and 2007 and Independent Accountants' Review Report (Stand alone) |
| 3              | Consolidated Financial Statements for the Nine Months Ended September 30, 2008 and 2007 and Independent Accountants' Review Report  |
| 4              | GAAP Reconciliations of Consolidated Financial Statements for the Nine Months Ended September 30, 2007 and 2008                     |

**Chunghwa Telecom Reports First Nine Months and Third Quarter 2008 Results**

Taipei, Taiwan, R.O.C. October 30, 2008 - Chunghwa Telecom Co., Ltd (TAIEX: 2412, NYSE: CHT) ( Chunghwa or the Company ), today reported its operating results for the first nine months and the third quarter of 2008. All figures were consolidated and prepared in accordance to ROC GAAP.

As to the global economic downturn, Dr. Shyue-ching Lu, Chairman and CEO of Chunghwa Telecom, made the following comment: The current financial crisis has impacted the global economy, especially in the US. Based on our current outlook, given that telecommunication is a utility-like service and our dominant leadership in Taiwan, the impact on us will be relatively small. As a result, currently, we are still confident that we should be able to achieve our annual guidance which we set out earlier in 2008.

Below please find the highlights and detail explanation for Chunghwa's operational results:

*(Comparisons, unless otherwise stated, are with respect to the prior year period)*

**Financial Highlights for the First Nine Months of 2008:**

Total revenue increased by 3.0% to NT\$151.9 billion

Internet and data revenue grew 1.3%

Mobile revenue declined 2.0%; Mobile VAS revenue increased by 26.8%

Net income totaled NT\$36.5 billion, a decrease of 3.3%

Basic earnings per share (EPS) increased by 7.6% to NT\$3.82, or NT\$38.2 per ADS

**Financial Highlights for the Third Quarter of 2008:**

Total revenue decreased by 1.5% to NT\$50.9 billion

Internet and data revenue grew 0.4%

Mobile revenue declined 3.4%; Mobile VAS revenue increased by 18.3%

Net income totaled NT\$13.3 billion, an increase of 0.8%

Earnings per share (EPS) increased by 12.1% to NT\$1.39, or NT\$13.9 per ADS

## Revenues

Chunghwa's total revenue for the first nine months of 2008 increased by 3.0% year-over-year to NT\$151.9 billion, of which 28.4% was from fixed-line services, 35.9% was from mobile services, 24.5% was from Internet and data services and the remainder 11.2% was from other revenues, including handset sales from SENA0 and Chunghwa. Chunghwa's revenue growth for the first nine-month period was led by continued Internet & data growth and the consolidation of revenues from the Company's subsidiaries.

Internet and data revenue of NT\$37.3 billion in the first nine months of 2008 was 1.3% higher than the comparable period in 2007. This was driven by the continued growth in the total broadband subscriber base, FTTB and ADSL speed upgrades, and partly offset by an ADSL tariff adjustment that took effect on April 1, 2008.

Mobile revenue decreased by 2.0% in the first nine months of 2008 to NT\$54.6 billion. This was primarily due to the positive effects of the 2.5% increase in subscriber numbers and the 26.8% increase in value added service revenue year-over-year, but was offset by the traffic decline and the price cuts by the National Communication Commission (NCC).

Total fixed-line revenue declined 3.7% to NT\$43.1 billion as compared to the prior year period. International Long Distance revenue decreased 4.2%, mainly due to increased competition from calling card and the decrease in settlement income resulting from the fluctuation of FX rate. Local and domestic long distance revenues decreased by 2.9% and 6.5% year-over-year, respectively, for the first nine months of 2008, mainly due to mobile and VOIP substitution.

For the third quarter 2008, Internet revenue was 0.3% lower while data revenue increased by 2.5% year-over-year. Mobile revenue decreased by 3.4%, mainly due to the price cuts imposed by the NCC and promotional packages provided by Chunghwa. Fixed line revenue as a whole decreased by 5.1% as compared to the same period last year.

## Costs and Expenses

For the first nine months of 2008, total operating costs and expenses increased 5.3% year-over-year to NT\$104.9 billion. The increase was mainly attributable to the consolidation of our subsidiaries, especially Senao. For the parent company, total operating costs and expenses increased by NT\$1.5 bn, representing a year-over-year increase of 1.6%. This was primarily driven by the increase in handset sales costs and handset subsidies.

For the third quarter of 2008, total operating costs and expenses increased by 6.2%, mainly due to the same reason aforementioned for the nine months results.

#### **Income Tax**

Income tax for the first nine months of 2008 was NT\$11.1 billion, an increase of 7.0% compared to NT\$10.4 billion for the comparable period in 2007. This was mainly due to the decrease in tax credit for 3G investment.

#### **EBITDA and Net Income**

As a result of the increased cost and expense, EBITDA for the first nine months of 2008 decreased by 2.7% year-over-year to NT\$75.6 billion, representing an EBITDA margin of 49.8%. Net income for the first nine months was NT\$36.5 billion, a decrease of 3.3% compared to the same period of 2007.

#### **Capex**

Capital expenditures totaled NT\$18.3 billion for the nine months ended September 30, 2008, of which 72% was for wire line equipment (including fixed-line and Internet and data), 15% was for wireless equipment and the remaining 13% was for others. Capital expenditures were up 16.4% from the NT\$15.8 billion for the nine months ended September 30, 2007, mainly due to an increase in other spending of NT\$1.2 bn in the first quarter 2008 for the purchase of state-owned land, where one of our outlets is located.

#### **Cash Flows**

Our cash flow from operating activities decreased by 2.1% to NT\$54.1 bn. The decrease was primarily because of an increase in inventories and a decrease in depreciation and amortization. Free cash flow for the first nine months 2008 decreased by 9.5% when compared with the same period 2007, as capex was 16.4% higher.

Our cash and cash equivalents amounted to NT\$103.1 bn as of the end of September 2008. This 85.2% increase is the result of the timing of our cash dividend distribution this year, which will fall in November, while it was in August in 2007. However, we are still accumulating cash despite the dividend distribution factor.

#### **Business Highlights:**

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

Total HiNet subscribers reached 4.1 million at the end of September 2008. We had 912,000 HiNet FTTB subscribers as of September 30, 2008, representing a growth of 133.5% as compared to the end of September 2007.

Overall, Chunghwa had 4.32 million broadband subscribers (including ADSL and FTTB subscribers) at the end of September 2008, a 2.4% increase compared to the same period of last year. At the end of September 2008, the number of ADSL and FTTB subscriptions of service speed greater than 8 Mbps reached 1.50 million, representing 34.8% of total broadband subscribers.

As of the end of September 2008, Chunghwa had a total of 591,000 MOD subscribers, of which 82,000 were new subscriptions added during the third quarter 2008, representing a 65.2% increase year-over-year.

#### **Mobile Services**

As of September 30, 2008, Chunghwa had 8.87 million mobile subscribers, with net additions of 91,000 during the third quarter 2008. According to statistics published by the NCC at the end of September 2008, Chunghwa's total mobile subscriber market share (including 2G, 3G and PHS) was 35.5%, while revenue market share (including 2G, 3G and PHS) was 33.5%.

Chunghwa had 350,000 net additions to its 3G subscriber base during the third quarter, bringing total 3G subscribers to 3.24 million, up 62.6% year-over-year.

Total VAS revenue for the first nine months of 2008 was NT\$5.1 billion, growing by 26.8% year-over-year; of this, mobile internet exhibited the highest growth at 48.5% year-over-year. Data card business has also performed well over the past several months. At the end of September, we had 98,000 data card subscribers with associated ARPU of NT\$885. As a result, data revenue as a percentage of mobile revenue increased to 9.5% for the first nine months of 2008.

#### **Fixed-line Services**

As of the end of September 2008, the Company maintained its leading fixed-line market position, with 12.8 million fixed-line subscribers.

#### **Early Retirement Program**

We started to offer an early-retirement program in September 2008. There were 160 employees participated in the program and will leave the Company on November 1<sup>st</sup>, 2008. Despite the ERP compensation of NT\$170 million to be recognized in the fourth quarter, we will benefit from the cost savings of the two months salary for November and December in 2008.

#### **Financial Statements**

Financial statements and additional operational data can be found on the Chunghwa Telecom's website at [www.cht.com.tw/ir/filedownload](http://www.cht.com.tw/ir/filedownload).



**Note Concerning Forward-looking Statements**

Except for statements in respect of historical matters, the statements made in this press release contain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 and Section 21E of the U.S. Securities Exchange Act of 1934. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the actual performance, financial condition or results of operations of Chunghwa to be materially different from what may be implied by such forward-looking statements. Investors are cautioned that actual events and results could differ materially from those statements as a result of a number of factors including, among other things: extensive regulation of telecom industry; the intensely competitive telecom industry; our relationship with our labor union; general economic and political conditions, including those related to the telecom industry; possible disruptions in commercial activities caused by natural and human induced events and disasters, including terrorist activity, armed conflict and highly contagious diseases, such as SARS; and those risks identified in the section entitled Risk Factors in Chunghwa's annual reports on Form F-20 filed with the SEC.

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

**SPECIAL NOTE REGARDING NON-GAAP FINANCIAL MEASURES**

A body of generally accepted accounting principles is commonly referred to as GAAP. A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable U.S. GAAP measure. We disclose in this report certain non-GAAP financial measures, including EBITDA. EBITDA for any period is defined as consolidated net income (loss) excluding (i) depreciation and amortization, (ii) total net comprehensive financing cost (which is comprised of net interest expense, exchange gain or loss, monetary position gain or loss and other financing costs and derivative transactions), (iii) other expenses, net, (iv) income tax, (v) cumulative effect of change in accounting principle, net of tax and (vi) (income) loss from discontinued operations.

In managing our business we rely on EBITDA as a means of assessing our operating performance. We believe that EBITDA can be useful to facilitate comparisons of operating performance between periods and with other companies because it excludes the effect of (i) depreciation and amortization, which represents a non-cash charge to earnings, (ii) certain financing costs, which are significantly affected by external factors, including interest rates, foreign currency exchange rates and inflation rates, which have little or no bearing on our operating performance, (iii) income tax and tax on assets and statutory employee profit sharing, which is similar to a tax on income and (iv) other expenses or income not related to the operation of the business. EBITDA is also a useful basis of comparing our results with those of other companies because it presents operating results on a basis unaffected by capital structure and taxes.

EBITDA is not a measure of financial performance under U.S. GAAP or ROC GAAP. EBITDA should not be considered as an alternate measure of net income or operating income, as determined on a consolidated basis using amounts derived from statements of operations prepared in accordance with ROC GAAP, as an indicator of operating performance or as cash flows from operating activity or as a measure of liquidity. EBITDA has material limitations that impair its value as a measure of a company's overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses and income taxes, depreciation, pension plan reserves or capital expenditures and associated charges. The EBITDA presented herein relates to ROC GAAP, which we use to prepare our consolidated financial statements.

### **About Chunghwa Telecom**

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

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**Chunghwa Telecom Co., Ltd.**

**Financial Statements for the**

**Nine Months Ended September 30, 2008 and 2007 and**

**Independent Accountants' Review Report**

**INDEPENDENT ACCOUNTANTS REVIEW REPORT**

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have reviewed the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of September 30, 2008 and 2007, and the related statements of operations and cash flows for the nine months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

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

As discussed in Note 12 to the financial statements, we did not review all financial statements of equity-accounted investments, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The aggregate carrying values of the equity-method investments were NT\$7,197,490 thousand and NT\$2,237,667 thousand as of September 30, 2008 and 2007 and the equity in earning were NT\$125,741 thousand and NT\$162,021 thousand, respectively, for the nine months then ended.

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

As stated in Note 3 to the financial statements, on January 1, 2008, the Company adopted Interpretation 96-052 issued by the Accounting and Research Development Foundation of the Republic of China that requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings.

We have also reviewed the consolidated financial statements of the Company and its subsidiaries as of and for the nine months ended September 30, 2008, and have issued a reserve review report.

October 21, 2008

Notice to Readers

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

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

**CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS****SEPTEMBER 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)****(Reviewed, Not Audited)**

|  | 2008               |            | 2007               |            |
|--|--------------------|------------|--------------------|------------|
|  | Amount             | %          | Amount             | %          |
| <b>ASSETS</b>  |                    |            |                    |            |
| <b>CURRENT ASSETS</b>  |                    |            |                    |            |
| Cash and cash equivalents (Notes 2 and 4)  | \$ 98,976,773      | 20         | \$ 54,079,967      | 12         |
| Financial assets at fair value through profit or loss (Notes 2 and 5)  | 95,359             |            | 126,016            |            |
| Available-for-sale financial assets (Notes 2 and 6)  | 14,931,598         | 3          | 21,152,088         | 5          |
| Held-to-maturity financial assets (Notes 2 and 7)  | 35,033             |            | 57,324             |            |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$3,027,162 thousand in 2008 and \$3,517,058 thousand in 2007 (Notes 2 and 8) | 10,786,930         | 2          | 12,133,650         | 3          |
| Receivables from related parties (Note 24)   | 284,373            |            | 363,630            |            |
| Other current monetary assets (Notes 5 and 9)  | 3,730,033          | 1          | 6,875,722          | 1          |
| Inventories, net (Notes 2 and 10)  | 3,443,364          | 1          | 2,784,022          | 1          |
| Deferred income taxes (Notes 2 and 21)   | 380,923            |            | 245,073            |            |
| Other current assets (Note 11)   | 4,308,819          | 1          | 3,346,140          | 1          |
| <b>Total current assets</b>  | <b>136,973,205</b> | <b>28</b>  | <b>101,163,632</b> | <b>23</b>  |
| <b>LONG-TERM INVESTMENTS</b>   |                    |            |                    |            |
| Investments accounted for using equity method (Notes 2 and 12)   | 8,392,002          | 2          | 3,340,576          | 1          |
| Financial assets carried at cost (Notes 2 and 13)  | 2,246,048          | 1          | 1,941,280          |            |
| Held-to-maturity financial assets (Notes 2 and 7)  | 1,315,061          |            | 322,291            |            |
| Other monetary assets (Notes 14 and 25)  | 1,000,000          |            | 1,000,000          |            |
| <b>Total investment</b>  | <b>12,953,111</b>  | <b>3</b>   | <b>6,604,147</b>   | <b>1</b>   |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 24)</b>  |                    |            |                    |            |
| <b>Cost</b>  |                    |            |                    |            |
| Land   | 101,872,198        | 21         | 100,917,029        | 23         |
| Land improvements  | 1,487,827          |            | 1,479,005          |            |
| Buildings  | 62,455,514         | 13         | 59,654,629         | 13         |
| Computer equipment   | 14,844,193         | 3          | 15,016,006         | 3          |
| Telecommunications equipment   | 642,472,190        | 134        | 637,106,261        | 142        |
| Transportation equipment   | 2,732,563          | 1          | 3,187,435          | 1          |
| Miscellaneous equipment  | 7,322,378          | 2          | 7,818,461          | 2          |
| <b>Total cost</b>  | <b>833,186,863</b> | <b>174</b> | <b>825,178,826</b> | <b>184</b> |
| Revaluation increment on land  | 5,820,548          | 1          | 5,823,991          | 1          |
|  | 839,007,411        | 175        | 831,002,817        | 185        |
| Less: Accumulated depreciation   | 537,393,945        | 112        | 521,179,719        | 116        |

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|  |                       |            |                       |            |
|--|-----------------------|------------|-----------------------|------------|
|  | 301,613,466           | 63         | 309,823,098           | 69         |
| Construction in progress and advances related to acquisitions of equipment | 16,537,168            | 3          | 18,871,452            | 4          |
| Property, plant and equipment, net   | 318,150,634           | 66         | 328,694,550           | 73         |
| <b>INTANGIBLE ASSETS (Note 2)</b>  |                       |            |                       |            |
| 3G concession  | 7,673,240             | 2          | 8,421,849             | 2          |
| Other  | 323,685               |            | 316,531               |            |
| Total intangible assets  | 7,996,925             | 2          | 8,738,380             | 2          |
| <b>OTHER ASSETS</b>  |                       |            |                       |            |
| Idle assets (Note 2)   | 927,293               |            | 928,166               |            |
| Refundable deposits  | 1,189,869             |            | 1,345,874             | 1          |
| Deferred income taxes (Notes 2 and 21)                                     | 1,489,181             | 1          | 1,018,913             |            |
| Other  | 694,169               |            | 405,307               |            |
| Total other assets   | 4,300,512             | 1          | 3,698,260             | 1          |
| <b>TOTAL</b>   | <b>\$ 480,374,387</b> | <b>100</b> | <b>\$ 448,898,969</b> | <b>100</b> |

**LIABILITIES AND STOCKHOLDERS EQUITY**

**CURRENT LIABILITIES**

|  |              |    |            |   |
|--|--------------|----|------------|---|
| Financial liabilities at fair value through profit or loss (Notes 2 and 5) | \$ 1,424,194 |    | \$ 904,144 |   |
| Trade notes and accounts payable   | 6,839,590    | 1  | 7,289,690  | 2 |
| Payables to related parties (Note 24)                                      | 1,662,934    |    | 1,238,548  | 1 |
| Income tax payable (Notes 2 and 21)  | 3,149,800    | 1  | 5,235,352  | 1 |
| Accrued expenses (Notes 3 and 16)  | 10,477,456   | 2  | 9,399,952  | 2 |
| Dividends payable (Note 18)  | 40,716,130   | 9  |            |   |
| Other current liabilities (Note 17)  | 14,487,481   | 3  | 14,016,533 | 3 |
| Total current liabilities  | 78,757,585   | 16 | 38,084,219 | 9 |

|                        |           |  |           |  |
|------------------------|-----------|--|-----------|--|
| <b>DEFERRED INCOME</b> | 1,910,574 |  | 1,400,253 |  |
|------------------------|-----------|--|-----------|--|

|   |        |  |        |  |
|---|--------|--|--------|--|
| <b>RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)</b> | 94,986 |  | 94,986 |  |
|---|--------|--|--------|--|

**OTHER LIABILITIES**

|   |            |   |            |   |
|---|------------|---|------------|---|
| Accrued pension liabilities (Notes 2 and 23)                    | 5,117,717  | 1 | 3,221,519  | 1 |
| Customers deposits  | 6,162,199  | 2 | 6,320,298  | 1 |
| Deferred credit - profit on intercompany transactions (Note 24) | 1,117,755  |   |            |   |
| Other   | 395,768    |   | 730,741    |   |
| Total other liabilities   | 12,793,439 | 3 | 10,272,558 | 2 |

|                          |                   |           |                   |           |
|--------------------------|-------------------|-----------|-------------------|-----------|
| <b>Total liabilities</b> | <b>93,556,584</b> | <b>19</b> | <b>49,852,016</b> | <b>11</b> |
|--------------------------|-------------------|-----------|-------------------|-----------|

**STOCKHOLDERS EQUITY (Notes 2, 15, 18 and 19)**

|  |            |    |             |    |
|--|------------|----|-------------|----|
| Common capital stock - \$10 par value; Authorized: 12,000,000 thousand shares Issued: 9,557,777 thousand shares in 2008 and 10,634,630 thousand shares in 2007 | 95,577,769 | 20 | 106,346,296 | 24 |
| Capital stock to be issued   | 20,505,867 | 4  |             |    |

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|  |                |     |                |     |
|--|----------------|-----|----------------|-----|
| Preferred stock \$10 par value   |                |     |                |     |
| Additional paid-in capital   |                |     |                |     |
| Capital surplus  | 179,193,097    | 37  | 200,592,390    | 45  |
| Donated capital  | 13,170         |     | 13,170         |     |
| Equity in additional paid-in capital reported by equity-method investees | 3              |     |                |     |
| Total additional paid-in capital   | 179,206,270    | 37  | 200,605,560    | 45  |
| Retained earnings:   |                |     |                |     |
| Legal reserve  | 52,859,566     | 11  | 48,036,210     | 11  |
| Special reserve  | 2,675,419      | 1   | 2,678,723      | 1   |
| Unappropriated earnings  | 32,789,828     | 7   | 37,854,980     | 8   |
| Total retained earnings  | 88,324,813     | 19  | 88,569,913     | 20  |
| Other adjustments  |                |     |                |     |
| Cumulative translation adjustments                                       | 14,824         |     | (4,398)        |     |
| Unrecognized net loss of pension   | (85)           |     |                |     |
| Unrealized gain (loss) on financial instruments                          | (2,634,740)    |     | 1,175,544      |     |
| Unrealized revaluation increment   | 5,823,085      | 1   | 5,824,210      | 1   |
| Total other adjustments  | 3,203,084      | 1   | 6,995,356      | 1   |
| Treasury stocks  |                |     | (3,470,172)    | (1) |
| Total stockholders equity  | 386,817,803    | 81  | 399,046,953    | 89  |
| TOTAL  | \$ 480,374,387 | 100 | \$ 448,898,969 | 100 |

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

(With Deloitte & Touche review report dated October 21, 2008)



**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF INCOME****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)****(Reviewed, Not Audited)**

|  | 2008           |     | 2007           |     |
|--|----------------|-----|----------------|-----|
|  | Amount         | %   | Amount         | %   |
| NET REVENUES (Note 24)                                   | \$ 140,057,485 | 100 | \$ 139,940,095 | 100 |
| OPERATING COSTS (Note 24)                                | 69,982,962     | 50  | 69,582,249     | 50  |
| GROSS PROFIT   | 70,074,523     | 50  | 70,357,846     | 50  |
| OPERATING EXPENSES (Note 24)                             |                |     |                |     |
| Marketing  | 19,596,625     | 14  | 18,487,592     | 13  |
| General and administrative                               | 2,466,009      | 2   | 2,369,551      | 2   |
| Research and development                                 | 2,242,464      | 1   | 2,357,151      | 1   |
| Total operating expenses                                 | 24,305,098     | 17  | 23,214,294     | 16  |
| INCOME FROM OPERATIONS                                   | 45,769,425     | 33  | 47,143,552     | 34  |
| NON-OPERATING INCOME AND GAINS                           |                |     |                |     |
| Interest income  | 1,394,905      | 1   | 1,057,026      | 1   |
| Gains on disposal of financial instruments, net          | 390,515        | 1   | 26,938         |     |
| Equity in earnings of equity method investees, net       | 364,603        |     | 348,277        |     |
| Dividends income   | 107,737        |     | 64,296         |     |
| Other  | 204,073        |     | 493,805        |     |
| Total non-operating income and gains                     | 2,461,833      | 2   | 1,990,342      | 1   |
| NON-OPERATING EXPENSES AND LOSSES                        |                |     |                |     |
| Valuation loss on financial instruments, net             | 736,126        | 1   | 881,591        | 1   |
| Losses on disposal of property, plant and equipment, net | 56,997         |     | 38,012         |     |
| Valuation loss on inventory                              | 27,907         |     | 6,102          |     |
| Foreign exchange loss, net                               | 15,144         |     | 32,932         |     |
| Impairment loss on financial assets carried at cost      | 15,000         |     |                |     |
| Interest expense   | 404            |     | 754            |     |
| Other  | 77,891         |     | 178,306        |     |
| Total non-operating expenses and losses                  | 929,469        | 1   | 1,137,697      | 1   |
| INCOME BEFORE INCOME TAX                                 | 47,301,789     | 34  | 47,996,197     | 34  |

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|                             |               |    |               |    |
|-----------------------------|---------------|----|---------------|----|
| INCOME TAX (Notes 2 and 21) | 10,779,702    | 8  | 10,209,755    | 7  |
| NET INCOME                  | \$ 36,522,087 | 26 | \$ 37,786,442 | 27 |

(Continued)

**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF INCOME**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

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

(Reviewed, Not Audited)

|                                     | 2008                              |               | 2007                              |               |
|-------------------------------------|-----------------------------------|---------------|-----------------------------------|---------------|
|                                     | Income<br>Before<br>Income<br>Tax | Net<br>Income | Income<br>Before<br>Income<br>Tax | Net<br>Income |
| <b>EARNINGS PER SHARE (Note 22)</b> |                                   |               |                                   |               |
| Basic earnings per share            | \$ 4.95                           | \$ 3.82       | \$ 4.52                           | \$ 3.55       |
| Diluted earnings per share          | \$ 4.94                           | \$ 3.81       | \$ 4.51                           | \$ 3.55       |

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

(With Deloitte & Touche review report dated October 21, 2008)

(Concluded)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

|   | 2008              | 2007              |
|---|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                   |                   |
| Net income  | \$ 36,522,087     | \$ 37,786,442     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                   |
| Impairment loss on financial assets carried at cost                               | 15,000            |                   |
| Provision for doubtful accounts   | 401,642           | 597,866           |
| Depreciation and amortization   | 28,502,855        | 29,765,569        |
| Valuation loss on inventory   | 27,907            | 6,102             |
| Gain on disposal of financial instruments, net                                    | (390,515)         | (26,938)          |
| Valuation loss on financial instruments, net                                      | 736,126           | 881,591           |
| Amortization of discount of financial assets                                      | (1,125)           |                   |
| Losses on disposal of property, plant and equipment, net                          | 56,997            | 38,012            |
| Equity in loss (earnings) of equity method investees                              | (364,603)         | (348,277)         |
| Dividends received from equity investees  | 435,284           | 107,106           |
| Deferred income taxes   | (497,179)         | (693,403)         |
| Changes in operating assets and liabilities:                                      |                   |                   |
| Decrease (increase) in:   |                   |                   |
| Financial assets held for trading   | 451,347           | (174,605)         |
| Trade notes and accounts receivable   | (713,535)         | (189,117)         |
| Receivables from related parties  | (72,748)          | (315,862)         |
| Other current monetary assets   | 3,321,316         | 94,211            |
| Inventories   | (248,219)         | (37,086)          |
| Other current assets  | (3,093,703)       | (2,330,960)       |
| Increase (decrease) in:   |                   |                   |
| Trade notes and accounts payable  | (3,468,565)       | (2,371,802)       |
| Payables to related parties   | 120,004           | 273,322           |
| Income tax payable  | (3,810,704)       | (3,292,188)       |
| Accrued expenses  | (4,479,625)       | (9,396,869)       |
| Other current liabilities   | (67,068)          | 969,190           |
| Accrued pension liabilities   | 1,205,753         | 1,967,818         |
| Deferred income   | 405,424           | 444,834           |
| <b>Net cash provided by operating activities</b>                                  | <b>54,994,153</b> | <b>53,754,956</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                   |                   |
| Acquisitions of available-for-sale financial assets                               | (5,131,862)       | (19,264,257)      |
| Proceeds from disposal of available-for-sale financial assets                     | 5,065,441         | 5,823,473         |
| Acquisitions of held-to-maturity financial assets                                 | (852,383)         | (400,000)         |
| Proceeds from disposal of held-to-maturity financial assets                       | 652,863           | 20,385            |
| Acquisition of financial assets carried at cost                                   | (200,000)         |                   |
| Proceeds from disposal of financial assets carried at cost                        | 354,933           |                   |
| Acquisition of investment accounted for using equity method                       | (4,171,922)       | (1,093,268)       |

(Continued)



**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

|  | <b>2008</b>              | <b>2007</b>              |
|--|--------------------------|--------------------------|
| Proceeds from disposal of investment accounted for using equity method | \$ 44,047                | \$                       |
| Acquisitions of property, plant and equipment                          | (18,075,615)             | (15,579,213)             |
| Proceeds from disposal of property, plant and equipment                | 1,825,836                | 93,145                   |
| Acquisition of intangible assets                                       | (122,962)                | (206,258)                |
| Decrease (increase) in other assets                                    | (150,494)                | 46,500                   |
| <br>Net cash used in investing activities                              | <br>(20,762,118)         | <br>(30,559,493)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                            |                          |                          |
| Payment of long-term loans   |                          | (300,000)                |
| Decrease in customers deposits   | (113,105)                | (251,791)                |
| Increase (decrease) in other liabilities                               | (336,944)                | 170,422                  |
| Cash dividends paid  |                          | (35,903,408)             |
| Repurchase in treasury stock   |                          | (3,470,172)              |
| Cash paid to stockholders for capital reduction                        | (9,557,777)              |                          |
| <br>Net cash used in financing activities                              | <br>(10,007,826)         | <br>(39,754,949)         |
| <br><b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>        | <br><b>24,224,209</b>    | <br><b>(16,559,486)</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                  | <b>74,752,564</b>        | <b>70,639,453</b>        |
| <br><b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                    | <br><b>\$ 98,976,773</b> | <br><b>\$ 54,079,967</b> |
| <b>SUPPLEMENTAL INFORMATION</b>  |                          |                          |
| Interest paid  | \$ 404                   | \$ 754                   |
| <br>Income tax paid  | <br>\$ 15,092,647        | <br>\$ 14,195,346        |
| <b>NON-CASH FINANCING ACTIVITIES</b>                                   |                          |                          |
| Dividends payable  | \$ 40,716,130            | \$                       |
| <b>CASH AND NON-CASH INVESTING ACTIVITIES</b>                          |                          |                          |
| Increase in property, plant and equipment                              | \$ 17,216,258            | \$ 14,798,742            |
| Decrease in payables to suppliers                                      | 859,357                  | 780,471                  |
|  | \$ 18,075,615            | \$ 15,579,213            |

(Continued)

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**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

Acquired Senao International Co., Ltd. for the nine months ended September 30, 2007, the assets and liabilities, based on their fair values are as follows:

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

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

(With Deloitte & Touche review report dated October 21, 2008)

(Concluded)



**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

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

**(Reviewed, Not Audited)**

**1. GENERAL**

Chunghwa Telecom Co., Ltd. ( Chunghwa ) was incorporated on July 1, 1996 in the Republic of China ( ROC ) pursuant to the Article 30 of the Telecommunications Act. Chunghwa 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 as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As a telecommunications service provider of fixed-line and cellular telephone services, Chunghwa was announced as a market dominator by the MOTC; therefore Chunghwa is subject to the applicable telecommunications regulations for market dominators of the ROC.

Effective August 12, 2005, the MOTC had completed the process of privatizing Chunghwa by reducing the government ownership to below 50% in various stages. In July 2000, Chunghwa 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 Chunghwa 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 Chunghwa s common shares had also been sold in an international offering of securities in the form of American Depository Shares ( ADS ) in July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE ). The MOTC sold common shares of Chunghwa by auction in the ROC on August 9, 2005 and completed the second international offering on August 10, 2005. 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 Chunghwa and completed the privatization plan.

The numbers of employees as of September 30, 2008 and 2007 are 24,690 and 24,079, respectively.

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

The financial statements were prepared in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law, Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC ( ROC GAAP ). The preparation of financial statements requires management to make reasonable estimates and assumptions on allowances for doubtful accounts, valuation allowances on inventories, depreciation of property, plant and equipment, impairment of assets, bonuses paid to employees, remuneration to board of directors and supervisors, pension plans and income tax which are inherently uncertain. Actual results may differ from these estimates. The significant accounting policies are summarized as follows:

### **Classification of Current and Noncurrent Assets and Liabilities**

Current assets are assets expected to be converted to cash, sold or consumed within one year from balance sheet date. Current liabilities are obligations expected to be settled within one year from balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

### **Cash Equivalents**

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

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

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

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized as expenses as incurred. Financial assets or financial liabilities at FVTPL are remeasured at fair value, subsequently with changes in fair value recognized in earnings. Cash dividends received subsequently (including those received in the period of investment) are recognized as income. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in earnings. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

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

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

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

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

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

Cash dividends are recognized in earnings on the ex-dividend date, except for the dividends declared before acquisition are treated as a reduction of investment cost. Stock dividends are recorded as an increase in the number of shares and do not affect investment income. The total number of shares subsequent to the increase of stock dividends is used for recalculate cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. 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 to the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

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

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

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

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

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

Sales prices are determined using fair value taking into account related sales discounts and quantity discounts agreed to by the Company and its customers. Since the receivables from sales are collectible within one year and such transactions are frequent, fair value of the receivables is equivalent to the nominal amount of the cash to be received.

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.

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivable. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of outstanding accounts receivable.

### **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 companies in which Chunghwa exercises significant influence over the operating and financial policy decisions are accounted for by 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.

Gains or losses on sales from the Company to equity method investees where in the Company does not have substantial control over these equity investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties. Gains or losses on sales from the Company to equity method investees are eliminated if the Company has substantial control over these equity investees. Gains or losses on sales from equity method investees to the Company are deferred in proportion to the Company's ownership percentages in the investees until they are realized through transactions with third parties.

Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards, the cost of an investment shall be analyzed and the difference between the cost of investment and the fair value of identifiable net assets acquired, representing goodwill, shall not be amortize and instead shall be tested for impairment annually. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of noncurrent assets except (a) financial assets other than investments accounted for using equity method, (b) assets to be disposed of by sale (c) deferred tax assets, and (d) prepaid assets relating to pension or other postretirement benefit plans. If any excess remains after reducing the aforementioned items, the remaining excess shall be recognized as an extraordinary gain.

When the Company subscribes for additional investees shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to additional paid-in capital the extent available, with the balance charged to retained earnings.

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

Investments in equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured are measured at their original cost, such as non-publicly traded stocks. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not 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.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized.

An impairment loss on a revalued asset is charged to unrealized revaluation increment under equity to the extent available, with the balance is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment could be reversed and recognized as a gain, with the remaining credited to unrealized revaluation increment .

Depreciation expense is computed using the straight-line method over the following estimated service lives: land improvements - 10 to 30 years; buildings - 10 to 60 years; computer equipment - 6 to 10 years; telecommunications equipment - 6 to 15 years; transportation equipment - 5 to 10 years; and miscellaneous equipment - 3 to 12 years.

Upon sale or disposal of property, plant and equipment, the related cost, accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment are deducted from the corresponding accounts, and any gain or loss recorded as non-operating gains or losses in the period of sale or disposal.

### **Intangible Assets**

Intangible assets mainly include 3G Concession, computer software and patents.

The 3G license is valid through December 31, 2018. The 3G Concession and any additional licensing fees are amortized on a straight-line basis from the date operations commence through the date the license expires. Computer software costs and patents are amortized using the straight-line method over the estimated useful lives of 3-20 years.

Effective January 1, 2007, the Company adopted the newly released Statements of Financial Accounting Standards No. 37, Intangible Assets. Expenditure on research shall be expensed as incurred. Development costs are capitalized when those costs meet relative criteria and are amortized using the straight-line method over estimated useful lives. Development costs do not meet relative criteria shall be expensed as incurred.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, as if no impairment loss had been recognized.

### **Idle Assets**

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

### **Pension Costs**

For employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees individual pension accounts during their service periods.

### **Expense Recognition**

The costs of providing services are recognized as incurred. The cost includes incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract bundled with the handsets.

### **Treasury Stock**

Treasury stock is recorded at cost and shown as a reduction to stockholders' equity. Upon cancellation of treasury stock, the treasury stock account is reduced and the common stock and capital surplus are reversed on a pro rata basis. If capital surplus is not sufficient, the difference is charged to retained earnings.

### **Income Tax**

The Company applies inter-period allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology-based enterprises are recognized using the flow-through method.

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 of stockholders approval which is the year subsequent to the year the earnings are generated.

### **Foreign-currency Transactions**

Foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

The financial statements of foreign equity investees are translated into New Taiwan dollars at the following exchange rates. Assets and liabilities - spot rates at year-end; stockholders' equity - historical rates, income and expenses - average rates during the year. The resulting translation adjustments are recorded as a separate component of stockholders' equity.

### **Hedge Accounting**

Hedged items are recognized as follows:

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

**Reclassifications**

Certain accounts in the financial statements as of and for the nine months ended September 30, 2007 have been reclassified to conform to the presentation of the financial statements as of and for the nine months ended September 30, 2008.

**3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE**

In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning January 1, 2008. The adoption of this interpretation resulted in a decrease of NT\$866,332 thousand (including NT\$843,081 thousand recorded by Chunghwa and NT\$23,251 thousand recorded by its equity-method investees) in net income and a decrease in basic earnings per share (after income tax) of NT\$0.09 for the nine months ended September 30, 2008.

**4. CASH AND CASH EQUIVALENTS**

|  | September 30  |               |
|--|---------------|---------------|
|  | 2008          | 2007          |
| Cash   |               |               |
| Cash on hand   | \$ 138,775    | \$ 75,625     |
| Bank deposits  | 16,461,692    | 7,087,078     |
| Negotiable certificate of deposit, annual yield rate - ranging from 1.94%-2.643% and 1.82%-5.39% for 2008 and 2007, respectively | 63,761,675    | 32,673,069    |
|  | 80,362,142    | 39,835,772    |
| Cash equivalents   |               |               |
| Commercial paper purchased, annual yield rate - ranging from 1.96%-3.762% and 1.90%-5.22% for 2008 and 2007, respectively        | 18,614,631    | 13,887,837    |
| Bond with resale agreements, annual yield rate - ranging from 2.10%-2.30% for 2007   |               | 250,000       |
| U.S. Treasury bills, annual yield rate 4.41% for 2007  |               | 106,358       |
|  | 18,614,631    | 14,244,195    |
|  | \$ 98,976,773 | \$ 54,079,967 |

As of September 30, 2008 and 2007, foreign deposits in bank were as following:

|  | September 30  |              |
|--|---------------|--------------|
|  | 2008          | 2007         |
| United States of America - New York (US\$290,563 thousand and US\$41,879 thousand for the nine months ended September 30, 2008 and 2007, respectively)                 | \$ 9,335,788  | \$ 1,364,412 |
| Hong Kong (US\$20,603 thousand, EUR139 thousand, JPY13,798 thousand and GBP228 thousand for 2008 and EUR856 thousand, JPY36,329 thousand and GBP208 thousand for 2007) | 685,893       | 59,893       |
|  | \$ 10,021,681 | \$ 1,424,305 |

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

|  | September 30 |            |
|--|--------------|------------|
|  | 2008         | 2007       |
| <b>Derivatives - financial assets</b>      |              |            |
| Index future contracts                     | \$ 95,359    | \$ 111,994 |
| Forward exchange contracts                 |              | 14,022     |
|  | \$ 95,359    | \$ 126,016 |
| <b>Derivatives - financial liabilities</b> |              |            |
| Currency option contracts                  | \$ 1,095,310 | \$ 795,881 |
| Forward exchange contracts                 | 328,626      | 84,727     |
| Index future contracts                     | 258          | 23,536     |
|  | \$ 1,424,194 | \$ 904,144 |

Chunghwa entered into investment management agreements with a well-known financial institutions (fund managers) to manage its investment portfolios in 2006. As of September 30, 2008, Chunghwa's investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. The investment portfolios included listed stocks, mutual funds and derivative instruments.

Chunghwa 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 and stock prices. However, derivatives that do not meet the criteria for hedge accounting is classified as financial assets or financial liabilities held for trading.

Outstanding forward exchange contracts on September 30, 2008 and 2007 were as follows:

|                           | Currency | Maturity Period | Contract<br>Amount<br>(in Thousands) |
|---------------------------|----------|-----------------|--------------------------------------|
| <u>September 30, 2008</u> |          |                 |                                      |
| Sell                      | EUR/USD  | 2008.11         | EUR 6,550                            |
|                           | JPY/USD  | 2008.11         | JPY 447,000                          |
|                           | GBP/USD  | 2008.11         | GBP 2,140                            |
|                           | USD/EUR  | 2008.11         | USD 2,131                            |
|                           | USD/GBP  | 2008.11         | USD 327                              |
| <u>September 30, 2007</u> |          |                 |                                      |
| Sell                      | EUR/USD  | 2007.11         | EUR 29,000                           |
|                           | JPY/USD  | 2007.11         | JPY 700,000                          |
|                           | GBP/USD  | 2007.11         | GBP 2,630                            |
|                           | USD/NTD  | 2007.12-2008.01 | USD 55,000                           |
|                           | EUR/NTD  | 2007.11-12      | EUR 50,000                           |
|                           | NTD/USD  | 2007.10-2008.01 | NTD 2,320,304                        |



Outstanding index future contracts on September 30, 2008 and 2007 were as follow:

|                           | Maturity Date | Units | Contract Amount<br>(in Thousands) |         |
|---------------------------|---------------|-------|-----------------------------------|---------|
| <b>September 30, 2008</b> |               |       |                                   |         |
| AMSTERDAM IDX FUT         | 2008.10       | 13    | EUR                               | 985     |
| CAC40 10 EURO FUT         | 2008.10       | 14    | EUR                               | 576     |
| IBEX 35 INDX FUTR         | 2008.10       | 7     | EUR                               | 761     |
| DAX INDEX FUTURE          | 2008.12       | 3     | EUR                               | 454     |
| MINI S&P/MIB FUT          | 2008.12       | 37    | EUR                               | 992     |
| FTSE 100 IDX FUT          | 2008.12       | 19    | GBP                               | 966     |
| TOPIX INDEX FUTURE        | 2008.11       | 36    | JPY                               | 437,364 |
| S&P 500 FUTURE            | 2008.12       | 16    | USD                               | 5,009   |
| S&P 500 EMINI FUTURE      | 2008.12       | 55    | USD                               | 3,403   |
| <b>September 30, 2007</b> |               |       |                                   |         |
| AMSTERDAM IDX FUT         | 2007.10       | 13    | EUR                               | 1,366   |
| CAC40 10 EURO FUT         | 2007.10       | 9     | EUR                               | 498     |
| IBEX 35 INDEX FUTR        | 2007.10       | 7     | EUR                               | 958     |
| DAX INDEX FUTURE          | 2007.12       | 3     | EUR                               | 574     |
| MINI S&P/MIB FUT          | 2007.12       | 34    | EUR                               | 1,326   |
| FTSE 100 IDX FUT          | 2007.12       | 35    | GBP                               | 2,194   |
| TOPIX INDEX FUTURE        | 2007.12       | 28    | JPY                               | 424,200 |
| S&P 500 FUTURE            | 2007.12       | 16    | USD                               | 6,132   |
| S&P 500 EMINI FUTURE      | 2007.12       | 14    | USD                               | 1,077   |

As of September 30, 2008 and 2007, the deposits paid for index future contracts were \$54,540 thousand and \$111,994 thousand, respectively.

In September 2007, Chunghwa entered into a 10-year, foreign currency derivative contract with Goldman Sachs Group Inc. ( Goldman ) and valuations are made biweekly starting from September 20, 2007 which are 260 valuation periods totally. Under the terms of the contract, if the NT dollar/US dollar exchange rate is less than NT\$31.50 per US\$ at any two consecutive bi-weekly valuation dates during the valuation period starting from October 4, 2007 to September 5, 2017, Chunghwa is required to make a cash payment to Goldman. The settlement amount is determined by the difference between the applicable exchange rates and the base amount of US\$4,000 thousand. Conversely, if the NT dollar/US dollar exchange rate is above NT\$31.50 per US dollar using the same valuation methodology, Goldman would have a settlement obligation to Chunghwa determined using a base amount of US\$2,000 thousand. Further, if the exchange rate is at or above NT\$32.70 per US dollar starting from December 12, 2007 at any time, the contract will be terminated at that time. In accordance with the terms of the contract, Chunghwa deposited US\$3,000 thousand with Goldman (included in other current assets ) with annual yield rate of 8%. As of September 30, 2008, there are 233 remaining valuation periods. On October 21, 2008, the exchange rate was above NT\$32.70 per US dollar, so the contract was terminated at that time.

As of September 30, 2007, besides the aforementioned foreign currency option contract (USD TWD Window Knock-Out) with Goldman, the outstanding foreign currency option contract were as follows:

| <b>Contact</b>         | <b>Exchange Rate</b> | <b>Maturity Period</b> | <b>Contract Amount (in Thousands)</b> |
|------------------------|----------------------|------------------------|---------------------------------------|
| Buy USD call /NTD put  | 32.80                | 2007.12                | USD 10,000                            |
| Sell USD put /NTD call | 32.65                | 2007.12                | USD 20,000                            |
| Buy USD call /NTD put  | 32.75                | 2007.12                | USD 1,750                             |
| Sell USD put /NTD call | 32.75                | 2007.12                | USD 1,750                             |
| Buy USD call /NTD put  | 32.80                | 2007.12                | USD 500                               |
| Sell USD put /NTD call | 32.80                | 2007.12                | USD 500                               |

Net losses arising from financial assets and liabilities at fair value through profit or loss for the nine months ended September 30, 2008 and 2007 were \$343,410 thousand (including realized settlement gains of \$424,375 thousand and valuation losses of \$767,785 thousand; such valuation loss included a loss of \$515,151 thousand from foreign currency derivative contract with Goldman) and \$987,008 thousand (including realized settlement losses of \$120,725 thousand and valuation loss of \$866,283 thousand; such valuation loss included a loss of \$718,389 from foreign currency derivative contract with Goldman), respectively.

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

|                                   | <b>September 30</b>  |                      |
|-----------------------------------|----------------------|----------------------|
|                                   | <b>2008</b>          | <b>2007</b>          |
| Open-end mutual funds             | \$ 14,032,320        | \$ 19,771,582        |
| Foreign listed stocks             | 687,993              | 971,178              |
| Real estate investment trust fund | 211,285              | 256,250              |
| Listed stocks                     |                      | 153,078              |
|                                   | <b>\$ 14,931,598</b> | <b>\$ 21,152,088</b> |

Movements of unrealized gain (loss) on available-for-sale financial assets were as follows:

|  | <b>Nine Months Ended September 30</b> |                     |
|--|---------------------------------------|---------------------|
|  | <b>2008</b>                           | <b>2007</b>         |
| Balance, beginning of period                             | \$ 75,787                             | \$ 541,056          |
| Reported as a separate component of stockholders' equity | (2,655,152)                           | 636,767             |
| Recognized in earnings                                   | 4,446                                 | (23,768)            |
| Balance, end of period                                   | <b>\$ (2,574,919)</b>                 | <b>\$ 1,154,055</b> |

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

|                                | September 30 |            |
|--------------------------------|--------------|------------|
|                                | 2008         | 2007       |
| Corporate bonds                | \$ 1,302,316 | \$ 250,000 |
| Collateralized loan obligation | 47,778       | 129,615    |
|                                | 1,350,094    | 379,615    |
| Less: Current portion          | 35,033       | 57,324     |
|                                | \$ 1,315,061 | \$ 322,291 |

**8. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

|                                 | Nine Months Ended<br>September 30 |              |
|---------------------------------|-----------------------------------|--------------|
|                                 | 2008                              | 2007         |
| Balance, beginning of period    | \$ 3,290,123                      | \$ 3,535,141 |
| Provision for doubtful accounts | 397,407                           | 594,675      |
| Accounts receivable written off | (660,368)                         | (612,758)    |
| Balance, end of period          | \$ 3,027,162                      | \$ 3,517,058 |

**9. OTHER CURRENT MONETARY ASSETS**

|   | September 30 |              |
|---|--------------|--------------|
|   | 2008         | 2007         |
| Receivable from disposal of financial instruments | \$ 1,217,525 | \$ 10,653    |
| Accrued custodial receipts from other carriers    | 655,021      | 805,327      |
| Tax refund receivable                             |              | 3,221,136    |
| Fixed-Line Fund                                   |              | 1,000,000    |
| Other   | 1,857,487    | 1,838,606    |
|   | \$ 3,730,033 | \$ 6,875,722 |

**10. INVENTORIES, NET**

|                      | September 30 |              |
|----------------------|--------------|--------------|
|                      | 2008         | 2007         |
| Supplies             | \$ 1,941,517 | \$ 1,601,732 |
| Work in process      | 322,679      | 76,856       |
| Merchandise          | 403,446      | 294,167      |
| Materials in transit | 823,295      | 817,870      |
|                      | 3,490,937    | 2,790,625    |

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|                           |              |              |
|---------------------------|--------------|--------------|
| Less: Valuation allowance | 47,573       | 6,603        |
|                           | \$ 3,443,364 | \$ 2,784,022 |

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**11. OTHER CURRENT ASSETS**

|                  | September 30 |              |
|------------------|--------------|--------------|
|                  | 2008         | 2007         |
| Prepaid expenses | \$ 3,115,354 | \$ 2,519,501 |
| Prepaid rents    | 890,325      | 624,690      |
| Miscellaneous    | 303,140      | 201,949      |
|                  | \$ 4,308,819 | \$ 3,346,140 |

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

|  | September 30   |                |                |                |
|--|----------------|----------------|----------------|----------------|
|  | 2008           |                | 2007           |                |
|  | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| <b>Listed</b>  |                |                |                |                |
| Senao International Co., Ltd. ( SENAO )                          | \$ 1,271,196   | 29             | \$ 1,189,721   | 31             |
| <b>Non-Listed</b>  |                |                |                |                |
| Light Era Development Co., Ltd. ( LED )                          | 2,987,971      | 100            |                |                |
| Chunghwa Investment Co., Ltd. ( CHI )                            | 853,148        | 49             | 1,001,121      | 49             |
| Chunghwa System Integration Co., Ltd. ( CHSI )                   | 791,904        | 100            |                |                |
| Chunghwa Telecom Singapore Pte. Ltd. ( CHTS )                    | 784,461        | 100            |                |                |
| Taiwan International Standard Electronics Co., Ltd. ( TISE )     | 572,470        | 40             | 559,819        | 40             |
| CHIEF Telecom Inc. ( CHIEF )                                     | 408,203        | 69             | 254,774        | 70             |
| Donghua Technology Co., Ltd. ( DHT )                             | 216,011        | 100            |                |                |
| Chunghwa International Yellow Pages Co., Ltd. ( CIYP )           | 120,697        | 100            | 291,944        | 100            |
| Viettel-CHT Co., Ltd. ( Viettel-CHT )                            | 97,711         | 33             |                |                |
| Chunghwa Telecom Global, Inc. ( CHTG )                           | 86,931         | 100            |                |                |
| Skysoft Co., Ltd. ( SKYSOFT )                                    | 81,022         | 30             |                |                |
| KingWay Technology Co., Ltd. ( KWT )                             | 76,207         | 33             |                |                |
| Spring House Entertainment Inc. ( SHE )                          | 44,070         | 56             | 16,122         | 30             |
| ELTA Technology Co., Ltd. ( ELTA )                               |                |                | 27,075         | 21             |
| New Prospect Investments Holdings Ltd. (B.V.I.) ( New Prospect ) |                | 100            |                | 100            |
| Prime Asia Investments Group Ltd. (B.V.I.) ( Prime Asia )        |                | 100            |                | 100            |
|  | 7,120,806      |                | 2,150,855      |                |
|  | \$ 8,392,002   |                | \$ 3,340,576   |                |

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

Chunghwa established 100% shares of Light Era Development Co., Ltd. ( LED ) by prepaying \$3,000,000 thousand in January 2008. LED completed its incorporation on February 12, 2008. LED engages mainly in development of property for rent and sale.

Chunghwa invested Chunghwa System Integration Co., Ltd. ( CHSI ) in December 2007, for a purchase price of \$838,506 thousand. CHSI engages mainly in providing communication and information integration services.



Chunghwa established Chunghwa Telecom Singapore Pte., Ltd. ( CHTS ) in July 2008, for a purchase price of \$200,000 thousand, and increase capital for \$579,280 thousand in September 2008 CHS engages mainly in data wholesale, IP Transit, IPLC, IP VPN, voice wholesale services, and reinvests in the world satellite business. Additionally, CHTS and SingTelSat Pte., Ltd. established a joint venture, ST-2 Satellite Ventures Pte., Ltd. ( SSVP ) in Singapore in October 2008. SSVP will engage in the operation of ST-2 telecommunications satellite.

Chunghwa raised investing capital at the amount of \$171,513 thousand in CHIEF Telecom Inc. in October 2007. CHIEF engages mainly in internet communication and internet data center ( IDC ) service.

Chunghwa invested Donghwa Telecom Co., Ltd. ( DHT ) in December 2007 and September 2008 for a purchase price of \$11,430 thousand and \$189,833 thousand, DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services.

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

Chunghwa established Viettel-CHT Co., Ltd. with Viettel Co., Ltd. ( Viettel-CHT ) in Vietnam in April 2008, by investing \$91,239 thousand cash at the end of September 2008. V-CHT engages mainly in IDC services.

Chunghwa invested Chunghwa Telecom Global, Inc. ( CHTG ) in December 2007, for a purchase price of \$70,429 thousand. CHTG engages mainly in international data and internet services and long distance wholesales.

Chunghwa invested Skysoft Co., Ltd. ( SKYSOFT ) in October 2007, for a purchase price of \$67,025 thousand. SKYSOFT engages mainly in providing of music on-line, software, electronic information and advertisement services.

Chunghwa invested KingWay Technology Co., Ltd. ( KWT ) in January 2008, for a purchasing price of \$71,770 thousand. KWT engages mainly in publishing books, data processing and software services.

Chunghwa increased its ownership of Spring House Entertainment Inc. ( SHE ) from 30% to 56% in January 2008, for a purchase price of \$39,800 thousand, and SHE becomes a subsidiary of Chunghwa. SHE engages mainly in network services, producing digital entertainment content and broadband visual sound terrace development.

The Company invested in ELTA Technology Co., Ltd. in April and October 2007, for a purchase price of \$27,455 thousand and \$16,768 thousand, respectively. ELTA engages mainly in professional on-line and mobile value-added content aggregative services. Chunghwa sold all shares of ELTA with carrying value \$51,152 thousand on July 23, 2008 for a selling price of \$44,047 thousand and recognized a disposal loss of \$7,105 thousand.

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

Chunghwa established Chunghwa Telecom Japan Co., Ltd. ( CHJ ), a 100% owned subsidiary in October 2008 by investing \$3,070 thousand cash, CHJ engages mainly in telecommunication business, data processing and related services, development and sale of software and consulting services in telecommunication.

The equity in earnings (losses) of equity investees for the nine months ended September 30, 2008 and 2007, are based on unreviewed financial statements except the equity in earnings of SENAO.

The aggregate carrying values of the equity method investments whose financial statements have not been reviewed were \$7,197,490 thousand and \$2,237,667 thousand as of September 30, 2008 and 2007, respectively. The equity in earning were \$125,741 thousand and \$162,021 thousand for the nine months ended September 30, 2008 and 2007, respectively.

### 13. FINANCIAL ASSETS CARRIED AT COST

|   | September 30        |              |                     |              |
|---|---------------------|--------------|---------------------|--------------|
|   | 2008                | %            | 2007                | %            |
|   | Carrying Value      | of Ownership | Carrying Value      | of Ownership |
| Cost investees:   |                     |              |                     |              |
| Taipei Financial Center ( TFC )                                   | \$ 1,789,530        | 12           | \$ 1,789,530        | 12           |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. ( IBT II ) | 200,000             | 17           |                     |              |
| Global Mobile Corp. ( GMC )                                       | 127,018             | 11           |                     |              |
| iD Branding Ventures ( iDBV )                                     | 75,000              | 8            | 75,000              | 8            |
| RPTI International ( RPTI )                                       | 34,500              | 12           | 71,500              | 12           |
| Essence Technology Solution, Inc. ( ETS )                         | 20,000              | 9            |                     |              |
| Siemens Telecommunication Systems ( Siemens )                     |                     |              | 5,250               | 15           |
|   | <b>\$ 2,246,048</b> |              | <b>\$ 1,941,280</b> |              |

Chunghwa invested in IBT II in January 2008, for a purchase price of \$200,000 thousand. IBT II engages mainly in investment and completed its incorporation on February 13, 2008.

Chunghwa invested in GMC in December 2007, for a purchase price of \$168,038 thousand for 16,796 thousand shares. GMC engages mainly in computer software wholesale and circuit engineering and wire communication services. The National Communications Commission ( NCC ) informed Chunghwa with the Communication Letter (#0974102087) on April 1, 2008 that its investment in GMC has been overruled, and notified Chunghwa officially on May 5, 2008 that Chunghwa should dispose of all investment in GMC no later than June 30, 2008, otherwise, NCC will enforce a fine according to Telecommunication Act, and the fine may be imposed consecutively until the violation is rectified. Chunghwa disposed of 4,100 thousand stocks of GMC in April 2008. Chunghwa has filed an appeal to NCC on April 30, 2008 and requested the NCC to officially suspend the enforcement on June 10, 2008. On July 3, 2008, NCC resolved that according to the administrative penal provisions, Chunghwa stated that the investment target couldn't be transacted in the short term. Therefore, NCC determined that Chunghwa will not be subject to fine in a suitable time.

After evaluating the investment in RPTI, Chunghwa determined the investment in RPTI was impaired and recognized an impairment loss of \$15,000 thousand for the nine months ended September 30, 2008 and \$22,000 thousand for the year ended December 31, 2007.

Chunghwa invested ETS in December 2007, for a purchase price of \$20,000 thousand. ETS mainly engaged in IP-Private Branch Exchange (IP PBX) and design of voice security module.

Chunghwa disposed all shares of Siemens with carrying value \$5,250 thousand in March 2008, for a selling price of \$314,055 thousand and Chunghwa recognized a disposal gain of \$308,805 thousand.

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



**14. OTHER NONCURRENT MONETARY ASSETS**

|             | September 30 |              |
|-------------|--------------|--------------|
|             | 2008         | 2007         |
| Piping Fund | \$ 1,000,000 | \$ 1,000,000 |

As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute a total of \$1,000,000 thousand to a Fixed-Line Fund managed by a Piping Fund administered by the Taipei City Government. These funds were used to finance various telecommunications infrastructure projects. Upon completion of the construction projects, the parties using the infrastructure shall reimburse the money to the contributors.

**15. PROPERTY, PLANT AND EQUIPMENT**

|   | September 30          |                       |
|---|-----------------------|-----------------------|
|   | 2008                  | 2007                  |
| <b>Cost</b>   |                       |                       |
| Land  | \$ 101,872,198        | \$ 100,917,029        |
| Land improvements   | 1,487,827             | 1,479,005             |
| Buildings   | 62,455,514            | 59,654,629            |
| Computer equipment  | 14,844,193            | 15,016,006            |
| Telecommunications equipment  | 642,472,190           | 637,106,261           |
| Transportation equipment  | 2,732,563             | 3,187,435             |
| Miscellaneous equipment   | 7,322,378             | 7,818,461             |
| <b>Total cost</b>   | <b>833,186,863</b>    | <b>825,178,826</b>    |
| Revaluation increment on land   | 5,820,548             | 5,823,991             |
|   | <b>839,007,411</b>    | <b>831,002,817</b>    |
| <b>Accumulated depreciation</b>   |                       |                       |
| Land improvements   | 885,231               | 840,344               |
| Buildings   | 15,997,345            | 14,939,790            |
| Computer equipment  | 11,487,918            | 11,520,347            |
| Telecommunications equipment  | 500,163,851           | 484,079,389           |
| Transportation equipment  | 2,591,062             | 3,068,682             |
| Miscellaneous equipment   | 6,268,538             | 6,731,167             |
|   | <b>537,393,945</b>    | <b>521,179,719</b>    |
| Construction in progress and advances related to acquisition of equipment | 16,537,168            | 18,871,452            |
| <b>Property, plant and equipment, net</b>                                 | <b>\$ 318,150,634</b> | <b>\$ 328,694,550</b> |

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

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went into effect on February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of \$116,196 thousand to stockholder's equity - other adjustments. As of September 30, 2008, capital surplus from revaluation of land had decreased to \$5,823,085 thousand by disposal revaluation assets.



Depreciation on property, plant and equipment for the nine months ended September 30, 2008 and 2007 amounted to \$27,752,894 thousand and \$29,051,569 thousand, respectively. No interest expense was capitalized for the nine months ended September 30, 2008 and 2007.

## 16. ACCRUED EXPENSES

|                                 | September 30  |              |
|---------------------------------|---------------|--------------|
|                                 | 2008          | 2007         |
| Accrued salary and compensation | \$ 7,108,393  | \$ 5,819,818 |
| Accrued franchise fees          | 1,799,405     | 1,654,964    |
| Other accrued expenses          | 1,569,658     | 1,925,170    |
|                                 | \$ 10,477,456 | \$ 9,399,952 |

## 17. OTHER CURRENT LIABILITIES

|                                       | September 30  |               |
|---------------------------------------|---------------|---------------|
|                                       | 2008          | 2007          |
| Advances from subscribers             | \$ 5,800,071  | \$ 4,900,289  |
| Amounts collected in trust for others | 2,646,872     | 3,288,017     |
| Payables to equipment suppliers       | 1,300,021     | 1,239,249     |
| Refundable customers deposits         | 964,655       | 974,690       |
| Payables to contractors               | 953,902       | 636,950       |
| Miscellaneous                         | 2,821,960     | 2,977,338     |
|                                       | \$ 14,487,481 | \$ 14,016,533 |

## 18. STOCKHOLDERS EQUITY

Under Chunghwa's Articles of Incorporation Chunghwa'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 9,557,776,912 shares, and 2 preferred shares (at \$10 par value per share), which was approved by the board of directors to be issue on March 28, 2006, and the MOTC purchased 2 preferred shares at par value on April 4, 2006.

For the purpose of privatizing Chunghwa, the MOTC sold 1,109,750 thousand common shares of Chunghwa 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 Chunghwa, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. The MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of September 30, 2008, the outstanding ADSs were 160,324 thousand units, which equaled approximately 1,603,239 thousand common shares and represented 16.77% of Chunghwa's total outstanding common shares.

The ADS holders generally have the same rights and obligations as other common stockholders, 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 Chunghwa'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 Chunghwa 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 Chunghwa or the nature of its business and any transfer of a substantial portion of Chunghwa's business or property.
- d. The holder of the preferred shares may not transfer the ownership. The Company must redeem all outstanding preferred shares within three years from the date of their issuance.

Under the ROC Company Law, additional paid-in capital may only be utilized to offset deficits. For those companies having no deficits, additional paid-in capital arising from capital surplus can be used to increase capital stock and distribute to stockholders in proportion to their ownership at the ex-dividend date. Also, such amounts can only be declared as a stock dividend by Chunghwa at an amount calculated in accordance with the provisions of existing regulations. However, the statement above is not limited to the additional paid-in capital generating from company reforming, such as merger, acquisition, and reconstruction.

In addition, before distributing a dividend or making any other distribution to stockholders, Chunghwa 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; (b) no more than 0.2% of distributable earnings shall be distributed to board of directors and supervisors as remuneration; and (c) cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividends to be distributed is less than NT\$0.10 per share, such cash dividend shall be distributed in the form of common shares.

Chunghwa operates in a capital-intensive and technology intensive industry and Chunghwa requires capital expenditures to sustain its competitive position in high-growth market. Thus, Chunghwa'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.

For the nine months ended September 30, 2008, the accrual amounts for bonuses to employees and remuneration to directors and supervisors were accrued based on past experiences and represented 3.37% and 0.2%, respectively, of net income after setting aside 10% legal reserve.



If the initial accrual amounts of the aforementioned bonus are significantly different from the amounts proposed by the board of directors, the difference is charged to the earnings of the year making the initial estimate. Otherwise, the difference between initial accrual amount and the amount resolute in the shareholders' meeting is charged to the earnings of the following year as a result of change in accounting estimate.

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 Chunghwa. 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 Chunghwa, up to 50% of the reserve may, at the option of Chunghwa, be declared as a stock dividend and transferred to capital.

The appropriations and distributions of the 2007 and 2006 earnings of the company have been approved and resolved by the stockholders on June 19, 2008 and June 15, 2007 as follows:

|   | Appropriation and Distribution |              | Dividend Per Share |      |
|---|--------------------------------|--------------|--------------------|------|
|   | 2007                           | 2006         | 2007               | 2006 |
| Legal reserve                             | \$ 4,823,356                   | \$ 3,998,445 | \$                 | \$   |
| Reverse for special reserve               | 3,304                          | 1,461        |                    |      |
| Cash dividends                            | 40,716,130                     | 34,610,885   | 4.26               | 3.58 |
| Stock dividends                           | 955,778                        |              | 0.10               |      |
| Employee profit sharing - cash            | 1,303,605                      | 1,256,619    |                    |      |
| Employee profit sharing - stock           | 434,535                        |              |                    |      |
| Remuneration to directors and supervisors | 43,454                         | 35,904       |                    |      |

On June 27, 2008, the board of directors of Chunghwa resolved to transfer capital surplus in the amount of \$19,115,554 thousand to capital stock. Furthermore, they resolved to reduce the same amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and to refund the excess funds to shareholders. The proposal was resolved by the stockholders at a meeting which was held on August 14, 2008.

The abovementioned 2008 capital increase proposal was effectively registered with Securities and Futures Bureau of Financial Supervisory Commission, Executive Yuan ( SFC ). The board of directors resolved the ex-dividend date of the aforementioned proposal as October 25, 2008.

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

The above 2007 capital increase proposal was effectively registered with SFC. The board of directors resolved the ex-dividend date of aforementioned proposal as August 1, 2007.

The stockholders, at the stockholders' meeting held on June 15, 2007, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of NT\$9,667,845 thousand to common capital stock. Chunghwa obtained the approval letter from Financial Supervisory Commission, Executive Yuan which stated the effective registration date of capital reduction is October 17, 2007. Chunghwa decided October 19, 2007 and December 29, 2007 as the record date and stock transfer date of capital reduction, respectively. Subsequently, common capital stock was reduced by NT\$9,667,845 thousand and a liability for the actual amount of cash to be distributed to stockholders of NT\$9,557,777 thousand was recorded. The difference between the reduction in common capital stock and the distribution amount represents treasury stock of NT\$110,068 thousand held by Chunghwa and concurrently cancelled. Also, the cash has been returned to stockholders in January 2008.

Information on the appropriation of 2007 earnings, employee bonus and remuneration to board of directors and supervisors proposed by the board of directors and resolved by the stockholders is available at the Market Observation Post System website.

Under the Integrated Income Tax System that became effective on July 1, 1998, R.O.C. resident stockholders are allowed a tax credit for their proportionate share of the income tax paid by Chunghwa on earnings generated since July 1, 1988.

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

|                              | Nine Months Ended<br>September 30 |        |
|------------------------------|-----------------------------------|--------|
|                              | 2008                              | 2007   |
| Balance, beginning of period | 110,068                           |        |
| Increase                     |                                   | 59,389 |
| Decrease                     | (110,068)                         |        |
| Balance, end of period       |                                   | 59,389 |

According to the Securities and Exchange Law of the ROC, total shares of treasury stock shall not exceed 10% of Chunghwa's stock issued. The total amount of repurchased shall not be more than the amount of retained earnings, capital surplus and realized additional paid-in capital. The shares repurchased by Chunghwa shall not be pledged in accordance with Securities and Exchange Law of the ROC. The holders of treasury stocks are not entitled to vote in stockholders' meetings.

In order to maintain its credit and stockholders' equity, Chunghwa repurchased 121,075 thousand treasury stock for \$7,217,562 thousand from August 29, 2007 to October 25, 2007. On December 29, 2007, Chunghwa cancelled 11,007 thousand shares of treasury stock by reducing common stock of \$110,068 thousand. The remaining treasury stock of 110,068 thousand shares amounted \$7,107,494 thousand was cancelled on February 21, 2008.

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

|                      | Nine Months Ended September 30, 2008 |                       |               |
|----------------------|--------------------------------------|-----------------------|---------------|
|                      | Cost of<br>Services                  | Operating<br>Expenses | Total         |
| Compensation expense |                                      |                       |               |
| Salaries             | \$ 9,054,779                         | \$ 6,222,985          | \$ 15,277,764 |
| Insurance            | 616,423                              | 421,274               | 1,037,697     |
| Pension              | 1,201,143                            | 857,298               | 2,058,441     |
| Other compensation   | 5,714,436                            | 3,893,124             | 9,607,560     |
|                      | \$ 16,586,781                        | \$ 11,394,681         | \$ 27,981,462 |
| Depreciation expense | \$ 26,232,253                        | \$ 1,520,641          | \$ 27,752,894 |
| Amortization expense | \$ 647,808                           | \$ 101,499            | \$ 749,307    |

|                      | Nine Months Ended September 30, 2007 |                       |               |
|----------------------|--------------------------------------|-----------------------|---------------|
|                      | Cost of<br>Services                  | Operating<br>Expenses | Total         |
| Compensation expense |                                      |                       |               |
| Salaries             | \$ 9,231,319                         | \$ 6,053,738          | \$ 15,285,057 |
| Insurance            | 608,639                              | 413,375               | 1,022,014     |
| Pension              | 1,316,951                            | 889,895               | 2,206,846     |
| Other compensation   | 6,606,351                            | 4,457,997             | 11,064,348    |
|                      | \$ 17,763,260                        | \$ 11,815,005         | \$ 29,578,265 |
| Depreciation expense | \$ 27,432,270                        | \$ 1,619,299          | \$ 29,051,569 |
| Amortization expense | \$ 647,397                           | \$ 65,949             | \$ 713,346    |

## 21. INCOME TAX

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

|   | Nine Months Ended<br>September 30 |               |
|---|-----------------------------------|---------------|
|   | 2008                              | 2007          |
| Income tax expense computed at statutory income tax rate of 25% to income before income tax | \$ 11,825,437                     | \$ 11,999,039 |
| Add (deduct) tax effect of:   |                                   |               |
| Permanent differences   | (396,987)                         | (380,898)     |
| Temporary differences   | 640,826                           | 790,471       |
| Additional tax at 10% on undistributed earnings   |                                   | 8,260         |
| Investment tax credits  | (1,053,332)                       | (1,761,824)   |
| Income tax payable  | \$ 11,015,944                     | \$ 10,655,048 |

The tax liabilities of September 2008 and 2007 are the net amount from deducting income tax payables by prepaid income tax.

|  | Nine Months Ended<br>September 30 |               |
|--|-----------------------------------|---------------|
|  | 2008                              | 2007          |
| b. Income tax expense consists of the following: |                                   |               |
| Income tax payable                               | \$ 11,015,944                     | \$ 10,655,048 |
| Income tax - separated                           | 223,196                           | 186,817       |
| Income tax - deferred                            | (497,179)                         | (693,403)     |
| Adjustments of prior years income tax            | 37,741                            | 61,293        |
|  | \$ 10,779,702                     | \$ 10,209,755 |



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

|   | September 30 |              |
|---|--------------|--------------|
|   | 2008         | 2007         |
| Current   |              |              |
| Deferred income tax assets:                         |              |              |
| Provision for doubtful accounts                     | \$ 474,975   | \$ 320,155   |
| Valuation loss on financial instruments, net        | 335,390      | 225,543      |
| Unrealized foreign exchange loss                    | 12,819       | 342          |
| Other   | 32,714       | 19,188       |
|   | 855,898      | 565,228      |
| Valuation allowance                                 | (474,975)    | (320,155)    |
| Net deferred income tax assets                      | \$ 380,923   | \$ 245,073   |
| Noncurrent deferred income tax assets:              |              |              |
| Accrued pension cost                                | \$ 1,395,793 | \$ 920,077   |
| Impairment loss                                     | 80,418       | 85,866       |
| Losses on disposal of property, plant and equipment | 12,970       | 12,970       |
|   | \$ 1,489,181 | \$ 1,018,913 |

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

|  | September 30  |           |
|--|---------------|-----------|
|  | 2008          | 2007      |
| Balance of Imputation Credit Account (ICA) | \$ 13,820,421 | \$ 83,684 |

The estimated and the actual creditable ratios distribution of Chunghwa s of 2007 and 2006 for earnings were 28.60% and 24.42%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

- e. Undistributed earnings information

As of September 30, 2008 and 2007, there is no earnings generated prior to June 30, 1998 in Chunghwa s undistributed earnings.

Income tax returns through the year ended December 31, 2005 had been examined by the ROC tax authorities.

**22. EARNINGS PER SHARE**

|   | Amount (Numerator)             |               | Weighted-average<br>Number of<br>Common<br>Shares<br>Outstanding<br>(Denominator) | Net Income per<br>Share (Dollars) |               |
|---|--------------------------------|---------------|---|-----------------------------------|---------------|
|   | Income<br>Before<br>Income Tax | Net Income    |   | Income<br>Before<br>Income<br>Tax | Net<br>Income |
| <b><u>Nine months ended September 30, 2008</u></b>  |                                |               |   |                                   |               |
| EPS was calculated as follows:  |                                |               |   |                                   |               |
| Basic earnings per share  | \$ 47,301,789                  | \$ 36,522,087 | 9,557,777   | \$ 4.95                           | \$ 3.82       |
| SENAO stock-based compensation  | (14,479)                       | (14,479)      |   |                                   |               |
| Employee bonus  |                                |               | 18,313  |                                   |               |
| Diluted earnings per share  | \$ 47,287,310                  | \$ 36,507,608 | 9,576,090   | \$ 4.94                           | \$ 3.81       |
| <b><u>Pro forma basic EPS adjusted for stock dividends with<br/>ex-dividend date after issuance of financial statements</u></b>       |                                |               |   |                                   |               |
|   | \$ 47,301,789                  | \$ 36,522,087 | 11,608,363  | \$ 4.07                           | \$ 3.15       |
| <b><u>Pro forma diluted EPS adjusted for stock dividends<br/>with ex-dividend date after issuance of financial<br/>statements</u></b> |                                |               |   |                                   |               |
|   | \$ 47,287,310                  | \$ 36,507,608 | 11,626,676  | \$ 4.07                           | \$ 3.14       |
| <b><u>Nine months ended September 30, 2007</u></b>  |                                |               |   |                                   |               |
| EPS was calculated as follows:  |                                |               |   |                                   |               |
| Basic earnings per share  | \$ 47,996,197                  | \$ 37,786,442 | 10,629,909  | \$ 4.52                           | \$ 3.55       |
| SENAO stock-based compensation  | (9,615)                        | (9,615)       |   |                                   |               |
| Diluted earnings per share  | \$ 47,986,582                  | \$ 37,776,827 | 10,629,909  | \$ 4.51                           | \$ 3.55       |
| <b><u>Pro forma basic EPS adjusted for stock dividends with<br/>ex-dividend date after issuance of financial statements</u></b>       |                                |               |   |                                   |               |
|   | \$ 47,996,197                  | \$ 37,786,442 | 12,680,495  | \$ 3.79                           | \$ 2.98       |
| <b><u>Pro forma diluted EPS adjusted for stock dividends<br/>with ex-dividend date after issuance of financial<br/>statements</u></b> |                                |               |   |                                   |               |
|   | \$ 47,986,582                  | \$ 37,776,827 | 12,680,495  | \$ 3.78                           | \$ 2.98       |

Chunghwa presumes that the bonuses to employees will be settled in shares and takes those shares into consideration when calculating the weighted average number of shares outstanding used in the calculation of diluted EPS for the nine months ended September 30, 2008. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa's shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the shareholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The diluted earnings per share for the nine months ended September 30, 2008 and 2007 was due to the effect of potential common stock of stock options by SENAO.

### **23. PENSION PLAN**

Chunghwa completed privatization plans on August 12, 2005. Chunghwa 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. After paying all pension obligations for privatization, the plan assets of Chunghwa should be transferred to the Fund for Privatization of Government-owned Enterprises (the Privatization Fund ) under the Executive Yuan. On August 7, 2006, Chunghwa transferred the remaining balance of fund to the Privatization Fund. However, according to the instructions of MOTC, Chunghwa would, on behalf of the MOTC 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.

The pension plan under 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 July 1, 2005 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 monthly contribution shall not be less than 6% of each employee's monthly salary. Chunghwa made monthly contributions equal to 6% of each employee's monthly salary to employee's pension accounts beginning July 1, 2005.

Chunghwa's pension plan is considered as a defined benefit plan under the Labor Standards Law that provide benefits based on an employee's length of service and average six-month salary prior to retirement at retirement. Chunghwa contributes an amount at 15% or less of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the names of the Committees in the Bank of Taiwan.

The balance of Chunghwa's plan assets subject to defined benefit plan were \$3,629,884 thousand and \$2,609,668 thousand as of September 30, 2008 and 2007, respectively.

Pension costs of Chunghwa were \$2,121,602 thousand (\$2,061,053 thousand subject to defined benefit plan and \$60,549 thousand subject to defined contribution plan) and \$2,291,856 thousand (\$2,244,312 thousand subject to defined benefit plan and \$47,544 thousand subject to defined contribution plan) for the nine months ended September 30, 2008 and 2007, respectively.

### **24. TRANSACTIONS WITH RELATED PARTIES**

The ROC Government, one of Chunghwa's customers, held significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, internet and data and other services to the various departments and institutions 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 transactions were not summarized by Chunghwa. Chunghwa believes that all costs of doing business are reflected in the financial statements.

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

| Company  | Relationship   |
|--|--|
| Senao International Co., Ltd. ( SENA O )                     | Subsidiary (it was the equity-method investee in January 2007, and has substantial control in April 2007.)   |
| Light Era Development Co., Ltd. ( LED )                      | Subsidiary   |
| CHIEF Telecom, Inc. ( CHIEF )                                | Subsidiary   |
| Chunghwa International Yellow Pages Co., Ltd. ( CIYP )       | Subsidiary   |
| Chunghwa System Integration Co., Ltd. ( CHSI )               | Subsidiary (it was the subsidiary of equity-method investee, Chunghwa Investment Co., Ltd., it becomes to Chunghwa s subsidiary since December 2007.)                |
| Spring House Entertainment Inc. ( SHE )                      | Subsidiary (it was the equity-method investee, it becomes to Chunghwa s subsidiary since January 2008)   |
| Chunghwa Telecom Global, Inc. ( CHTG )                       | Subsidiary (it was the subsidiary of equity-method investee, Chunghwa Investment Co., Ltd., it becomes to Chunghwa s subsidiary since December 2007.)                |
| Donghwa Telecom Co., Ltd. ( DHT )                            | Subsidiary (it was the indirect owned subsidiary of equity-method investee, Chunghwa Investment Co., Ltd., it becomes to Chunghwa s subsidiary since December 2007.) |
| New Prospect Investments Holdings Ltd. (B.V.I.)              | Subsidiary   |
| Prime Asia Investments Group Ltd. (B.V.I.)                   | Subsidiary   |
| Uni-Gate Telecom Inc.  | Subsidiary of CHIEF  |
| Taiwan International Standard Electronics Co., Ltd. ( TISE ) | Equity-method investee   |
| ELTA Technology Co., Ltd. ( ELTA )                           | Equity-method investee before (Chunghwa sold all shares in July 2008)  |
| Skysoft Co., Ltd. ( SKYSOFT )                                | Equity-method investee   |
| Chunghwa Precision Test Technical Co., Ltd. ( CHPT )         | Subsidiary of CHI  |
| Senao Networks, Inc. ( SNI )                                 | Equity-method investee of SENA O   |

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

|                                     | September 30 |     |            |     |
|-------------------------------------|--------------|-----|------------|-----|
|                                     | 2008         |     | 2007       |     |
|                                     | Amount       | %   | Amount     | %   |
| 1) Receivables from related parties |              |     |            |     |
| Trade notes and accounts receivable |              |     |            |     |
| SENAO                               | \$ 168,874   | 59  | \$ 321,304 | 88  |
| CHTG                                | 46,198       | 16  | 16,780     | 5   |
| CIYP                                | 33,366       | 12  | 4,355      | 1   |
| CHIEF                               | 27,307       | 10  | 20,465     | 6   |
| SHE                                 | 8,224        | 3   |            |     |
| Others                              | 404          |     | 726        |     |
|                                     | \$ 284,373   | 100 | \$ 363,630 | 100 |

|  | September 30 |     |              |     |
|--|--------------|-----|--------------|-----|
|  | 2008         |     | 2007         |     |
|  | Amount       | %   | Amount       | %   |
| 2) Payables to related parties                             |              |     |              |     |
| Trade notes payable, accounts payable and accrued expenses |              |     |              |     |
| SENAO  | \$ 797,535   | 48  | \$ 499,513   | 40  |
| TISE   | 160,501      | 10  | 56,554       | 5   |
| CHSI   | 134,463      | 8   | 150,948      | 12  |
| SNI  | 25,045       | 2   |              |     |
| CHTG   | 24,136       | 1   | 9,829        | 1   |
| CHIEF  | 19,734       | 1   | 4,821        | 1   |
| CIYP   | 4,823        |     | 66           |     |
| Others   | 26,564       | 2   | 1,466        |     |
|  | 1,192,801    | 72  | 723,197      | 59  |
| Payable to constructors                                    |              |     |              |     |
| TISE   | 19,978       | 1   | 77,577       | 6   |
| CHSI   | 3,152        |     |              |     |
|  | 23,130       | 1   | 77,577       | 6   |
| Amounts collected in trust for others                      |              |     |              |     |
| SENAO  | 318,277      | 19  | 434,143      | 35  |
| CIYP   | 117,738      | 7   |              |     |
| Others   | 10,988       | 1   | 3,631        |     |
|  | 447,003      | 27  | 437,774      | 35  |
|  | \$ 1,662,934 | 100 | \$ 1,238,548 | 100 |

3) Revenue in advance - land (included in other current liabilities )

|     |            |   |    |  |
|-----|------------|---|----|--|
| LED | \$ 243,460 | 2 | \$ |  |
|-----|------------|---|----|--|

|             | Nine Months Ended September 30 |   |            |   |
|-------------|--------------------------------|---|------------|---|
|             | 2007                           |   | 2006       |   |
|             | Amount                         | % | Amount     | % |
| 4) Revenues |                                |   |            |   |
| SENAO       | \$ 1,447,021                   | 1 | \$ 696,252 | 1 |
| CHIEF       | 152,199                        |   | 132,879    |   |
| CHTG        | 140,957                        |   | 60,627     |   |
| SKYSOFT     | 24,682                         |   |            |   |
| CHSI        | 20,768                         |   | 11,236     |   |
| CIYP        | 18,068                         |   | 7,306      |   |
| Others      | 12,896                         |   | 16,266     |   |
|             | \$ 1,816,591                   | 1 | \$ 924,566 | 1 |

|   | Nine Months Ended September 30 |   |              |   |
|---|--------------------------------|---|--------------|---|
|   | 2007                           |   | 2006         |   |
|   | Amount                         | % | Amount       | % |
| 5) Operating costs and expenses                 |                                |   |              |   |
| SENAO   | \$ 5,328,404                   | 6 | \$ 3,407,309 | 4 |
| TISE  | 396,925                        | 1 | 269,232      |   |
| CHSI  | 294,113                        |   | 398,830      | 1 |
| ELTA  | 189,744                        |   | 39,594       |   |
| CHIEF   | 121,886                        |   | 49,292       |   |
| CIYP  | 109,784                        |   | 4,043        |   |
| DHT   | 71,668                         |   |              |   |
| CHTG  | 50,561                         |   | 49,076       |   |
| SHE   | 30,089                         |   | 1,512        |   |
| SNI   | 8,050                          |   |              |   |
| Others  | 3                              |   | 3            |   |
|   | \$ 6,601,227                   | 7 | \$ 4,218,891 | 5 |
| 6) Acquisition of property, plant and equipment |                                |   |              |   |
| CHSI  | \$ 474,891                     | 3 | \$ 223,289   | 1 |
| TISE  | 313,803                        | 2 | 538,729      | 4 |
| CHTG  | 57,675                         |   | 35,292       |   |
| SENAO   | 725                            |   | 203          |   |
|   | \$ 847,094                     | 5 | \$ 797,513   | 5 |

Chunghwa sold the land with a carrying value of \$703,125 thousand to Light Era Development Co., Ltd. ( LED ) at price of \$1,820,880 thousand. However, since the gain on disposal of land amounting to \$1,117,755 thousand is unrealized, the gain is recognized as deferred credit - profit on intercompany transactions, and will not be recognized as revenue till the gain is realized in the future.

The transaction terms, except of SENAO, CHIEF, CIYP were determined in accordance with mutual agreements. The foregoing transactions with related parties were conducted under normal commercial terms.

## 25. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2008, Chunghwa's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of land and buildings of \$765,920 thousand.
- b. Acquisitions of telecommunications equipment of \$20,009,762 thousand.
- c. Unused letters of credit of approximately \$870,981 thousand.
- d. Contracts to print billing, envelopes and selling gifts \$142,212 thousand.

- e. Chunghwa also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Future lease payments were as follows:

| Year   | Rental Amount |
|--|---------------|
| 2008 (from October 1, 2008 to December 31, 2008) | \$ 336,787    |
| 2009   | 1,199,903     |
| 2010   | 886,041       |
| 2011   | 608,331       |
| 2012 and thereafter                              | 639,410       |

- f. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by Chunghwa on August 15, 1996 (classified as long-term investment - other monetary assets). When the fund is not sufficient, Chunghwa will contribute the remaining \$1,000,000 thousand after getting the notification from the Taipei City Government. Based on Chunghwa understanding of the Piping Fund terms, if the project is considered to be no longer necessary by the ROC government, Chunghwa will receive back its proportionate share of the net equity of the Piping Fund upon its dissolution.
- g. A portion of the land used by Chunghwa during the period July 1, 1996 to December 31, 2004 was co-owned by Chunghwa and Chunghwa Post Co., Ltd. In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to Chunghwa to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of Chunghwa's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, Chunghwa 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, Chunghwa has filed an appeal at the Taiwan Taipei District Court. As of audit report date, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.
- h. Giga Media filed a civil action against Chunghwa with the Taiwan Taipei District Court. The complaint alleged that Chunghwa infringed Giga Media's R.O.C. Patent No. I258284 which is a Point-to-Point Protocol over Ethernet ( PPPoE ) technique used to launch fixed IP of ADSL. Giga Media is seeking damages of \$500,000 thousand and interest calculated at 5% from the date the indictment was received by Chunghwa to the payment date. Chunghwa claims that its service technique is different from the nature of Giga Media's patent and that it does not need to use Giga Media's PPPoE technique for its services. Chunghwa has filed a statement of defense with the Taiwan Taipei District Court.

**26. FAIR VALUE OF FINANCIAL INSTRUMENTS**

a. Fair values of financial instruments were as follows:

|   | 2008            |               | September 30    |               | 2007            |            |
|---|-----------------|---------------|-----------------|---------------|-----------------|------------|
|   | Carrying Amount | Fair Value    | Carrying Amount | Fair Value    | Carrying Amount | Fair Value |
| <b>Assets</b>   |                 |               |                 |               |                 |            |
| Cash and cash equivalents   | \$ 98,976,773   | \$ 98,976,773 | \$ 54,079,967   | \$ 54,079,967 |                 |            |
| Financial assets at fair value through profit or loss                             | 95,359          | 95,359        | 126,016         | 126,016       |                 |            |
| Available-for-sale financial assets   | 14,931,598      | 14,931,598    | 21,152,088      | 21,152,088    |                 |            |
| Held-to-maturity financial assets - current                                       | 35,033          | 35,033        | 57,324          | 57,324        |                 |            |
| Trade notes and accounts receivable, net  | 10,786,930      | 10,786,930    | 12,133,650      | 12,133,650    |                 |            |
| Receivable from related parties   | 284,373         | 284,373       | 363,630         | 363,630       |                 |            |
| Other current monetary assets   | 3,730,033       | 3,730,033     | 6,875,722       | 6,875,722     |                 |            |
| Investments accounted for using equity method                                     | 8,392,002       | 9,423,134     | 3,340,576       | 5,776,387     |                 |            |
| Financial assets carried at cost  | 2,246,048       | 2,246,048     | 1,941,280       | 1,941,280     |                 |            |
| Held-to-maturity financial assets - noncurrent                                    | 1,315,061       | 1,315,061     | 322,291         | 322,291       |                 |            |
| Other noncurrent monetary assets  | 1,000,000       | 1,000,000     | 1,000,000       | 1,000,000     |                 |            |
| Refundable deposits   | 1,189,869       | 1,189,869     | 1,345,874       | 1,345,874     |                 |            |
| <b>Liabilities</b>  |                 |               |                 |               |                 |            |
| Financial liabilities at fair value through profit or loss                        | 1,424,194       | 1,424,194     | 904,144         | 904,144       |                 |            |
| Trade notes and accounts payable  | 6,839,590       | 6,839,590     | 7,289,690       | 7,289,690     |                 |            |
| Payables from related parties   | 1,662,934       | 1,662,934     | 1,238,548       | 1,238,548     |                 |            |
| Accrued expenses  | 10,477,456      | 10,477,456    | 9,399,952       | 9,399,952     |                 |            |
| Dividends Payable   | 40,716,130      | 40,716,130    |                 |               |                 |            |
| Amounts collected in trust for others (included in other current liabilities )    | 2,646,872       | 2,646,872     | 3,288,017       | 3,288,017     |                 |            |
| Payables to equipment suppliers (included in other current liabilities )          | 1,300,021       | 1,300,021     | 1,239,249       | 1,239,249     |                 |            |
| Refundable customers deposits (included in other current liabilities )            | 964,655         | 964,655       | 974,690         | 974,690       |                 |            |
| Payables to contractors (included in other current liabilities )                  | 953,902         | 953,902       | 636,950         | 636,950       |                 |            |
| Hedging derivative financial liabilities (included in other current liabilities ) | 6,460           | 6,460         | 767             | 767           |                 |            |
| Customers deposits  | 6,162,199       | 6,162,199     | 6,320,298       | 6,320,298     |                 |            |

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

- 1) The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. Because of the short maturities of these instruments, the carrying value represents a reasonable basis to estimate fair values. This method does not apply to the financial instruments discussed in Notes 2 and 3 below.
- 2) If the financial assets/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 readily available, valuation techniques is used incorporating estimates and assumptions that are consistent with prevailing market conditions.
- 3) Long-term investments are based on the net asset values of the investments in investees, if quoted market prices are not available.





c. Fair value of financial instruments were as follow:

|   | Amount Based on Quoted<br>Market Price<br>September 30 |            | Amount Determined Using<br>Valuation Techniques<br>September 30 |         |
|---|--|------------|---|---------|
|   | 2008   | 2007       | 2008  | 2007    |
| <b>Assets</b>   |  |            |   |         |
| Financial assets at fair value through profit or loss                                 | \$ 95,359  | \$ 126,016 | \$  | \$      |
| Available-for-sale financial assets   | 14,931,598   | 21,152,088 |   |         |
| Hedging derivative financial assets (classified as<br>other current monetary assets)  |  | 9,227      |   |         |
| <b>Liabilities</b>  |  |            |   |         |
| Financial liabilities at fair value through profit or<br>loss                         | 328,884  | 108,263    | 1,095,310   | 795,881 |
| Hedging derivative financial liabilities (classified<br>as other current liabilities) | 6,460  | 767        |   |         |

d. Information about financial risks

1) Market risk

The foreign exchange rate fluctuations would result in Chunghwa's foreign-currency-dominated assets and liabilities and open forward exchange contracts exposed to rate risk.

The fluctuations of market price would result in the index future contracts exposed to price 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, Chunghwa 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 Chunghwa 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 aforementioned financial instruments are reputable financial institutions. Management does not expect Chunghwa's exposure to default by those parties to be material.

3) Liquidation risk

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

4) Cash flow interest rate risk

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



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

e. Fair value hedge

Chunghwa entered into forward exchange contracts is mainly to hedge the fluctuation in exchange rates of beneficiary certificate denominated in foreign currency, which is fair value hedge. The transaction was assessed as highly effective for the nine months ended September 30, 2008.

Outstanding forward exchange contracts of hedging as of September 30, 2008 and 2007:

|                           | Currency | Maturity Date   | Contract Amount<br>(in Thousands) |
|---------------------------|----------|-----------------|-----------------------------------|
| <u>September 30, 2008</u> |          |                 |                                   |
| Sell                      | USD/NTD  | 2008.12         | US\$ 65,000                       |
| <u>September 30, 2007</u> |          |                 |                                   |
| Sell                      | USD/NTD  | 2007.10-2007.12 | US\$ 71,000                       |

As of September 30, 2008 and 2007, the forward exchange contract measured at fair value resulting in hedging derivative financial liability of \$6,460 thousand and 767 thousand (classified as other current liabilities), respectively. As of September 30, 2007, the forward exchange contract measured at fair value resulting in hedging derivative financial asset of \$9,227 thousand (classified as other current monetary assets).

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

1) Holding period and contract amounts

SENA0 entered into a forward exchange contract for the nine months ended September 30, 2008 and 2007 to reduce the exposure to foreign currency risk.

Outstanding forward exchange contracts as of September 30, 2008 and 2007:

|                           | Currency | Maturity Period | Contract Amount<br>(in Thousands) |
|---------------------------|----------|-----------------|-----------------------------------|
| <u>September 30, 2008</u> |          |                 |                                   |
| Buy                       | USD/NTD  | 2008.10         | NT\$ 197,981                      |
| <u>September 30, 2007</u> |          |                 |                                   |
| Buy                       | USD/NTD  | 2007.10         | NT\$ 175,362                      |

2) Market risk

SENAO engages in financial assets at fair value through gains or losses, which are domestic open-ended mutual funds and domestic convertible bonds. The market risk is the fluctuation of trading price, therefore, SENAO should evaluate cautiously while choosing the investment target. Additionally, SENAO uses forward contracts to hedge the fluctuations of adverse exchange rate on foreign currency assets and liabilities. The gain and loss from the fluctuation of exchange rate under forward contracts was offset by that of the hedged assets or liabilities. Therefore, the market risk was not significant.

3) Credit risk

Financial assets represents the potential loss that would be incurred by SENAO if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The maximum credit risk amount of all kinds of financial instruments is equal to its book value.

4) Liquidation risk

SENAO's investments in domestic open-end mutual fund and convertible bonds are publicly-traded, easily converted to cash. Therefore, no material cash flow risks are anticipated. The financial instruments categorized as financial assets carried at cost are investments that do not have a quoted market price in an active market. Therefore, material liquidation risk would be anticipated. SENAO uses forward contracts to hedge the fluctuations of adverse exchange rate on foreign currency assets and liabilities. There will be corresponding cash inflows or outflows upon maturity dates, and SENAO has sufficient cash flow and operating capital to meet the cash demand, thus; there shall be no risk on raising capital. In addition, the exchange rates in the forward contracts are fixed; therefore, there is no significant risk of cash flow.

## 27. ADDITIONAL DISCLOSURES

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

- a. Financing provided: None.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Please see Table 1.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 2.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 5.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 6.



- i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 7.
  
- j. Financial transactions: Please see Notes 5 and 26.
  
- k. Investment in Mainland China: Please see Table 8.

**TABLE 1****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

|     |                            |   |                               |   |                             |                         |   |              |        | September 30, 2008 |  |
|-----|----------------------------|---|-------------------------------|---|-----------------------------|-------------------------|---|--------------|--------|--------------------|--|
| No. | Held Company Name          | Marketable Securities Type and Name                 | Relationship with the Company | Financial Statement Account                   | Shares                      |                         | Percentage of Market Value or Ownership |              | Note   |                    |  |
|     |                            |   |                               |   | (Thousands/ Thousand Units) | Carrying Value (Note 5) | Net Asset Value                         |              |        |                    |  |
| 0   | Chunghwa Telecom Co., Ltd. | <u>Common stock</u>                                 |                               |   |                             |                         |   |              |        |                    |  |
|     |                            | Senao International Co., Ltd.                       | Subsidiary                    | Investments accounted for using equity method | 71,773                      | \$ 1,271,196            | 29                                      | \$ 2,382,869 | Note 4 |                    |  |
|     |                            | Light Era Development Co., Ltd.                     | Subsidiary                    | Investments accounted for using equity method | 300,000                     | 2,987,971               | 100                                     | 2,987,971    | Note 1 |                    |  |
|     |                            | Chunghwa Investment Co., Ltd.                       | Equity-method investee        | Investments accounted for using equity method | 98,000                      | 853,148                 | 49                                      | 929,340      | Note 1 |                    |  |
|     |                            | Chunghwa System Integration Co., Ltd.               | Subsidiary                    | Investments accounted for using equity method | 60,000                      | 791,904                 | 100                                     | 634,807      | Note 1 |                    |  |
|     |                            | Chunghwa Telecom Singapore Pte. Ltd.                | Subsidiary                    | Investments accounted for using equity method | 34,869                      | 784,461                 | 100                                     | 784,461      | Note 1 |                    |  |
|     |                            | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee        | Investments accounted for using equity method | 1,760                       | 572,470                 | 40                                      | 740,740      | Note 1 |                    |  |
|     |                            | CHIEF Telecom Inc.                                  | Subsidiary                    | Investments accounted for using equity method | 37,942                      | 408,203                 | 69                                      | 360,139      | Note 1 |                    |  |
|     |                            | Donghwa Telecom Co., Ltd.                           | Subsidiary                    | Investments accounted for using equity method | 51,590                      | 216,011                 | 100                                     | 216,011      | Note 1 |                    |  |
|     |                            | Chunghwa International Yellow Pages Co., Ltd.       | Subsidiary                    | Investments accounted for using equity method | 15,000                      | 120,697                 | 100                                     | 120,697      | Note 1 |                    |  |
|     |                            | Viettel-CHT Co., Ltd.                               | Equity-method investee        | Investments accounted for using equity method | 3,000                       | 97,711                  | 33                                      | 97,711       | Note 1 |                    |  |
|     |                            | Chunghwa Telecom Global, Inc.                       | Subsidiary                    | Investments accounted for using equity        | 6,000                       | 86,931                  | 100                                     | 78,914       | Note 1 |                    |  |



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|   |                        |   |         |           |     |           |        |
|---|------------------------|---|---------|-----------|-----|-----------|--------|
| Skysoft Co., Ltd.   | Equity-method investee | method<br>Investments accounted for using equity method | 4,438   | 81,022    | 30  | 41,655    | Note 1 |
| KingWay Technology Co., Ltd.                                    | Equity-method investee | Investments accounted for using equity method           | 1,002   | 76,207    | 33  | 18,267    | Note 1 |
| Spring House Entertainment Inc.                                 | Subsidiary             | Investments accounted for using equity method           | 5,996   | 44,070    | 56  | 29,552    | Note 1 |
| New Prospect Investments Holdings Ltd. (B.V.I.)                 | Subsidiary             | Investments accounted for using equity method           |         |           | 100 |           | Note 2 |
| Prime Asia Investments Group Ltd. (B.V.I.)                      | Subsidiary             | Investments accounted for using equity method           |         |           | 100 |           | Note 2 |
| Taipei Financial Center   |                        | Financial assets carried at cost                        | 172,927 | 1,789,530 | 12  | 1,408,325 | Note 1 |
| PRTI International  |                        | Financial assets carried at cost                        | 9,234   | 34,500    | 12  | 34,961    | Note 1 |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II) |                        | Financial assets carried at cost                        | 20,000  | 200,000   | 17  | 198,902   | Note 1 |
| Global Mobile Corp.   |                        | Financial assets carried at cost                        | 12,696  | 127,018   | 11  | 119,777   | Note 1 |

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|     |                   | September 30, 2008                              |                               |                                     |                             |                         |                         |                 |        |
|-----|-------------------|---|-------------------------------|-------------------------------------|-----------------------------|-------------------------|-------------------------|-----------------|--------|
| No. | Held Company Name | Marketable Securities Type and Name             | Relationship with the Company | Financial Statement Account         | Shares                      |                         | Market Value or         |                 | Note   |
|     |                   |   |                               |                                     | (Thousands/ Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Net Asset Value |        |
|     |                   | iD Branding Ventures                            |                               | Financial assets carried at cost    | 7,500                       | \$ 75,000               | 8                       | \$ 77,299       | Note 1 |
|     |                   | Essence Technology Solution, Inc.               |                               | Financial assets carried at cost    | 2,000                       | 200,000                 | 9                       | 5,652           | Note 1 |
|     |                   | ABBOTT LABORATORIES COM NPV                     |                               | Available-for-sale financial assets | 4                           | 5,303                   |                         | 6,477           | Note 4 |
|     |                   | ACOM CO LTD. JPY50                              |                               | Available-for-sale financial assets | 4                           | 3,614                   |                         | 4,713           | Note 4 |
|     |                   | ADIDAS AG NPV                                   |                               | Available-for-sale financial assets | 4                           | 6,996                   |                         | 6,177           | Note 4 |
|     |                   | ADOBE SYSTEMS INC COM USD0.0001                 |                               | Available-for-sale financial assets | 4                           | 4,696                   |                         | 5,055           | Note 4 |
|     |                   | AEGIS GROUP PLC GBP0.05                         |                               | Available-for-sale financial assets | 58                          | 4,690                   |                         | 3,125           | Note 4 |
|     |                   | AGGREKO PLC ORD                                 |                               | Available-for-sale financial assets | 10                          | 2,212                   |                         | 3,126           | Note 4 |
|     |                   | AIOI INSURANCE CO LTD. NPV                      |                               | Available-for-sale financial assets | 20                          | 3,048                   |                         | 3,123           | Note 4 |
|     |                   | ALSTOM EUR14 (POST-CONSOLIDATION)               |                               | Available-for-sale financial assets | 2                           | 3,501                   |                         | 4,895           | Note 4 |
|     |                   | ALTERA CORP COM                                 |                               | Available-for-sale financial assets | 8                           | 5,368                   |                         | 5,249           | Note 4 |
|     |                   | ANGLO AMERICAN PLC USD0.54945 (POST CONSOLIDAT) |                               | Available-for-sale financial assets | 2                           | 4,508                   |                         | 2,603           | Note 4 |
|     |                   | APPLE INC                                       |                               | Available-for-sale financial assets | 1                           | 2,797                   |                         | 3,816           | Note 4 |
|     |                   | APPLIED BIOSYSTEMS INC                          |                               | Available-for-sale financial assets | 5                           | 5,091                   |                         | 5,502           | Note 4 |
|     |                   | ASTELLAS PHARMA INC SHS                         |                               | Available-for-sale financial assets | 2                           | 3,019                   |                         | 2,949           | Note 4 |
|     |                   | ASTRAZENECA PLC ORD USD0.25                     |                               | Available-for-sale financial assets | 3                           | 4,467                   |                         | 4,166           | Note 4 |
|     |                   | AVIVA PLC ORDINARY 25P SHARES                   |                               | Available-for-sale financial assets | 15                          | 5,637                   |                         | 4,039           | Note 4 |
|     |                   | AVON PRODS INC COM                              |                               | Available-for-sale financial assets | 4                           | 5,383                   |                         | 5,208           | Note 4 |
|     |                   | AXA EUR2.29                                     |                               | Available-for-sale financial assets | 5                           | 5,748                   |                         | 5,706           | Note 4 |
|     |                   | BANCO ESPIRITO SANTO-REG EUR5                   |                               | Available-for-sale financial assets | 12                          | 8,168                   |                         | 4,790           | Note 4 |
|     |                   | BANCO POPOLARE SPA EUR3.60                      |                               | Available-for-sale financial assets | 12                          | 6,831                   |                         | 5,931           | Note 4 |
|     |                   | BANCO SANTANDER SA                              |                               | Available-for-sale financial assets | 11                          | 5,736                   |                         | 5,451           | Note 4 |
|     |                   | BANCO SANTANDER SA                              |                               | Available-for-sale financial assets |                             |                         |                         |                 |        |
|     |                   | BASF SE Eur 1.28                                |                               | Available-for-sale financial assets | 3                           | 7,002                   |                         | 5,016           | Note 4 |
|     |                   | BAXTER INTERNATIONAL INC COM USD1               |                               | Available-for-sale financial assets | 2                           | 4,279                   |                         | 5,202           | Note 4 |
|     |                   | BECTON DICKINSON & CO COM                       |                               | Available-for-sale financial assets | 2                           | 4,666                   |                         | 5,222           | Note 4 |
|     |                   | BENESSE CORPORATION                             |                               | Available-for-sale financial assets | 3                           | 3,646                   |                         | 3,553           | Note 4 |
|     |                   | BG GROUP PLC ORD GBP0.10                        |                               | Available-for-sale financial assets | 7                           | 4,445                   |                         | 3,995           | Note 4 |
|     |                   | BHP BILLITON PLC USD0.50                        |                               | Available-for-sale financial assets | 5                           | 2,882                   |                         | 3,333           | Note 4 |
|     |                   | BMC SOFTWARE INC COM                            |                               | Available-for-sale financial assets | 5                           | 5,496                   |                         | 4,889           | Note 4 |
|     |                   | BNP PARIBAS EUR2                                |                               | Available-for-sale financial assets | 2                           | 8,390                   |                         | 7,396           | Note 4 |
|     |                   | BP PLC ORD USD0.25                              |                               | Available-for-sale financial assets | 29                          | 10,622                  |                         | 7,849           | Note 4 |

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|  |  |    |       |       |        |
|--|--|----|-------|-------|--------|
|  | Available-for-sale<br>financial assets |    |       |       |        |
| CAMERON<br>INTERNATIONAL CORP<br>COM USD0.01 | Available-for-sale<br>financial assets | 4  | 5,445 | 4,889 | Note 4 |
| CAPITA GROUP PLC ORD<br>GBP0.02066667        | Available-for-sale<br>financial assets | 12 | 4,936 | 4,683 | Note 4 |
| CASIO COMPUTER CO<br>LTD. ORD                | Available-for-sale<br>financial assets | 8  | 3,515 | 2,380 | Note 4 |
| CHEVRON CORP COM<br>USD0.75                  | Available-for-sale<br>financial assets | 2  | 4,108 | 5,319 | Note 4 |
| COLGATE PALMOLIVE<br>CO COM                  | Available-for-sale<br>financial assets | 2  | 5,485 | 5,404 | Note 4 |
| COMPASS GROUP PLC<br>ORD                     | Available-for-sale<br>financial assets | 19 | 3,916 | 3,715 | Note 4 |
| COOPER INDS LTD. CL A                        | Available-for-sale<br>financial assets | 4  | 5,446 | 5,021 | Note 4 |
| CUMMINS INC COM<br>USD2.50                   | Available-for-sale<br>financial assets | 2  | 5,808 | 3,498 | Note 4 |
| CVS CAREMARK CORP<br>COM STK USD0.01         | Available-for-sale<br>financial assets | 4  | 5,208 | 4,326 | Note 4 |
| DAIHATSU MOTOR CO<br>LTD. NPV                | Available-for-sale<br>financial assets | 8  | 3,076 | 2,797 | Note 4 |
| DE LA RUE PLC ORD<br>GBP0.297619             | Available-for-sale<br>financial assets | 7  | 3,046 | 3,898 | Note 4 |

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| No. | Held Company Name | Marketable Securities Type and Name         | Relationship with the Company | Financial Statement Account         | September 30, 2008                 |                         | Market Value or Net Asset Value |          | Note   |
|-----|-------------------|---|-------------------------------|-------------------------------------|------------------------------------|-------------------------|---------------------------------|----------|--------|
|     |                   |   |                               |                                     | Shares (Thousands/ Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership         | Value    |        |
|     |                   | E.ON AG NPV                                 |                               | Available-for-sale financial assets | 4                                  | \$ 7,020                |                                 | \$ 5,764 | Note 4 |
|     |                   | EISAI CO LTD.                               |                               | Available-for-sale financial assets | 3                                  | 3,143                   |                                 | 3,136    | Note 4 |
|     |                   | EMERSON ELECTRIC CO COM USD0.50             |                               | Available-for-sale financial assets | 4                                  | 5,402                   |                                 | 5,198    | Note 4 |
|     |                   | ENEL  |                               | Available-for-sale financial assets | 23                                 | 6,701                   |                                 | 6,188    | Note 4 |
|     |                   | ENI SPA EUR1                                |                               | Available-for-sale financial assets | 6                                  | 7,043                   |                                 | 5,137    | Note 4 |
|     |                   | ERSTE GROUP BANK AG                         |                               | Available-for-sale financial assets | 4                                  | 7,759                   |                                 | 5,745    | Note 4 |
|     |                   | EXXON MOBIL CORP COM                        |                               | Available-for-sale financial assets | 2                                  | 5,204                   |                                 | 4,741    | Note 4 |
|     |                   | FAMILYMART CO LTD. FAMILYMART CO LTD.       |                               | Available-for-sale financial assets | 3                                  | 2,491                   |                                 | 3,565    | Note 4 |
|     |                   | FAST RETAILING CO LTD. NPV                  |                               | Available-for-sale financial assets | 2                                  | 3,490                   |                                 | 4,854    | Note 4 |
|     |                   | FIAT SPA                                    |                               | Available-for-sale financial assets | 12                                 | 6,298                   |                                 | 5,037    | Note 4 |
|     |                   | FIRSTGROUP PLC ORD GBP0.05                  |                               | Available-for-sale financial assets | 11                                 | 3,707                   |                                 | 3,471    | Note 4 |
|     |                   | FLUOR CORP NEW COM                          |                               | Available-for-sale financial assets | 2                                  | 5,172                   |                                 | 4,386    | Note 4 |
|     |                   | FRANCE TELECOM EUR4                         |                               | Available-for-sale financial assets | 7                                  | 8,418                   |                                 | 6,680    | Note 4 |
|     |                   | FUGRO NV-CVA EUR0.05                        |                               | Available-for-sale financial assets | 3                                  | 3,663                   |                                 | 5,391    | Note 4 |
|     |                   | FUJI HEAVY INDUSTRIES LTD. NPV              |                               | Available-for-sale financial assets | 16                                 | 2,903                   |                                 | 2,557    | Note 4 |
|     |                   | FUJITSU LTD. SHS                            |                               | Available-for-sale financial assets | 14                                 | 3,641                   |                                 | 2,504    | Note 4 |
|     |                   | FURUKAWA ELEC LTD. ORD                      |                               | Available-for-sale financial assets | 22                                 | 3,466                   |                                 | 3,064    | Note 4 |
|     |                   | GAMESTOP CORP-CL A NEW CLASS A COM USD0.001 |                               | Available-for-sale financial assets | 4                                  | 6,305                   |                                 | 4,265    | Note 4 |
|     |                   | GEMALTO EUR1                                |                               | Available-for-sale financial assets | 6                                  | 7,083                   |                                 | 6,790    | Note 4 |
|     |                   | GENERAL MILLS INC                           |                               | Available-for-sale financial assets | 3                                  | 5,389                   |                                 | 6,602    | Note 4 |
|     |                   | GENERAL MILLS INC                           |                               | Available-for-sale financial assets | 3                                  | 5,389                   |                                 | 6,602    | Note 4 |
|     |                   | GILEAD SCIENCES INC COM                     |                               | Available-for-sale financial assets | 4                                  | 4,231                   |                                 | 5,669    | Note 4 |
|     |                   | GLAXOSMITHKLINE PLC ORD GBP0.25             |                               | Available-for-sale financial assets | 3                                  | 2,658                   |                                 | 2,146    | Note 4 |
|     |                   | GRAINGER (W.W) INC COM                      |                               | Available-for-sale financial assets | 2                                  | 5,721                   |                                 | 5,675    | Note 4 |
|     |                   | HEINZ H J CO COM                            |                               | Available-for-sale financial assets | 4                                  | 5,409                   |                                 | 6,435    | Note 4 |
|     |                   | HITACHI CONSTRUCTION MACHINE NPV            |                               | Available-for-sale financial assets | 3                                  | 3,658                   |                                 | 2,556    | Note 4 |
|     |                   | IMPERIAL TOBACCO GROUP PLC ORD GBP0.10      |                               | Available-for-sale financial assets | 4                                  | 4,611                   |                                 | 3,808    | Note 4 |
|     |                   | INDRA SISTEMAS SA EUR0.20 SER A             |                               | Available-for-sale financial assets | 8                                  | 7,143                   |                                 | 6,296    | Note 4 |
|     |                   | ING GROEP NV CVA EUR0.24                    |                               | Available-for-sale financial assets | 6                                  | 6,601                   |                                 | 4,201    | Note 4 |
|     |                   | INPEX HOLDINGS INC COM STK JPY1             |                               | Available-for-sale financial assets |                                    | 2,315                   |                                 | 2,474    | Note 4 |

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|  |  |    |       |       |        |
|--|--|----|-------|-------|--------|
| INTESA SANPAOLO<br>SPA INTESA<br>SANPAOLO SPA  | Available-for-sale<br>financial assets | 36 | 6,529 | 6,377 | Note 4 |
| INTL BUSINESS<br>MACHINES CORP<br>COM USD0.20  | Available-for-sale<br>financial assets | 1  | 4,526 | 5,370 | Note 4 |
| ITOCHU CORP ORD                                | Available-for-sale<br>financial assets | 11 | 3,440 | 2,099 | Note 4 |
| ITT CORP                                       | Available-for-sale<br>financial assets | 2  | 4,921 | 4,299 | Note 4 |
| JAPAN PETROLEUM<br>EXPLORATION SHS             | Available-for-sale<br>financial assets | 2  | 2,971 | 2,645 | Note 4 |
| JFE HOLDINGS INC<br>NPV                        | Available-for-sale<br>financial assets | 3  | 2,946 | 2,439 | Note 4 |
| JGC CORPORATION                                | Available-for-sale<br>financial assets | 5  | 3,187 | 2,537 | Note 4 |
| JOHNSON &<br>JOHNSON COM USD1                  | Available-for-sale<br>financial assets | 3  | 6,195 | 6,709 | Note 4 |
| JPMORGAN CHASE &<br>CO COM USD1                | Available-for-sale<br>financial assets | 4  | 5,646 | 5,828 | Note 4 |
| KAJIMA<br>CORPORATION<br>KAJIMA<br>CORPORATION | Available-for-sale<br>financial assets | 31 | 4,059 | 2,976 | Note 4 |
| KONAMI CORP JPY50                              | Available-for-sale<br>financial assets | 3  | 3,440 | 2,237 | Note 4 |

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|     |                   |  |                               |                                     | September 30, 2008          |                         |                         |                                 |        |
|-----|-------------------|--|-------------------------------|-------------------------------------|-----------------------------|-------------------------|-------------------------|---------------------------------|--------|
| No. | Held Company Name | Marketable Securities Type and Name    | Relationship with the Company | Financial Statement Account         | Shares                      |                         | Percentage of Ownership | Market Value or Net Asset Value |        |
|     |                   |  |                               |                                     | (Thousands/ Thousand Units) | Carrying Value (Note 5) |                         |                                 | Note   |
|     |                   | KONINKLIJKE AHOLD NV EUR0.30           |                               | Available-for-sale financial assets | 16                          | \$ 7,615                |                         | \$ 5,918                        | Note 4 |
|     |                   | KONINKLIJKE KPN NV EUR0.24             |                               | Available-for-sale financial assets | 12                          | 7,272                   |                         | 5,798                           | Note 4 |
|     |                   | LOCKHEED MARTIN CORP COM               |                               | Available-for-sale financial assets | 1                           | 4,171                   |                         | 5,204                           | Note 4 |
|     |                   | LVMH MOET-HENNESSY LOUIS VUI EUR0.30   |                               | Available-for-sale financial assets | 2                           | 6,538                   |                         | 5,401                           | Note 4 |
|     |                   | M.A.N AG ORD                           |                               | Available-for-sale financial assets | 2                           | 5,421                   |                         | 3,984                           | Note 4 |
|     |                   | MAN GROUP PLC ORD USD0.03428571        |                               | Available-for-sale financial assets | 12                          | 4,620                   |                         | 2,338                           | Note 4 |
|     |                   | MAPFRE S.A.                            |                               | Available-for-sale financial assets | 45                          | 7,078                   |                         | 6,426                           | Note 4 |
|     |                   | MARUBENI CORPORATION                   |                               | Available-for-sale financial assets | 16                          | 3,305                   |                         | 2,297                           | Note 4 |
|     |                   | MATSUSHITA ELECTRIC INDL CO            |                               | Available-for-sale financial assets | 5                           | 3,330                   |                         | 2,753                           | Note 4 |
|     |                   | MCDONALD S CORP COM USD0.01            |                               | Available-for-sale financial assets | 3                           | 4,113                   |                         | 6,344                           | Note 4 |
|     |                   | MERCK KGAA NPV                         |                               | Available-for-sale financial assets | 2                           | 8,065                   |                         | 5,986                           | Note 4 |
|     |                   | METLIFE INC COM                        |                               | Available-for-sale financial assets | 3                           | 5,462                   |                         | 5,333                           | Note 4 |
|     |                   | MICROSOFT CORP COM USD0.0000125        |                               | Available-for-sale financial assets | 6                           | 4,988                   |                         | 4,716                           | Note 4 |
|     |                   | MITSUBISHI CORP ORD                    |                               | Available-for-sale financial assets | 3                           | 1,903                   |                         | 2,247                           | Note 4 |
|     |                   | MITSUBISHI ELECTRIC CORP NPV           |                               | Available-for-sale financial assets | 12                          | 3,393                   |                         | 2,543                           | Note 4 |
|     |                   | MITSUBISHI MOTORS CORP NPV             |                               | Available-for-sale financial assets | 56                          | 3,037                   |                         | 2,989                           | Note 4 |
|     |                   | mitsui O.S.K. LINES LTD.               |                               | Available-for-sale financial assets | 9                           | 3,460                   |                         | 2,440                           | Note 4 |
|     |                   | MONSANTO CO NEW COM                    |                               | Available-for-sale financial assets | 1                           | 5,327                   |                         | 4,611                           | Note 4 |
|     |                   | MOODY S CORP COM USD0.01               |                               | Available-for-sale financial assets | 2                           | 2,668                   |                         | 2,278                           | Note 4 |
|     |                   | MORGAN STANLEY COM STK USD0.01         |                               | Available-for-sale financial assets | 2                           | 2,644                   |                         | 1,507                           | Note 4 |
|     |                   | MORRISON W SUPRMKT ORD GBP0.10         |                               | Available-for-sale financial assets | 25                          | 4,790                   |                         | 3,703                           | Note 4 |
|     |                   | NATIONAL BANK OF GREECE EUR5.00 (REGD) |                               | Available-for-sale financial assets |                             | 1                       |                         |                                 | Note 4 |
|     |                   | NATIONAL-OILWELL VARCO INC COM USD0.01 |                               | Available-for-sale financial assets | 2                           | 2,991                   |                         | 3,186                           | Note 4 |
|     |                   | NIKE INC -CL B CLASS B COM NPV         |                               | Available-for-sale financial assets | 3                           | 6,351                   |                         | 6,911                           | Note 4 |
|     |                   | NIKON CORP                             |                               | Available-for-sale financial assets | 4                           | 2,577                   |                         | 3,012                           | Note 4 |
|     |                   | NINTENDO CO LTD. NPV                   |                               | Available-for-sale financial assets |                             | 3,254                   |                         | 2,663                           | Note 4 |
|     |                   | NIPPON ELECTRIC GLASS CO LTD.          |                               | Available-for-sale financial assets | 6                           | 3,745                   |                         | 1,704                           | Note 4 |
|     |                   | NIPPON SHEET GLASS CO LTD.             |                               | Available-for-sale financial assets | 17                          | 2,858                   |                         | 2,790                           | Note 4 |
|     |                   | NIPPON YUSEN KABUSHIKI KAISH NPV       |                               | Available-for-sale financial assets | 12                          | 3,825                   |                         | 2,459                           | Note 4 |

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|   |  |    |       |       |        |
|---|--|----|-------|-------|--------|
| NOKIA OYJ EUR0.06                           | Available-for-sale<br>financial assets | 8  | 7,132 | 4,674 | Note 4 |
| NORTHERN TRUST<br>CORP COM USD1.666         | Available-for-sale<br>financial assets | 2  | 4,821 | 5,011 | Note 4 |
| NYSE EURONEXT<br>COM STK USD0.01            | Available-for-sale<br>financial assets | 3  | 6,184 | 3,284 | Note 4 |
| OCCIDENTAL<br>PETROLEUM CORP<br>COM USD0.20 | Available-for-sale<br>financial assets | 2  | 4,780 | 5,195 | Note 4 |
| OLD MUTUAL PLC<br>GBP0.10                   | Available-for-sale<br>financial assets | 58 | 5,497 | 2,611 | Note 4 |
| OMV AG AKT                                  | Available-for-sale<br>financial assets | 3  | 6,798 | 3,934 | Note 4 |
| ORIENTAL LAND CO<br>LTD. NPV                | Available-for-sale<br>financial assets | 1  | 2,931 | 3,071 | Note 4 |
| PALL CORP COM<br>USD0.10                    | Available-for-sale<br>financial assets | 4  | 4,470 | 4,554 | Note 4 |
| PERNOD-RICARD SA<br>NPV                     | Available-for-sale<br>financial assets | 2  | 6,167 | 6,273 | Note 4 |
| PNC FINL SVCS<br>GROUP IN COM               | Available-for-sale<br>financial assets | 2  | 5,241 | 5,760 | Note 4 |
| PRAXAIR INC COM                             | Available-for-sale<br>financial assets | 2  | 4,638 | 4,195 | Note 4 |
| PUBLIC SERVICE<br>ENTERPRISE GP<br>COM NPV  | Available-for-sale<br>financial assets | 4  | 5,309 | 4,522 | Note 4 |
| QUAL COMM INC<br>COM COM STK                | Available-for-sale<br>financial assets | 4  | 5,313 | 5,281 | Note 4 |

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|     |                   | September 30, 2008                        |                               |                                     |                             |                         |                         |                 |        |
|-----|-------------------|---|-------------------------------|-------------------------------------|-----------------------------|-------------------------|-------------------------|-----------------|--------|
| No. | Held Company Name | Marketable Securities Type and Name       | Relationship with the Company | Financial Statement Account         | Shares                      |                         | Market Value or         |                 | Note   |
|     |                   |   |                               |                                     | (Thousands/ Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Net Asset Value |        |
|     |                   | RAYTHEON CO COM COM USD0.01               |                               | Available-for-sale financial assets | 2                           | \$ 5,072                |                         | \$ 4,126        | Note 4 |
|     |                   | RECKITT BENCKISER GROUP PLC               |                               | Available-for-sale financial assets | 3                           | 3,865                   |                         | 4,278           | Note 4 |
|     |                   | ROCKWELL COLLINS COM                      |                               | Available-for-sale financial assets | 3                           | 5,447                   |                         | 4,626           | Note 4 |
|     |                   | ROYAL DUTCH SHELL PLC-A SHS A SHS EURO.07 |                               | Available-for-sale financial assets | 6                           | 6,756                   |                         | 5,353           | Note 4 |
|     |                   | RWE AG NEU NPV                            |                               | Available-for-sale financial assets | 2                           | 8,564                   |                         | 6,175           | Note 4 |
|     |                   | SALZGITTER AG ORD NPV                     |                               | Available-for-sale financial assets | 1                           | 6,683                   |                         | 3,906           | Note 4 |
|     |                   | SANOFI-AVENTIS EUR2 ORD SHS               |                               | Available-for-sale financial assets | 3                           | 6,227                   |                         | 6,198           | Note 4 |
|     |                   | SAP AG-COMMON ORD NPV                     |                               | Available-for-sale financial assets | 4                           | 6,909                   |                         | 6,868           | Note 4 |
|     |                   | SCOT + STHN ENERGY ORD GBP0.50            |                               | Available-for-sale financial assets | 5                           | 3,883                   |                         | 3,924           | Note 4 |
|     |                   | SHIONOGI & CO LTD.                        |                               | Available-for-sale financial assets | 6                           | 3,882                   |                         | 3,911           | Note 4 |
|     |                   | SHISEIDO CO LTD. ORD                      |                               | Available-for-sale financial assets | 4                           | 2,845                   |                         | 2,877           | Note 4 |
|     |                   | SIEMENS AG-REG NPV (REGD)                 |                               | Available-for-sale financial assets | 2                           | 6,566                   |                         | 5,456           | Note 4 |
|     |                   | STANDARD CHARTERED PLC ORD USD0.50        |                               | Available-for-sale financial assets | 5                           | 5,803                   |                         | 4,217           | Note 4 |
|     |                   | STANDARD LIFE PLC ORD GBP0.10             |                               | Available-for-sale financial assets | 31                          | 4,516                   |                         | 4,379           | Note 4 |
|     |                   | STATE STR CORP COM                        |                               | Available-for-sale financial assets | 3                           | 6,270                   |                         | 4,691           | Note 4 |
|     |                   | SUZUKI MOTOR CORP NPV                     |                               | Available-for-sale financial assets | 5                           | 3,507                   |                         | 2,824           | Note 4 |
|     |                   | T&D HOLDINGS INC                          |                               | Available-for-sale financial assets | 2                           | 3,413                   |                         | 3,350           | Note 4 |
|     |                   | TAKEDA PHARMACEUTICAL NPV SHS             |                               | Available-for-sale financial assets | 2                           | 3,108                   |                         | 3,060           | Note 4 |
|     |                   | TELEFONICA SA EUR1                        |                               | Available-for-sale financial assets | 8                           | 6,646                   |                         | 5,823           | Note 4 |
|     |                   | TERUMO CORPORATION                        |                               | Available-for-sale financial assets | 3                           | 3,314                   |                         | 4,347           | Note 4 |
|     |                   | THERMO FISHER SCIENTIFIC INC COM USD1     |                               | Available-for-sale financial assets | 3                           | 5,555                   |                         | 5,787           | Note 4 |
|     |                   | TIFFANY & CO COM                          |                               | Available-for-sale financial assets | 4                           | 5,758                   |                         | 4,829           | Note 4 |
|     |                   | TOKIO MARINE HOLDINGS INC                 |                               | Available-for-sale financial assets | 3                           | 3,491                   |                         | 3,442           | Note 4 |
|     |                   | TOTAL SA EUR2.5                           |                               | Available-for-sale financial assets | 3                           | 7,337                   |                         | 5,438           | Note 4 |
|     |                   | TOYO SUISAN KAISHA LTD.                   |                               | Available-for-sale financial assets | 5                           | 3,456                   |                         | 4,080           | Note 4 |
|     |                   | TULLOW OIL PLC ORD GBP0.10                |                               | Available-for-sale financial assets | 8                           | 2,985                   |                         | 3,352           | Note 4 |
|     |                   | UNILEVER NV-CVA CVA EUR0.16               |                               | Available-for-sale financial assets | 8                           | 8,138                   |                         | 7,086           | Note 4 |
|     |                   | UNITED UTILITIES GROUP PLC ORD GBP5       |                               | Available-for-sale financial assets | 7                           | 3,405                   |                         | 3,021           | Note 4 |



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|   |                                     |        |           |           |        |
|---|-------------------------------------|--------|-----------|-----------|--------|
| VINCI EUR2.50 (POST SUBDIVISION)              | Available-for-sale financial assets | 4      | 6,715     | 5,708     | Note 4 |
| VIVENDI SA EUR5.50                            | Available-for-sale financial assets | 5      | 6,732     | 5,320     | Note 4 |
| VODAFONE GROUP PLC ORD USD0.11428571          | Available-for-sale financial assets | 70     | 7,203     | 5,007     | Note 4 |
| VOESTALPINE AG NPV                            | Available-for-sale financial assets | 5      | 9,689     | 4,939     | Note 4 |
| WAL-MART STORES INC COM USD0.10               | Available-for-sale financial assets | 3      | 5,310     | 5,580     | Note 4 |
| XSTRATA PLC ORD USD0.50                       | Available-for-sale financial assets | 2      | 2,624     | 1,841     | Note 4 |
| XTO ENERGY CORP COM                           | Available-for-sale financial assets | 3      | 5,738     | 3,931     | Note 4 |
| <u>Beneficiary certificates (mutual fund)</u> |                                     |        |           |           |        |
| Fubon No. 1 Fund                              | Available-for-sale financial assets | 10,000 | 100,000   | 105,500   | Note 4 |
| Cathay No. 2 REIT                             | Available-for-sale financial assets | 2,288  | 22,880    | 22,285    | Note 4 |
| Gallop No. 1 REIT                             | Available-for-sale financial assets | 10,000 | 100,000   | 83,500    | Note 4 |
| Polaris /P-shares                             | Available-for-sale financial assets | 600    | 15,000    | 10,200    | Note 3 |
| Taiwan Dividend + ETF                         | Available-for-sale financial assets |        |           |           |        |
| PCA Well Pool Fund                            | Available-for-sale financial assets | 78,403 | 1,000,000 | 1,010,498 | Note 3 |
| Yuan Ta Wan Tai Bond Fund                     | Available-for-sale financial assets | 35,148 | 500,000   | 505,219   | Note 3 |

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| September 30, 2008 |                   |  |                               |                                     |                             |                         |                         |                           |        |
|--------------------|-------------------|--|-------------------------------|-------------------------------------|-----------------------------|-------------------------|-------------------------|---------------------------|--------|
| No.                | Held Company Name | Marketable Securities                        |                               | Financial Statement Account         | Shares                      |                         | Percentage of Ownership | Market Value or Net Asset |        |
|                    |                   | Type and Name                                | Relationship with the Company |                                     | (Thousands/ Thousand Units) | Carrying Value (Note 5) |                         | Value                     | Note   |
|                    |                   | Polaris De-Li Fund                           |                               | Available-for-sale financial assets | 65,222                      | \$ 1,000,000            |                         | \$ 1,010,768              | Note 3 |
|                    |                   | Polaris Global Reits Fund                    |                               | Available-for-sale financial assets | 10,018                      | 125,084                 |                         | 91,864                    | Note 3 |
|                    |                   | JPM (Taiwan) Global Balanced Fund            |                               | Available-for-sale financial assets | 9,071                       | 125,000                 |                         | 114,201                   | Note 3 |
|                    |                   | JPM (Taiwan) JF Balanced Fund                |                               | Available-for-sale financial assets | 2,462                       | 50,000                  |                         | 40,945                    | Note 3 |
|                    |                   | Fuh-Hwa Aegis Fund                           |                               | Available-for-sale financial assets | 17,813                      | 234,684                 |                         | 204,488                   | Note 3 |
|                    |                   | AGI Global Quantitative Balanced Fund        |                               | Available-for-sale financial assets | 22,968                      | 267,269                 |                         | 238,868                   | Note 3 |
|                    |                   | Capital Stable Value Fund                    |                               | Available-for-sale financial assets | 2,867                       | 36,423                  |                         | 28,440                    | Note 3 |
|                    |                   | Capital Asset Manager Income                 |                               | Available-for-sale financial assets | 11,285                      | 200,000                 |                         | 165,444                   | Note 3 |
|                    |                   | SinoPac Trend Fund                           |                               | Available-for-sale financial assets | 2,400                       | 54,541                  |                         | 39,329                    | Note 3 |
|                    |                   | ING Global Balanced Portfolio                |                               | Available-for-sale financial assets | 8,569                       | 100,000                 |                         | 76,949                    | Note 3 |
|                    |                   | Fuh Hwa Life Goal Fund                       |                               | Available-for-sale financial assets | 6,832                       | 100,000                 |                         | 89,573                    | Note 3 |
|                    |                   | Fuh Hwa Asia Pacific Balanced                |                               | Available-for-sale financial assets | 7,764                       | 100,000                 |                         | 72,515                    | Note 3 |
|                    |                   | Asia-Pacific Mega - Trend Fund               |                               | Available-for-sale financial assets | 13,059                      | 175,000                 |                         | 133,463                   | Note 3 |
|                    |                   | Prudential Financial Balanced Fund           |                               | Available-for-sale financial assets | 2,412                       | 50,000                  |                         | 39,894                    | Note 3 |
|                    |                   | Yuan Ta Duo Fu                               |                               | Available-for-sale financial assets | 966                         | 50,000                  |                         | 24,870                    | Note 3 |
|                    |                   | Yuan Ta Duo Duo                              |                               | Available-for-sale financial assets | 1,809                       | 50,000                  |                         | 23,137                    | Note 3 |
|                    |                   | Yuan Ta New-Mainstream                       |                               | Available-for-sale financial assets | 1,995                       | 50,000                  |                         | 25,100                    | Note 3 |
|                    |                   | AIG Flagship Global Balanced Fund of Funds   |                               | Available-for-sale financial assets | 25,679                      | 350,000                 |                         | 294,540                   | Note 3 |
|                    |                   | Franklin Templeton Global Bond Fund of Funds |                               | Available-for-sale financial assets | 18,089                      | 200,000                 |                         | 194,637                   | Note 3 |
|                    |                   | Cathay Global Aggressive Fund of Funds       |                               | Available-for-sale financial assets | 14,692                      | 200,000                 |                         | 148,093                   | Note 3 |
|                    |                   | Polaris Global Emerging Market Funds         |                               | Available-for-sale financial assets | 9,791                       | 150,000                 |                         | 106,821                   | Note 3 |
|                    |                   | HSBC Global Fund of Bond Funds               |                               | Available-for-sale financial assets | 22,838                      | 250,000                 |                         | 238,425                   | Note 3 |
|                    |                   | Jih Sun Mortgage Backed Securities Fund      |                               | Available-for-sale financial assets | 14,305                      | 140,902                 |                         | 136,473                   | Note 3 |
|                    |                   | Fuh-Hwa Elite Angel Fund                     |                               | Available-for-sale financial assets | 947                         | 10,000                  |                         | 10,852                    | Note 3 |
|                    |                   | Fubon Taiwan Selected Fund                   |                               | Available-for-sale financial assets | 100,000                     | 1,000,000               |                         | 672,000                   | Note 3 |
|                    |                   | HSBC Taiwan Balanced Strategy Fund           |                               | Available-for-sale financial assets | 100,000                     | 1,000,000               |                         | 806,000                   | Note 3 |
|                    |                   | Cathay Chung Hwa No. 1 Fund                  |                               | Available-for-sale financial assets | 100,000                     | 1,000,000               |                         | 713,000                   | Note 3 |
|                    |                   | Fuh Hwa Power Fund III                       |                               | Available-for-sale financial assets | 100,000                     | 1,000,000               |                         | 789,000                   | Note 3 |
|                    |                   |  |                               |                                     | 858                         | 532,846                 |                         | 551,010                   | Note 3 |

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|   |                                     |        |         |         |        |
|---|-------------------------------------|--------|---------|---------|--------|
| MFS Meridian Emerging Markets Debt Fund                     | Available-for-sale financial assets |        |         |         |        |
| Fidelity US High Yield Fund                                 | Available-for-sale financial assets | 1,069  | 413,175 | 334,694 | Note 3 |
| JPMorgan Lux Funds - Emerging Markets Bond Fund             | Available-for-sale financial assets | 21     | 199,638 | 175,861 | Note 3 |
| MFS Meridian Funds-Strategic Income Fund                    | Available-for-sale financial assets | 316    | 132,592 | 122,013 | Note 3 |
| Fidelity Fds Intl Bond                                      | Available-for-sale financial assets | 14,644 | 565,387 | 517,556 | Note 3 |
| Credit Suisse BF (Lux) Euro Bond Fund                       | Available-for-sale financial assets | 4      | 55,632  | 64,552  | Note 3 |
| Fidelity European High Yield Fund                           | Available-for-sale financial assets | 1,295  | 505,699 | 451,525 | Note 3 |
| Parvest Europe Convertible Bond Fond                        | Available-for-sale financial assets | 92     | 521,290 | 428,292 | Note 3 |
| JPMorgan Funds-Global Convertibles Fund (EUR)               | Available-for-sale financial assets | 868    | 491,450 | 421,126 | Note 3 |
| Parvest Euro Bond   | Available-for-sale financial assets | 39     | 287,400 | 279,062 | Note 3 |
| MFS Meridian Funds-Global Equity Fund (A1 class)            | Available-for-sale financial assets | 253    | 262,293 | 210,645 | Note 3 |
| Fidelity Fds International                                  | Available-for-sale financial assets | 128    | 163,960 | 118,919 | Note 3 |
| Fidelity Fds America  | Available-for-sale financial assets | 937    | 163,960 | 121,887 | Note 3 |
| JPMorgan Funds - Global Dynamic Fund (B)                    | Available-for-sale financial assets | 303    | 165,640 | 123,869 | Note 3 |
| MFS Meridian Funds - Research International Fund (A1 share) | Available-for-sale financial assets | 173    | 131,920 | 98,375  | Note 3 |

(Continued)

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| September 30, 2008 |                               |   |                               |   |                                    |                         |                         |                           |        |
|--------------------|-------------------------------|---|-------------------------------|---|------------------------------------|-------------------------|-------------------------|---------------------------|--------|
| No.                | Held Company Name             | Marketable Securities   |                               | Financial Statement Account                   | Shares (Thousands/ Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset |        |
|                    |                               | Type and Name   | Relationship with the Company |   |                                    |                         |                         | Value                     | Note   |
|                    |                               | Fidelity Fds Emerging Markets                                     |                               | Available-for-sale financial assets           | 192                                | \$ 162,900              |                         | \$ 95,909                 | Note 3 |
|                    |                               | Credit Suisse Equity Fund (Lux) Global Resources                  |                               | Available-for-sale financial assets           | 13                                 | 162,990                 |                         | 105,103                   | Note 3 |
|                    |                               | Fidelity Euro Balanced Fund                                       |                               | Available-for-sale financial assets           | 879                                | 560,819                 |                         | 474,581                   | Note 3 |
|                    |                               | Fidelity Fds World  |                               | Available-for-sale financial assets           | 347                                | 201,845                 |                         | 143,959                   | Note 3 |
|                    |                               | Fidelity Fds Euro Blue Chip                                       |                               | Available-for-sale financial assets           | 304                                | 274,757                 |                         | 202,235                   | Note 3 |
|                    |                               | MFS Meridian Funds - European Equity Fund (A1 share)              |                               | Available-for-sale financial assets           | 171                                | 178,920                 |                         | 134,294                   | Note 3 |
|                    |                               | Henderson Horizon Fund - Pan European Equity Fund                 |                               | Available-for-sale financial assets           | 230                                | 180,886                 |                         | 141,827                   | Note 3 |
|                    |                               | Sinopia Alt-Gl Bd M/N 600\$ I Gbl Bd Mkt Neutr 600 USD I          |                               | Available-for-sale financial assets           |                                    | 609,485                 |                         | 659,420                   | Note 3 |
|                    |                               | Mega Securities Corp. 1st Unsecured Corporate Bonds in 2007       |                               | Held-to-maturity financial assets             |                                    | 150,000                 |                         | 150,000                   | Note 6 |
|                    |                               | KGI Securities 1st Unsecured Corporate Bonds 2007-B Issue         |                               | Held-to-maturity financial assets             |                                    | 100,000                 |                         | 100,000                   | Note 6 |
|                    |                               | Mege Financial Holding 1st Unsecured Corporate Bond 2007-B Issue  |                               | Held-to-maturity financial assets             |                                    | 200,000                 |                         | 200,000                   | Note 6 |
|                    |                               | Mega Securities Corp. 1st Unsecured Corporate Bond 2008 - A issue |                               | Held-to-maturity financial assets             |                                    | 300,000                 |                         | 300,000                   | Note 6 |
|                    |                               | China Development Industrial B                                    |                               | Held-to-maturity financial assets             |                                    | 202,569                 |                         | 202,569                   | Note 6 |
|                    |                               | Taiwan Power Company 3rd Boards in 2008                           |                               | Held-to-maturity financial assets             |                                    | 149,912                 |                         | 149,912                   | Note 6 |
|                    |                               | Yuanta Unsecured Corporate Bond 2008 - A Issue                    |                               | Held-to-maturity financial assets             |                                    | 100,000                 |                         | 100,000                   | Note 6 |
|                    |                               | Formosa Petrochemical Corp.                                       |                               | Held-to-maturity financial assets             |                                    | 99,835                  |                         | 99,835                    | Note 6 |
|                    |                               | Enterprise Debt Securitization Cathay United Bank CLO 96-1        |                               | Held-to-maturity financial assets             |                                    | 47,778                  |                         | 47,778                    | Note 6 |
| 1                  | Senao International Co., Ltd. | Senao Networks, Inc.  | Equity-method investee        | Investments accounted for using equity method | 15,152                             | 261,631                 | 45                      | 261,631                   | Note 1 |
|                    |                               | N.T.U. Innovation Incubation Corporation                          |                               | Financial assets carried at cost              | 1,200                              | 12,000                  | 9.41                    | 12,664                    | Note 1 |
| 2                  | CHIEF Telecom Inc.            | Unigate Telecom Inc.  | Subsidiary                    | Investments accounted for using equity method | 200                                | 1,911                   | 100                     | 1,911                     | Note 1 |
|                    |                               | CHIEF Telecom (Hong Kong) Limited                                 | Subsidiary                    | Investments accounted for using equity method |                                    | 1,183                   | 100                     | 1,183                     | Note 1 |
|                    |                               | Chief Informational Corp.   | Subsidiary                    | Investments accounted for using equity method | 200                                | 6,357                   | 100                     | 6,357                     | Note 1 |
|                    |                               |   |                               |   | 374                                | 3,450                   | 10                      | 6,265                     | Note 1 |

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|   |                                       |                                      |                                  |   |             |        |             |        |
|---|---------------------------------------|--------------------------------------|----------------------------------|---|-------------|--------|-------------|--------|
|   | 3 Link Information Service Co., Ltd.  |                                      | Financial assets carried at cost |   |             |        |             |        |
|   | eASPNet Inc.                          |                                      | Financial assets carried at cost | 1,000   |             | 2      |             | Note 1 |
| 3 | Chunghwa System Integration Co., Ltd. | Concord Technology Corp.             | Subsidiary                       | Investments accounted for using equity method | 500         | 16,159 | 100         | 16,159 |
|   |                                       |                                      |                                  |   | US\$ ( 502) |        | US\$ ( 502) | Note 1 |
|   |                                       | Cathy Global Aggressive Fund of Fund |                                  | Available-for-sale financial assets           | 1,233       | 15,000 |             | 12,433 |
|   |                                       | SKITECB Balanced Fund                |                                  | Available-for-sale financial assets           | 1,000       | 10,000 |             | 8,815  |
|   |                                       | SinoPac Bond                         |                                  | Available-for-sale financial assets           | 2,086       | 27,544 |             | 27,667 |

(Continued)

| September 30, 2008 |                                 |   |                               |   |                                    |                         |                         |                                 |        |
|--------------------|---------------------------------|---|-------------------------------|---|------------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| No.                | Held Company Name               | Marketable Securities Type and Name               | Relationship with the Company | Financial Statement Account                   | Shares (Thousands/ Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value | Note   |
|                    |                                 | JS Small Cap                                      |                               | Available-for-sale financial assets           | 426                                | \$ 7,541                |                         | \$ 3,426                        | Note 3 |
|                    |                                 | Cathy Global Infrastructure Fund                  |                               | Available-for-sale financial assets           | 1,418                              | 15,000                  |                         | 11,943                          | Note 3 |
|                    |                                 | SKIT Strategy balanced Fund Series 2              |                               | Available-for-sale financial assets           | 2,000                              | 20,000                  |                         | 17,908                          | Note 3 |
|                    |                                 | BSI-MVL TINVEST-SWISS STOCKS                      |                               | Available-for-sale financial assets           | 2                                  | 9,871                   |                         | 7,864                           | Note 3 |
| 4                  | Concord Technology Corp.        | Glory Network System Service (Shanghai) Co., Ltd. | Subsidiary                    | Investments accounted for using equity method | 500                                | 16,159                  | 100                     | 16,159                          | Note 1 |
|                    |                                 |   |                               |   |                                    | US\$ (502)              |                         | US\$ (502)                      |        |
| 6                  | Spring House Entertainment Inc. | A-Kuei Publishing Co., Ltd.                       | Equity-method investee        | Investments accounted for using equity method |                                    | 178                     | 49                      | 178                             | Note 1 |
|                    |                                 | The Rsit Enhanced Bond Fund                       |                               | Available-for-sale financial assets           | 1,515                              | 17,000                  |                         | 17,179                          | Note 3 |

Note 1: The net asset values of investees were based on unreviewed financial statements.

Note 2: New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) were incorporated in March 2006 and Chunghwa has 100% ownership right in an amount of US\$1 in each holding company, but not on operating stage.

Note 3: The net asset values of beneficiary certification (mutual fund) were based on the net asset values on September 30, 2008.

Note 4: Market value was based on the closing price of September 30, 2008.

Note 5: Showing at their original carrying amounts without the adjustments of fair values, except Held-to-maturity financial assets.

Note 6: The net asset values of investees were based on amortized cost.

(Concluded)

**TABLE 2****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| Marketable<br>Securities Type<br>and Name   | Financial Statement<br>Account                     | Counter-<br>party | Nature of<br>Relationship | Beginning Balance<br>Shares       |                    | Acquisition<br>Shares             |              | Disposal |                               |                               | Gain (Loss)<br>on<br>Disposal | Ending<br>Shares<br>(Thou-<br>sand<br>Units) |
|---|--|-------------------|---------------------------|-----------------------------------|--------------------|-----------------------------------|--------------|----------|-------------------------------|-------------------------------|-------------------------------|--|
|   |  |                   |                           | (Thousands/<br>Thousand<br>Units) | Amount<br>(Note 1) | (Thousands/<br>Thousand<br>Units) | Amount       | Amount   | Carrying<br>Value<br>(Note 1) | Gain (Loss)<br>on<br>Disposal |                               |  |
| Right Era<br>Development Co.,<br>Ltd.   | Investment<br>accounted for using<br>equity method |                   | Subsidiary                |                                   | \$                 | 300,000                           | \$ 3,000,000 | \$       | \$                            | \$                            |                               | 300,000                                      |
| Chung Hwa Telecom<br>Co., Ltd.  | Investment<br>accounted for using<br>equity method |                   | Subsidiary                | 4,590                             | 15,408             | 47,000                            | 189,833      |          |                               |                               |                               | 51,590                                       |
| Chung Hwa Telecom<br>Singapore Pte. Ltd.  | Investment<br>accounted for using<br>equity method |                   | Subsidiary                |                                   |                    | 34,869                            | 779,280      |          |                               |                               |                               | 34,869                                       |
| Industrial Bank of<br>Taiwan II Venture<br>Capital Co., Ltd.                        | Financial assets<br>carried at cost                |                   |                           |                                   |                    | 20,000                            | 200,000      |          |                               |                               |                               | 20,000                                       |
| Telecommunication<br>Systems  | Financial assets<br>carried at cost                |                   |                           | 75                                | 5,250              |                                   |              | 75       | 314,055                       | 5,250                         | 308,805                       |  |
| Wega Financial<br>Holding Co., Ltd.<br>Beneficiary<br>Certificates (mutual<br>fund) | Available-for-sale<br>financial assets             |                   |                           | 5,800                             | 119,781            |                                   |              | 5,800    | 126,499                       | 119,781                       | 6,718                         |  |
| Wega Well Pool<br>Fund  | Available-for-sale<br>financial assets             |                   |                           |                                   |                    | 78,403                            | 1,000,000    |          |                               |                               |                               | 78,403                                       |
| Wega Securities Bond<br>Fund  | Available-for-sale<br>financial assets             |                   |                           |                                   |                    | 75,393                            | 1,000,000    | 75,393   | 1,011,120                     | 1,000,000                     | 11,120                        |  |
| Wega Ta Wan Tai<br>Fund   | Available-for-sale<br>financial assets             |                   |                           |                                   |                    | 35,148                            | 500,000      |          |                               |                               |                               | 35,148                                       |
| Wega Diamond<br>Fund  | Available-for-sale<br>financial assets             |                   |                           |                                   |                    | 85,334                            | 1,000,000    | 85,334   | 1,009,677                     | 1,000,000                     | 9,677                         |  |
| Wega Laris De-Li Fund   | Available-for-sale<br>financial assets             |                   |                           |                                   |                    | 65,222                            | 1,000,000    |          |                               |                               |                               | 65,222                                       |
| Morgan Global<br>Balance Fund   | Available-for-sale<br>financial assets             |                   |                           |                                   |                    | 9,071                             | 125,000      |          |                               |                               |                               | 9,071  |
| Wega IT Strategy<br>Balanced Fund   | Available-for-sale<br>financial assets             |                   |                           | 47,979                            | 559,554            |                                   |              | 47,979   | 522,195                       | 559,554                       | (37,359)                      |  |
| Wega IT Fortune<br>Balanced Fund  | Available-for-sale<br>financial assets             |                   |                           | 6,097                             | 100,000            |                                   |              | 6,097    | 80,581                        | 100,000                       | (19,419)                      |  |
| Wega G Flagship<br>Global Growth Fund   | Available-for-sale<br>financial assets             |                   |                           | 22,878                            | 350,000            |                                   |              | 22,878   | 273,078                       | 350,000                       | (76,922)                      |  |

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| Funds   |  |       |         |        |         |       |         |         |          |
|---|--|-------|---------|--------|---------|-------|---------|---------|----------|
| ie ING CHTG<br>nd   | Available-for-sale<br>financial assets | 8,104 | 100,000 |        |         | 8,104 | 73,373  | 100,000 | (26,627) |
| BC Global Fund<br>Bond Funds                                | Available-for-sale<br>financial assets |       |         | 22,838 | 250,000 |       |         |         |          |
| n-Hwa Homerun<br>nd   | Available-for-sale<br>financial assets | 9,977 | 100,000 |        |         | 9,977 | 103,868 | 100,000 | 3,868    |
| n-Hwa Income<br>nd  | Available-for-sale<br>financial assets | 9,872 | 100,000 |        |         | 9,872 | 102,960 | 100,000 | 2,960    |
| mail Fixed<br>ome Holdings<br>V.                            | Available-for-sale<br>financial assets | 7     | 264,095 |        |         | 7     | 247,956 | 264,095 | (16,139) |
| M Diversity -<br>D Open                                     | Available-for-sale<br>financial assets | 10    | 262,293 |        |         | 10    | 234,297 | 262,293 | (27,996) |
| D Special Bond<br>nd  | Available-for-sale<br>financial assets | 25    | 353,540 |        |         | 25    | 344,621 | 353,540 | (8,919)  |
| ega Securities<br>rp. 1 <sup>st</sup> Unsecured<br>orporate | Held-to-maturity<br>financial assets   |       |         |        |         |       |         |         |          |
| ina Delepquent<br>ustrial B                                 | Held-to-maturity<br>financial assets   |       |         |        | 300,000 |       |         |         |          |
| awan Power<br>mpany 3rdA<br>ards in2008                     | Held-to-maturity<br>financial assets   |       |         |        | 200,000 |       |         |         |          |
| antu Unsecured<br>orporate Bond in<br>08                    | Held-to-maturity<br>financial assets   |       |         |        | 150,000 |       |         |         |          |
| mosa<br>trochemical   |  |       |         |        | 100,000 |       |         |         |          |
|   |  |       |         |        | 100,000 |       |         |         |          |

(Continued)



| No. | Company Name                  | Marketable Securities Type and Name    | Financial Statement Account         | Counter-party | Nature of Relationship | Beginning Balance Shares   |                 | Acquisition Shares         |            |
|-----|-------------------------------|--|-------------------------------------|---------------|------------------------|----------------------------|-----------------|----------------------------|------------|
|     |                               |  |                                     |               |                        | (Thousands/Thousand Units) | Amount (Note 1) | (Thousands/Thousand Units) | Amount     |
| 1   | Senao International Co., Ltd. | Beneficiary certificates (mutual fund) |                                     |               |                        |                            |                 |                            |            |
|     |                               | Taishin Lucky Fund                     | Available-for-sale financial assets |               |                        |                            | \$              | 23,894                     | \$ 250,000 |
|     |                               | UPAMC James Bond Fund                  | Available-for-sale financial assets |               |                        |                            |                 | 18,451                     | 290,000    |
|     |                               | IBT Ta Chong Bond Fund                 | Available-for-sale financial assets |               |                        |                            |                 | 18,846                     | 250,000    |
|     |                               | HSBC NTD Money Management Fund 2       | Available-for-sale financial assets |               |                        |                            |                 | 17,473                     | 250,000    |
|     |                               | Prudential Financial Bond Fund         | Available-for-sale financial assets |               |                        |                            |                 | 6,702                      | 100,000    |
|     |                               | IBT 1699 Bond Fund                     | Available-for-sale financial assets |               |                        |                            |                 | 11,805                     | 150,000    |
|     |                               | Mega Diamond Bond Fund                 | Available-for-sale financial assets |               |                        |                            |                 | 12,727                     | 150,000    |

| Shares (Thousands/Thousand Units) | Disposal   |                         | Gain (Loss) on Disposal | Ending Balance Shares |                 |
|-----------------------------------|------------|-------------------------|-------------------------|-----------------------|-----------------|
|                                   | Amount     | Carrying Value (Note 1) |                         | (Thousands) Units     | Amount (Note 1) |
| 23,894                            | \$ 250,843 | \$ 250,000              | \$ 843                  |                       | \$              |
| 18,451                            | 290,381    | 290,000                 | 381                     |                       |                 |
| 18,846                            | 250,355    | 250,000                 | 355                     |                       |                 |
| 17,473                            | 250,320    | 250,000                 | 320                     |                       |                 |
| 6,702                             | 100,266    | 100,000                 | 266                     |                       |                 |
| 11,805                            | 150,635    | 150,000                 | 635                     |                       |                 |
| 12,727                            | 150,541    | 150,000                 | 541                     |                       |                 |

Note 1: Showing at their original carrying amounts without the adjustments of fair values.

Note 2: The amount were less equity in losses of equity investees \$12,029 thousand.

Note 3: The ending balance includes \$5,703 thousand and \$5,067 thousand which are investment income recognized under equity method and cumulative adjustment, respectively.

Note 4: The ending balance includes \$1,477 thousand and \$6,658 thousand which are investment loss recognized under equity method and cumulative adjustment, respectively.

(Concluded)

**TABLE 3****CHUNGHWA TELECOM CO., LTD.****ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| Company Name                | Property          | Transaction Date | Transaction Amount | Payment Term | Counter-party                    | Nature of Relationship | Prior Transactions with Related Counter-party |              |               | Price Reference                  | Purpose of Acquisition | Other Terms |
|-----------------------------|-------------------|------------------|--------------------|--------------|----------------------------------|------------------------|---|--------------|---------------|----------------------------------|------------------------|-------------|
|                             |                   |                  |                    |              |                                  |                        | Owner   | Relationship | Transfer Date |                                  |                        |             |
| Chunghwa Telecom. Co., Ltd. | Land and building | 2008.01.03       | \$ 1,217,740       | Paid         | National Property Administration | None                   |   |              | \$            | National Property Administration | Chunghwa private use   | None        |

**TABLE 4**

**CHUNGHWA TELECOM CO., LTD.**

**DISPOSAL OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

(Amounts in Thousands of New Taiwan Dollars)

| Property | Date of Disposal | Date of Obtainment         | Transaction     |              | Receipt Condition                | Disposed Gain (Loss)   | Parties Involved                | Relation with the Corporation | Purpose            | Reference for                  |                  |
|----------|------------------|----------------------------|-----------------|--------------|----------------------------------|------------------------|---------------------------------|-------------------------------|--------------------|--------------------------------|------------------|
|          |                  |                            | Carrying Amount | Amount       |                                  |                        |                                 |                               |                    | Price Settlement               | Other            |
| Land     | 2008.6.25        | Acquired during April 2000 | \$ 703,125      | \$ 1,820,880 | Received in July 2008 completely | \$ 1,117,755<br>(Note) | Light Era Development Co., Ltd. | Subsidiary                    | Revitalized assets | According to appraisal report: | Negotiated price |

Note: Since it is unrealized, the gain is recognized as deferred credit - profit on intercompany transactions.

**TABLE 5****CHUNGHWA TELECOM CO., LTD.****TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| No. | Company Name                  | Related Party                                       | Nature of Relationship | Transaction Details |              |            | Abnormal Transaction |             |               | Notes/Accounts Payable or Receivable |            |
|-----|-------------------------------|---|------------------------|---------------------|--------------|------------|----------------------|-------------|---------------|--------------------------------------|------------|
|     |                               |   |                        | Purchase/Sale       | Amount       | % to Total | Payment Terms        | Units Price | Payment Terms | Ending Balance (Note 1)              | % to Total |
| 0   | Chunghwa Telecom Co., Ltd.    | Senao International Co., Ltd.                       | Subsidiary             | Sales               | \$ 1,447,021 | 1          | 30 days              | (Note 2)    | (Note 2)      | \$ 168,874                           | 2          |
|     |                               |   |                        |                     | (Note 3)     |            |                      |             |               |                                      |            |
|     |                               |   |                        | Purchase            | 5,328,404    | 8          | 30-90 days           | (Note 2)    | (Note 2)      | (797,535)                            | (9)        |
|     |                               |   |                        |                     | (Note 4)     |            |                      |             |               |                                      |            |
|     |                               | CHIEF Telecom Inc.                                  | Subsidiary             | Sales               | 152,199      |            | 30 days              | (Note 2)    | (Note 2)      | 27,307                               |            |
|     |                               |   |                        | Purchase            | 121,886      |            | 30-45 days           | (Note 2)    | (Note 2)      | (19,734)                             |            |
|     |                               | Chunghwa Telecom Global, Inc.                       | Subsidiary             | Sales               | 140,957      |            | 30-90 days           |             |               | 46,198                               |            |
|     |                               | Chunghwa System Integration Co., Ltd.               | Subsidiary             | Purchase            | 294,113      |            | 30-90 days           |             |               | (134,463)                            | (2)        |
|     |                               |   |                        |                     | (Note 5)     |            |                      |             |               | (Note 6)                             |            |
|     |                               | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee | Purchase            | 396,925      | 1          | 30 days              |             |               | (160,501)                            | (2)        |
|     |                               | ELTA Technology Co., Ltd.                           | (Note 7)               | Purchase            | 189,744      |            | 30 days              |             |               |                                      |            |
|     |                               | Chunghwa International Yellow Pages Co., Ltd.       | Subsidiary             | Purchase            | 109,784      |            | 30 days              | (Note 2)    | (Note 2)      | (4,823)                              |            |
| 1   | Senao International Co., Ltd. | Chunghwa Telecom Co., Ltd.                          | Parent company         | Sales               | 5,329,610    | 31         | 30-90 days           | (Note 2)    | (Note 2)      | 797,535                              | 47         |
|     |                               |   |                        |                     | (Note 4)     |            |                      |             |               |                                      |            |
|     |                               |   |                        | Purchase            | 1,416,336    | 10         | 30 days              | (Note 2)    | (Note 2)      | (168,874)                            | (12)       |

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| (Note 3) |   |                            |                |          |          |    |            |          |          |          |      |
|----------|---|----------------------------|----------------|----------|----------|----|------------|----------|----------|----------|------|
| 2        | CHIEF Telecom Inc.                            | Chunghwa Telecom Co., Ltd. | Parent company | Sales    | 121,886  | 19 | 30-45 days | (Note 2) | (Note 2) | 19,734   | 15   |
|          |   |                            |                | Purchase | 152,199  | 26 | 30 days    | (Note 2) | (Note 2) | (27,307) | (18) |
| 3        | Chunghwa System Integration Co., Ltd.         | Chunghwa Telecom Co., Ltd. | Parent company | Sales    | 884,111  | 92 | 30-90 days |          |          | 137,615  | 11   |
|          |   |                            |                |          | (Note 5) |    |            |          |          | (Note 6) |      |
| 5        | Chunghwa Telecom Global, Inc.                 | Chunghwa Telecom Co., Ltd. | Parent company | Purchase | 140,957  | 80 | 30-90 days |          |          | (46,198) | 83   |
| 8        | Chunghwa International Yellow Pages Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales    | 109,784  | 33 | 30 days    | (Note 2) | (Note 2) | 4,823    | 2    |

Note 1: Excluding payment and receipts on behalf of other.

Note 2: Transaction prices was determined in accordance with mutual agreements.

Note 3: The difference was because Senao International Co., Ltd. classified the amount as operating expenses.

Note 4: The difference was because Chunghwa classified the amount as property, plant and equipment, inventory, other current assets and operating expenses.

Note 5: The difference was because Chunghwa classified the amount as inventories, property, plant and equipment and intangible assets.

Note 6: The difference was because Chunghwa classified as payables to constructors.

Note 7: The investment accounted for using equity method was sold all shares in July 2008.

**TABLE 6****CHUNGHWA TELECOM CO., LTD.****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| No. | Company Name                                  | Related Party                 | Nature of Relationship | Ending Balance | Turnover Rate | Overdue      | Amounts Received     | Allowance for Bad Debts |
|-----|---|-------------------------------|------------------------|----------------|---------------|--------------|----------------------|-------------------------|
|     |   |                               |                        |                |               | Action Taken | in Subsequent Period |                         |
| 0   | Chunghwa Telecom Co., Ltd.                    | Senao International Co., Ltd. | Subsidiary             | \$ 168,874     | 11.85         | \$           | \$ 168,874           | \$                      |
| 1   | Senao International Co., Ltd.                 | Chunghwa Telecom Co., Ltd.    | Parent company         | 1,115,812      | 10.58         |              | 1,115,812            |                         |
| 3   | Chunghwa System Integration Co., Ltd.         | Chunghwa Telecom Co., Ltd.    | Parent company         | 137,615        | 4.35          | (Note)       | 66,735               |                         |
| 8   | Chunghwa International Yellow Pages Co., Ltd. | Chunghwa Telecom Co., Ltd.    | Parent company         | 122,561        | 3.75          | (Note)       | 1,435                |                         |

Note: payment and receipts on behalf of other are excluded from the account receivables for calculating the turnover rate.

**TABLE 7****CHUNGHWA TELECOM CO., LTD.****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Investor Company           | Investee Company                                    | Location             | Main Businesses and Products  | Original Investment Amount |                   | Balance as of September 30, 2008 |                             |                | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1 and 2) | Note               |
|----------------------------|---|----------------------|---|----------------------------|-------------------|----------------------------------|-----------------------------|----------------|-----------------------------------|--|--------------------|
|                            |   |                      |   | September 30, 2008         | December 31, 2007 | Shares (Thousands)               | Percentage of Ownership (%) | Carrying Value |                                   |  |                    |
| Chunghwa Telecom Co., Ltd. | Senao International Co., Ltd.                       | Sindian City, Taipei | Selling and maintaining mobile phones and its peripheral products   | \$ 1,065,813               | \$ 1,065,813      | 71,773                           | 29                          | \$ 1,271,196   | \$ 876,795                        | \$ 246,912                             | Subsidiary         |
|                            | Light Era Development Co., Ltd.                     | Taipei               | Housing, office building development, rent and sale services  | 3,000,000                  |                   | 300,000                          | 100                         | 2,987,971      | (12,029)                          | (12,029)                               | Subsidiary         |
|                            | Chunghwa Investment Co., Ltd.                       | Taipei               | Investment  | 980,000                    | 980,000           | 98,000                           | 49                          | 853,148        | (118,290)                         | (59,093)                               | Equity-me investee |
|                            | Chunghwa System Integration Co., Ltd.               | Taipei               | Providing communication and information aggregative services  | 838,506                    | 838,506           | 60,000                           | 100                         | 791,904        | 33,771                            | 9,738                                  | Subsidiary         |
|                            | Chunghwa Telecom Singapore Pte., Ltd.               | Singapore            | Telecommunication wholesale, internet transfer services international data, long distance call wholesales to carriers and reinvesting in the world satellite business | 779,280                    |                   | 34,869                           | 100                         | 784,461        | (1,477)                           | (1,477)                                | Subsidiary         |
|                            | Taiwan International Standard Electronics Co., Ltd. | Taipei               | Manufacturing, selling, designing, and maintaining of telecommunications systems and equipment  | 164,000                    | 164,000           | 1,760                            | 40                          | 572,470        | 125,533                           | 58,392                                 | Equity-me investee |
|                            | CHIEF Telecom Inc.                                  | Taipei               | Internet communication and internet data center ( IDC ) service   | 482,165                    | 482,165           | 37,942                           | 69                          | 408,203        | (25,159)                          | (15,827)                               | Subsidiary         |
|                            | Donghwa Telecom Co., Ltd.                           | Hong Kong            | International telecommunications IP fictitious internet and internet transfer services  | 201,263                    | 11,430            | 51,590                           | 100                         | 216,011        | 5,703                             | 5,703                                  | Subsidiary         |
|                            | Chunghwa Yellow Pages                               | Taipei               | Yellow pages sales and advertisement  | 150,000                    | 150,000           | 15,000                           | 100                         | 120,697        | 89,442                            | 89,442                                 | Subsidiary         |

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|                    |   |                        |   |            |            |        |     |            |             |             |                    |
|--------------------|---|------------------------|---|------------|------------|--------|-----|------------|-------------|-------------|--------------------|
|                    | Co., Ltd.                                       |                        | services  |            |            |        |     |            |             |             |                    |
|                    | Viettel-CHT Co., Ltd.                           | Vietnam                | IDC services  | 91,239     |            | 3,000  | 33  | 97,711     | 6,451       | 2,150       | Equity-me investee |
|                    | Chunghwa Telecom Global, Inc.                   | United States          | International data and internet services and long distance call wholesales to carriers                    | 70,429     | 70,429     | 6,000  | 100 | 86,931     | 13,517      | 13,517      | Subsidiary         |
|                    | Skysoft Co., Ltd.                               | Taipei                 | Providing of music on-line, software, electronic information, and advertisement services                  | 67,025     | 67,025     | 4,438  | 30  | 81,022     | 37,041      | 11,112      | Equity-me investee |
|                    | King Way Technology Co., Ltd.                   | Taipei                 | Publishing books, data processing and software services   | 71,770     |            | 1,002  | 33  | 76,207     | 24,338      | 4,437       | Equity-me investee |
|                    | Spring House Entertainment Inc.                 | Taipei                 | Network services, producing digital entertainment contents and broadband visual sound terrace development | 62,209     | 22,409     | 5,996  | 56  | 44,070     | 10,175      | 5,382       | Subsidiary         |
|                    | New Prospect Investments Holdings Ltd. (B.V.I.) | British Virgin Islands | Investment  |            |            |        | 100 |            |             |             | Subsidiary         |
|                    | Prime Asia Investments Group Ltd. (B.V.I.)      | British Virgin Islands | Investment  | (Note 3)   | (Note 3)   |        |     | (Note 3)   |             | (Note 3)    | Subsidiary         |
|                    | Senao International Co., Ltd.                   | Linkou Hsiang, Taipei  | Telecommunication facilities manufactures and sales   | 206,190    | 206,190    | 15,152 | 45  | 261,631    | 68,904      | 26,639      | Equity-me investee |
| CHIEF Telecom Inc. | Unigate Telecom Inc.                            | Taipei                 | Network communication and engine room hiring  | 2,000      | 2,000      | 200    | 100 | 1,911      | (57)        | (57)        | Subsidiary         |
|                    | CHIET Telecom (Hong Kong) Limited               | Hong Kong              | Telecommunication and internet service  | 1,678      | 1,678      |        | 100 | 1,183      | (50)        | (50)        | Subsidiary         |
|                    | Chief International Corp.                       | Samoa Islands          | Telecommunication and internet service  | 6,068      |            | 200    | 100 | 6,357      | (74)        | (74)        | Subsidiary         |
|                    | Chunghwa System Integrated Co., Ltd.            | Brunei                 | Providing advanced business solutions to telecommunications   | US\$ (200) |            |        |     |            |             |             |                    |
|                    | Concord Technology Corp.                        |                        |   | 16,179     | 6,489      | 500    | 100 | 16,159     | (832)       | (832)       | Subsidiary         |
|                    |   |                        |   | US\$ (500) | US\$ (200) |        |     | US\$ (502) | US\$ ((27)) | US\$ ((27)) |                    |

(Continued)



| No. | Investor Company                | Investee Company                                  | Location | Main Businesses and Products                                | Original Investment Amount |                   | Balance as of September 30, 2008 |                             |                |
|-----|---------------------------------|---|----------|---|----------------------------|-------------------|----------------------------------|-----------------------------|----------------|
|     |                                 |   |          |   | September 30, 2008         | December 31, 2007 | Shares (Thousands)               | Percentage of Ownership (%) | Carrying Value |
| 4   | Concord Technology Corp.        | Glory Network System Service (Shanghai) Co., Ltd. | Shanghai | Providing advanced business solutions to telecommunications | \$ 16,179                  | \$ 6,489          | 500                              | 100                         | \$ 16,159      |
|     |                                 |   |          |   | US\$ (500)                 | US\$ (200)        |                                  |                             | US\$ (502)     |
| 6   | Spring House Entertainment Inc. | A-Kuei Publishing Co., Ltd.                       | Taipei   | Business of books   | 185                        | 185               |                                  | 49                          | 178            |

**Recognized Gain**

| Net Income (Loss) of the Investee | (Loss) (Notes 1 and 2) | Note                   |
|-----------------------------------|------------------------|------------------------|
| \$ (832)                          | \$ (832)               | Subsidiary             |
| US\$ ((27))                       | US\$ ((27))            |                        |
| (6)                               | (3)                    | Equity-method investee |

Note 1: The equity in net income (loss) of investees except Senao International Co., Ltd. was based on reviewed financial statements, the others was based on unreviewed financial statements.

Note 2: The equity in net income (loss) of investees includes amortization between the investment cost and net value and unrealized transactions.

Note 3: New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) were incorporated in March 2006 and Chunghwa has 100% ownership right in an amount of US\$1 in each holding company, but not on operating stage. (Concluded)

**TABLE 8****CHUNGHWA TELECOM CO., LTD.****INVESTMENT IN MAINLAND CHINA****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars, in Thousands of US Dollars)**

| Investee  | Main Businesses and Products                                | Total Amount of Paid-in Capital | Investment Type | Accumulated Outflow of Investment from Taiwan as of January 1, 2008 | Investment Flows |        | Accumulated Outflow of Investment from Taiwan as of September 30, 2008 | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 2) |
|---|---|---------------------------------|-----------------|---|------------------|--------|--|--|---------------------------------|
|   |   |                                 |                 |   | Outflow          | Inflow |  |  |                                 |
| Glory Network System Service (Shanghai) Co., Ltd. | Providing advanced business solutions to telecommunications | \$ 16,179                       | Note 1          | \$ 6,489  | \$ 9,690         | \$     | \$ 16,179  | 100%   | \$ (832)                        |
|   |   | US\$ (500)                      |                 | US\$ (200)  | US\$ (300)       |        | US\$ (500)   |  | US\$ ((27))                     |

| Carrying Value as of September 30, 2008 | Accumulated Inward Remittance of Earnings as of September 30, 2008 | Accumulated Investment in Mainland China as of September 30, 2008 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment Stipulated by Investment Commission, MOEA |
|---|--|---|--|---|
| \$ 16,159                               | \$   | \$ 16,179   | \$ 16,179  | \$ 380,884  |
| US\$ (502)                              |  | US\$ (500)  | US\$ (500)   | (Note 3)  |

Note 1: Chunghwa System Integration Co., Ltd. indirectly owns these investees through an investment company registered in a third region.

Note 2: Recognition of investment gains (losses) was calculated based on the investees' unreviewed financial statements.

Note 3: The amount was calculated based on the net assets value of Chunghwa System Integration Co., Ltd.

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

**Consolidated Financial Statements for the**

**Nine Months Ended September 30, 2008 and 2007 and**

**Independent Accountants' Review Report**

**INDEPENDENT ACCOUNTANTS REVIEW REPORT**

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have reviewed the accompanying consolidated balance sheets of Chunghwa Telecom Co., Ltd. and subsidiaries ( the Company ) as of September 30, 2008 and 2007, and the related consolidated statements of income and cash flows for the nine months then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these consolidated financial statements based on our review.

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

As discussed in Note 2 to the consolidated financial statements, the financial statements as of and for the nine months ended September 30, 2008 and 2007 of certain subsidiaries have not been reviewed. The total assets of these subsidiaries were 1.36% (NT\$6,592,577 thousand) and 0.32% (NT\$1,443,504 thousand), and the total liabilities of these subsidiaries were 1.68% (NT\$1,589,659 thousand) and 1.43% (NT\$746,428 thousand), of the related consolidated amounts as of September 30, 2008 and 2007, respectively. The total revenues of these subsidiaries were 0.68% (NT\$1,030,020 thousand) and 0.42% (NT\$614,534 thousand) of the related consolidated revenues for the nine months ended September 30, 2008 and 2007, respectively and their net loss were NT\$867,623 thousand and were NT\$49,693 thousand for the nine months ended September 30, 2008 and 2007, respectively. Further, as discussed in Note 12 to the consolidated financial statements, the financial statements as of and for the nine months ended September 30, 2008 and 2007 of certain equity method investees have not been reviewed. The aggregate carrying values of these equity method investees were NT\$1,942,367 thousand and NT\$1,880,668 thousand as of September 30, 2008 and 2007, respectively, and the equity in earning were NT\$47,800 thousand and NT\$88,622 thousand, respectively, for the nine months then ended.

Based on our reviews, except for the effects of such adjustments, if any, on the unreviewed financial statements of certain subsidiaries and equity method investee as might have been determined to be necessary had such financial statements been reviewed, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the consolidated financial statements, on January 1, 2008, the Company adopted Interpretation 96-052 issued by the Accounting and Research Development Foundation of the Republic of China that requires companies to record bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings.

October 21, 2008

*Notice to Readers*

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

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

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****SEPTEMBER 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)****(Reviewed, Not Audited)**

|  | 2008           |     | 2007          |     |
|--|----------------|-----|---------------|-----|
|  | Amount         | %   | Amount        | %   |
| <b>ASSETS</b>  |                |     |               |     |
| <b>CURRENT ASSETS</b>  |                |     |               |     |
| Cash and cash equivalents (Notes 2 and 4)  | \$ 103,129,705 | 21  | \$ 55,673,530 | 12  |
| Financial assets at fair value through profit or loss (Notes 2 and 5)  | 95,439         |     | 126,016       |     |
| Available-for-sale financial assets (Notes 2 and 6)  | 15,038,833     | 3   | 21,201,421    | 5   |
| Held-to-maturity financial assets (Notes 2 and 7)  | 35,033         |     | 57,324        |     |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$3,091,726 in 2008 and \$3,615,286 in 2007 (Notes 2 and 8) | 11,655,831     | 3   | 13,354,247    | 3   |
| Receivables from related parties (Note 28)   | 237            |     | 19,403        |     |
| Other current monetary assets (Notes 2 and 9)  | 3,756,135      | 1   | 6,885,692     | 1   |
| Inventories, net (Notes 2, 10 and 20)  | 6,133,363      | 1   | 4,252,880     | 1   |
| Deferred income taxes (Notes 2 and 25)   | 423,553        |     | 293,678       |     |
| Restricted assets (Note 29)  | 3,366          |     | 1,862         |     |
| Other current assets (Notes 11 and 20)   | 4,648,448      | 1   | 3,383,998     | 1   |
| Total current assets   | 144,919,943    | 30  | 105,250,051   | 23  |
| <b>LONG-TERM INVESTMENTS</b>   |                |     |               |     |
| Investments accounted for using equity method (Notes 2 and 12)   | 1,942,367      |     | 1,880,668     |     |
| Financial assets carried at cost (Notes 2 and 13)  | 2,261,498      | 1   | 1,956,730     | 1   |
| Held-to-maturity financial assets (Notes 2 and 7)  | 1,315,061      |     | 322,291       |     |
| Other monetary assets (Notes 14 and 30)  | 1,000,000      |     | 1,000,000     |     |
| Total long-term investment   | 6,518,926      | 1   | 5,159,689     | 1   |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15, 28 and 29)</b>  |                |     |               |     |
| <b>Cost</b>  |                |     |               |     |
| Land   | 102,072,994    | 21  | 101,110,534   | 22  |
| Land improvements  | 1,487,827      |     | 1,479,005     |     |
| Buildings  | 62,872,535     | 13  | 60,185,284    | 13  |
| Computer equipment   | 15,234,421     | 3   | 15,297,174    | 4   |
| Telecommunications equipment   | 643,338,790    | 133 | 637,946,626   | 141 |
| Transportation equipment   | 2,734,161      | 1   | 3,189,033     | 1   |
| Miscellaneous equipment  | 7,397,229      | 2   | 7,869,962     | 2   |
| Total cost   | 835,137,957    | 173 | 827,077,618   | 183 |
| Revaluation increment on land  | 5,820,548      | 1   | 5,823,991     | 1   |

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|  |                |     |                |     |
|--|----------------|-----|----------------|-----|
|  | 840,958,505    | 174 | 832,901,609    | 184 |
| Less: Accumulated depreciation   | 538,177,654    | 111 | 521,807,607    | 115 |
|  | 302,780,851    | 63  | 311,094,002    | 69  |
| Construction in progress and prepayments for equipment                     | 16,690,721     | 3   | 18,878,975     | 4   |
| Property, plant and equipment, net   | 319,471,572    | 66  | 329,972,977    | 73  |
| <b>INTANGIBLE ASSETS (Note 2)</b>  |                |     |                |     |
| 3G concession  | 7,673,240      | 2   | 8,421,849      | 2   |
| Goodwill   | 226,257        |     | 72,411         |     |
| Others   | 483,609        |     | 431,168        |     |
| Total intangible assets  | 8,383,106      | 2   | 8,925,428      | 2   |
| <b>OTHER ASSETS</b>  |                |     |                |     |
| Leased assets (Note 29)  | 439,496        |     | 351,859        |     |
| Idle assets (Note 2)   | 962,756        |     | 967,999        |     |
| Refundable deposits  | 1,291,953      |     | 1,408,070      | 1   |
| Deferred income taxes (Notes 2 and 25)                                     | 1,540,655      | 1   | 1,064,871      |     |
| Restricted assets (Note 29)  | 8,532          |     |                |     |
| Others   | 888,562        |     | 490,347        |     |
| Total other assets   | 5,131,954      | 1   | 4,283,146      | 1   |
| TOTAL  | \$ 484,425,501 | 100 | \$ 453,591,291 | 100 |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                 |                |     |                |     |
| <b>CURRENT LIABILITIES</b>   |                |     |                |     |
| Short-term loans (Note 16)   | \$ 244,000     |     | \$ 253,000     |     |
| Financial liabilities at fair value through profit or loss (Notes 2 and 5) | 1,424,815      |     | 905,971        | 1   |
| Trade notes and accounts payable (Note 20)                                 | 8,677,566      | 2   | 8,854,198      | 2   |
| Payables to related parties (Note 28)                                      | 210,810        |     | 303,577        |     |
| Income tax payable (Notes 2 and 25)  | 3,283,178      | 1   | 5,439,303      | 1   |
| Accrued expenses (Note 17)   | 11,019,769     | 2   | 9,736,640      | 2   |
| Dividends payable (Note 21)  | 40,716,130     | 9   |                |     |
| Current portion of long-term loans (Note 19)                               | 6,300          |     | 66,894         |     |
| Other current liabilities (Notes 18, 20 and 28)                            | 15,239,416     | 3   | 14,385,006     | 3   |
| Total current liabilities  | 80,821,984     | 17  | 39,944,589     | 9   |
| <b>NONCURRENT LIABILITY</b>  |                |     |                |     |
| Long-term loans (Note 19)  | 31,540         |     | 227,273        |     |
| Deferred income  | 1,910,575      |     | 1,400,253      |     |
| Total noncurrent liabilities   | 1,942,115      |     | 1,627,526      |     |
| RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)                           | 94,986         |     | 94,986         |     |
| <b>OTHER LIABILITIES</b>   |                |     |                |     |
| Accrued pension liabilities (Notes 2 and 27)                               | 5,121,009      | 1   | 3,221,519      | 1   |
| Customers deposits   | 6,243,266      | 2   | 6,410,357      | 1   |

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|  |                |     |                |     |
|--|----------------|-----|----------------|-----|
| Other  | 410,363        |     | 740,343        |     |
| Total other liabilities  | 11,774,638     | 3   | 10,372,219     | 2   |
| Total liabilities  | 94,633,723     | 20  | 52,039,320     | 11  |
| <b>EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT</b>                         |                |     |                |     |
| (Notes 2, 15, 21 and 23)   |                |     |                |     |
| Capital stock - \$10 par value;  |                |     |                |     |
| Authorized: 12,000,000 thousand shares   |                |     |                |     |
| Issued: 9,557,777 thousand shares in 2008 and 10,634,630 thousand shares in 2007 | 95,577,769     | 20  | 106,346,296    | 23  |
| Preferred stock \$10 par value   |                |     |                |     |
| Capital stock to be issued   | 20,505,867     | 4   |                |     |
| Additional paid-in capital:  |                |     |                |     |
| Capital surplus  | 179,193,097    | 37  | 200,592,390    | 44  |
| Donated capital  | 13,170         |     | 13,170         |     |
| Equity in additional paid-in capital reported by equity-method investees         | 3              |     |                |     |
| Total additional paid-in capital   | 179,206,270    | 37  | 200,605,560    | 44  |
| Retained earnings:   |                |     |                |     |
| Legal reserve  | 52,859,566     | 11  | 48,036,210     | 11  |
| Special reserve  | 2,675,419      |     | 2,678,723      | 1   |
| Unappropriated earnings  | 32,789,828     | 7   | 37,854,980     | 8   |
| Total retained earnings  | 88,324,813     | 18  | 88,569,913     | 20  |
| Other adjustments  |                |     |                |     |
| Cumulative translation adjustments   | 14,824         |     | (4,398)        |     |
| Unrecognized net loss of pension   | (85)           |     |                |     |
| Unrealized gain (loss) on financial instruments                                  | (2,634,740)    |     | 1,175,544      |     |
| Unrealized revaluation increment   | 5,823,085      | 1   | 5,824,210      | 2   |
| Total other adjustments  | 3,203,084      | 1   | 6,995,356      | 2   |
| Treasury stock   |                |     | (3,470,172)    | (1) |
| Total equity attributable to stockholders of the parent                          | 386,817,803    | 80  | 399,046,953    | 88  |
| MINORITY INTEREST IN SUBSIDIARIES  |                |     |                |     |
|  | 2,973,975      |     | 2,505,018      | 1   |
| Total stockholders equity  | 389,791,778    | 80  | 401,551,971    | 89  |
| TOTAL  | \$ 484,425,501 | 100 | \$ 453,591,291 | 100 |

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

(With Deloitte & Touche review report dated October 21, 2008)





**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)****(Reviewed, Not Audited)**

|  | 2008           |     | 2007           |     |
|--|----------------|-----|----------------|-----|
|  | Amount         | %   | Amount         | %   |
| NET REVENUES (Note 28)                                 | \$ 151,861,765 | 100 | \$ 147,429,742 | 100 |
| OPERATING COSTS (Note 28)                              | 84,261,526     | 55  | 77,720,150     | 52  |
| GROSS PROFIT   | 67,600,239     | 45  | 69,709,592     | 48  |
| OPERATING EXPENSES (Note 28)                           |                |     |                |     |
| Marketing  | 15,747,992     | 10  | 17,025,040     | 11  |
| General and administrative                             | 2,685,617      | 2   | 2,489,403      | 2   |
| Research and development                               | 2,238,437      | 2   | 2,381,976      | 2   |
| Total operating expenses                               | 20,672,046     | 14  | 21,896,419     | 15  |
| INCOME FROM OPERATIONS                                 | 46,928,193     | 31  | 47,813,173     | 33  |
| NON-OPERATING INCOME AND GAINS (Note 28)               |                |     |                |     |
| Interest income  | 1,433,029      | 1   | 1,061,865      | 1   |
| Gain on disposal of financial instruments, net         | 392,178        | 1   | 40,187         |     |
| Dividends income                                       | 108,413        |     | 64,989         |     |
| Equity in earnings of equity method investees, net     | 47,800         |     | 88,622         |     |
| Other  | 282,954        |     | 564,173        |     |
| Total non-operating income and gains                   | 2,264,374      | 2   | 1,819,836      | 1   |
| NON-OPERATING EXPENSES AND LOSSES                      |                |     |                |     |
| Valuation loss on financial instruments, net           | 736,667        | 1   | 883,342        | 1   |
| Loss on disposal of property, plant and equipment, net | 57,318         |     | 38,593         |     |
| Valuation loss on inventory                            | 35,239         |     | 12,434         |     |
| Foreign exchange loss, net                             | 9,572          |     | 26,702         |     |
| Interest expense                                       | 3,322          |     | 12,672         |     |
| Other  | 113,811        |     | 184,817        |     |
| Total non-operating expenses and losses                | 955,929        | 1   | 1,158,560      | 1   |
| INCOME BEFORE INCOME TAX                               | 48,236,638     | 32  | 48,474,449     | 33  |
| INCOME TAX EXPENSE (Notes 2 and 25)                    | 11,093,373     | 8   | 10,369,093     | 7   |

|                         |               |    |               |    |
|-------------------------|---------------|----|---------------|----|
| CONSOLIDATED NET INCOME | \$ 37,143,265 | 24 | \$ 38,105,356 | 26 |
|-------------------------|---------------|----|---------------|----|

(Continued)

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)****(Reviewed, Not Audited)**

|                            | 2008          |    | 2007          |    |
|----------------------------|---------------|----|---------------|----|
|                            | Amount        | %  | Amount        | %  |
| <b>ATTRIBUTED TO</b>       |               |    |               |    |
| Stockholders of the parent | \$ 36,522,087 | 24 | \$ 37,786,442 | 26 |
| Minority interests         | 621,178       |    | 318,914       |    |
|                            | \$ 37,143,265 | 24 | \$ 38,105,356 | 26 |

|                                     | 2008                              |               | 2007                              |               |
|-------------------------------------|-----------------------------------|---------------|-----------------------------------|---------------|
|                                     | Income<br>Before<br>Income<br>Tax | Net<br>Income | Income<br>Before<br>Income<br>Tax | Net<br>Income |
| <b>EARNINGS PER SHARE (Note 26)</b> |                                   |               |                                   |               |
| Basic earnings per share            | \$ 4.95                           | \$ 3.82       | \$ 4.52                           | \$ 3.55       |
| Diluted earnings per share          | \$ 4.94                           | \$ 3.81       | \$ 4.51                           | \$ 3.55       |

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

(With Deloitte &amp; Touche review report dated October 21, 2008)

(Concluded)

## CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(Amounts in Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

|   | 2008              | 2007              |
|---|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                   |                   |                   |
| Consolidated net income                                       | \$ 37,143,265     | \$ 38,105,356     |
| Provision for doubtful accounts                               | 396,859           | 605,115           |
| Depreciation and amortization                                 | 28,681,878        | 29,876,792        |
| Amortization of discount of financial assets                  | (1,125)           |                   |
| Valuation loss on inventory                                   | 35,239            | 12,434            |
| Valuation loss on financial instruments, net                  | 736,667           | 883,342           |
| Gain on disposal of financial instruments, net                | (392,178)         | (40,187)          |
| Loss on disposal of property, plant and equipment, net        | 57,318            | 38,593            |
| Loss on disposal of leased assets                             | 9                 | 9                 |
| Loss on disposal of deferred expenses                         | 1,053             | 431               |
| Equity in loss (earnings) of equity method investees          | (47,800)          | (88,622)          |
| Dividends received from equity investees                      | 217,176           | 44,000            |
| Impairment loss on financial assets carried at cost           | 15,000            |                   |
| Deferred income taxes   | (458,109)         | (683,898)         |
| Changes in operating assets and liabilities:                  |                   |                   |
| Decrease (increase) in:                                       |                   |                   |
| Financial assets held for trading                             | 451,275           | (275,603)         |
| Trade notes and accounts receivable                           | (590,548)         | (217,269)         |
| Receivables from related parties                              | (125,293)         | (504,913)         |
| Other current monetary assets                                 | 3,316,491         | 233,126           |
| Inventories   | (2,770,753)       | (82,051)          |
| Other current assets  | (3,184,118)       | (2,277,524)       |
| Increase (decrease) in:                                       |                   |                   |
| Trade notes and accounts payable                              | (3,009,030)       | (2,017,076)       |
| Payables to related parties                                   | 177,474           | 462,344           |
| Income tax payable  | (4,014,301)       | (3,188,499)       |
| Accrued expenses  | (4,445,583)       | (9,179,952)       |
| Other current liabilities                                     | 292,664           | 1,150,708         |
| Deferred income   | 405,424           | 444,834           |
| Accrued pension liabilities                                   | 1,201,832         | 1,950,697         |
|   | (9,391,520)       | (10,376,944)      |
| <b>Net cash provided by operating activities</b>              | <b>54,090,786</b> | <b>55,252,187</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                   |                   |                   |
| Acquisition of available-for-sale financial assets            | (6,619,406)       | (19,266,377)      |
| Proceeds from disposal of available-for-sale financial assets | 6,771,626         | 5,825,895         |
| Acquisition of held-to-maturity financial assets              | (852,383)         | (400,000)         |
| Proceeds from disposal of held-to-maturity financial assets   | 652,863           | 20,385            |
| Acquisition of financial assets carried at cost               | (230,000)         |                   |

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|  |           |             |
|--|-----------|-------------|
| Proceeds of disposal of financial assets carried at cost     | 384,017   |             |
| Acquisition of investments accounted for using equity method | (163,009) | (1,093,268) |
| Proceeds from disposal of long-term investments              | 44,256    | 69,485      |

(Continued)

- 6 -

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

|   | <b>2008</b>           | <b>2007</b>          |
|---|-----------------------|----------------------|
| Acquisition of property, plant and equipment                              | \$ (18,333,215)       | \$ (15,750,506)      |
| Proceeds from disposal of property, plant and equipment                   | 1,825,894             | 93,699               |
| Acquisition of intangible assets  | (142,896)             | (206,258)            |
| Decrease (increase) in restricted assets                                  | (3,058)               | 364                  |
| Decrease (increase) in other assets                                       | (288,814)             | 17,197               |
| Net cash used in investing activities                                     | (16,954,125)          | (30,689,384)         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                               |                       |                      |
| Increase in short-term loans  | 208,000               | 127,000              |
| Repayment of long-term loans  | (37,280)              | (636,306)            |
| Increase in long-term loans   |                       | 21,944               |
| Decrease in customers deposits  | (76,311)              | (295,056)            |
| Increase (decrease) in other liabilities                                  | (331,819)             | 169,575              |
| Cash dividends paid   | (486,047)             | (34,750,742)         |
| Remuneration to board of directors and supervisors and bonus to employees | (47,018)              | (1,300,059)          |
| Cash paid to stockholders for capital reduction                           | (9,557,777)           |                      |
| Repurchase of treasury stock  |                       | (3,470,172)          |
| Proceeds from exercise of employee stock option                           | 59,944                | 15,339               |
| Net cash used in financing activities                                     | (10,268,308)          | (40,118,477)         |
| <b>EFFECT OF EXCHANGE RATE CHANGES</b>                                    | <b>15,159</b>         | <b>(1,107)</b>       |
| <b>EFFECT OF CHANGE ON CONSOLIDATED SUBSIDIARIES</b>                      | <b>13,192</b>         | <b>557,337</b>       |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>               | <b>26,896,704</b>     | <b>(14,999,444)</b>  |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                     | <b>76,233,001</b>     | <b>70,672,974</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                           | <b>\$ 103,129,705</b> | <b>\$ 55,673,530</b> |
| <b>SUPPLEMENTAL INFORMATION</b>   |                       |                      |
| Interest paid (excluding capitalized interest expense)                    | \$ 3,536              | \$ 17,104            |
| Income tax paid   | \$ 15,546,066         | \$ 14,259,580        |
| <b>NON-CASH FINANCING ACTIVITIES</b>                                      |                       |                      |

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|                                    |               |    |        |
|------------------------------------|---------------|----|--------|
| Dividends payable                  | \$ 40,716,130 | \$ |        |
| Current portion of long-term loans | \$ 6,300      | \$ | 26,894 |

(Continued)



**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

|   | 2008          | 2007          |
|---|---------------|---------------|
| <b>CASH AND NON-CASH INVESTING ACTIVITIES</b> |               |               |
| Increase in property, plant and equipment     | \$ 17,299,950 | \$ 14,970,035 |
| Decrease in payables to suppliers             | 883,675       | 420,451       |
| Prepayments for equipment                     | 149,590       | 360,020       |
|   | \$ 18,333,215 | \$ 15,750,506 |

The following table presents the allocation of acquisition costs of Senao International Co., Ltd., made during the nine months ended September 30, 2007 to assets acquired and liabilities assumed, based on their fair values:

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

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

(With Deloitte & Touche review report dated October 21, 2008)

(Concluded)

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007**

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

**(Reviewed, Not Audited)**

**1. GENERAL**

Chunghwa Telecom Co., Ltd. ( Chunghwa ) was incorporated on July 1, 1996 in the Republic of China ( ROC ) pursuant to the Article 30 of the Telecommunications Act. Chunghwa 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 as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As a telecommunications service provider of fixed-line and GSM, Chunghwa was announced as a market dominator by the MOTC; therefore Chunghwa is subject to the applicable telecommunications regulations for market dominators of the ROC.

Effective August 12, 2005, the MOTC had completed the process of privatizing Chunghwa by reducing the government ownership to below 50% in various stages. In July 2000, Chunghwa 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 Chunghwa 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 Chunghwa 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 common shares of Chunghwa by auction in the ROC on August 9, 2005 and completed the second international offering on August 10, 2005. 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 Chunghwa and completed the privatization plan.

Senao International Co., Ltd. ( SENAO ) was incorporated in 1979. SENAO engages mainly in selling and maintaining mobile phones and its peripheral products. Chunghwa acquired 31.33% shares of SENAO on January 15, 2007 and has substantial control in SENAO by obtaining four out of seven seats of the board of directors of SENAO on April 12, 2007.

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

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

Unigate Telecom Inc. ( Unigate ) was established by CHIEF in 1999. Unigate engages mainly in telecommunication and information software service.

CHIEF Telecom (Hong Kong) Limited ( CHIEF (HK) ) was established by CHIEF in 2003. CHIEF (HK) engages mainly in internet communication and internet data center ( IDC ) service.

Chief International Corp. ( CIC ) was established by CHIEF in 2008. CIC engages mainly in internet communication and internet data center ( IDC ) services.

Chunghwa System Integration Co., Ltd. ( CHSI ) was incorporated in 2002. CHSI engages mainly in providing communication and information integration services. Chunghwa has acquired 100% shares of CHSI in December 2007.

Concord Technology Co., Ltd. ( Concord ), a subsidiary of CHSI, was incorporated in 2006. Concord engages mainly in investment.

Glory Network System Service (Shanghai) Co., Ltd. ( GNSS (Shanghai) ), a subsidiary of Concord, was incorporated in 2006. GNSS (Shanghai) engages mainly in planning and designing of systems and communications and information integration services.

Chunghwa Telecom Global, Inc. ( CHTG ) was incorporated in 2004. CHTG engages mainly in international data and internet services and long distance call wholesales to carriers. Chunghwa acquired 100% shares of CHTG in December 2007.

Donghwa Telecom Co., Ltd. ( DHT ) was incorporated in 2004. DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services. Chunghwa acquired 100% shares of DHT in December 2007.

Spring House Entertainment Inc. ( SHE ) was incorporated in 2000. SHE engages mainly in network services, producing digital entertainment contents and broadband visual sound terrace development. SHE was an equity method investee before Chunghwa obtained control interest over it. Chunghwa acquired an additional 26% of the shares of SHE in January 2008. Chunghwa was the only shareholder that subscribed for the issuance of new shares of SHE and was accounted for as a capital transaction between an parent and subsidiary. The 44% minority interest in SHE was accounted for at historical cost basis. Cash held by SHE in January 2008 was \$13,192 thousand.

Chunghwa established Light Era Development Co., Ltd. ( LED ) in January 2008. LED engages mainly in development of property for rent and sale.

Chunghwa established Chunghwa Telecom Singapore Pte. Ltd. ( CHTS ) in July 2008, CHTS engages mainly in telecommunication wholesale, internet transfer services, international data, long distance call wholesales to carriers and reinvests in the world satellite business.

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

Chunghwa established Chunghwa Telecom Japan Co., Ltd. ( CHJ ) 100% owned subsidiary in October 2008, for a purchase price of \$3,070 thousand cash. CHJ engages mainly in telecommunication business, information processing and information providing service, development and sale of software and consulting services in telecommunication.

As of September 30, 2008 and 2007, Chunghwa and its subsidiaries ( the Company ) had 27,146 and 25,828 employees, respectively.

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of September 30, 2008:

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements were prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC ( ROC GAAP ). The preparation of consolidated financial statements requires management to make reasonable estimates and assumptions on allowances for doubtful accounts, valuation allowances on inventories, depreciation of property, plant and equipment, impairment of assets, bonuses paid to employees, directors and supervisors, pension plans and income tax which are inherently uncertain. Actual results may differ from these estimates. The significant accounting policies are summarized as follows:

### Principle of Consolidation

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of Chunghwa, and the accounts of investees in which Chunghwa's ownership percentage is less than 50% but over which Chunghwa has a controlling interest. All significant intercompany transactions and balances are eliminated upon consolidation.

The consolidated financial statements for the nine months ended September 30, 2008 include the accounts of Chunghwa, SENAO, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, CHTS, New Prospect and Prime Asia. The consolidated financial statements for the nine months ended September 30, 2007 include the accounts of Chunghwa, SENAO, Taiwan Icon, CIYP, CHIEF, Unigate, CHIEF (HK), New Prospect and Prime Asia.

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

The financial statements as of and for the nine months ended September 30, 2008 and 2007 for the following subsidiaries have not been reviewed: CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), GHTG, DHT, SHE, LED, CHTS, New Prospect and Prime Asia, as of and for the nine months ended September 30, 2008; Taiwan Icon, CIYP, CHIEF, Unigate, CHIEF (HK), New Prospect and Prime Asia, as of and for the nine months ended September 30, 2007. The total assets of the above subsidiaries were 1.36% (NT\$6,592,577 thousand) and 0.32% (NT\$1,443,504 thousand), and the total liabilities of the above subsidiaries were 1.68% (NT\$1,589,659 thousand) and 1.43% (NT\$746,428 thousand), of the related consolidated amounts as of September 30, 2008 and 2007, respectively. The aggregate total revenues for these subsidiaries were 0.68% (NT\$1,030,020 thousand) and 0.42% (NT\$614,534 thousand), respectively, of the related consolidated amounts for the nine months ended September 30, 2008 and 2007 and their net loss were NT\$867,623 thousand and were NT\$49,693 thousand for the nine months ended September 30, 2008 and 2007, respectively.

#### **Classification of Current and Noncurrent Assets and Liabilities**

Current assets are assets expected to be converted to cash, sold or consumed within one year from balance sheet date. Current liabilities are obligations expected to be settled within one year from balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

As LED engages mainly in development of property for sale, which has an operating cycle of over one year, the length of the operating cycle is the basis for classifying construction assets and liabilities as current or noncurrent.

#### **Cash Equivalents**

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

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

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

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized as expenses as incurred. Financial assets or financial liabilities at FVTPL are remeasured at fair value, subsequently with changes in fair value recognized in earnings. Cash dividends received subsequently (including those received in the period of investment) are recognized as income. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in earnings. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

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

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

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

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

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

Cash dividends are recognized in earnings on the ex-dividend date, except for the dividends declared before acquisition are treated as a reduction of investment cost. Stock dividends are recorded as an increase in the number of shares and do not affect investment income. The total number of shares subsequent to the increase of stock dividends is used for recalculate cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. 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 stockholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

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

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

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

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

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

Sales prices are determined using fair value taking into account related sales discounts and quantity discounts agreed to by the Company and its customers. Since the receivables from sales are collectible within one year and such transactions are frequent, fair value of the receivables is equivalent to the nominal amount of the cash to be received.

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) 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.

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivable. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of outstanding accounts receivable.

#### **Inventories**

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

#### **Real Estate**

Advances from the sale of real estate included in unearned revenue are deferred and recognized as revenue when the ownership is transferred to customers after completion of the construction.

Land held for commercial, industrial or residential development is stated at the lower of cost or market value.

Marketing expenses for inducing sale of real estate before completion of the construction are treated as deferred marketing expenses (included in other current assets) and recognized as expenses when the following conditions are met: a) the construction is completed and b) the ownership of the real estate is transferred to customers.

#### **Investments Accounted for using Equity Method**

Investments in companies in which Chunghwa exercises significant influence over the operating and financial policy decisions are accounted for by 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.

Gains or losses on sales from the Company to equity method investees wherein Chunghwa does not have substantial control over these equity investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties. Gains or losses on sales from the Company to equity method investees are eliminated if Chunghwa has substantial control over these equity investees. Gains or losses on sales from equity method investees to Chunghwa are deferred in proportion to Chunghwa's ownership percentages in the investees until they are realized through transactions with third parties.

Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5, the cost of an investment shall be analyzed and the difference between the cost of investment and the fair value of identifiable net assets acquired, representing goodwill, shall not be amortize and instead shall be tested for impairment annually. If the fair value of identifiable net assets acquired exceeds the cost of investment, the excess shall be proportionately allocated as reductions to fair values of noncurrent assets except (a) financial assets other than investments accounted for using equity method, (b) assets to be disposed of by sale (c) deferred tax assets, and (d) prepaid assets relating to pension or other postretirement benefit plans. If any excess remains after reducing the aforementioned items, the remaining excess shall be recognized as an extraordinary gain.

When the Company subscribes for additional investee shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company share of the investee's equity. Chunghwa records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to additional paid-in capital the extent available, with the balance charged to retained earnings.

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

Investments in equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured are measured at their original cost, such as non-publicly traded stocks. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not 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 as incurred.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized.

An impairment loss on a revalued asset is charged to unrealized revaluation increment under equity to the extent available, with the balance is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment could be reversed and recognized as a gain, with the remaining credited to unrealized revaluation increment.

Depreciation expense is computed using the straight-line method over the following estimated service lives: land improvements - 10 to 30 years; buildings - 5 to 60 years; computer equipment - 3 to 10 years; telecommunication equipment - 5 to 30 years; transportation equipment - 5 to 10 years; and miscellaneous equipment - 2 to 12 years.

Upon sale or disposal of property, plant and equipment, the related cost, accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment are deducted from the corresponding accounts, and any gain or loss recorded as non-operating gains or losses in the period of sale or disposal.

#### **Intangible Assets**

Intangible assets mainly include 3G Concession, computer software, patents and goodwill.

The 3G license is valid through December 31, 2018. The 3G Concession and any additional licensing fees are amortized on a straight-line basis from the date operations commence through the date the license expires. Computer software costs and patents are amortized using the straight-line method over the estimated useful lives of 3-20 years. Goodwill is not being amortized.

Effective January 1, 2007, the Company adopted the newly released Statements of Financial Accounting Standards No. 37, Intangible Assets. Expenditure on research shall be expensed as incurred. Development Costs are capitalized when those costs meet relative criteria and are amortized using the straight-line method over estimated useful lives. Development costs do not meet relative criteria shall be expensed as incurred.



When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, as if no impairment loss had been recognized.

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**

For employees under defined benefit pension plans, pension costs are recorded based on actuarial calculations. For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees' individual pension accounts during their service periods.

#### **Expense Recognition**

The costs of providing services are recognized as incurred. The cost includes incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract bundled with the handsets.

#### **Treasury Stock**

Treasury stock is recorded at cost and shown as a reduction to stockholders' equity. Upon cancellation of treasury stock, the treasury stock account is reduced and the common stock and capital surplus are reversed on a pro rata basis. If capital surplus is not sufficient, the difference is charged to retained earnings.

#### **Share-based Compensation**

Employee stock options granted on or after January 1, 2008 are in accordance with under SFAS No. 39, Accounting for Share-based Payment.

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation. The Company adopted the intrinsic value method, under which compensation cost was recognized on a straight-line basis over the vesting period. According to the Interpretation 96-330 issued by ARDF in December 2007, the compensation cost remains the same if the revised plan meets both criteria in the aforementioned interpretation. If the revised plan does not meet both criteria stated in the interpretation, the revised plan would replace the original plan and the Company would calculate the incremental compensation cost using intrinsic value method and amortize over the vesting period.

#### **Income Tax**

The Company applies inter-period allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology-based enterprises are recognized using the flow-through method.

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 of stockholders approval which is the year subsequent to the year the earnings are generated.

#### **Foreign-currency Transactions**

Foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

The financial statements of foreign equity investees are translated into New Taiwan dollars at the following exchange rates. Assets and liabilities - spot rates at year-end; stockholders' equity - historical rates, income and expenses - average rates during the year. The resulting translation adjustments are recorded as a separate component of stockholders' equity.

#### **Hedge Accounting**

Hedged items are recognized as follows:

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

### **3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES**

In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning from January 1, 2008. The adoption of this interpretation resulted in a decrease of NT\$866,332 thousand in consolidated net income which was attributed to shareholders of the parent and a decrease in basic earnings per share (after income tax) of NT\$0.09 for the nine months ended September 30, 2008.

**4. CASH AND CASH EQUIVALENTS**

|  | September 30   |               |
|--|----------------|---------------|
|  | 2008           | 2007          |
| <b>Cash</b>  |                |               |
| Cash on hand   | \$ 496,509     | \$ 122,225    |
| Bank deposits  | 18,686,633     | 7,569,959     |
| Negotiable certificate of deposit, annual yield rate - ranging from 1.94%-2.643% and 1.82%-5.39% for 2008 and 2007, respectively | 63,761,675     | 32,673,069    |
|  | 82,944,817     | 40,365,253    |
| <b>Cash equivalents</b>  |                |               |
| Commercial paper, annual yield rate - ranging from 1.96%-3.762% and 1.90%-5.22% for 2008 and 2007, respectively                  | 20,184,888     | 14,951,919    |
| Bond with resale agreements, annual yield rate - ranging from 2.10%-2.30% for 2007   |                | 250,000       |
| U.S. Treasury bills, annual yield rate 4.41% for 2007  |                | 106,358       |
|  | 20,184,888     | 15,308,277    |
|  | \$ 103,129,705 | \$ 55,673,530 |

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

|  | September 30 |            |
|--|--------------|------------|
|  | 2008         | 2007       |
| <b>Current</b>                             |              |            |
| <b>Derivatives - financial assets</b>      |              |            |
| Index future contracts                     | \$ 95,359    | \$ 111,994 |
| Forward exchange contracts                 | 80           | 14,022     |
|  | \$ 95,439    | \$ 126,016 |
| <b>Derivatives - financial liabilities</b> |              |            |
| Currency option contracts                  | \$ 1,095,310 | \$ 795,881 |
| Forward exchange contracts                 | 329,247      | 86,554     |
| Index future contracts                     | 258          | 23,536     |
|  | \$ 1,424,815 | \$ 905,971 |

Chunghwa entered into investment management agreements with a well-known financial institution (fund managers) to manage its investment portfolios in 2006. As of September 30, 2008, Chunghwa's investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. The investment portfolios included listed stocks, mutual funds and derivative instruments.

Chunghwa 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 and stock prices. However, derivatives that do not meet the criteria for hedge accounting is classified as financial assets or financial liabilities held for trading.



Outstanding forward exchange contracts on September 30, 2008 and 2007 were as follows:

|                           | Currency | Maturity Period | Contract Amount<br>(in Thousands) |
|---------------------------|----------|-----------------|-----------------------------------|
| <b>September 30, 2008</b> |          |                 |                                   |
| Buy                       | NTD/USD  | 2008.10         | NTD 197,981                       |
| Sell                      | EUR/USD  | 2008.11         | EUR 6,550                         |
|                           | JPY/USD  | 2008.11         | JPY 447,000                       |
|                           | GBP/USD  | 2008.11         | GBP 2,140                         |
|                           | USD/EUR  | 2008.11         | USD 2,131                         |
|                           | USD/GBP  | 2008.11         | USD 327                           |
| <b>September 30, 2007</b> |          |                 |                                   |
| Buy                       | NTD/USD  | 2007.10         | NTD 175,362                       |
| Sell                      | EUR/USD  | 2007.11         | EUR 29,000                        |
|                           | JPY/USD  | 2007.11         | JPY 700,000                       |
|                           | GBP/USD  | 2007.11         | GBP 2,630                         |
|                           | USD/NTD  | 2007.12-2008.01 | USD 55,000                        |
|                           | EUR/NTD  | 2007.11-12      | EUR 50,000                        |
|                           | NTD/USD  | 2007.10-2008.01 | NTD 2,320,304                     |

Outstanding index future contracts on September 30, 2008 and 2007 were as follows:

|                           | Maturity Period | Units | Contract Amount<br>(in Thousands) |
|---------------------------|-----------------|-------|-----------------------------------|
| <b>September 30, 2008</b> |                 |       |                                   |
| AMSTERDAM IDX FUT         | 2008.10         | 13    | EUR 985                           |
| CAC40 10 EURO FUT         | 2008.10         | 14    | EUR 576                           |
| IBEX 35 INDX FUTR         | 2008.10         | 7     | EUR 761                           |
| DAX INDEX FUTURE          | 2008.12         | 3     | EUR 454                           |
| MINI S&P/MIB FUT          | 2008.12         | 37    | EUR 992                           |
| FTSE 100 IDX FUT          | 2008.12         | 19    | GBP 966                           |
| TOPIX INDEX FUTURE        | 2008.11         | 36    | JPY 437,364                       |
| S&P 500 FUTURE            | 2008.12         | 16    | USD 5,009                         |
| S&P 500 EMINI FUTURE      | 2008.12         | 55    | USD 3,403                         |
| <b>September 30, 2007</b> |                 |       |                                   |
| AMSTERDAM IDX FUT         | 2007.10         | 13    | EUR 1,366                         |
| CAC40 10 EURO FUT         | 2007.10         | 9     | EUR 498                           |
| IBEX 35 INDX FUTR         | 2007.10         | 7     | EUR 958                           |
| DAX INDEX FUTURE          | 2007.12         | 3     | EUR 574                           |
| MINI S&P/MIB FUT          | 2007.12         | 34    | EUR 1,326                         |
| FTSE 100 IDX FUT          | 2007.12         | 35    | GBP 2,194                         |
| TOPIX INDEX FUTURE        | 2007.12         | 28    | JPY 424,200                       |
| S&P 500 FUTURE            | 2007.12         | 16    | USD 6,132                         |
| S&P 500 EMINI FUTURE      | 2007.12         | 14    | USD 1,077                         |

As of September 30, 2008 and 2007, the deposits paid for index future contracts were \$54,540 thousand and \$111,994 thousand, respectively.

In September 2007, Chunghwa entered into a 10-year, foreign currency derivative contract with Goldman Sachs Group Inc. ( Goldman ) and valuations are made biweekly starting from September 20, 2007 which are 260 valuation periods totally. Under the terms of the contract, if the NT dollar/US dollar exchange rate is less than NT\$31.50 per US\$ at any two consecutive bi-weekly valuation dates during the valuation period starting from October 4, 2007 to September 5, 2017, Chunghwa is required to make a cash payment to Goldman. The settlement amount is determined by the difference between the applicable exchange rates and the base amount of US\$4,000 thousand. Conversely, if the NT dollar/US dollar exchange rate is above NT\$31.50 per US dollar using the same valuation methodology, Goldman would have a settlement obligation to Chunghwa determined using a base amount of US\$2,000 thousand. Further, if the exchange rate is at or above NT\$32.70 per US dollar starting from December 12, 2007 at any time, the contract will be terminated at that time. In accordance with the terms of the contract, Chunghwa deposited US\$3,000 thousand with Goldman (included in other current assets ) with annual yield rate of 8%. As of September 30, 2008, there are 233 remaining valuation periods. On October 21, 2008, the exchange rate was above NT\$32.70 per US dollar, so the contract was terminated at that time.

As of September 30, 2007, besides the aforementioned foreign currency option contract (USD TWD Window Knock-Out) with Goldman, the outstanding foreign currency option contracts were as follows:

| <b>Contract</b>        | <b>Exchange Rate</b> | <b>Maturity Period</b> | <b>Contract Amount (in Thousands)</b> |
|------------------------|----------------------|------------------------|---------------------------------------|
| Buy USD call /NTD put  | 32.80                | 2007.12                | USD 10,000                            |
| Sell USD put /NTD call | 32.65                | 2007.12                | USD 20,000                            |
| Buy USD call /NTD put  | 32.75                | 2007.12                | USD 1,750                             |
| Sell USD put /NTD call | 32.75                | 2007.12                | USD 1,750                             |
| Buy USD call /NTD put  | 32.80                | 2007.12                | USD 500                               |
| Sell USD put /NTD call | 32.80                | 2007.12                | USD 500                               |

Net loss arising from financial assets and liabilities at fair value through profit or loss for the nine months ended September 30, 2008 and 2007 were \$344,473 thousand (including realized settlement gain of \$423,852 thousand and valuation loss of \$768,325 thousand; such valuation loss included a loss of \$515,151 thousand from foreign currency derivative contract with Goldman) and \$976,005 thousand (including realized settlement loss of \$108,773 thousand and valuation loss of \$867,232 thousand; such valuation loss included a loss of \$718,389 thousand from foreign currency derivative contract with Goldman), respectively.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                                   | <b>September 30</b> |               |
|-----------------------------------|---------------------|---------------|
|                                   | <b>2008</b>         | <b>2007</b>   |
| Open-end mutual funds             | \$ 14,139,555       | \$ 19,780,140 |
| Foreign listed stocks             | 687,993             | 971,178       |
| Real estate investment trust fund | 211,285             | 256,250       |
| Listed stocks                     |                     | 153,078       |
| Convertible bonds                 |                     | 40,775        |
|                                   | \$ 15,038,833       | \$ 21,201,421 |

Movements of unrealized gain (loss) on available-for-sale financial assets were as follows:

|  | Nine Months Ended<br>September 30 |              |
|--|-----------------------------------|--------------|
|  | 2008                              | 2007         |
| Balance, beginning of period                             | \$ 75,614                         | \$ 541,035   |
| Reported as a separate component of stockholders' equity | (2,671,359)                       | 636,026      |
| Recognized in earnings                                   | 6,105                             | (23,768)     |
| Balance, end of period                                   | \$ (2,589,640)                    | \$ 1,153,293 |

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

|                                | September 30 |            |
|--------------------------------|--------------|------------|
|                                | 2008         | 2007       |
| Corporate bonds                | \$ 1,302,316 | \$ 250,000 |
| Collateralized loan obligation | 47,778       | 129,615    |
|                                | 1,350,094    | 379,615    |
| Less: Current portion          | 35,033       | 57,324     |
|                                | \$ 1,315,061 | \$ 322,291 |

**8. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

|                                       | Nine Months Ended<br>September 30 |              |
|---------------------------------------|-----------------------------------|--------------|
|                                       | 2008                              | 2007         |
| Balance, beginning of period          | \$ 3,430,157                      | \$ 3,550,086 |
| Provision for doubtful accounts       | 394,587                           | 601,924      |
| Impact on acquisition of subsidiaries | 983                               | 77,830       |
| Accounts receivable written off       | (734,001)                         | (614,554)    |
| Balance, end of period                | \$ 3,091,726                      | \$ 3,615,286 |

**9. OTHER CURRENT MONETARY ASSETS**

|   | September 30 |           |
|---|--------------|-----------|
|   | 2008         | 2007      |
| Receivable from disposal of financial instruments | \$ 1,217,525 | \$ 10,653 |
| Accrued custodial receipts from other carriers    | 655,021      | 805,327   |
| Tax refund receivable                             | 157          | 3,221,493 |
| Fixed-line fund                                   |              | 1,000,000 |
| Other receivable                                  | 1,883,432    | 1,848,219 |

\$ 3,756,135    \$ 6,885,692

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**10. INVENTORIES, NET**

|                                       | September 30 |              |
|---------------------------------------|--------------|--------------|
|                                       | 2008         | 2007         |
| Supplies                              | \$ 1,939,492 | \$ 1,601,732 |
| Work in process                       | 359,179      | 76,856       |
| Merchandise                           | 2,372,092    | 1,813,091    |
| Materials in transit                  | 823,295      | 817,870      |
|                                       | 5,494,058    | 4,309,549    |
| Less: Valuation allowance             | 99,963       | 56,669       |
|                                       | 5,394,095    | 4,252,880    |
| Land held for residential development | 739,268      |              |
|                                       | \$ 6,133,363 | \$ 4,252,880 |

**11. OTHER CURRENT ASSETS**

|                  | September 30 |              |
|------------------|--------------|--------------|
|                  | 2008         | 2007         |
| Prepaid expenses | \$ 3,186,026 | \$ 2,551,672 |
| Prepaid rents    | 890,640      | 626,225      |
| Miscellaneous    | 571,782      | 206,101      |
|                  | \$ 4,648,448 | \$ 3,383,998 |

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

|  | September 30       |                   |                    |                   |
|--|--------------------|-------------------|--------------------|-------------------|
|  | 2008               |                   | 2007               |                   |
|  | Carrying<br>Amount | % of<br>Ownership | Carrying<br>Amount | % of<br>Ownership |
| Non-listed   |                    |                   |                    |                   |
| Chunghwa Investment Co., Ltd. ( CHI )                        | \$ 853,148         | 49                | \$ 1,001,121       | 49                |
| Taiwan International Standard Electronics Co., Ltd. ( TISE ) | 572,470            | 40                | 559,819            | 40                |
| Senao Networks, Inc. ( SNI )                                 | 261,631            | 45                | 276,531            | 48                |
| Viettel-CHT Co., Ltd. ( Viettel-CHT )                        | 97,711             | 33                |                    |                   |
| Skysoft Co., Ltd. ( SKYSOFT )                                | 81,022             | 30                |                    |                   |
| King Way Technology Co., Ltd. ( KWT )                        | 76,207             | 33                |                    |                   |
| A-Kuei Publishing Co., Ltd. ( AKP )                          | 178                | 49                |                    |                   |
| ELTA Technology Co., Ltd. ( ELTA )                           |                    |                   | 27,075             | 21                |
| Spring House Entertainment Inc. ( SHE )                      |                    |                   | 16,122             | 30                |
|  | \$ 1,942,367       |                   | \$ 1,880,668       |                   |

SENAO spun off the wireless communication operation and established Senao Networks, Inc., on October 1, 2006 according to the Business Mergers and Acquisitions Law.

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Chunghwa established Viettel-CHT Co., Ltd. with Viettel Co., Ltd. in Vietnam in April 2008, by investing NT\$91,239 thousand cash. Viettel-CHT engages mainly in IDC services.

Chunghwa invested Skysoft Co., Ltd. ( SKYSOFT ) in October 2007, for a purchase price of \$67,025 thousand. SKYSOFT engages mainly in providing of music on-line, software, electronic information and advertisement services.

Chunghwa invested KingWay Technology Co., Ltd. ( KWT ) in January 2008, for purchasing price of \$71,770 thousand. KWT engages mainly in publishing books, data processing and software services.

A-Kuei Publishing Co., Ltd. ( AKP ), an investment accounted for using equity method of SHE, engages mainly in publishing books and talking books.

Chunghwa invested in ELTA Technology Co., Ltd. in April and October 2007, for a purchase price of \$27,455 thousand and \$16,768 thousand, respectively. ELTA engages mainly in professional on-line and mobile value-added content aggregative services. Chunghwa sold all shares of ELTA with carrying value \$51,152 thousand on July 23, 2008 for a selling price of \$44,047 thousand and recognized a disposal loss of \$7,105 thousand.

CHTS and SingTelSat Pte., Ltd. established a joint venture, ST-2 Satellite Ventures Pte., Ltd. ( SSVP ) in Singapore in October 2008. SSVP will engage in the operation of ST-2 telecommunication satellite.

The aggregate carrying values of the equity method investments whose financial statements have not been reviewed were NT\$1,942,367 thousand and NT\$1,880,668 thousand as of September 30, 2008 and 2007, respectively. The net equity in earnings of such equity investees were NT\$47,800 thousand and NT\$88,622 thousand for the nine months ended September 30, 2008 and 2007, respectively.

### 13. FINANCIAL ASSETS CARRIED AT COST

|   | September 30       |                 |                    |                 |
|---|--------------------|-----------------|--------------------|-----------------|
|   | 2008               | %               | 2007               | %               |
|   | Carrying<br>Amount | of<br>Ownership | Carrying<br>Amount | of<br>Ownership |
| Cost investees:   |                    |                 |                    |                 |
| Taipei Financial Center ( TFC )                                   | \$ 1,789,530       | 12              | \$ 1,789,530       | 12              |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. ( IBT II ) | 200,000            | 17              |                    |                 |
| Global Mobile Corp. ( GMC )                                       | 127,018            | 11              |                    |                 |
| iD Branding Ventures ( iDBV )                                     | 75,000             | 8               | 75,000             | 8               |
| RPTI International ( RPTI )                                       | 34,500             | 12              | 71,500             | 12              |
| Essence Technology Solution, Inc. ( ETS )                         | 20,000             | 9               |                    |                 |
| N.T.U. Innovation Incubation Corporation ( NTUI )                 | 12,000             | 9               | 12,000             | 9               |
| 3 Link Information Service Co., Ltd. ( 3 Link )                   | 3,450              | 10              | 3,450              | 10              |
| Siemens Telecommunication Systems ( Siemens )                     |                    |                 | 5,250              | 15              |
| eASPNet Taiwan Inc. ( eASPNet )                                   |                    | 2               |                    | 2               |
|   | \$ 2,261,498       |                 | \$ 1,956,730       |                 |

The Company invested IBT II in January 2008, for a purchase price of \$200,000 thousand. IBT II engages mainly in investment. IBT II completed its incorporation on February 13, 2008.

Chunghwa invested in GMC in December 2007, for a purchase price of \$168,038 thousand for 16,796 thousand shares. GMC engages mainly in wire communication services and computer software wholesale and circuit engineering. The National Communications Commission ( NCC ) informed Chunghwa with the Communication Letter (#0974102087) on April 1, 2008 that its investment in GMC has been overruled, and notified Chunghwa officially on May 5, 2008 that Chunghwa should dispose of all investment in GMC no later than June 30, 2008, otherwise, NCC will enforce a fine according to Telecommunication Act, and the fine may be imposed consecutively until the violation is rectified. Chunghwa disposed of 4,100 thousand shares of GMC in April 2008. Chunghwa has filed an appeal to NCC on April 30, 2008 and requested the NCC to officially suspend the enforcement on June 10, 2008. On July 3, 2008, NCC resolved that according to the administrative penal provisions, Chunghwa stated that the investment target couldn't be transacted in the short term. Therefore, NCC determined that Chunghwa will not be subject to fine in a suitable time.

After evaluating the investment in RPTI, Chunghwa determined the investment in RPTI was impaired and recognized an impairment loss of \$15,000 thousand for the nine months ended September 30, 2008 and \$22,000 thousand for the year ended December 31, 2007.

Chunghwa invested ETS in December 2007, for a purchase price of \$20,000 thousand. ETS mainly engages in IP-Private Branch Exchange (IP PBX) and design of voice security module.

Chunghwa disposed all shares of Siemens with carrying value \$5,250 thousand in March 2008, for a selling price of \$314,055 thousand and Chunghwa recognized a disposal gain of \$308,805 thousand.

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

#### 14. OTHER MONETARY ASSETS - NONCURRENT

|             | September 30 |              |
|-------------|--------------|--------------|
|             | 2008         | 2007         |
| Piping Fund | \$ 1,000,000 | \$ 1,000,000 |

As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute a total of \$1,000,000 thousand to a Fixed-Line Fund managed by a Piping Fund administered by the Taipei City Government. These funds were used to finance various telecommunications infrastructure projects. Upon completion of the construction projects, the parties using the infrastructure shall reimburse the money to the contributors.

CHSI invested Taiwan Goal Co., Ltd. ( TG ) in January 2008, for a purchase price of \$30,000 thousand. TG engages mainly in import and export activities for machine wholesale, arms and ammunition products. On March 17, 2008, the stockholders of TG resolved to dissolve TG at a special meeting. Therefore, CHSI has reclassified its investment to other monetary assets. As of September 30, 2008, TG has registered dissolution and cancelled the certificate of Profit Seeking Enterprise and Taipei District Court declared the dissolution is approved. CHSI has received \$29,561 thousand for the liquidation and recognized a loss of \$439 thousand.

**15. PROPERTY, PLANT AND EQUIPMENT**

|   | September 30          |                       |
|---|-----------------------|-----------------------|
|   | 2008                  | 2007                  |
| Cost  |                       |                       |
| Land  | \$ 102,072,994        | \$ 101,110,534        |
| Land improvements   | 1,487,827             | 1,479,005             |
| Buildings   | 62,872,535            | 60,185,284            |
| Computer equipment  | 15,234,421            | 15,297,174            |
| Telecommunications equipment  | 643,338,790           | 637,946,626           |
| Transportation equipment  | 2,734,161             | 3,189,033             |
| Miscellaneous equipment   | 7,397,229             | 7,869,962             |
| <b>Total cost</b>   | <b>835,137,957</b>    | <b>827,077,618</b>    |
| Revaluation increment on land   | 5,820,548             | 5,823,991             |
|   | <b>840,958,505</b>    | <b>832,901,609</b>    |
| Accumulated depreciation  |                       |                       |
| Land improvements   | 885,231               | 840,344               |
| Buildings   | 16,054,604            | 14,990,229            |
| Computer equipment  | 11,746,088            | 11,705,290            |
| Telecommunications equipment  | 500,595,150           | 484,439,346           |
| Transportation equipment  | 2,592,400             | 3,069,770             |
| Miscellaneous equipment   | 6,304,181             | 6,762,628             |
|   | <b>538,177,654</b>    | <b>521,807,607</b>    |
| Construction in progress and advances related to acquisition of equipment | 16,690,721            | 18,878,975            |
| <b>Property, plant and equipment, net</b>                                 | <b>\$ 319,471,572</b> | <b>\$ 329,972,977</b> |

Pursuant to the related regulation, Chunghwa 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 Ministry of Auditing 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 stockholders' equity - other adjustments of \$5,774,892 thousand.

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went effective from February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of \$116,196 thousand to stockholders' equity - other adjustments. As of September 30, 2008, the unrealized revaluation increment was decreased to \$5,823,085 thousand by disposal revaluation assets.

Depreciation on property, plant and equipment for the nine months ended September 30, 2008 and 2007 amounted to \$27,858,127 thousand and \$29,130,182 thousand, respectively. Capitalized interest expense for the nine months ended September 30, 2008 and 2007 amounted to \$722 thousand and \$1,455 thousand, capitalized rate were 2.787%-2.883% and 2.955%-3.215%, respectively.

**16. SHORT-TERM LOANS**

|  | September 30 |            |
|--|--------------|------------|
|  | 2008         | 2007       |
| Secured loans - annual rate 2.796%-2.85% and 2.955%-3.295% for 2008 and 2007, respectively | \$ 144,000   | \$ 253,000 |
| Unsecured loans - annual rate - 2.80%-2.85% for 2008                                       | 100,000      |            |

\$ 244,000 \$ 253,000

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**17. ACCRUED EXPENSES**

|                                 | September 30  |              |
|---------------------------------|---------------|--------------|
|                                 | 2008          | 2007         |
| Accrued salary and compensation | \$ 7,440,714  | \$ 5,851,259 |
| Accrued franchise fees          | 1,799,405     | 1,654,964    |
| Other accrued expenses          | 1,779,650     | 2,230,417    |
|                                 | \$ 11,019,769 | \$ 9,736,640 |

**18. OTHER CURRENT LIABILITIES**

|                                       | September 30  |               |
|---------------------------------------|---------------|---------------|
|                                       | 2008          | 2007          |
| Advances from subscribers             | \$ 6,279,793  | \$ 5,085,965  |
| Amounts collected in trust for others | 2,679,407     | 3,291,458     |
| Payables to equipment suppliers       | 1,314,034     | 1,276,253     |
| Refundable customers deposits         | 964,655       | 974,690       |
| Payables to contractors               | 953,902       | 636,950       |
| Miscellaneous                         | 3,047,625     | 3,119,690     |
|                                       | \$ 15,239,416 | \$ 14,385,006 |

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

|  | September 30 |            |
|--|--------------|------------|
|  | 2008         | 2007       |
| Secured loans - annual rate 1% and 2.62%-3.05% for 2008 and 2007, respectively | \$ 37,840    | \$ 254,167 |
| Unsecured loans - annual rate - 2.79% for 2007                                 |              | 40,000     |
|  | 37,840       | 294,167    |
| Less: Current portion of long-term loans                                       | 6,300        | 66,894     |
|  | \$ 31,540    | \$ 227,273 |

SHE applied for a loan from the Industrial Development Bureau, Ministry of Economic Affairs for research and development purpose and obtained a secured loan from Taiwan Business Bank. Interest is payable monthly and the principal is payable every three month from January 15, 2009 with a due date of April 15, 2013.

SENAO obtained a secured loan from Land Bank. The principal amount was payable semiannually and the loan was repaid in October 2007. CHIEF obtained a secured loan from Chinatrust Commercial Bank. Interest and principal were payable monthly and the loan was repaid in November 2007.

SENAO obtained an unsecured loan from Industrial Bank of Taiwan and Land Bank. Interest and principal amount are payable semiannually and the loan is repaid in May 2008.





**20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES**

The contract-related assets and liabilities of LED are classified as current or noncurrent based on the length of its operating cycle, which is greater than 12 months.

|   | September 30, 2008 |                  |            |
|---|--------------------|------------------|------------|
|   | Within<br>One Year | Over<br>One Year | Total      |
| <b>Assets</b>   |                    |                  |            |
| Inventories   | \$                 | \$ 739,268       | \$ 739,268 |
| Deferred marketing expenses (classified as other current assets)            |                    | 74,431           | 74,431     |
| Others (classified as other current assets)                                 | 3,961              |                  | 3,961      |
| <b>Liabilities</b>  |                    |                  |            |
| Notes and accounts payable  | 333                |                  | 333        |
| Advance from of land and building (classified as other current liabilities) |                    | 150,215          | 150,215    |
| Others (classified as other current liabilities)                            | 753                |                  | 753        |

**21. STOCKHOLDERS EQUITY**

Under Chunghwa's Articles of Incorporation, Chunghwa'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 9,557,776,912 shares, and 2 preferred shares (at \$10 par value per share), which was approved by the board of directors to be issue on March 28, 2006, and the MOTC purchased 2 preferred shares at par value on April 4, 2006.

For the purpose of privatizing Chunghwa, the MOTC sold 1,109,750 thousand common shares of Chunghwa 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 Chunghwa, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. The MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of September 30, 2008, the outstanding ADSs were 160,324 thousand units, which equaled approximately 1,603,239 thousand common shares and represented 16.77% of Chunghwa's total outstanding common shares.

The ADS holders generally have the same rights and obligations as other common stockholders, 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 Chunghwa'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 Chunghwa 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 Chunghwa or the nature of its business and any transfer of a substantial portion of Chunghwa's business or property.
- d. The holder of the preferred shares may not transfer the ownership. Chunghwa must redeem all outstanding preferred shares with par value within three years from the date of their issuance.

Under the ROC Company Law, additional paid-in capital may only be utilized to offset deficits. For those companies having no deficits, additional paid-in capital arising from capital surplus can be used to increase capital stock and distribute to stockholders in proportion to their ownership at the ex-dividend date. Also, such amounts can only be declared as a stock dividend by Chunghwa at an amount calculated in accordance with the provisions of existing regulations. However, the statement above is not limited to the additional paid-in capital generating from company reforming, such as merger, acquisition, and reconstruction.

In addition, before distributing a dividend or making any other distribution to stockholders, Chunghwa 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; (b) no more than 0.2% of distributable earnings shall be distributed to board of directors and supervisors as remuneration; 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.

Chunghwa operates in a capital-intensive and technology-intensive industry and requires capital expenditures to sustain its competitive position in high-growth market. Thus, Chunghwa'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.

For the nine months ended September 30, 2008, the accrual amounts for bonuses to employees and remuneration to directors and supervisors were accrued based on past experiences and represented 3.37% and 0.2%, respectively, of net income after setting aside 10% legal reserve.

If the initial accrual amounts of the aforementioned bonus are significantly different from the amounts proposed by the board of directors, the difference is charged to the earnings of the year making the initial estimate. Otherwise, the difference between initial accrual amount and the amount resolved in the shareholders' meeting is charged to the earnings of the following year as a result of change in accounting estimate.

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 Chunghwa. 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 Chunghwa, up to 50% of the reserve may, at the option of Chunghwa, be declared as a stock dividend and transferred to capital.

The appropriations and distributions of the 2007 and 2006 earnings of Chunghwa have been approved and resolved by the stockholders on June 19, 2008 and June 15, 2007 as follows:

|  | Appropriation and<br>Distribution |              | Dividend Per Share |      |
|--|-----------------------------------|--------------|--------------------|------|
|  | 2007                              | 2006         | 2007               | 2006 |
| Legal reserve                                      | \$ 4,823,356                      | \$ 3,998,445 | \$                 | \$   |
| Reversal of special reserve                        | 3,304                             | 1,461        |                    |      |
| Cash dividends                                     | 40,716,130                        | 34,610,885   | 4.26               | 3.58 |
| Stock dividends                                    | 955,778                           |              | 0.10               |      |
| Employee bonus - cash                              | 1,303,605                         | 1,256,619    |                    |      |
| Employee bonus - stock                             | 434,535                           |              |                    |      |
| Remuneration to board of directors and supervisors | 43,454                            | 35,904       |                    |      |

On June 27, 2008, the board of directors of Chunghwa resolved to transfer capital surplus in the amount of \$19,115,554 thousand to capital stock. Furthermore, they resolved to reduce the same amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and to refund the excess funds to shareholders. The proposal was resolved by the stockholders at a meeting which was held on August 14, 2008.

The abovementioned 2008 capital increase proposal was effectively registered with Securities and Futures Bureau of Financial Supervisory Commission, Executive Yuan ( SFC ). The board of directors resolved the ex-dividend date of the aforementioned proposal as October 25, 2008.

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

The above 2007 capital increase proposal was effectively registered with SFC. The board of directors resolved the ex-dividend date of the aforementioned proposal as August 1, 2007.

The stockholders, at the stockholders meeting held on June 15, 2007, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of NT\$9,667,845 thousand to common capital stock. Chunghwa obtained the approval letter from Financial Supervisory Commission, Executive Yuan which stated the effective registration date of capital reduction is October 17, 2007. Chunghwa decided October 19, 2007 and December 29, 2007 as the record date and stock transfer date of capital reduction, respectively. Subsequently, common capital stock was reduced by NT\$9,667,845 thousand and a liability for the actual amount of cash to be distributed to stockholders of NT\$9,557,777 thousand was recorded. The difference between the reduction in common capital stock and the distribution amount represents treasury stock of NT\$110,068 thousand held by Chunghwa and concurrently cancelled. Also, the cash has been returned to stockholders on January 2008.

Information on the appropriation of 2007 earnings, employee bonus and remuneration to board of directors and supervisors proposed by the board of directors and resolved by the stockholders is available at the Market Observation Post System website.

Under the Integrated Income Tax System that became effective on July 1, 1998, R.O.C. resident stockholders are allowed a tax credit for their proportionate share of the income tax paid by Chunghwa on earnings generated since July 1, 1998.

**22. SENAO SHARE-BASED COMPENSATION PLANS**

SENAO has several share-based compensation plans ( SENAO Plans ) described as follows:

| Effective Date | Grant Date | Stock Options Units<br>(Thousand) | Exercise Price                     |
|----------------|------------|-----------------------------------|------------------------------------|
| 2003.09.03     | 2003.10.17 | 3,981                             | \$ 15.8<br>(Original price \$20.2) |
| 2003.09.03     | 2004.03.04 | 385                               | 18.9<br>(Original price \$23.9)    |
| 2004.12.01     | 2004.12.28 | 6,500                             | 10.0<br>(Original price \$11.6)    |
| 2004.12.01     | 2005.11.28 | 1,500                             | 15.5<br>(Original price \$18.3)    |
| 2005.09.30     | 2006.05.05 | 10,000                            | 14.3<br>(Original price \$16.9)    |
| 2007.10.16     | 2007.10.31 | 6,181                             | 42.6<br>(Original price \$44.2)    |
|                |            | 28,547                            |                                    |

Each option is eligible to subscribe for one common share when exercisable. Under the terms of the Plans, the options are granted at an exercise price equal to the closing price of the SENAO s common shares listed on the TSE on the higher of closing price or par value. SENAO Plans have exercise price adjustments formula upon the changes on common shares and distribute cash dividends. The options of all the Plans are valid for six years and exercisable at certain percentages subsequent to the second anniversary of the grant date.

Information about SENAO s outstanding stock options for the nine months ended September 30, 2008 and 2007 was as follows:

|  | Stock Options Outstanding       |                                 |                                 |                                 |
|--|---------------------------------|---------------------------------|---------------------------------|---------------------------------|
|  | 2008                            | Weighted Average Exercise Price | 2007                            | Weighted Average Exercise Price |
|  | Number of Options<br>(Thousand) | NT\$                            | Number of Options<br>(Thousand) | NT\$                            |
| Options outstanding, beginning of year   | 18,592                          | \$ 24.70                        | 16,488                          | \$ 14.66                        |
| Options issued                           |                                 |                                 |                                 |                                 |
| Options exercised                        | (4,057)                         | 13.59                           | (2,611)                         | 12.24                           |
| Options cancelled                        | (383)                           | 24.27                           | (478)                           |                                 |
| Options outstanding, end of September 30 | 14,152                          | 26.09                           | 13,399                          | 15.11                           |
| Options exercisable, end of September 30 | 2,521                           |                                 | 1,685                           |                                 |



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As of September 30, 2008, information about SENAO's outstanding and exercisable options was as follows:

| Range of<br>Exercise Price<br>(NT\$) | Options Outstanding                |  |  | Options Exercisable                |  |
|--------------------------------------|------------------------------------|--|--|------------------------------------|--|
|                                      | Number of<br>Options<br>(Thousand) | Weighted-<br>average<br>Remaining<br>Contractual<br>Life (Years) | Weighted<br>Average<br>Exercise<br>Price<br>(NT\$) | Number of<br>Options<br>(Thousand) | Weighted<br>Average<br>Exercise<br>Price<br>(NT\$) |
| \$10.0-\$14.3                        | 7,104                              | 1.71   | \$13.51  | 2,141                              | \$13.44  |
| \$15.5-\$18.9                        | 1,000                              | 1.08   | 15.61  | 380                                | 15.74  |
| \$42.6                               | 6,048                              | 3.54   | 42.60  |                                    |  |

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

| Range of<br>Exercise Price<br>(NT\$) | Options Outstanding                |  |  | Options Exercisable                |  |
|--------------------------------------|------------------------------------|--|--|------------------------------------|--|
|                                      | Number of<br>Options<br>(Thousand) | Weighted-<br>average<br>Remaining<br>Contractual<br>Life (Years) | Weighted<br>Average<br>Exercise<br>Price<br>(NT\$) | Number of<br>Options<br>(Thousand) | Weighted<br>Average<br>Exercise<br>Price<br>(NT\$) |
| \$10.5-\$15.7                        | 11,180                             | 2.70   | \$14.69  | 1,088                              | \$10.50  |
| \$17.1-\$20.8                        | 2,219                              | 1.80   | 17.23  | 597                                | 17.46  |

No compensation cost was recognized under the intrinsic value method for the nine months ended September 30, 2008 and 2007.

Had SENAO used the fair value based method to recognize the compensation cost, the pro forma results of the company would have been as follows:

|                            |             | Nine Months Ended September 30 |                    |
|----------------------------|-------------|--------------------------------|--------------------|
|                            |             | 2008                           | 2007               |
| Net income                 | As reported | \$ 876,795thousand             | \$ 671,828thousand |
|                            | Pro forma   | \$ 864,323thousand             | \$ 663,462thousand |
| Basic earnings per share   | As reported | \$ 3.62                        | \$ 2.91            |
|                            | Pro forma   | \$ 3.57                        | \$ 2.88            |
| Diluted earnings per share | As reported | \$ 3.49                        | \$ 2.80            |
|                            | Pro forma   | \$ 3.44                        | \$ 2.77            |

Had SENAO used the fair value based method to evaluate the options using the Black-Scholes model, the assumptions and pro forma results of SENAO for the nine months ended September 30, 2008 would have been as follows:

November 28, 2005      December 28, 2004

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|                                       | <b>October 31,<br/>2007</b> | <b>May 5,<br/>2006</b> |             |             | <b>March 4,<br/>2004</b> |
|---------------------------------------|-----------------------------|------------------------|-------------|-------------|--------------------------|
| Expected dividend yield               | 1.49%                       |                        |             |             |                          |
| Risk free interest rate               | 2.00%                       | 1.75%                  | 2.00%       | 1.88%       | 1.88%                    |
| Expected life                         | 4.375 years                 | 4.375 years            | 4.375 years | 4.375 years | 4.375 years              |
| Expected volatility                   | 39.82%                      | 39.63%                 | 43.40%      | 49.88%      | 52.65%                   |
| Weighted-average fair value of grants | \$13.69                     | \$5.88                 | \$6.93      | \$4.91      | \$10.56                  |

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

|                                  | Nine Months Ended<br>September 30 |        |
|----------------------------------|-----------------------------------|--------|
|                                  | 2008                              | 2007   |
| Balance, beginning of the period | 110,068                           |        |
| Increase                         |                                   | 59,389 |
| Decrease                         | (110,068)                         |        |
| Balance, end of the period       |                                   | 59,389 |

According to the Securities and Exchange Law of the ROC, total shares of treasury stock shall not exceed 10% of Chunghwa's stock issued. The total amount of the repurchased shares shall not be more than the total amount of retained earnings, capital surplus and realized additional paid-in capital. The shares repurchased by Chunghwa shall not be pledged in accordance with Securities and Exchange Law of the ROC. The holders of treasury stocks are not entitled to vote in stockholders' meetings.

In order to maintain its credit and stockholders' equity, Chunghwa repurchased 121,075 thousand treasury stock for \$7,217,562 thousand from August 29, 2007 to October 25, 2007. On December 29, 2007, Chunghwa cancelled 11,007 thousand shares of treasury stock by reducing common stock of \$110,068 thousand. The remaining treasury stock of 110,068 thousand shares amounted \$7,107,494 thousand was cancelled on February 21, 2008.

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

|                      | Nine Months Ended September 30, 2008 |                       |               |
|----------------------|--------------------------------------|-----------------------|---------------|
|                      | Cost of<br>Services                  | Operating<br>Expenses | Total         |
| Compensation expense |                                      |                       |               |
| Salaries             | \$ 9,214,436                         | \$ 7,306,978          | \$ 16,521,414 |
| Insurance            | 626,811                              | 483,397               | 1,110,208     |
| Pension              | 1,208,616                            | 899,986               | 2,108,602     |
| Other compensation   | 5,733,681                            | 3,968,429             | 9,702,110     |
|                      | \$ 16,783,544                        | \$ 12,658,790         | \$ 29,442,334 |
| Depreciation expense | \$ 26,294,870                        | \$ 1,563,257          | \$ 27,858,127 |
| Amortization expense | \$ 655,275                           | \$ 136,152            | \$ 791,427    |
| Compensation expense |                                      |                       |               |
| Salaries             | \$ 9,287,417                         | \$ 6,467,448          | \$ 15,754,865 |
| Insurance            | 611,841                              | 439,491               | 1,051,332     |
| Pension              | 1,319,504                            | 908,398               | 2,227,902     |
| Other compensation   | 6,607,677                            | 4,469,396             | 11,077,073    |
|                      | \$ 17,826,439                        | \$ 12,284,733         | \$ 30,111,172 |
| Depreciation expense | \$ 27,487,420                        | \$ 1,642,762          | \$ 29,130,182 |



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|                      |            |           |            |
|----------------------|------------|-----------|------------|
| Amortization expense | \$ 648,800 | \$ 80,152 | \$ 728,952 |
|----------------------|------------|-----------|------------|

**25. INCOME TAX**

- a. Income tax expense consisted of the following:

|                                       | Nine Months Ended<br>September 30 |               |
|---------------------------------------|-----------------------------------|---------------|
|                                       | 2008                              | 2007          |
| Income tax payable                    | \$ 11,278,113                     | \$ 10,790,539 |
| Income tax - separated                | 225,403                           | 187,085       |
| Income tax - deferred                 | (458,109)                         | (684,478)     |
| Adjustments of prior years income tax | 47,966                            | 75,947        |
|                                       | \$ 11,093,373                     | \$ 10,369,093 |

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

|   | September 30 |              |
|---|--------------|--------------|
|   | 2008         | 2007         |
| <b>Current</b>  |              |              |
| Deferred income tax assets:                                       |              |              |
| Provision for doubtful accounts                                   | \$ 486,122   | \$ 349,796   |
| Valuation loss on financial instruments, net                      | 335,390      | 225,543      |
| Loss carryforward   | 67,152       | 38,880       |
| Valuation loss on inventory                                       | 13,057       | 12,517       |
| Unrealized foreign exchange loss                                  | 12,953       | 399          |
| Estimated warranty liabilities                                    | 11,034       | 17,025       |
| Other   | 34,977       | 21,735       |
|   | 960,685      | 665,895      |
| Valuation allowance   | (537,132)    | (372,217)    |
|   | \$ 423,553   | \$ 293,678   |
| <b>Noncurrent deferred income tax assets:</b>                     |              |              |
| Accrued pension cost  | \$ 1,394,153 | \$ 921,341   |
| Impairment loss   | 84,208       | 91,293       |
| Loss carryforward   | 77,263       | 107,950      |
| Loss on disposal of property, plant and equipment impairment loss | 16,498       | 18,422       |
| Other   | 3,802        | 4,268        |
|   | 1,575,924    | 1,143,274    |
| Valuation allowance   | (35,269)     | (78,403)     |
|   | \$ 1,540,655 | \$ 1,064,871 |

c. As of September 30, 2008, loss carryforward of CHIEF, Unigate, SHE, CIYP and LED are as follows:

| Company | Total Creditable Amounts | Remaining Creditable Amounts | Expiry Year |
|---------|--------------------------|------------------------------|-------------|
| CHIEF   | \$ 28,261                | \$ 28,261                    | 2008        |
|         | 22,427                   | 22,427                       | 2009        |
|         | 25,392                   | 25,392                       | 2010        |
|         | 21,975                   | 21,975                       | 2011        |
|         | 12,679                   | 12,679                       | 2012        |
|         | 5,253                    | 5,253                        | 2013        |
| Unigate | 20                       | 20                           | 2012        |
|         | 12                       | 12                           | 2013        |
| SHE     | 6,529                    | 5,752                        | 2008        |
|         | 1,972                    | 1,972                        | 2009        |
|         | 6,262                    | 6,262                        | 2011        |
|         | 1,152                    | 1,152                        | 2012        |
| CIYP    | 38,561                   | 8,740                        | 2012        |
| LED     | 4,518                    | 4,518                        | 2013        |
|         | \$ 175,013               | \$ 144,415                   |             |

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

|  | September 30  |           |
|--|---------------|-----------|
|  | 2008          | 2007      |
| Balance of Imputation Credit Account ( ICA ) |               |           |
| Chunghwa                                     | \$ 13,820,421 | \$ 83,684 |
| CHIEF  | \$ 17,280     | \$ 17,167 |
| Unigate                                      | \$ 595        | \$ 595    |
| CIYP   | \$            | \$        |
| SENAO  | \$ 114,735    | \$ 27,606 |
| CHSI   | \$ 502        |           |
| SHE  | \$ 67         |           |
| LED  | \$ 382        |           |

The estimated and the actual creditable ratios distribution of Chunghwa s of 2007 and 2006 for earnings were 28.60% and 24.42%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

e. Undistributed earnings information

As of September 30, 2008 and 2007, there is no earnings generated prior to June 30, 1998 in Chunghwa s undistributed earnings.

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The following entities' income tax returns have been examined by tax authorities through 2005: Chunghwa, SENAO, CHIEF, Unigate, and CHSI. SHE's income tax returns have been examined by tax authorities through 2006.

**26. EARNINGS PER SHARE**

|   | Amount (Numerator)             |               | Weighted-average<br>Number of<br>Common<br>Shares<br>Outstanding<br>(Denominator) | Net Income Per<br>Share<br>(Dollars) |               |
|---|--------------------------------|---------------|---|--------------------------------------|---------------|
|   | Income<br>Before<br>Income Tax | Net Income    |   | Income<br>Before<br>Income Tax       | Net<br>Income |
| <u>Nine months ended September 30, 2008</u>   |                                |               |   |                                      |               |
| EPS was calculated as follows:  |                                |               |   |                                      |               |
| Basic earnings per share  | \$ 47,301,789                  | \$ 36,522,087 | 9,557,777   | \$ 4.95                              | \$ 3.82       |
| SENAO stock-based compensation  | (14,479)                       | (14,479)      |   |                                      |               |
| Employee bonus  |                                |               | 18,313  |                                      |               |
| Diluted earnings per share  | \$ 47,287,310                  | \$ 36,507,608 | 9,576,090   | \$ 4.94                              | \$ 3.81       |
| Pro forma basic EPS adjusted for stock dividends<br>with ex-dividend date after issuance of financial<br>statements   |                                |               |   |                                      |               |
|   | \$ 47,301,789                  | \$ 36,522,087 | 11,608,363  | \$ 4.07                              | \$ 3.15       |
| Pro forma diluted EPS adjusted for stock dividends<br>with ex-dividend date after issuance of financial<br>statements |                                |               |   |                                      |               |
|   | \$ 47,287,310                  | \$ 36,507,608 | 11,626,676  | \$ 4.07                              | \$ 3.14       |
| <u>Nine months ended September 30, 2007</u>   |                                |               |   |                                      |               |
| EPS was calculated as follows:  |                                |               |   |                                      |               |
| Basic earnings per share  | \$ 47,996,197                  | \$ 37,786,442 | 10,629,909  | \$ 4.52                              | \$ 3.55       |
| SENAO stock-based compensation  | (9,615)                        | (9,615)       |   |                                      |               |
| Diluted earnings per share  | \$ 47,986,582                  | \$ 37,776,827 | 10,629,909  | \$ 4.51                              | \$ 3.55       |
| Pro forma basic EPS adjusted for stock dividends<br>with ex-dividend date after issuance of financial<br>statements   |                                |               |   |                                      |               |
|   | \$ 47,996,197                  | \$ 37,786,442 | 12,680,495  | \$ 3.79                              | \$ 2.98       |
| Pro forma diluted EPS adjusted for stock dividends<br>with ex-dividend date after issuance of financial<br>statements |                                |               |   |                                      |               |
|   | \$ 47,986,582                  | \$ 37,776,827 | 12,680,495  | \$ 3.78                              | \$ 2.98       |

Chunghwa presumes that the bonuses to employees will be settled in shares and takes those shares into consideration when calculating the weighted average number of shares outstanding used in the calculation of diluted EPS for the nine months ended September 30, 2008. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa's shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the shareholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The diluted earnings per share for the nine months ended September 30, 2008 and 2007 was due to the effect of potential common stock of stock options by SENAO.

## **27. PENSION PLAN**

Chunghwa completed privatization plans on August 12, 2005. Chunghwa 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. After paying all pension obligations for privatization, the plan assets of Chunghwa should be transferred to the Fund for Privatization of Government-owned Enterprises (the Privatization Fund) under the Executive Yuan. On August 7, 2006, Chunghwa transferred the remaining balance of fund to the Privatization Fund. However, according to the instructions of MOTC, Chunghwa would on behalf of the MOTC 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.

The pension plan under the Labor Pension Act of ROC (the LPA) is effective beginning July 1, 2005 and this pension mechanism is considered as a defined contribution plan. Based on the LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The Company's pension plan is considered as a defined benefit plan under the Labor Standards Law that provide benefits based on an employee's length of service and average six-month salary prior to retirement at retirement. The Company contribute an amount equal to 2% to 15% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the names of the Committees in the Bank of Taiwan.

Pension costs of the Company were \$2,168,945 thousand (\$2,065,741 thousand subject to defined benefit plan and \$103,204 thousand subject to defined contribution plan) and \$2,324,882 thousand (\$2,246,770 thousand subject to defined benefit plan and \$78,112 thousand subject to defined contributed plan) for the years ended September 30, 2008 and 2007, respectively.

## **28. TRANSACTIONS WITH RELATED PARTIES**

The ROC Government, one of Chunghwa's customers held significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, Internet and data and other services to the various departments and institutions 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 transactions were not summarized by Chunghwa. Chunghwa believes that all costs of doing business are reflected in the financial statements.

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

| Company   | Relationship  |
|---|---|
| Senao International Co., Ltd. ( SENAO )                 | Equity-method investee before Chunghwa has control over SENAO on April 12, 2007                   |
| Chunghwa System Integration Co., Ltd. ( CHSI )          | Subsidiary of CHI prior to acquisition.   |
| Spring House Entertainment Inc.( SHE )                  | Equity-method investee before Chunghwa has control over SHE on January 2008                       |
| Chunghwa Telecom Global, Inc. ( CHTG )                  | Subsidiary of CHI prior to acquisition.   |
| Donghwa Telecom Co., Ltd. ( DHT )                       | Subsidiary of CHI prior to acquisition.   |
| Taiwan International Standard Electronics Ltd. ( TISE ) | Equity-method investee  |
| ELTA Technology Co., Ltd. ( ELTA )                      | Equity-method investee before (Chunghwa sold all shares in July, 2008.)                           |
| Skysoft Co., Ltd. ( SKYSOFT )                           | Equity-method investee  |
| Chunghwa Precision Test Technical Co., Ltd. ( CHPT )    | Subsidiary of CHI   |
| Tai Zhong He  | Former chairman of CHIEF, as a current member of the board of directors of CHIEF                  |
| Senao Networks, Inc. ( SNI )                            | Equity-method investee of SENAO   |
| SENAO Technology Education Foundation ( STEF )          | A nonprofit organization of which the funds donated by SENAO exceeds one third of its total funds |
| Paul Lin  | Vice chairman and general manager of SENAO  |

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

|  | September 30 |         |            |     |
|--|--------------|---------|------------|-----|
|  | 2008         |         | 2007       |     |
|  | Amount       | %       | Amount     | %   |
| <b>1) Receivables</b>                                      |              |         |            |     |
| Trade notes and accounts receivable                        |              |         |            |     |
| CHTG   | \$           |         | \$ 16,780  | 86  |
| Others   |              | 237 100 | 2,623      | 14  |
|  | \$           | 237 100 | \$ 19,403  | 100 |
| <b>2) Payables</b>   |              |         |            |     |
| Trade notes payable, accounts payable and accrued expenses |              |         |            |     |
| TISE   | \$ 160,501   | 76      | \$ 56,554  | 19  |
| SNI  | 26,003       | 13      | 1,017      |     |
| CHSI   |              |         | 150,948    | 50  |
| CHTG   |              |         | 9,829      | 3   |
| Others   | 4,328        | 2       | 4,116      | 1   |
|  | 190,832      | 91      | 222,464    | 73  |
| Payable to contractors                                     |              |         |            |     |
| TISE   | 19,978       | 9       | 77,577     | 26  |
| Amounts collected in trust for others                      |              |         |            |     |
| CHTG   |              |         | 3,536      | 1   |
|  | \$ 210,810   | 100     | \$ 303,577 | 100 |





|  | September 30 |   |              |   |
|--|--------------|---|--------------|---|
|  | 2008         |   | 2007         |   |
|  | Amount       | % | Amount       | % |
| <b>3) Advances from rent(include in other current liabilities)</b> |              |   |              |   |
| SNI  | \$ 2,688     |   | \$ 1,504     |   |
| <b>4) Revenues</b>   |              |   |              |   |
| SKYSOFT  | \$ 24,682    |   | \$           |   |
| SENAO  |              |   | 30,158       |   |
| CHTG   |              |   | 60,627       |   |
| CHSI   |              |   | 11,236       |   |
| Others   | 6,631        |   | 15,770       |   |
|  | \$ 31,313    |   | \$ 117,791   |   |
| <b>5) Operating costs and expenses</b>                             |              |   |              |   |
| TISE   | \$ 396,925   | 1 | \$ 269,232   |   |
| ELTA   | 189,744      |   | 39,594       |   |
| STEF   | 8,652        |   | 7,120        |   |
| SNI  | 8,090        |   | 10           |   |
| SENAO  |              |   | 1,174,966    | 2 |
| CHSI   |              |   | 401,021      |   |
| CHTG   |              |   | 49,076       |   |
| Paul Lin   |              |   | 240          |   |
| Others   | 3            |   | 1,515        |   |
|  | \$ 603,414   | 1 | \$ 1,942,774 | 2 |
| <b>6) Non-operating income and gains - rent income</b>             |              |   |              |   |
| SNI  | \$ 23,051    | 1 | \$ 17,831    | 1 |
| <b>7) Acquisitions of property, plant and equipment</b>            |              |   |              |   |
| TISE   | \$ 313,803   | 2 | \$ 538,729   | 3 |
| CHSI   |              |   | 223,289      | 2 |
| CHTG   |              |   | 35,292       |   |
|  | \$ 313,803   | 2 | \$ 797,310   | 5 |

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

SENAO rent a building from Paul Lin for retail sales and service centers. The rent is paid monthly.

SNI rent some space of plants in Hwa-Ya Technology Park from SENAO. The rent is paid monthly.

The transaction terms, except of SENAO, SNI and other payable to Paul Lin were determined in accordance with mutual agreements. The foregoing transactions with related parties were conducted under normal commercial terms.

### 29. PLEDGED ASSETS

The following assets are pledged as collateral for short-term and long-term bank loans and contract deposits by SENAO, CHIEF, and SHE.

|                                    | September 30 |            |
|------------------------------------|--------------|------------|
|                                    | 2008         | 2007       |
| Property, plant and equipment, net | \$ 340,262   | \$ 509,206 |
| Leased assets, net                 | 438,192      | 290,974    |
| Restricted assets                  | 11,898       | 1,862      |
|                                    | \$ 790,352   | \$ 802,042 |

### 30. COMMITMENTS AND CONTINGENT LIABILITIES

As of September 30, 2008, the Company's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of land and buildings of \$765,920 thousand.
- b. Acquisitions of telecommunications equipment of \$18,873,227 thousand.
- c. Unused letters of credit of \$1,970,981 thousand.
- d. Contract to print billing, envelopes and selling gifts of \$142,212 thousand.
- e. The Company also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Future lease payments were as follows:

| Year   | Amount     |
|--|------------|
| 2008 (from October 1, 2008 to December 31, 2008) | \$ 427,856 |
| 2009   | 1,529,017  |
| 2010   | 1,020,634  |
| 2011   | 706,159    |
| 2012 and thereafter                              | 716,010    |

- f. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by Chunghwa on August 15, 1996 (classified as long-term investment - other monetary assets). When the fund is not sufficient, Chunghwa will contribute the remaining \$1,000,000 thousand after getting the notification from the Taipei City Government. Based on Chunghwa understanding of the Piping Fund terms, if the project is considered to be no longer necessary by the ROC government, Chunghwa will receive back its proportionate share of the net equity of the Piping Fund upon its dissolution.



- g. A portion of the land used by Chunghwa during the period July 1, 1996 to September 30, 2004 was co-owned by Chunghwa 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 Chunghwa to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of Chunghwa's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, Chunghwa 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, Chunghwa has filed an appeal at the Taiwan Taipei District Court. As of review report date, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.
- h. Giga Media filed a civil action against Chunghwa with the Taiwan Taipei District Court. The complaint alleged that Chunghwa infringed Giga Media's R.O.C. Patent No. I258284 which is a Point-to-Point Protocol over Ethernet ( PPPoE ) technique used to launch fixed IP of ADSL. Giga Media is seeking damages of NT\$500,000 thousand and interest calculated at 5% from the date the indictment was received by Chunghwa to the payment date. Chunghwa claims that its service technique is different from the nature of Giga Media's patent and that it does not need to use Giga Media's PPPoE technique for its services. Chunghwa has filed a statement of defense with the Taiwan Taipei District Court.

### 31. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

|  | 2008            |                | September 30    |               | 2007            |            |
|--|-----------------|----------------|-----------------|---------------|-----------------|------------|
|  | Carrying Amount | Fair Value     | Carrying Amount | Fair Value    | Carrying Amount | Fair Value |
| <b>Assets</b>  |                 |                |                 |               |                 |            |
| Cash and cash equivalents  | \$ 103,129,705  | \$ 103,129,705 | \$ 55,673,530   | \$ 55,673,530 |                 |            |
| Financial assets at fair value through profit or loss                          | 95,439          | 95,439         | 126,016         | 126,016       |                 |            |
| Available-for-sale financial assets  | 15,038,833      | 15,038,833     | 21,201,421      | 21,201,421    |                 |            |
| Held-to-maturity financial assets - current                                    | 35,033          | 35,033         | 57,324          | 57,324        |                 |            |
| Trade notes and accounts receivable, net                                       | 11,655,831      | 11,655,831     | 13,354,247      | 13,354,247    |                 |            |
| Receivable from related parties  | 237             | 237            | 19,403          | 19,403        |                 |            |
| Other current monetary assets  | 3,756,135       | 3,756,135      | 6,885,692       | 6,885,692     |                 |            |
| Restricted assets - current  | 3,366           | 3,366          | 1,862           | 1,862         |                 |            |
| Investments accounted for using equity method                                  | 1,942,367       | 2,089,522      | 1,880,668       | 2,033,904     |                 |            |
| Financial assets carried at cost   | 2,261,498       | 2,261,498      | 1,956,730       | 1,956,730     |                 |            |
| Held-to-maturity financial assets - noncurrent                                 | 1,315,061       | 1,315,061      | 322,291         | 322,291       |                 |            |
| Other noncurrent monetary assets   | 1,000,000       | 1,000,000      | 1,000,000       | 1,000,000     |                 |            |
| Refundable deposits  | 1,291,953       | 1,291,953      | 1,408,070       | 1,408,070     |                 |            |
| Restricted assets - noncurrent   | 8,532           | 8,532          |                 |               |                 |            |
| <b>Liabilities</b>   |                 |                |                 |               |                 |            |
| Short-term loans   | 244,000         | 244,000        | 253,000         | 253,000       |                 |            |
| Financial liabilities at fair value through profit or loss                     | 1,424,815       | 1,424,815      | 905,971         | 905,971       |                 |            |
| Trade notes and accounts payable   | 8,677,566       | 8,677,566      | 8,854,198       | 8,854,198     |                 |            |
| Payables from related parties  | 210,810         | 210,810        | 303,577         | 303,577       |                 |            |
| Accrued expenses   | 11,019,769      | 11,019,769     | 9,736,640       | 9,736,640     |                 |            |
| Dividends payable  | 40,716,130      | 40,716,130     |                 |               |                 |            |
| Amounts collected in trust for others (included in other current liabilities ) | 2,679,407       | 2,679,407      | 3,291,458       | 3,291,458     |                 |            |
| Payables to equipment suppliers (included in other current liabilities )       | 1,314,034       | 1,314,034      | 1,276,253       | 1,276,253     |                 |            |
| Refundable customers deposits (included in other current liabilities )         | 964,655         | 964,655        | 974,690         | 974,690       |                 |            |

(Continued)



|   | September 30       |            |                    |            |
|---|--------------------|------------|--------------------|------------|
|   | 2008               |            | 2007               |            |
|   | Carrying<br>Amount | Fair Value | Carrying<br>Amount | Fair Value |
| Payables to contractors (included in other current liabilities )                  | \$ 953,902         | \$ 953,902 | \$ 636,950         | \$ 636,950 |
| Hedging derivative financial liabilities (included in other current liabilities ) | 6,460              | 6,460      | 767                | 767        |
| Current portion of long-term loans  | 6,300              | 6,300      | 66,894             | 66,894     |
| Long-term loans   | 31,540             | 31,540     | 227,273            | 227,273    |
| Customers deposits  | 6,243,266          | 6,243,266  | 6,410,357          | 6,410,357  |

(Concluded)

## b. Methods and assumptions used in the estimation 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 prices of the available-for-sale financial assets are not readily available, valuation techniques is used incorporating estimates and assumptions that are consistent with prevailing market conditions.
- 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 based on projected cash flow. The projected cash flows were discounted using the interest rate of similar long-term loans.

## c. Fair value of financial instruments were as follow:

|  | Amount Based on Quoted<br>Market Price<br>September 30 |            | Amount Determined Using<br>Valuation Techniques<br>September 30 |         |
|--|--|------------|---|---------|
|  | 2008   | 2007       | 2008  | 2007    |
|  | <b>Assets</b>  |            |   |         |
| Financial assets at fair value through profit or loss                              | \$ 95,359  | \$ 126,016 | \$ 80   | \$      |
| Available-for-sale financial assets  | 15,038,833   | 21,201,421 |   |         |
| Hedging derivative financial assets (classified as other current monetary assets)  |  | 9,227      |   |         |
| <b>Liabilities</b>   |  |            |   |         |
| Financial liabilities at fair value through profit or loss                         | 328,884  | 108,263    | 1,095,931   | 797,708 |
| Hedging derivative financial liabilities (classified as other current liabilities) | 6,460  | 767        |   |         |



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 rate risk.

The fluctuations of market price would result in the index future contracts exposed to price risk.

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

2) Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties of the aforementioned financial instruments are reputable financial institutions. Management does not expect the Company's exposure to default by those parties to be material.

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

4) Cash flow interest rate risk

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

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

e. Fair value hedge

Chunghwa entered into forward exchange contracts is mainly to hedge the fluctuation in exchange rates of beneficiary certificate denominated in foreign currency, which is fair value hedge. The transaction was assessed as highly effective for the nine months ended September 30, 2008 and 2007.



Outstanding forward exchange contracts for hedge as of September 30, 2008 and 2007:

|                           | Currency | Holding Period | Contract Amount<br>(in Thousands) |
|---------------------------|----------|----------------|-----------------------------------|
| <u>September 30, 2008</u> |          |                |                                   |
| Sell                      | USD/NTD  | 2008.12        | US\$ 65,000                       |
| <u>September 30, 2007</u> |          |                |                                   |
| Sell                      | USD/NTD  | 2007.10-12     | US\$ 71,000                       |

As of September 30, 2008 and 2007, the forward exchange contract measured at fair value resulting in hedging derivative financial liability of \$6,460 thousand and 767 thousand (classified as other current liabilities), respectively. As of September 30, 2007, the forward exchange contract measured at fair value resulting in hedging derivative financial asset of \$9,227 thousand (classified as other current monetary assets).

### 32. ADDITIONAL DISCLOSURES

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

- a. Financing provided: None.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Please see Table 1.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 2.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 5.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 6.
- i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 7.
- j. Financial transactions: Please see Notes 5 and 31.

- k. Investment in Mainland China: Please see Table 8.
  
- l. Intercompany relationships and significant intercompany transaction: Please see Table 9.

**TABLE 1****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES HELD****SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars)**

|     |                            | September 30, 2008                                  |                               |   |                             |                          |                         |                 |        |
|-----|----------------------------|---|-------------------------------|---|-----------------------------|--------------------------|-------------------------|-----------------|--------|
| No. | Held Company Name          | Marketable Securities Type and Name                 | Relationship with the Company | Financial Statement Account                   | Shares                      |                          | Market Value or         |                 | Note   |
|     |                            |   |                               |   | (Thousands/ Thousand Units) | Carrying Value (Note 5)  | Percentage of Ownership | Net Asset Value |        |
| 0   | Chunghwa Telecom Co., Ltd. | <u>Common stock</u>                                 |                               |   |                             |                          |                         |                 |        |
|     |                            | Senao International Co., Ltd.                       | Subsidiary                    | Investments accounted for using equity method | 71,773                      | \$ 1,271,196<br>(Note 7) | 29                      | \$ 2,382,869    | Note 4 |
|     |                            | Light Era Development Co., Ltd.                     | Subsidiary                    | Investments accounted for using equity method | 300,000                     | 2,987,971<br>(Note 7)    | 100                     | 2,987,971       | Note 1 |
|     |                            | Chunghwa Investment Co., Ltd.                       | Equity-method investee        | Investments accounted for using equity method | 98,000                      | 853,148                  | 49                      | 929,340         | Note 1 |
|     |                            | Chunghwa System Integration Co., Ltd.               | Subsidiary                    | Investments accounted for using equity method | 60,000                      | 791,904<br>(Note 7)      | 100                     | 634,807         | Note 1 |
|     |                            | Chunghwa Telecom Singapore Pte. Ltd.                | Subsidiary                    | Investments accounted for using equity method | 34,869                      | 784,461<br>(Note 7)      | 100                     | 784,461         | Note 1 |
|     |                            | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee        | Investments accounted for using equity method | 1,760                       | 572,470                  | 40                      | 740,740         | Note 1 |
|     |                            | CHIEF Telecom Inc.                                  | Subsidiary                    | Investments accounted for using equity method | 37,942                      | 408,203<br>(Note 7)      | 69                      | 360,139         | Note 1 |
|     |                            | Donghwa Telecom Co., Ltd.                           | Subsidiary                    | Investments accounted for using equity method | 51,590                      | 216,011<br>(Note 7)      | 100                     | 216,011         | Note 1 |
|     |                            | Chunghwa International Yellow Pages Co., Ltd.       | Subsidiary                    | Investments accounted for using equity method | 15,000                      | 120,697<br>(Note 7)      | 100                     | 120,697         | Note 1 |
|     |                            | Viettel-CHT Co., Ltd.                               | Equity-method investee        | Investments accounted for using equity method | 3,000                       | 97,711                   | 33                      | 97,711          | Note 1 |
|     |                            | Chunghwa Telecom Global, Inc.                       | Subsidiary                    | Investments accounted for using equity method | 6,000                       | 86,931<br>(Note 7)       | 100                     | 78,914          | Note 1 |
|     |                            | Skysoft Co., Ltd.                                   | Equity-method investee        | Investments accounted for using equity method | 4,438                       | 81,022                   | 30                      | 41,655          | Note 1 |

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|   |                        |   |         |           |     |           |        |
|---|------------------------|---|---------|-----------|-----|-----------|--------|
| KingWay Technology Co., Ltd.                                    | Equity-method investee | Investments accounted for using equity method | 1,002   | 76,207    | 33  | 18,267    | Note 1 |
| Spring House Entertainment Inc.                                 | Subsidiary             | Investments accounted for using equity method | 5,996   | 44,070    | 56  | 29,552    | Note 1 |
|   |                        |   |         | (Note 7)  |     |           |        |
| New Prospect Investments Holdings Ltd. (B.V.I.)                 | Subsidiary             | Investments accounted for using equity method |         |           | 100 |           | Note 2 |
|   |                        |   |         | (Note 7)  |     |           |        |
| Prime Asia Investments Group Ltd. (B.V.I.)                      | Subsidiary             | Investments accounted for using equity method |         |           | 100 |           | Note 2 |
|   |                        |   |         | (Note 7)  |     |           |        |
| Taipei Financial Center   |                        | Financial assets carried at cost              | 172,927 | 1,789,530 | 12  | 1,408,325 | Note 1 |
| PRTI International  |                        | Financial assets carried at cost              | 9,234   | 34,500    | 12  | 34,961    | Note 1 |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II) |                        | Financial assets carried at cost              | 20,000  | 200,000   | 17  | 198,902   | Note 1 |
| Global Mobile Corp.   |                        | Financial assets carried at cost              | 12,696  | 127,018   | 11  | 119,777   | Note 1 |

(Continued)

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| Held Company |      | Marketable Securities                          | Financial Statement           | Shares                              | September 30, 2008          |                         | Market Value or Net Asset |           |        |
|--------------|------|--|-------------------------------|-------------------------------------|-----------------------------|-------------------------|---------------------------|-----------|--------|
| No.          | Name | Type and Name                                  | Relationship with the Company | Account                             | (Thousands/ Carrying Value) | Percentage of Ownership | Value                     | Note      |        |
|              |      | iD Branding Ventures                           |                               | Financial assets carried at cost    | 7,500                       | \$ 75,000               | 8                         | \$ 77,299 | Note 1 |
|              |      | Essence Technology Solution, Inc.              |                               | Financial assets carried at cost    | 2,000                       | 200,000                 | 9                         | 5,652     | Note 1 |
|              |      | ABBOTT LABORATORIES COM NPV                    |                               | Available-for-sale financial assets | 4                           | 5,303                   |                           | 6,477     | Note 4 |
|              |      | ACOM CO LTD JPY50                              |                               | Available-for-sale financial assets | 4                           | 3,614                   |                           | 4,713     | Note 4 |
|              |      | ADIDAS AG NPV                                  |                               | Available-for-sale financial assets | 4                           | 6,996                   |                           | 6,177     | Note 4 |
|              |      | ADOBE SYSTEMS INC COM USD0.0001                |                               | Available-for-sale financial assets | 4                           | 4,696                   |                           | 5,055     | Note 4 |
|              |      | AEGIS GROUP PLC GBP0.05                        |                               | Available-for-sale financial assets | 58                          | 4,690                   |                           | 3,125     | Note 4 |
|              |      | AGGREKO PLC ORD                                |                               | Available-for-sale financial assets | 10                          | 2,212                   |                           | 3,126     | Note 4 |
|              |      | AIOI INSURANCE CO LTD NPV                      |                               | Available-for-sale financial assets | 20                          | 3,048                   |                           | 3,123     | Note 4 |
|              |      | ALSTOM EUR14 (POST-CONSOLIDATION)              |                               | Available-for-sale financial assets | 2                           | 3,501                   |                           | 4,895     | Note 4 |
|              |      | ALTERA CORP COM                                |                               | Available-for-sale financial assets | 8                           | 5,368                   |                           | 5,249     | Note 4 |
|              |      | ANGLO AMERICAN PLC USD0.54945(POST CONSOLIDAT) |                               | Available-for-sale financial assets | 2                           | 4,508                   |                           | 2,603     | Note 4 |
|              |      | APPLE INC                                      |                               | Available-for-sale financial assets | 1                           | 2,797                   |                           | 3,816     | Note 4 |
|              |      | APPLIED BIOSYSTEMS INC                         |                               | Available-for-sale financial assets | 5                           | 5,091                   |                           | 5,502     | Note 4 |
|              |      | ASTELLAS PHARMA INC SHS                        |                               | Available-for-sale financial assets | 2                           | 3,019                   |                           | 2,949     | Note 4 |
|              |      | ASTRAZENECA PLC ORD USD0.25                    |                               | Available-for-sale financial assets | 3                           | 4,467                   |                           | 4,166     | Note 4 |
|              |      | AVIVA PLC ORDINARY 25P SHARES                  |                               | Available-for-sale financial assets | 15                          | 5,637                   |                           | 4,039     | Note 4 |
|              |      | AVON PRODS INC COM                             |                               | Available-for-sale financial assets | 4                           | 5,383                   |                           | 5,208     | Note 4 |
|              |      | AXA EUR2.29                                    |                               | Available-for-sale financial assets | 5                           | 5,748                   |                           | 5,706     | Note 4 |
|              |      | BANCO ESPIRITO SANTO-REG EUR5                  |                               | Available-for-sale financial assets | 12                          | 8,168                   |                           | 4,790     | Note 4 |
|              |      | BANCO POPOLARE SPA EUR3.60                     |                               | Available-for-sale financial assets | 12                          | 6,831                   |                           | 5,931     | Note 4 |
|              |      | BANCO SANTANDER SA                             |                               | Available-for-sale financial assets | 11                          | 5,736                   |                           | 5,451     | Note 4 |
|              |      | BANCO SANTANDER SA                             |                               | Available-for-sale financial assets |                             |                         |                           |           |        |
|              |      | BASF SE Eur 1.28                               |                               | Available-for-sale financial assets | 3                           | 7,002                   |                           | 5,016     | Note 4 |
|              |      | BAXTER INTERNATIONAL INC COM USD1              |                               | Available-for-sale financial assets | 2                           | 4,279                   |                           | 5,202     | Note 4 |
|              |      | BECTON DICKINSON & CO COM                      |                               | Available-for-sale financial assets | 2                           | 4,666                   |                           | 5,222     | Note 4 |
|              |      | BENESSE CORPORATION                            |                               | Available-for-sale financial assets | 3                           | 3,646                   |                           | 3,553     | Note 4 |
|              |      | BG GROUP PLC ORD GBP0.10                       |                               | Available-for-sale financial assets | 7                           | 4,445                   |                           | 3,995     | Note 4 |
|              |      | BHP BILLITON PLC USD0.50                       |                               | Available-for-sale financial assets | 5                           | 2,882                   |                           | 3,333     | Note 4 |
|              |      | BMC SOFTWARE INC COM                           |                               | Available-for-sale financial assets | 5                           | 5,496                   |                           | 4,889     | Note 4 |
|              |      | BNP PARIBAS EUR2                               |                               | Available-for-sale financial assets | 2                           | 8,390                   |                           | 7,396     | Note 4 |
|              |      | BP PLC ORD USD0.25                             |                               | Available-for-sale financial assets | 29                          | 10,622                  |                           | 7,849     | Note 4 |

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|  |  |    |       |       |        |
|--|--|----|-------|-------|--------|
|  | Available-for-sale<br>financial assets |    |       |       |        |
| CAMERON<br>INTERNATIONAL CORP<br>COM USD0.01 | Available-for-sale<br>financial assets | 4  | 5,445 | 4,889 | Note 4 |
| CAPITA GROUP PLC ORD<br>GBP0.02066667        | Available-for-sale<br>financial assets | 12 | 4,936 | 4,683 | Note 4 |
| CASIO COMPUTER CO<br>LTD ORD                 | Available-for-sale<br>financial assets | 8  | 3,515 | 2,380 | Note 4 |
| CHEVRON CORP COM<br>USD0.75                  | Available-for-sale<br>financial assets | 2  | 4,108 | 5,319 | Note 4 |
| COLGATE PALMOLIVE<br>CO COM                  | Available-for-sale<br>financial assets | 2  | 5,485 | 5,404 | Note 4 |
| COMPASS GROUP PLC<br>ORD                     | Available-for-sale<br>financial assets | 19 | 3,916 | 3,715 | Note 4 |
| COOPER INDS LTD CL A                         | Available-for-sale<br>financial assets | 4  | 5,446 | 5,021 | Note 4 |
| CUMMINS INC COM<br>USD2.50                   | Available-for-sale<br>financial assets | 2  | 5,808 | 3,498 | Note 4 |
| CVS CAREMARK CORP<br>COM STK USD0.01         | Available-for-sale<br>financial assets | 4  | 5,208 | 4,326 | Note 4 |
| DAIHATSU MOTOR CO<br>LTD NPV                 | Available-for-sale<br>financial assets | 8  | 3,076 | 2,797 | Note 4 |
| DE LA RUE PLC ORD<br>GBP0.297619             | Available-for-sale<br>financial assets | 7  | 3,046 | 3,898 | Note 4 |

(Continued)

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| Held Company |      | Marketable Securities                             | Relationship with | Financial Statement                    | Shares                         | September 30, 2008         |                            | Market Value or       |        |
|--------------|------|---|-------------------|--|--------------------------------|----------------------------|----------------------------|-----------------------|--------|
| No.          | Name | Type and Name                                     | the Company       | Account                                | (Thousands/<br>Thousand Units) | Carrying Value<br>(Note 5) | Percentage of<br>Ownership | Net<br>Asset<br>Value | Note   |
|              |      | E.ON AG NPV                                       |                   | Available-for-sale<br>financial assets | 4                              | \$ 7,020                   |                            | \$ 5,764              | Note 4 |
|              |      | EISAI CO LTD                                      |                   | Available-for-sale<br>financial assets | 3                              | 3,143                      |                            | 3,136                 | Note 4 |
|              |      | EMERSON ELECTRIC<br>CO COM USD0.50                |                   | Available-for-sale<br>financial assets | 4                              | 5,402                      |                            | 5,198                 | Note 4 |
|              |      | ENEL  |                   | Available-for-sale<br>financial assets | 23                             | 6,701                      |                            | 6,188                 | Note 4 |
|              |      | ENI SPA EUR1                                      |                   | Available-for-sale<br>financial assets | 6                              | 7,043                      |                            | 5,137                 | Note 4 |
|              |      | ERSTE GROUP BANK<br>AG                            |                   | Available-for-sale<br>financial assets | 4                              | 7,759                      |                            | 5,745                 | Note 4 |
|              |      | EXXON MOBIL CORP<br>COM                           |                   | Available-for-sale<br>financial assets | 2                              | 5,204                      |                            | 4,741                 | Note 4 |
|              |      | FAMILYMART CO<br>LTD FAMILYMART<br>CO LTD         |                   | Available-for-sale<br>financial assets | 3                              | 2,491                      |                            | 3,565                 | Note 4 |
|              |      | FAST RETAILING CO<br>LTD NPV                      |                   | Available-for-sale<br>financial assets | 2                              | 3,490                      |                            | 4,854                 | Note 4 |
|              |      | FIAT SPA  |                   | Available-for-sale<br>financial assets | 12                             | 6,298                      |                            | 5,037                 | Note 4 |
|              |      | FIRSTGROUP PLC<br>ORD GBP0.05                     |                   | Available-for-sale<br>financial assets | 11                             | 3,707                      |                            | 3,471                 | Note 4 |
|              |      | FLUOR CORP NEW<br>COM                             |                   | Available-for-sale<br>financial assets | 2                              | 5,172                      |                            | 4,386                 | Note 4 |
|              |      | FRANCE TELECOM<br>EUR4                            |                   | Available-for-sale<br>financial assets | 7                              | 8,418                      |                            | 6,680                 | Note 4 |
|              |      | FUGRO NV-CVA<br>EUR0.05                           |                   | Available-for-sale<br>financial assets | 3                              | 3,663                      |                            | 5,391                 | Note 4 |
|              |      | FUJI HEAVY<br>INDUSTRIES LTD<br>NPV               |                   | Available-for-sale<br>financial assets | 16                             | 2,903                      |                            | 2,557                 | Note 4 |
|              |      | FUJITSU LTD SHS                                   |                   | Available-for-sale<br>financial assets | 14                             | 3,641                      |                            | 2,504                 | Note 4 |
|              |      | FURUKAWA ELEC<br>LTD ORD                          |                   | Available-for-sale<br>financial assets | 22                             | 3,466                      |                            | 3,064                 | Note 4 |
|              |      | GAMESTOP CORP-CL<br>A NEW CLASS A<br>COM USD0.001 |                   | Available-for-sale<br>financial assets | 4                              | 6,305                      |                            | 4,265                 | Note 4 |
|              |      | GEMALTO EUR1                                      |                   | Available-for-sale<br>financial assets | 6                              | 7,083                      |                            | 6,790                 | Note 4 |
|              |      | GENERAL MILLS INC<br>GENERAL MILLS INC            |                   | Available-for-sale<br>financial assets | 3                              | 5,389                      |                            | 6,602                 | Note 4 |
|              |      | GILEAD SCIENCES<br>INC COM                        |                   | Available-for-sale<br>financial assets | 4                              | 4,231                      |                            | 5,669                 | Note 4 |
|              |      | GLAXOSMITHKLINE<br>PLC ORD GBP0.25                |                   | Available-for-sale<br>financial assets | 3                              | 2,658                      |                            | 2,146                 | Note 4 |
|              |      | GRAINGER (W.W)<br>INC COM                         |                   | Available-for-sale<br>financial assets | 2                              | 5,721                      |                            | 5,675                 | Note 4 |
|              |      | HEINZ H J CO COM                                  |                   | Available-for-sale<br>financial assets | 4                              | 5,409                      |                            | 6,435                 | Note 4 |
|              |      | HITACHI<br>CONSTRUCTION<br>MACHINE NPV            |                   | Available-for-sale<br>financial assets | 3                              | 3,658                      |                            | 2,556                 | Note 4 |
|              |      | IMPERIAL TOBACCO<br>GROUP PLC ORD<br>GBP0.10      |                   | Available-for-sale<br>financial assets | 4                              | 4,611                      |                            | 3,808                 | Note 4 |
|              |      | INDRA SISTEMAS SA<br>EUR0.20 SER A                |                   | Available-for-sale<br>financial assets | 8                              | 7,143                      |                            | 6,296                 | Note 4 |
|              |      | ING GROEP NV CVA<br>EUR0.24                       |                   | Available-for-sale<br>financial assets | 6                              | 6,601                      |                            | 4,201                 | Note 4 |
|              |      | INPEX HOLDINGS<br>INC COM STK JPY1                |                   | Available-for-sale<br>financial assets |                                | 2,315                      |                            | 2,474                 | Note 4 |

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|  |  |    |       |       |        |
|--|--|----|-------|-------|--------|
| INTESA SANPAOLO<br>SPA INTESA<br>SANPAOLO SPA  | Available-for-sale<br>financial assets | 36 | 6,529 | 6,377 | Note 4 |
| INTL BUSINESS<br>MACHINES CORP<br>COM USD0.20  | Available-for-sale<br>financial assets | 1  | 4,526 | 5,370 | Note 4 |
| ITOCHU CORP ORD                                | Available-for-sale<br>financial assets | 11 | 3,440 | 2,099 | Note 4 |
| ITT CORP                                       | Available-for-sale<br>financial assets | 2  | 4,921 | 4,299 | Note 4 |
| JAPAN PETROLEUM<br>EXPLORATION SHS             | Available-for-sale<br>financial assets | 2  | 2,971 | 2,645 | Note 4 |
| JFE HOLDINGS INC<br>NPV                        | Available-for-sale<br>financial assets | 3  | 2,946 | 2,439 | Note 4 |
| JGC CORPORATION                                | Available-for-sale<br>financial assets | 5  | 3,187 | 2,537 | Note 4 |
| JOHNSON &<br>JOHNSON COM USD1                  | Available-for-sale<br>financial assets | 3  | 6,195 | 6,709 | Note 4 |
| JPMORGAN CHASE &<br>CO COM USD1                | Available-for-sale<br>financial assets | 4  | 5,646 | 5,828 | Note 4 |
| KAJIMA<br>CORPORATION<br>KAJIMA<br>CORPORATION | Available-for-sale<br>financial assets | 31 | 4,059 | 2,976 | Note 4 |
| KONAMI CORP JPY50                              | Available-for-sale<br>financial assets | 3  | 3,440 | 2,237 | Note 4 |

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| No. | Held Company Name | Marketable Securities Type and Name    | Relationship with the Company | Financial Statement Account         | September 30, 2008                 |                         | Percentage of Ownership | Market Value or Net Asset Value |        |
|-----|-------------------|--|-------------------------------|-------------------------------------|------------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|     |                   |  |                               |                                     | Shares (Thousands/ Thousand Units) | Carrying Value (Note 5) |                         | Value                           | Note   |
|     |                   | KONINKLIJKE AHOLD NV EUR0.30           |                               | Available-for-sale financial assets | 16                                 | \$ 7,615                |                         | \$ 5,918                        | Note 4 |
|     |                   | KONINKLIJKE KPN NV EUR0.24             |                               | Available-for-sale financial assets | 12                                 | 7,272                   |                         | 5,798                           | Note 4 |
|     |                   | LOCKHEED MARTIN CORP COM               |                               | Available-for-sale financial assets | 1                                  | 4,171                   |                         | 5,204                           | Note 4 |
|     |                   | LVMH MOET-HENNESSY LOUIS VUI EUR0.30   |                               | Available-for-sale financial assets | 2                                  | 6,538                   |                         | 5,401                           | Note 4 |
|     |                   | M.A.N AG ORD                           |                               | Available-for-sale financial assets | 2                                  | 5,421                   |                         | 3,984                           | Note 4 |
|     |                   | MAN GROUP PLC ORD USD0.03428571        |                               | Available-for-sale financial assets | 12                                 | 4,620                   |                         | 2,338                           | Note 4 |
|     |                   | MAPFRE S.A.                            |                               | Available-for-sale financial assets | 45                                 | 7,078                   |                         | 6,426                           | Note 4 |
|     |                   | MARUBENI CORPORATION                   |                               | Available-for-sale financial assets | 16                                 | 3,305                   |                         | 2,297                           | Note 4 |
|     |                   | MATSUSHITA ELECTRIC INDL CO            |                               | Available-for-sale financial assets | 5                                  | 3,330                   |                         | 2,753                           | Note 4 |
|     |                   | MCDONALD S CORP COM USD0.01            |                               | Available-for-sale financial assets | 3                                  | 4,113                   |                         | 6,344                           | Note 4 |
|     |                   | MERCK KGAA NPV                         |                               | Available-for-sale financial assets | 2                                  | 8,065                   |                         | 5,986                           | Note 4 |
|     |                   | METLIFE INC COM                        |                               | Available-for-sale financial assets | 3                                  | 5,462                   |                         | 5,333                           | Note 4 |
|     |                   | MICROSOFT CORP COM USD0.0000125        |                               | Available-for-sale financial assets | 6                                  | 4,988                   |                         | 4,716                           | Note 4 |
|     |                   | MITSUBISHI CORP ORD                    |                               | Available-for-sale financial assets | 3                                  | 1,903                   |                         | 2,247                           | Note 4 |
|     |                   | MITSUBISHI ELECTRIC CORP NPV           |                               | Available-for-sale financial assets | 12                                 | 3,393                   |                         | 2,543                           | Note 4 |
|     |                   | MITSUBISHI MOTORS CORP NPV             |                               | Available-for-sale financial assets | 56                                 | 3,037                   |                         | 2,989                           | Note 4 |
|     |                   | mitsui O.S.K. LINES LTD                |                               | Available-for-sale financial assets | 9                                  | 3,460                   |                         | 2,440                           | Note 4 |
|     |                   | MONSANTO CO NEW COM                    |                               | Available-for-sale financial assets | 1                                  | 5,327                   |                         | 4,611                           | Note 4 |
|     |                   | MOODY S CORP COM USD0.01               |                               | Available-for-sale financial assets | 2                                  | 2,668                   |                         | 2,278                           | Note 4 |
|     |                   | MORGAN STANLEY COM STK USD0.01         |                               | Available-for-sale financial assets | 2                                  | 2,644                   |                         | 1,507                           | Note 4 |
|     |                   | MORRISON W SUPRMKT ORD GBP0.10         |                               | Available-for-sale financial assets | 25                                 | 4,790                   |                         | 3,703                           | Note 4 |
|     |                   | NATIONAL BANK OF GREECE EUR5.00 (REGD) |                               | Available-for-sale financial assets |                                    | 1                       |                         |                                 | Note 4 |
|     |                   | NATIONAL-OILWELL VARCO INC COM USD0.01 |                               | Available-for-sale financial assets | 2                                  | 2,991                   |                         | 3,186                           | Note 4 |
|     |                   | NIKE INC -CL B CLASS B COM NPV         |                               | Available-for-sale financial assets | 3                                  | 6,351                   |                         | 6,911                           | Note 4 |
|     |                   | NIKON CORP                             |                               | Available-for-sale financial assets | 4                                  | 2,577                   |                         | 3,012                           | Note 4 |
|     |                   | NINTENDO CO LTD NPV                    |                               | Available-for-sale financial assets |                                    | 3,254                   |                         | 2,663                           | Note 4 |
|     |                   | NIPPON ELECTRIC GLASS CO LTD           |                               | Available-for-sale financial assets | 6                                  | 3,745                   |                         | 1,704                           | Note 4 |
|     |                   | NIPPON SHEET GLASS CO LTD              |                               | Available-for-sale financial assets | 17                                 | 2,858                   |                         | 2,790                           | Note 4 |
|     |                   | NIPPON YUSEN KABUSHIKI KAISH NPV       |                               | Available-for-sale financial assets | 12                                 | 3,825                   |                         | 2,459                           | Note 4 |

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|                                       |                                     |    |       |       |        |
|---------------------------------------|-------------------------------------|----|-------|-------|--------|
| NOKIA OYJ EUR0.06                     | Available-for-sale financial assets | 8  | 7,132 | 4,674 | Note 4 |
| NORTHERN TRUST CORP COM USD1.666      | Available-for-sale financial assets | 2  | 4,821 | 5,011 | Note 4 |
| NYSE EURONEXT COM STK USD0.01         | Available-for-sale financial assets | 3  | 6,184 | 3,284 | Note 4 |
| OCCIDENTAL PETROLEUM CORP COM USD0.20 | Available-for-sale financial assets | 2  | 4,780 | 5,195 | Note 4 |
| OLD MUTUAL PLC GBP0.10                | Available-for-sale financial assets | 58 | 5,497 | 2,611 | Note 4 |
| OMV AG AKT                            | Available-for-sale financial assets | 3  | 6,798 | 3,934 | Note 4 |
| ORIENTAL LAND CO LTD NPV              | Available-for-sale financial assets | 1  | 2,931 | 3,071 | Note 4 |
| PALL CORP COM USD0.10                 | Available-for-sale financial assets | 4  | 4,470 | 4,554 | Note 4 |
| PERNOD-RICARD SA NPV                  | Available-for-sale financial assets | 2  | 6,167 | 6,273 | Note 4 |
| PNC FINL SVCS GROUP IN COM            | Available-for-sale financial assets | 2  | 5,241 | 5,760 | Note 4 |
| PRAXAIR INC COM                       | Available-for-sale financial assets | 2  | 4,638 | 4,195 | Note 4 |
| PUBLIC SERVICE ENTERPRISE GP COM NPV  | Available-for-sale financial assets | 4  | 5,309 | 4,522 | Note 4 |
| QUAL COMM INC COM COM STK             | Available-for-sale financial assets | 4  | 5,313 | 5,281 | Note 4 |

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|     |                   |   |                               |                                     |                             | September 30, 2008      |                         |                 |        |
|-----|-------------------|---|-------------------------------|-------------------------------------|-----------------------------|-------------------------|-------------------------|-----------------|--------|
| No. | Held Company Name | Marketable Securities Type and Name       | Relationship with the Company | Financial Statement Account         | Shares                      |                         | Market Value or         |                 | Note   |
|     |                   |   |                               |                                     | (Thousands/ Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Net Asset Value |        |
|     |                   | RAYTHEON CO COM COM USD0.01               |                               | Available-for-sale financial assets | 2                           | \$ 5,072                |                         | \$ 4,126        | Note 4 |
|     |                   | RECKITT BENCKISER GROUP PLC               |                               | Available-for-sale financial assets | 3                           | 3,865                   |                         | 4,278           | Note 4 |
|     |                   | ROCKWELL COLLINS COM                      |                               | Available-for-sale financial assets | 3                           | 5,447                   |                         | 4,626           | Note 4 |
|     |                   | ROYAL DUTCH SHELL PLC-A SHS A SHS EUR0.07 |                               | Available-for-sale financial assets | 6                           | 6,756                   |                         | 5,353           | Note 4 |
|     |                   | RWE AG NEU NPV                            |                               | Available-for-sale financial assets | 2                           | 8,564                   |                         | 6,175           | Note 4 |
|     |                   | SALZGITTER AG ORD NPV                     |                               | Available-for-sale financial assets | 1                           | 6,683                   |                         | 3,906           | Note 4 |
|     |                   | SANOFI-AVENTIS EUR2 ORD SHS               |                               | Available-for-sale financial assets | 3                           | 6,227                   |                         | 6,198           | Note 4 |
|     |                   | SAP AG-COMMON ORD NPV                     |                               | Available-for-sale financial assets | 4                           | 6,909                   |                         | 6,868           | Note 4 |
|     |                   | SCOT + STHN ENERGY ORD GBP0.50            |                               | Available-for-sale financial assets | 5                           | 3,883                   |                         | 3,924           | Note 4 |
|     |                   | SHIONOGI & CO LTD                         |                               | Available-for-sale financial assets | 6                           | 3,882                   |                         | 3,911           | Note 4 |
|     |                   | SHISEIDO CO LTD ORD                       |                               | Available-for-sale financial assets | 4                           | 2,845                   |                         | 2,877           | Note 4 |
|     |                   | SIEMENS AG-REG NPV (REGD)                 |                               | Available-for-sale financial assets | 2                           | 6,566                   |                         | 5,456           | Note 4 |
|     |                   | STANDARD CHARTERED PLC ORD USD0.50        |                               | Available-for-sale financial assets | 5                           | 5,803                   |                         | 4,217           | Note 4 |
|     |                   | STANDARD LIFE PLC ORD GBP0.10             |                               | Available-for-sale financial assets | 31                          | 4,516                   |                         | 4,379           | Note 4 |
|     |                   | STATE STR CORP COM                        |                               | Available-for-sale financial assets | 3                           | 6,270                   |                         | 4,691           | Note 4 |
|     |                   | SUZUKI MOTOR CORP NPV                     |                               | Available-for-sale financial assets | 5                           | 3,507                   |                         | 2,824           | Note 4 |
|     |                   | T&D HOLDINGS INC                          |                               | Available-for-sale financial assets | 2                           | 3,413                   |                         | 3,350           | Note 4 |
|     |                   | TAKEDA PHARMACEUTICAL NPV SHS             |                               | Available-for-sale financial assets | 2                           | 3,108                   |                         | 3,060           | Note 4 |
|     |                   | TELEFONICA SA EUR1                        |                               | Available-for-sale financial assets | 8                           | 6,646                   |                         | 5,823           | Note 4 |
|     |                   | TERUMO CORPORATION                        |                               | Available-for-sale financial assets | 3                           | 3,314                   |                         | 4,347           | Note 4 |
|     |                   | THERMO FISHER SCIENTIFIC INC COM USD1     |                               | Available-for-sale financial assets | 3                           | 5,555                   |                         | 5,787           | Note 4 |
|     |                   | TIFFANY & CO COM                          |                               | Available-for-sale financial assets | 4                           | 5,758                   |                         | 4,829           | Note 4 |
|     |                   | TOKIO MARINE HOLDINGS INC                 |                               | Available-for-sale financial assets | 3                           | 3,491                   |                         | 3,442           | Note 4 |
|     |                   | TOTAL SA EUR2.5                           |                               | Available-for-sale financial assets | 3                           | 7,337                   |                         | 5,438           | Note 4 |
|     |                   | TOYO SUISAN KAISHA LTD                    |                               | Available-for-sale financial assets | 5                           | 3,456                   |                         | 4,080           | Note 4 |
|     |                   | TULLOW OIL PLC ORD GBP0.10                |                               | Available-for-sale financial assets | 8                           | 2,985                   |                         | 3,352           | Note 4 |
|     |                   | UNILEVER NV-CVA CVA EUR0.16               |                               | Available-for-sale financial assets | 8                           | 8,138                   |                         | 7,086           | Note 4 |
|     |                   | UNITED UTILITIES GROUP PLC ORD GBP5       |                               | Available-for-sale financial assets | 7                           | 3,405                   |                         | 3,021           | Note 4 |

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|   |  |        |           |           |        |
|---|--|--------|-----------|-----------|--------|
| VINCI EUR2.50<br>(POST<br>SUBDIVISION)            | Available-for-sale<br>financial assets | 4      | 6,715     | 5,708     | Note 4 |
| VIVENDI SA<br>EUR5.50                             | Available-for-sale<br>financial assets | 5      | 6,732     | 5,320     | Note 4 |
| VODAFONE GROUP<br>PLC ORD<br>USD0.11428571        | Available-for-sale<br>financial assets | 70     | 7,203     | 5,007     | Note 4 |
| VOESTALPINE AG<br>NPV                             | Available-for-sale<br>financial assets | 5      | 9,689     | 4,939     | Note 4 |
| WAL-MART STORES<br>INC COM USD0.10                | Available-for-sale<br>financial assets | 3      | 5,310     | 5,580     | Note 4 |
| XSTRATA PLC ORD<br>USD0.50                        | Available-for-sale<br>financial assets | 2      | 2,624     | 1,841     | Note 4 |
| XTO ENERGY CORP<br>COM                            | Available-for-sale<br>financial assets | 3      | 5,738     | 3,931     | Note 4 |
| <u>Beneficiary certificates<br/>(mutual fund)</u> |  |        |           |           |        |
| Fubon No. 1 Fund                                  | Available-for-sale<br>financial assets | 10,000 | 100,000   | 105,500   | Note 4 |
| Cathay No. 2 REIT                                 | Available-for-sale<br>financial assets | 2,288  | 22,880    | 22,285    | Note 4 |
| Gallop No. 1 REIT                                 | Available-for-sale<br>financial assets | 10,000 | 100,000   | 83,500    | Note 4 |
| Polaris /P-shares<br>Taiwan Dividend +<br>ETF     | Available-for-sale<br>financial assets | 600    | 15,000    | 10,200    | Note 3 |
| PCA Well Pool Fund                                | Available-for-sale<br>financial assets | 78,403 | 1,000,000 | 1,010,498 | Note 3 |
| Yuan Ta Wan Tai<br>Bond Fund                      | Available-for-sale<br>financial assets | 35,148 | 500,000   | 505,219   | Note 3 |

(Continued)

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| September 30, 2008 |                   |  |                               |                                     |                             |                         |                                 |                         |        |
|--------------------|-------------------|--|-------------------------------|-------------------------------------|-----------------------------|-------------------------|---------------------------------|-------------------------|--------|
| No.                | Held Company Name | Marketable Securities                        |                               | Financial Statement Account         | Shares                      |                         | Market Value or Net Asset Value | Percentage of Ownership | Note   |
|                    |                   | Type and Name                                | Relationship with the Company |                                     | (Thousands/ Thousand Units) | Carrying Value (Note 5) |                                 |                         |        |
|                    |                   | Polaris De-Li Fund                           |                               | Available-for-sale financial assets | 65,222                      | \$ 1,000,000            | \$ 1,010,768                    |                         | Note 3 |
|                    |                   | Polaris Global Reits Fund                    |                               | Available-for-sale financial assets | 10,018                      | 125,084                 | 91,864                          |                         | Note 3 |
|                    |                   | JPM (Taiwan) Global Balanced Fund            |                               | Available-for-sale financial assets | 9,071                       | 125,000                 | 114,201                         |                         | Note 3 |
|                    |                   | JPM (Taiwan) JF Balanced Fund                |                               | Available-for-sale financial assets | 2,462                       | 50,000                  | 40,945                          |                         | Note 3 |
|                    |                   | Fuh-Hwa Aegis Fund                           |                               | Available-for-sale financial assets | 17,813                      | 234,684                 | 204,488                         |                         | Note 3 |
|                    |                   | AGI Global Quantitative Balanced Fund        |                               | Available-for-sale financial assets | 22,968                      | 267,269                 | 238,868                         |                         | Note 3 |
|                    |                   | Capital Stable Value Fund                    |                               | Available-for-sale financial assets | 2,867                       | 36,423                  | 28,440                          |                         | Note 3 |
|                    |                   | Capital Asset Manager Income                 |                               | Available-for-sale financial assets | 11,285                      | 200,000                 | 165,444                         |                         | Note 3 |
|                    |                   | SinoPac Trend Fund                           |                               | Available-for-sale financial assets | 2,400                       | 54,541                  | 39,329                          |                         | Note 3 |
|                    |                   | ING Global Balanced Portfolio                |                               | Available-for-sale financial assets | 8,569                       | 100,000                 | 76,949                          |                         | Note 3 |
|                    |                   | Fuh Hwa Life Goal Fund                       |                               | Available-for-sale financial assets | 6,832                       | 100,000                 | 89,573                          |                         | Note 3 |
|                    |                   | Fuh Hwa Asia Pacific Balanced                |                               | Available-for-sale financial assets | 7,764                       | 100,000                 | 72,515                          |                         | Note 3 |
|                    |                   | Asia-Pacific Mega - Trend Fund               |                               | Available-for-sale financial assets | 13,059                      | 175,000                 | 133,463                         |                         | Note 3 |
|                    |                   | Prudential Financial Balanced Fund           |                               | Available-for-sale financial assets | 2,412                       | 50,000                  | 39,894                          |                         | Note 3 |
|                    |                   | Yuan Ta Duo Fu                               |                               | Available-for-sale financial assets | 966                         | 50,000                  | 24,870                          |                         | Note 3 |
|                    |                   | Yuan Ta Duo Duo                              |                               | Available-for-sale financial assets | 1,809                       | 50,000                  | 23,137                          |                         | Note 3 |
|                    |                   | Yuan Ta New-Mainstream                       |                               | Available-for-sale financial assets | 1,995                       | 50,000                  | 25,100                          |                         | Note 3 |
|                    |                   | AIG Flagship Global Balanced Fund of Funds   |                               | Available-for-sale financial assets | 25,679                      | 350,000                 | 294,540                         |                         | Note 3 |
|                    |                   | Franklin Templeton Global Bond Fund of Funds |                               | Available-for-sale financial assets | 18,089                      | 200,000                 | 194,637                         |                         | Note 3 |
|                    |                   | Cathay Global Aggressive Fund of Funds       |                               | Available-for-sale financial assets | 14,692                      | 200,000                 | 148,093                         |                         | Note 3 |
|                    |                   | Polaris Global Emerging Market Funds         |                               | Available-for-sale financial assets | 9,791                       | 150,000                 | 106,821                         |                         | Note 3 |
|                    |                   | HSBC Global Fund of Bond Funds               |                               | Available-for-sale financial assets | 22,838                      | 250,000                 | 238,425                         |                         | Note 3 |
|                    |                   | Jih Sun Mortgage Backed Securities Fund      |                               | Available-for-sale financial assets | 14,305                      | 140,902                 | 136,473                         |                         | Note 3 |
|                    |                   | Fuh-Hwa Elite Angel Fund                     |                               | Available-for-sale financial assets | 947                         | 10,000                  | 10,852                          |                         | Note 3 |
|                    |                   | Fubon Taiwan Selected Fund                   |                               | Available-for-sale financial assets | 100,000                     | 1,000,000               | 672,000                         |                         | Note 3 |
|                    |                   | HSBC Taiwan Balanced Strategy Fund           |                               | Available-for-sale financial assets | 100,000                     | 1,000,000               | 806,000                         |                         | Note 3 |
|                    |                   | Cathay Chung Hwa No. 1 Fund                  |                               | Available-for-sale financial assets | 100,000                     | 1,000,000               | 713,000                         |                         | Note 3 |
|                    |                   | Fuh Hwa Power Fund III                       |                               | Available-for-sale financial assets | 100,000                     | 1,000,000               | 789,000                         |                         | Note 3 |
|                    |                   |  |                               |                                     | 858                         | 532,846                 | 551,010                         |                         | Note 3 |

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|   |                                     |        |         |         |        |
|---|-------------------------------------|--------|---------|---------|--------|
| MFS Meridian Emerging Markets Debt Fund                     | Available-for-sale financial assets |        |         |         |        |
| Fidelity US High Yield Fund                                 | Available-for-sale financial assets | 1,069  | 413,175 | 334,694 | Note 3 |
| JPMorgan Lux Funds - Emerging Markets Bond Fund             | Available-for-sale financial assets | 21     | 199,638 | 175,861 | Note 3 |
| MFS Meridian Funds-Strategic Income Fund                    | Available-for-sale financial assets | 316    | 132,592 | 122,013 | Note 3 |
| Fidelity Fds Intl Bond                                      | Available-for-sale financial assets | 14,644 | 565,387 | 517,556 | Note 3 |
| Credit Suisse BF (Lux) Euro Bond Fund                       | Available-for-sale financial assets | 4      | 55,632  | 64,552  | Note 3 |
| Fidelity European High Yield Fund                           | Available-for-sale financial assets | 1,295  | 505,699 | 451,525 | Note 3 |
| Parvest Europe Convertible Bond Fond                        | Available-for-sale financial assets | 92     | 521,290 | 428,292 | Note 3 |
| JPMorgan Funds-Global Convertibles Fund (EUR)               | Available-for-sale financial assets | 868    | 491,450 | 421,126 | Note 3 |
| Parvest Euro Bond   | Available-for-sale financial assets | 39     | 287,400 | 279,062 | Note 3 |
| MFS Meridian Funds-Global Equity Fund (A1 class)            | Available-for-sale financial assets | 253    | 262,293 | 210,645 | Note 3 |
| Fidelity Fds International                                  | Available-for-sale financial assets | 128    | 163,960 | 118,919 | Note 3 |
| Fidelity Fds America  | Available-for-sale financial assets | 937    | 163,960 | 121,887 | Note 3 |
| JPMorgan Funds - Global Dynamic Fund (B)                    | Available-for-sale financial assets | 303    | 165,640 | 123,869 | Note 3 |
| MFS Meridian Funds - Research International Fund (A1 share) | Available-for-sale financial assets | 173    | 131,920 | 98,375  | Note 3 |

(Continued)

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| September 30, 2008 |                               |   |                               |   |                                    |                         |                         |                           |        |
|--------------------|-------------------------------|---|-------------------------------|---|------------------------------------|-------------------------|-------------------------|---------------------------|--------|
| No.                | Held Company Name             | Marketable Securities   |                               | Financial Statement Account                   | Shares (Thousands/ Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset |        |
|                    |                               | Type and Name   | Relationship with the Company |   |                                    |                         |                         | Value                     | Note   |
|                    |                               | Fidelity Fds Emerging Markets                                     |                               | Available-for-sale financial assets           | 192                                | \$ 162,900              |                         | \$ 95,909                 | Note 3 |
|                    |                               | Credit Suisse Equity Fund (Lux) Global Resources                  |                               | Available-for-sale financial assets           | 13                                 | 162,990                 |                         | 105,103                   | Note 3 |
|                    |                               | Fidelity Euro Balanced Fund                                       |                               | Available-for-sale financial assets           | 879                                | 560,819                 |                         | 474,581                   | Note 3 |
|                    |                               | Fidelity Fds World  |                               | Available-for-sale financial assets           | 347                                | 201,845                 |                         | 143,959                   | Note 3 |
|                    |                               | Fidelity Fds Euro Blue Chip                                       |                               | Available-for-sale financial assets           | 304                                | 274,757                 |                         | 202,235                   | Note 3 |
|                    |                               | MFS Meridian Funds - European Equity Fund (A1 share)              |                               | Available-for-sale financial assets           | 171                                | 178,920                 |                         | 134,294                   | Note 3 |
|                    |                               | Henderson Horizon Fund - Pan European Equity Fund                 |                               | Available-for-sale financial assets           | 230                                | 180,886                 |                         | 141,827                   | Note 3 |
|                    |                               | Sinopia Alt-GI Bd M/N 600\$ I Gbl Bd Mkt Neutr 600 USD I          |                               | Available-for-sale financial assets           |                                    | 609,485                 |                         | 659,420                   | Note 3 |
|                    |                               | Mega Securities Corp. 1st Unsecured Corporate Bonds in 2007       |                               | Held-to-maturity financial assets             |                                    | 150,000                 |                         | 150,000                   | Note 6 |
|                    |                               | KGI Securities 1st Unsecured Corporate Bonds 2007-B Issue         |                               | Held-to-maturity financial assets             |                                    | 100,000                 |                         | 100,000                   | Note 6 |
|                    |                               | Mege Financial Holding 1st Unsecured Corporate Bond 2007-B Issue  |                               | Held-to-maturity financial assets             |                                    | 200,000                 |                         | 200,000                   | Note 6 |
|                    |                               | Mega Securities Corp. 1st Unsecured Corporate Bond 2008 - A issue |                               | Held-to-maturity financial assets             |                                    | 300,000                 |                         | 300,000                   | Note 6 |
|                    |                               | China Development Industrial B                                    |                               | Held-to-maturity financial assets             |                                    | 202,569                 |                         | 202,569                   | Note 6 |
|                    |                               | Taiwan Power Company 3rd Boards in 2008                           |                               | Held-to-maturity financial assets             |                                    | 149,912                 |                         | 149,912                   | Note 6 |
|                    |                               | Yuanta Unsecured Corporate Bond 2008 - A Issue                    |                               | Held-to-maturity financial assets             |                                    | 100,000                 |                         | 100,000                   | Note 6 |
|                    |                               | Formosa Petrochemical Corp.                                       |                               | Held-to-maturity financial assets             |                                    | 99,835                  |                         | 99,835                    | Note 6 |
|                    |                               | Enterprise Debt Securitization Cathay United Bank CLO 96-1        |                               | Held-to-maturity financial assets             |                                    | 47,778                  |                         | 47,778                    | Note 6 |
| 1                  | Senao International Co., Ltd. | Senao Networks, Inc.  | Equity-method investee        | Investments accounted for using equity method | 15,152                             | 261,631                 | 45                      | 261,631                   | Note 1 |
|                    |                               | N.T.U. Innovation Incubation Corporation                          |                               | Financial assets carried at cost              | 1,200                              | 12,000                  | 9.41                    | 12,664                    | Note 1 |
| 2                  | CHIEF Telecom Inc.            | Unigate Telecom Inc.  | Subsidiary                    | Investments accounted for using equity method | 200                                | 1,911                   | 100                     | 1,911                     | Note 1 |
|                    |                               | CHIEF Telecom (Hong Kong) Limited                                 | Subsidiary                    | Investments accounted for using equity method |                                    | (Note 7)<br>1,183       | 100                     | 1,183                     | Note 1 |
|                    |                               | Chief Informational Corp.   | Subsidiary                    | Investments accounted for using equity method | 200                                | (Note 7)<br>6,357       | 100                     | 6,357                     | Note 1 |

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|   |                                       |                          |            |   |       |            |     |            |        |
|---|---------------------------------------|--------------------------|------------|---|-------|------------|-----|------------|--------|
|   |                                       |                          |            | equity method                                 |       | (Note 7)   |     |            |        |
|   | 3 Link Information Service Co., Ltd.  |                          |            | Financial assets carried at cost              | 374   | 3,450      | 10  | 6,265      | Note 1 |
|   | eASPNet Inc.                          |                          |            | Financial assets carried at cost              | 1,000 |            | 2   |            | Note 1 |
| 3 | Chunghwa System Integration Co., Ltd. | Concord Technology Corp. | Subsidiary | Investments accounted for using equity method | 500   | 16,159     | 100 | 16,159     | Note 1 |
|   |                                       |                          |            |   |       | US\$ (502) |     | US\$ (502) |        |
|   |                                       |                          |            |   |       | (Note 7)   |     |            |        |
|   | Cathy Global Aggressive Fund of Fund  |                          |            | Available-for-sale financial assets           | 1,233 | 15,000     |     | 12,433     | Note 3 |
|   | SKITECB Balanced Fund                 |                          |            | Available-for-sale financial assets           | 1,000 | 10,000     |     | 8,815      | Note 3 |
|   | SinoPac Bond                          |                          |            | Available-for-sale financial assets           | 2,086 | 27,544     |     | 27,667     | Note 3 |

(Continued)



| September 30, 2008 |                                 |   |                               |   |                             |                         |                         |                                 |        |      |
|--------------------|---------------------------------|---|-------------------------------|---|-----------------------------|-------------------------|-------------------------|---------------------------------|--------|------|
| No.                | Held Company Name               | Marketable Securities Type and Name               | Relationship with the Company | Financial Statement Account                   | Shares                      |                         | Percentage of Ownership | Market Value or Net Asset Value |        | Note |
|                    |                                 |   |                               |   | (Thousands/ Thousand Units) | Carrying Value (Note 5) |                         |                                 |        |      |
|                    |                                 | JS Small Cap                                      |                               | Available-for-sale financial assets           | 426                         | \$ 7,541                |                         | \$ 3,426                        | Note 3 |      |
|                    |                                 | Cathy Global Infrastructure Fund                  |                               | Available-for-sale financial assets           | 1,418                       | 15,000                  |                         | 11,943                          | Note 3 |      |
|                    |                                 | SKIT Strategy balanced Fund Series 2              |                               | Available-for-sale financial assets           | 2,000                       | 20,000                  |                         | 17,908                          | Note 3 |      |
|                    |                                 | BSI-MVLTINVEST-SWISS STOCKS                       |                               | Available-for-sale financial assets           | 2                           | 9,871                   |                         | 7,864                           | Note 3 |      |
| 4                  | Concord Technology Corp.        | Glory Network System Service (Shanghai) Co., Ltd. | Subsidiary                    | Investments accounted for using equity method | 500                         | 16,159                  | 100                     | 16,159                          | Note 1 |      |
|                    |                                 |   |                               |   |                             | US\$ (502)              |                         | US\$ (502)                      |        |      |
|                    |                                 |   |                               |   |                             | (Note 7)                |                         |                                 |        |      |
| 6                  | Spring House Entertainment Inc. | A-Kuei Publishing Co., Ltd.                       | Equity-method investee        | Investments accounted for using equity method |                             | 178                     | 49                      | 178                             | Note 1 |      |
|                    |                                 | The Rsit Enhanced Bond Fund                       |                               | Available-for-sale financial assets           | 1,515                       | 17,000                  |                         | 17,179                          | Note 3 |      |

Note 1: The net asset values of investees were based on unreviewed financial statements.

Note 2: New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) were incorporated in March 2006 and Chunghwa has 100% ownership right in an amount of US\$1 in each holding company, but not on operating stage.

Note 3: The net asset values of beneficiary certification (mutual fund) were base on the net asset values on September 30, 2008.

Note 4: Market value was based on the closing price of September 30, 2008.

Note 5: Showing at their original carrying amounts without the adjustments of fair values, except Held-to-maturity financial assets.

Note 6: The net asset values of investees were based on amortized cost.

Note 7: The amount are eliminated upon consolidation.

(Concluded)

**TABLE 2****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| Marketable Securities<br>Type and Name                       | Financial Statement<br>Account                     | Counter-<br>party | Nature of<br>Relationship | Beginning Balance               |                    | Acquisition                     |              | Disposal                        |                    | Gain (Loss)<br>on<br>Disposal | (Thou<br>Tho |
|--|--|-------------------|---------------------------|---------------------------------|--------------------|---------------------------------|--------------|---------------------------------|--------------------|-------------------------------|--------------|
|  |  |                   |                           | Shares<br>(Thousands/<br>Units) | Amount<br>(Note 1) | Shares<br>(Thousands/<br>Units) | Amount       | Shares<br>(Thousands/<br>Units) | Amount<br>(Note 1) |                               |              |
| <u>Stock</u>   |  |                   |                           |                                 |                    |                                 |              |                                 |                    |                               |              |
| Light Era Development<br>Co., Ltd.                           | Investment<br>accounted for using<br>equity method |                   | Subsidiary                |                                 | \$                 | 300,000                         | \$ 3,000,000 |                                 | \$                 | \$                            | \$           |
| Donghwa Telecom<br>Co., Ltd.                                 | Investment<br>accounted for using<br>equity method |                   | Subsidiary                | 4,590                           | 15,408             | 47,000                          | 189,833      |                                 |                    |                               |              |
| Chunghwa Telecom<br>Singapore Pte. Ltd.                      | Investment<br>accounted for using<br>equity method |                   | Subsidiary                |                                 |                    | 34,869                          | 779,280      |                                 |                    |                               |              |
| Industrial Bank of<br>Taiwan II Venture<br>Capital Co., Ltd. | Financial assets<br>carried at cost                |                   |                           |                                 |                    | 20,000                          | 200,000      |                                 |                    |                               |              |
| Siemens<br>Telecommunication<br>Systems                      | Financial assets<br>carried at cost                |                   |                           | 75                              | 5,250              |                                 |              | 75                              | 314,055            | 5,250                         | 308,805      |
| Mega Financial<br>Holding Co., Ltd.                          | Available-for-sale<br>financial assets             |                   |                           | 5,800                           | 119,781            |                                 |              | 5,800                           | 126,499            | 119,781                       | 6,718        |
| <u>Beneficiary certificates<br/>(mutual fund)</u>            |  |                   |                           |                                 |                    |                                 |              |                                 |                    |                               |              |
| PCA Well Pool Fund   | Available-for-sale<br>financial assets             |                   |                           |                                 |                    | 78,403                          | 1,000,000    |                                 |                    |                               |              |
| IBT Securities Bond<br>Fund                                  | Available-for-sale<br>financial assets             |                   |                           |                                 |                    | 75,393                          | 1,000,000    | 75,393                          | 1,011,120          | 1,000,000                     | 11,120       |
| Yuan Ta Wan Tai<br>Bond Fund                                 | Available-for-sale<br>financial assets             |                   |                           |                                 |                    | 35,148                          | 500,000      |                                 |                    |                               |              |
| Mega Diamond Bond<br>Fund                                    | Available-for-sale<br>financial assets             |                   |                           |                                 |                    | 85,334                          | 1,000,000    | 85,334                          | 1,009,677          | 1,000,000                     | 9,677        |
| Polaris De-Li Fund   | Available-for-sale<br>financial assets             |                   |                           |                                 |                    | 65,222                          | 1,000,000    |                                 |                    |                               |              |
| JP Morgan Global<br>Balance Fund                             | Available-for-sale<br>financial assets             |                   |                           |                                 |                    | 9,071                           | 125,000      |                                 |                    |                               |              |
|  |  |                   |                           | 47,979                          | 559,554            |                                 |              | 47,979                          | 522,195            | 559,554                       | (37,359)     |

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|   |                                     |        |         |        |         |         |         |             |
|---|-------------------------------------|--------|---------|--------|---------|---------|---------|-------------|
| SKIT Strategy Balanced Fund                               | Available-for-sale financial assets |        |         |        |         |         |         |             |
| SKIT Fortune Balanced Fund                                | Available-for-sale financial assets | 6,097  | 100,000 |        | 6,097   | 80,581  | 100,000 | (19,419)    |
| AIG Flagship Global Growth Fund of Funds                  | Available-for-sale financial assets | 22,878 | 350,000 |        | 22,878  | 273,078 | 350,000 | (76,922)    |
| Entie ING CHTG Fund                                       | Available-for-sale financial assets | 8,104  | 100,000 |        | 8,104   | 73,373  | 100,000 | (26,627)    |
| HSBC Global Fund of Bond Funds                            | Available-for-sale financial assets |        |         | 22,838 | 250,000 |         |         |             |
| Fuh-Hwa Homerun Fund                                      | Available-for-sale financial assets | 9,977  | 100,000 |        | 9,977   | 103,868 | 100,000 | 3,868       |
| Fuh-Hwa Income Fund                                       | Available-for-sale financial assets | 9,872  | 100,000 |        | 9,872   | 102,960 | 100,000 | 2,960       |
| Permail Fixed Income Holdings N.V.                        | Available-for-sale financial assets | 7      | 264,095 |        | 7       | 247,956 | 264,095 | (16,139)    |
| GAM Diversity - USD Open                                  | Available-for-sale financial assets | 10     | 262,293 |        | 10      | 234,297 | 262,293 | (27,996)    |
| USD Special Bond Fund                                     | Available-for-sale financial assets | 25     | 353,540 |        | 25      | 344,621 | 353,540 | (8,919)     |
| Mega Securities Corp. 1 <sup>st</sup> Unsecured Corporate | Held-to-maturity financial assets   |        |         |        | 300,000 |         |         |             |
| China Delepquent Industrial B                             | Held-to-maturity financial assets   |        |         |        | 200,000 |         |         |             |
| Taiwan Power Company 3rdA Boards in2008                   | Held-to-maturity financial assets   |        |         |        | 150,000 |         |         |             |
| Yuantu Unsecured Corporate Bond in 2008                   | Held-to-maturity financial assets   |        |         |        | 100,000 |         |         |             |
| Formosa Detrochemical                                     | Held-to-maturity financial assets   |        |         |        | 100,000 |         |         |             |
| <u>Beneficiary certificates</u>                           |                                     |        |         |        |         |         |         |             |
| <u>(mutual fund)</u>                                      |                                     |        |         |        |         |         |         |             |
| Taishin Lucky Fund  | Available-for-sale financial assets |        |         | 23,894 | 250,000 | 23,894  | 250,843 | 250,000 843 |
| UPAMC James Bond Fund                                     | Available-for-sale financial assets |        |         | 18,451 | 290,000 | 18,451  | 290,381 | 290,000 381 |
| IBT Ta Chong Bond Fund                                    | Available-for-sale financial assets |        |         | 18,846 | 250,000 | 18,846  | 250,355 | 250,000 355 |

(Continued)

| Company Name | Marketable Securities Type and Name | Financial Statement Account         | Counter-party | Nature of Relationship | Beginning Balance | Acquisition |            | Shares      | Disposal   |            | Gain   | Ending |
|--------------|-------------------------------------|-------------------------------------|---------------|------------------------|-------------------|-------------|------------|-------------|------------|------------|--------|--------|
|              |                                     |                                     |               |                        | Shares            | Shares      | Shares     | Carrying    | (Loss)     | Share      |        |        |
|              |                                     |                                     |               |                        | (Thousands/       | (Thousands/ |            | (Thousands/ | Value      | on         | (Thou  | Un     |
|              |                                     |                                     |               |                        | Thousand          | Thousand    | Amount     | Thousand    | (Note 1)   | Disposal   | Thou   | Un     |
|              |                                     |                                     |               |                        | Units)            | Units)      |            | Units)      |            |            | Un     |        |
|              | HSBC NTD Money Management Fund 2    | Available-for-sale financial assets |               |                        | \$                | 17,473      | \$ 250,000 | 17,473      | \$ 250,320 | \$ 250,000 | \$ 320 |        |
|              | Prudential Financial Bond Fund      | Available-for-sale financial assets |               |                        |                   | 6,702       | 100,000    | 6,702       | 100,266    | 100,000    | 266    |        |
|              | IBT 1699 Bond Fund                  | Available-for-sale financial assets |               |                        |                   | 11,805      | 150,000    | 11,805      | 150,635    | 150,000    | 635    |        |
|              | Mega Diamond Bond Fund              | Available-for-sale financial assets |               |                        |                   | 12,727      | 150,000    | 12,727      | 150,541    | 150,000    | 541    |        |

Note 1: Showing at their original carrying amounts without the adjustments of fair values.

Note 2: The amount were less equity in losses of equity investees \$12,029 thousand.

Note 3: The ending balance includes \$5,703 thousand and \$5,067 thousand which are investment income recognized under equity method and cumulative adjustment, respectively.

Note 4: The ending balance includes \$1,477 thousand and \$6,658 thousand which are investment loss recognized under equity method and cumulative adjustment, respectively.

Note 5: The amount are eliminated upon consolidation.

(Concluded)

**TABLE 3**

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

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

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

| Company Name               | Property          | Transaction Date | Transaction Amount | Payment Term | Counter-party                    | Prior Transactions with Related Counter-party |       |              |               | Price Reference | Purpose of Acquisition | Other Terms |      |
|----------------------------|-------------------|------------------|--------------------|--------------|----------------------------------|---|-------|--------------|---------------|-----------------|------------------------|-------------|------|
|                            |                   |                  |                    |              |                                  | Nature of Relationship                        | Owner | Relationship | Transfer Date |                 |                        |             |      |
| Chunghwa Telecom Co., Ltd. | Land and building | 2008.01.03       | \$ 1,217,740       | Paid         | National Property Administration | None  |       |              |               | \$              | Decision by            | For         | None |
|                            |                   |                  |                    |              |                                  |   |       |              |               |                 | National               | Chunghwa    |      |
|                            |                   |                  |                    |              |                                  |   |       |              |               |                 | Property               | private     |      |
|                            |                   |                  |                    |              |                                  |   |       |              |               |                 | Administration         | use         |      |

**TABLE 4****CHUNGHWA TELECOM CO., LTD. AND ITS SUBSIDIARIES****DISPOSAL OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

(Amounts in Thousands of New Taiwan Dollars)

| Company Name                | Property | Date of Disposal | Date of Obtained | Carrying Amount | Transaction Amount | Receipt Condition | Disposed Gain (Loss) | Parties Involved | Relation with the Corporation | Purpose     | Reference for Price Settlement | Other Limitation |
|-----------------------------|----------|------------------|------------------|-----------------|--------------------|-------------------|----------------------|------------------|-------------------------------|-------------|--------------------------------|------------------|
| Chunghwa Telecom. Co., Ltd. | Land     | 2008.6.25        | Acquired         | \$ 703,125      | \$ 1,820,880       | Received          | \$ 1,117,755         | Light Era        | Subsidiary                    | Revitalized | According to                   |                  |
|                             |          |                  | during           |                 |                    | in July           | (Note)               | Development      |                               | assets      | appraisal                      |                  |
|                             |          |                  | April            |                 |                    | 2008              |                      | Co., Ltd.        |                               |             | report:                        |                  |
|                             |          |                  | 2000             |                 |                    | completely        |                      |                  |                               |             | Negotiated                     |                  |
|                             |          |                  |                  |                 |                    |                   |                      |                  |                               |             | price                          |                  |

Note: The amount are eliminated upon consolidation.

**TABLE 5****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| No. | Company Name                  | Related Party                                       | Nature of Relationship | Transaction Details |                 |            |               | Abnormal Transaction |               | Notes/Accounts Payable or Receivable |            |
|-----|-------------------------------|---|------------------------|---------------------|-----------------|------------|---------------|----------------------|---------------|--------------------------------------|------------|
|     |                               |   |                        | Purchase/Sale       | Amount          | % to Total | Payment Terms | Units Price          | Payment Terms | Ending Balance (Note 1)              | % to Total |
| 0   | Chunghwa Telecom Co., Ltd.    | Senao International Co., Ltd.                       | Subsidiary             | Sales               | \$ 1,447,021    | 1          | 30 days       | (Note 2)             | (Note 2)      | \$ 168,874                           | 2          |
|     |                               |   |                        |                     | (Notes 3 and 8) |            |               |                      |               | (Note 8)                             |            |
|     |                               |   |                        | Purchase            | 5,328,404       | 8          | 30-90 days    | (Note 2)             | (Note 2)      | (797,535)                            | (9)        |
|     |                               |   |                        |                     | (Notes 4 and 8) |            |               |                      |               | (Note 8)                             |            |
|     |                               | CHIEF Telecom Inc.                                  | Subsidiary             | Sales               | 152,199         |            | 30 days       | (Note 2)             | (Note 2)      | 27,307                               |            |
|     |                               |   |                        |                     | (Note 8)        |            |               |                      |               | (Note 8)                             |            |
|     |                               |   |                        | Purchase            | 121,886         |            | 30-45 days    | (Note 2)             | (Note 2)      | 19,734                               |            |
|     |                               |   |                        |                     | (Note 8)        |            |               |                      |               | (Note 8)                             |            |
|     |                               | Chunghwa Telecom Global, Inc.                       | Subsidiary             | Sales               | 140,957         |            | 30-90 days    |                      |               | 46,198                               |            |
|     |                               |   |                        |                     | (Note 8)        |            |               |                      |               | (Note 8)                             |            |
|     |                               | Chunghwa System Integration Co., Ltd.               | Subsidiary             | Purchase            | 294,113         |            | 30-90 days    |                      |               | (134,463)                            | (2)        |
|     |                               |   |                        |                     | (Notes 5 and 8) |            |               |                      |               | (Notes 6 and 8)                      |            |
|     |                               | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee | Purchase            | 396,925         | 1          | 30 days       |                      |               | (160,501)                            | (2)        |
|     |                               | ELTA Technology Co., Ltd.                           | (Note 7)               | Purchase            | 189,744         |            | 30 days       |                      |               |                                      |            |
|     |                               | Chunghwa International Yellow Pages Co., Ltd.       | Subsidiary             | Purchase            | 109,784         |            | 30 days       | (Note 2)             | (Note 2)      | 4,823                                |            |
|     |                               |   |                        |                     | (Note 8)        |            |               |                      |               | (Note 8)                             |            |
| 1   | Senao International Co., Ltd. | Chunghwa Telecom Co., Ltd.                          | Parent company         | Sales               | 5,329,610       | 31         | 30-90 days    | (Note 2)             | (Note 2)      | 797,535                              | 47         |
|     |                               |   |                        |                     | (Notes 4 and 8) |            |               |                      |               | (Note 8)                             |            |
|     |                               |   |                        | Purchase            | 1,416,336       | 10         | 30 days       | (Note 2)             | (Note 2)      | (168,874)                            | (12)       |
|     |                               |   |                        |                     | (Notes 3 and 8) |            |               |                      |               | (Note 8)                             |            |
| 2   |                               |   |                        | Sales               | 121,886         | 19         | 30-45 days    | (Note 2)             | (Note 2)      | 19,734                               | 15         |

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|   |   |                            |                |          |                 |               |          |                 |          |      |
|---|---|----------------------------|----------------|----------|-----------------|---------------|----------|-----------------|----------|------|
|   | CHIEF Telecom Inc.                            | Chunghwa Telecom Co., Ltd. | Parent company |          | (Note 8)        |               |          | (Note 8)        |          |      |
|   |   |                            |                | Purchase | 152,199         | 26 30 days    | (Note 2) | (Note 2)        | (27,307) | (18) |
|   |   |                            |                |          | (Note 8)        |               |          | (Note 8)        |          |      |
| 3 | Chunghwa System Integration Co., Ltd.         | Chunghwa Telecom Co., Ltd. | Parent company | Sales    | 884,111         | 92 30-90 days |          |                 | 137,615  | 11   |
|   |   |                            |                |          | (Notes 5 and 8) |               |          | (Notes 6 and 8) |          |      |
| 5 | Chunghwa Telecom Global, Inc.                 | Chunghwa Telecom Co., Ltd. | Parent company | Purchase | 140,957         | 80 30-90 days |          |                 | (46,198) | 83   |
|   |   |                            |                |          | (Note 8)        |               |          | (Note 8)        |          |      |
| 8 | Chunghwa International Yellow Pages Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales    | 109,784         | 33 30 days    | (Note 2) | (Note 2)        | 4,823    | 2    |
|   |   |                            |                |          | (Note 8)        |               |          | (Note 8)        |          |      |
|   |   |                            |                |          |                 |               |          | (Continued)     |          |      |



- Note 1: Excluding payment and receipts on behalf of other.  
Note 2: Transaction prices was determined in accordance with mutual agreements.  
Note 3: The difference was because Senao International Co., Ltd. classified the amount as operating expenses.  
Note 4: The difference was because Chunghwa classified the amount as property, plant and equipment, inventories, other current assets and operating expenses.  
Note 5: The difference was because Chunghwa classified the amount as inventories, property, plant and equipment and intangible assets.  
Note 6: The difference was because Chunghwa classified as payables to contractors.  
Note 7: The investment accounted for using equity method was sold all shares in July 2008.  
Note 8: The amount are eliminated upon consolidation.

(Concluded)

**TABLE 6****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| No. | Company Name                                  | Related Party                 | Nature of Relationship | Ending Balance         | Turnover Rate     | Overdue Amounts | Action Taken | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|-----|---|-------------------------------|------------------------|------------------------|-------------------|-----------------|--------------|---------------------------------------|-------------------------|
| 0   | Chunghwa Telecom Co., Ltd.                    | Senao International Co., Ltd. | Subsidiary             | \$ 168,874<br>(Note 2) | 11.85             | \$              |              | \$ 168,874                            | \$                      |
| 1   | Senao International Co., Ltd.                 | Chunghwa Telecom Co., Ltd.    | Parent company         | 1,115,812<br>(Note 2)  | 10.58<br>(Note 1) |                 |              | 1,115,812                             |                         |
| 3   | Chunghwa System Integration Co., Ltd.         | Chunghwa Telecom Co., Ltd.    | Parent company         | 137,615<br>(Note 2)    | 4.35              |                 |              | 66,735                                |                         |
| 8   | Chunghwa International Yellow Pages Co., Ltd. | Chunghwa Telecom Co., Ltd.    | Parent company         | 122,561<br>(Note 2)    | 3.75<br>(Note 1)  |                 |              | 1,435                                 |                         |

Note 1: Payment and receipts on behalf of other are excluded from the accounts receivable for calculating the turnover rate.

Note 2: The amount are eliminated upon consolidation.

**TABLE 7****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Investor Company           | Investee Company                                    | Location             | Main Businesses and Products   | Original Investment Amount |                   | Balance as of September 30, 2008 |                          | Carrying Value           | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1 and 2) | Note                |
|----------------------------|---|----------------------|--|----------------------------|-------------------|----------------------------------|--------------------------|--------------------------|-----------------------------------|--|---------------------|
|                            |   |                      |  | September 30, 2008         | December 31, 2007 | Shares (Thousands)               | Ownership Percentage (%) |                          |                                   |  |                     |
| Chunghwa Telecom Co., Ltd. | Senao International Co., Ltd.                       | Sindian City, Taipei | Selling and maintaining mobile phones and its peripheral products  | \$ 1,065,813               | \$ 1,065,813      | 71,773                           | 29                       | \$ 1,271,196<br>(Note 4) | \$876,795                         | \$ 246,912<br>(Note 4)                 | Subsidiary          |
|                            | Light Era Development Co., Ltd.                     | Taipei               | Housing, office building development, rent and sale services   | 3,000,000                  |                   | 300,000                          | 100                      | 2,987,971<br>(Note 4)    | (12,029)                          | (12,029)<br>(Note 4)                   | Subsidiary          |
|                            | Chunghwa Investment Co., Ltd.                       | Taipei               | Investment   | 980,000                    | 980,000           | 98,000                           | 49                       | 853,148                  | (118,290)                         | (59,093)                               | Equity-met investee |
|                            | Chunghwa System Integration Co., Ltd.               | Taipei               | Providing communication and information aggregative services   | 838,506                    | 838,506           | 60,000                           | 100                      | 791,904<br>(Note 4)      | 33,771                            | 9,738<br>(Note 4)                      | Subsidiary          |
|                            | Chunghwa Telecom Singapore Ptd., Ltd.               | Singapore            | Telecommunication wholesale, internet transfer services international data and long distance call wholesales to carriers | 779,280                    |                   | 34,869                           | 100                      | 784,461<br>(Note 4)      | (1,477)                           | (1,477)<br>(Note 4)                    | Subsidiary          |
|                            | Taiwan International Standard Electronics Co., Ltd. | Taipei               | Manufacturing, selling, designing, and maintaining of telecommunications systems and equipment                           | 164,000                    | 164,000           | 1,760                            | 40                       | 572,470                  | 125,533                           | 58,392                                 | Equity-met investee |
|                            | CHIEF Telecom Inc.                                  | Taipei               | Internet communication and internet data center ( IDC ) service  | 482,165                    | 482,165           | 37,942                           | 69                       | 408,203<br>(Note 4)      | (25,159)                          | (15,827)<br>(Note 4)                   | Subsidiary          |
|                            | Donghwa Telecom Co., Ltd.                           | Hong Kong            | International telecommunications IP fictitious internet and internet transfer services                                   | 201,263                    | 11,430            | 51,590                           | 100                      | 216,011<br>(Note 4)      | 5,703                             | 5,703<br>(Note 4)                      | Subsidiary          |
|                            | Chunghwa Yellow Pages Co., Ltd.                     | Taipei               | Yellow pages sales and advertisement services  | 150,000                    | 150,000           | 15,000                           | 100                      | 120,697<br>(Note 4)      | 89,442                            | 89,442<br>(Note 4)                     | Subsidiary          |
|                            | Viettel-CHT Co., Ltd.                               | Vietnam              | IDC services   | 91,239                     |                   | 3,000                            | 33                       | 97,711                   | 6,451                             | 2,150                                  | Equity-met investee |

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|                                      |   |                        |   |            |            |        |     |                 |             |                 |                     |
|--------------------------------------|---|------------------------|---|------------|------------|--------|-----|-----------------|-------------|-----------------|---------------------|
|                                      | Chunghwa Telecom Global, Inc.                   | United States          | International data and internet services and long distance call wholesales to carriers                    | 70,429     | 70,429     | 6,000  | 100 | 86,931          | 13,517      | 13,517          | Subsidiary          |
|                                      |   |                        |   |            |            |        |     | (Note 4)        |             | (Note 4)        |                     |
|                                      | Skysoft Co., Ltd.                               | Taipei                 | Providing of music on-line, software, electronic information, and advertisement services                  | 67,025     | 67,025     | 4,438  | 30  | 81,022          | 37,041      | 11,112          | Equity-met investee |
|                                      | King Way Technology Co., Ltd.                   | Taipei                 | Publishing books, data processing and software services   | 71,770     |            | 1,002  | 33  | 76,207          | 24,338      | 4,437           | Equity-met investee |
|                                      | Spring House Entertainment Inc.                 | Taipei                 | Network services, producing digital entertainment contents and broadband visual sound terrace development | 62,209     | 22,409     | 5,996  | 56  | 44,070          | 10,175      | 5,382           | Subsidiary          |
|                                      |   |                        |   |            |            |        |     | (Note 5)        |             | (Note 5)        |                     |
|                                      | New Prospect Investments Holdings Ltd. (B.V.I.) | British Virgin Islands | Investment  |            |            |        | 100 |                 |             |                 | Subsidiary          |
|                                      |   |                        |   | (Note 3)   | (Note 3)   |        |     | (Notes 3 and 4) |             | (Notes 3 and 4) |                     |
|                                      | Prime Asia Investments Group Ltd. (B.V.I.)      | British Virgin Islands | Investment  |            |            |        | 100 |                 |             |                 | Subsidiary          |
|                                      |   |                        |   | (Note 3)   | (Note 3)   |        |     | (Notes 3 and 4) |             | (Notes 3 and 4) |                     |
| Senao International Co., Ltd.        | Senao Networks, Inc.                            | Linkou Hsiang, Taipei  | Telecommunication facilities manufactures and sales   | 206,190    | 206,190    | 15,152 | 45  | 261,631         | 68,904      | 26,639          | Equity-met investee |
| CHIEF Telecom Inc.                   | Unigate Telecom Inc.                            | Taipei                 | Network communication and engine room hiring  | 2,000      | 2,000      | 200    | 100 | 1,911           | (57)        | (57)            | Subsidiary          |
|                                      |   |                        |   |            |            |        |     | (Note 4)        |             | (Note 4)        |                     |
|                                      | CHIET Telecom (Hong Kong) Limited               | Hong Kong              | Telecommunication and internet service  | 1,678      | 1,678      |        | 100 | 1,183           | (50)        | (50)            | Subsidiary          |
|                                      |   |                        |   |            |            |        |     | (Note 4)        |             | (Note 4)        |                     |
|                                      | Chief International Corp.                       | Samoa Islands          | Telecommunication and internet service  | 6,068      |            | 200    | 100 | 6,357           | (74)        | (74)            | Subsidiary          |
|                                      |   |                        |   | US\$ (200) |            |        |     | (Note 4)        |             | (Note 4)        |                     |
| Chunghwa System Integrated Co., Ltd. | Concord Technology Corp.                        | Brunei                 | Providing advanced business solutions to telecommunications   | 16,179     | 6,489      | 500    | 100 | 16,159          | (832)       | (832)           | Subsidiary          |
|                                      |   |                        |   | US\$ (500) | US\$ (200) |        |     | US\$ (502)      | US\$ ((27)) | US\$ ((27))     |                     |
|                                      |   |                        |   |            |            |        |     | (Note 4)        |             | (Note 4)        |                     |

(Continued)

| No. | Investor<br>Company             | Investee<br>Company                               | Location | Main Businesses and<br>Products                             | Original Investment<br>Amount |                      | Balance as of September 30, 2008 |                                   |                   |
|-----|---------------------------------|---|----------|---|-------------------------------|----------------------|----------------------------------|-----------------------------------|-------------------|
|     |                                 |   |          |   | September 30,<br>2008         | December 31,<br>2007 | Shares<br>(Thousands)            | Percentage of<br>Ownership<br>(%) | Carrying<br>Value |
| 4   | Concord Technology Corp.        | Glory Network System Service (Shanghai) Co., Ltd. | Shanghai | Providing advanced business solutions to telecommunications | \$ 16,179                     | \$ 6,489             | 500                              | 100                               | \$ 16,159         |
|     |                                 |   |          |   | US\$ (500)                    | US\$ (200)           |                                  |                                   | US\$ (502)        |
|     |                                 |   |          |   |                               |                      |                                  |                                   | (Note 4)          |
| 6   | Spring House Entertainment Inc. | A-Kuei Publishing Co., Ltd.                       | Taipei   | Business of books   | 185                           | 185                  |                                  | 49                                | 178               |

**Recognized Gain**

| Net Income (Loss) of the Investee | (Loss) of the Investee | (Notes 1 and 2) | Note                   |
|-----------------------------------|------------------------|-----------------|------------------------|
| \$ (832)                          | \$ (832)               |                 | Subsidiary             |
| US\$ ((27))                       | US\$ ((27))            |                 |                        |
|                                   |                        | (Note 4)        |                        |
| (6)                               | (3)                    |                 | Equity-method investee |

- Note 1: The equity in net income (loss) of investees except Senao International Co., Ltd. was based on reviewed financial statements, the others was based on unreviewed financial statements.
- Note 2: The equity in net income (loss) of investees includes amortization between the investment cost and net value and unrealized transactions.
- Note 3: New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) were incorporated in March 2006 and Chunghwa has 100% ownership right in an amount of US\$1 in each holding company, but not on operating stage.
- Note 4: The amount are eliminated upon consolidation.
- Note 5: The transaction which are happened after Chunghwa has control over SHE on January 17, 2008 are eliminated upon consolidation.

(Concluded)

**TABLE 8****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****INVESTMENT IN MAINLAND CHINA****FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008**

(Amounts in Thousands of New Taiwan Dollars, in Thousands of US Dollars)

| Investee   | Main Businesses<br>and Products                                | Total<br>Amount<br>of Paid-in<br>Capital | Investment<br>Type | Accumulated<br>Outflow of<br>Investment<br>from<br>Taiwan as of<br>January 1,<br>2008 | Investment<br>Flows |        | Accumulated<br>Outflow of<br>Investment<br>from<br>Taiwan<br>as of<br>September 30,<br>2008 | %<br>Ownership<br>of Direct<br>or Indirect<br>Investment |
|--|--|--|--------------------|---|---------------------|--------|---|--|
|  |  |  |                    |   | Outflow             | Inflow |   |  |
| Glory Network System<br>Service (Shanghai) Co., Ltd. | Providing advanced business<br>solutions to telecommunications | \$ 16,179                                | Note 1             | \$ 6,489  | \$ 9,690            | \$     | \$ 16,179   | 100%   |
|  |  | US\$ (500)                               |                    | US\$ (200)  | US\$ (300)          |        | US\$ (500)  |  |

| Investment<br>Gain (Loss)<br>(Notes 2 and 4) | Carrying Value<br>as of<br>September 30,<br>2008<br>(Note 4) | Accumulated<br>Inward<br>Remittance<br>of<br>Earnings<br>as of<br>September 30,<br>2008 | Accumulated Investment in<br>Mainland China as<br>of<br>September 30,<br>2008 | Investment Amounts<br>Authorized by Investment<br>Commission,<br>MOEA | Upper Limit on Investment<br>Stipulated by<br>Investment<br>Commission,<br>MOEA |
|--|--|---|---|---|---|
| \$ (832)                                     | \$ 16,159  | \$  | \$ 16,179   | \$ 16,179   | \$ 380,884  |
| US\$ ((27))                                  | US\$ (502)   |   | US\$ (500)  | US\$ (500)  | (Note 3)  |

Note 1: Chunghwa System Integration Co., Ltd. indirectly owns these investees through an investment company registered in a third region.

Note 2: Recognition of investment gains (losses) was calculated based on the investees' unreviewed financial statements.

Note 3: The amount was calculated based on the net assets value of Chunghwa System Integration Co., Ltd.

Note 4: The amount are eliminated upon consolidation.

## CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008 AND 2007

(Amounts in Thousands of New Taiwan Dollars)

| No.  | (Note 1) | Company Name               | Related Party                                 | Nature of Relationship (Note 2) | Transaction Details                  |                 | % to Total Sales or Assets (Note 4) |
|------|----------|----------------------------|---|---------------------------------|--------------------------------------|-----------------|-------------------------------------|
|      |          |                            |   |                                 | Financial Statement Account          | Amount (Note 5) |                                     |
| 2008 | 0        | Chunghwa Telecom Co., Ltd. | CHIEF Telecom Inc.                            | 1                               | Accounts receivable                  | \$ 27,307       |                                     |
|      |          |                            |   |                                 | Accounts payable                     | 19,734          |                                     |
|      |          |                            |   |                                 | Payment of receipts under custody    | 1,482           |                                     |
|      |          |                            |   |                                 | Revenues                             | 152,199         |                                     |
|      |          |                            |   |                                 | Operating cost and expenses          | 121,886         |                                     |
|      |          |                            | Unigate Telecom Inc.                          | 1                               | Accounts receivable                  | 57              |                                     |
|      |          |                            |   |                                 | Revenues                             | 491             |                                     |
|      |          |                            | Chunghwa International Yellow Pages Co., Ltd. | 1                               | Accounts receivable                  | 4,646           |                                     |
|      |          |                            |   |                                 | Receivable of receipts under custody | 28,720          |                                     |
|      |          |                            |   |                                 | Accounts payable                     | 4,823           |                                     |
|      |          |                            |   |                                 | Payment of receipts under custody    | 117,738         |                                     |
|      |          |                            |   |                                 | Revenues                             | 18,068          |                                     |
|      |          |                            |   |                                 | Operating cost and expenses          | 109,784         |                                     |
|      |          |                            | Senao International Co., Ltd.                 | 1                               | Accounts receivable                  | 168,874         |                                     |
|      |          |                            |   |                                 | Accounts payable                     | 797,535         |                                     |
|      |          |                            |   |                                 | Payment of receipts under custody    | 318,277         |                                     |
|      |          |                            |   |                                 | Revenues                             | 1,447,021       | 1                                   |
|      |          |                            |   |                                 | Operating cost and expenses          | 5,328,404       | 4                                   |
|      |          |                            |   |                                 | Office supplies                      | 285             |                                     |
|      |          |                            |   |                                 | Work in process                      | 238             |                                     |
|      |          |                            |   |                                 | Property, plant and equipment        | 725             |                                     |
|      |          |                            | Chunghwa System Integration Co., Ltd.         | 1                               | Accounts receivable                  | 50              |                                     |
|      |          |                            |   |                                 | Accounts payable                     | 134,463         |                                     |
|      |          |                            |   |                                 | Payables to contractors              | 3,152           |                                     |
|      |          |                            |   |                                 | Revenues                             | 20,768          |                                     |
|      |          |                            |   |                                 | Other income                         | 837             |                                     |
|      |          |                            |   |                                 | Operating cost and expenses          | 294,113         |                                     |
|      |          |                            |   |                                 | Inventory                            | 70,045          |                                     |
|      |          |                            |   |                                 | Property, plant and equipment        | 474,891         |                                     |
|      |          |                            |   |                                 | Intangible assets                    | 45,272          |                                     |
|      |          |                            |   | 1                               | Accounts receivable                  | 46,198          |                                     |

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Chunghwa  
Telecom Global,  
Inc.

|                                      |         |
|--------------------------------------|---------|
| Accounts payable                     | 24,136  |
| Payment of receipts under<br>custody | 9,505   |
| Revenues                             | 140,957 |
| Other income                         | 436     |
| Operating cost and expenses          | 50,561  |
| Property, plant and equipment        | 57,675  |

(Continued)



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| No.<br>(Note 1) | Company Name                          | Related Party                                 | Nature of<br>Relationship<br>(Note 2) | Transaction Details         |                    |                           | % to<br>Total Sales or<br>Assets<br>(Note 4) |
|-----------------|---------------------------------------|---|---------------------------------------|-----------------------------|--------------------|---------------------------|--|
|                 |                                       |   |                                       | Financial Statement Account | Amount<br>(Note 5) | Payment Terms<br>(Note 3) |  |
|                 |                                       | Donghwa Telecom Co., Ltd.                     | 1                                     | Accounts payable            | \$ 9,062           |                           |  |
|                 |                                       |   |                                       | Revenues                    | 297                |                           |  |
|                 |                                       | Spring House Entertainment Inc.               | 1                                     | Operating cost and expenses | 71,668             |                           |  |
|                 |                                       |   |                                       | Accounts receivable         | 8,224              |                           |  |
|                 |                                       |   |                                       | Accounts payable            | 16,224             |                           |  |
|                 |                                       |   |                                       | Revenues                    | 1,321              |                           |  |
|                 |                                       |   |                                       | Operating cost and expenses | 30,089             |                           |  |
|                 |                                       | Light Era Development Co., Ltd.               | 1                                     | Accounts receivable         | 60                 |                           |  |
|                 |                                       |   |                                       | Unearned revenue            | 243,460            |                           |  |
|                 |                                       |   |                                       | Revenues                    | 4,156              |                           |  |
| 1               | Senao International Co., Ltd.         | Chunghwa Telecom Co., Ltd.                    | 2                                     | Accounts receivable         | 1,115,812          |                           |  |
|                 |                                       |   |                                       | Accounts payable            | 168,874            |                           |  |
|                 |                                       |   |                                       | Revenues                    | 5,329,610          |                           | 4  |
|                 |                                       |   |                                       | Other income                | 42                 |                           |  |
|                 |                                       |   |                                       | Operating cost and expenses | 1,447,010          |                           | 1  |
|                 |                                       |   |                                       | Other expense               | 11                 |                           |  |
|                 |                                       | Chunghwa International Yellow Pages Co., Ltd. | 3                                     | Accounts payable            | 76                 |                           |  |
|                 |                                       |   |                                       | Other income                | 3                  |                           |  |
|                 |                                       |   |                                       | Operating cost and expenses | 2,513              |                           |  |
|                 |                                       | Chunghwa System Integration Co., Ltd.         | 3                                     | Operating cost and expenses | 650                |                           |  |
| 2               | CHIEF Telecom Inc.                    | Chunghwa Telecom Co., Ltd.                    | 2                                     | Accounts receivable         | 21,216             |                           |  |
|                 |                                       |   |                                       | Accounts payable            | 27,307             |                           |  |
|                 |                                       |   |                                       | Revenues                    | 121,886            |                           |  |
|                 |                                       |   |                                       | Operating cost and expenses | 152,199            |                           |  |
|                 |                                       | Unigate Telecom Inc.                          | 3                                     | Accounts receivable         | 3                  |                           |  |
|                 |                                       |   |                                       | Accounts payable            | 375                |                           |  |
|                 |                                       |   |                                       | Estimated accounts payable  | 214                |                           |  |
|                 |                                       |   |                                       | Other income                | 26                 |                           |  |
|                 |                                       |   |                                       | Operating cost              | 3,487              |                           |  |
|                 |                                       | Chief International Corp.                     | 3                                     | Accounts payable            | 6,832              |                           |  |
|                 |                                       |   |                                       | Accounts receivable         | 2,475              |                           |  |
|                 |                                       |   |                                       | Operating cost and expenses | 22,320             |                           |  |
| 3               | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd.                    | 2                                     | Accounts receivable         | 137,615            |                           |  |
|                 |                                       |   |                                       | Accounts payable            | 50                 |                           |  |
|                 |                                       |   |                                       | Revenues                    | 884,111            |                           | 1  |
|                 |                                       |   |                                       | Other income                | 210                |                           |  |
|                 |                                       |   |                                       | Operating cost and expenses | 21,605             |                           |  |
|                 |                                       | Senao International Co., Ltd.                 | 3                                     | Revenues                    | 650                |                           |  |
| 5               | Chunghwa Telecom Global, Inc.         | Chunghwa Telecom Co., Ltd.                    | 2                                     | Accounts receivable         | 33,641             |                           |  |
|                 |                                       |   |                                       | Accounts payable            | 46,198             |                           |  |
|                 |                                       |   |                                       | Revenues                    | 108,236            |                           |  |
|                 |                                       |   |                                       | Operating cost and expenses | 141,393            |                           |  |

(Continued)



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| No.<br>(Note 1)    | Company Name   | Related Party  | Nature of<br>Relationship<br>(Note 2) | Transaction Details                  |                    | % to<br>Total Sales or<br>Assets<br>(Note 4) |
|--------------------|--|--|---------------------------------------|--------------------------------------|--------------------|--|
|                    |  |  |                                       | Financial Statement Account          | Amount<br>(Note 5) |  |
| 6                  | Spring House<br>Entertainment Inc.                     | Chunghwa<br>Telecom Co., Ltd.                          | 2                                     | Accounts receivable                  | \$ 16,224          |  |
|                    |  |  |                                       | Accounts payable                     | 8,224              |  |
|                    |  |  |                                       | Revenues                             | 30,089             |  |
|                    |  |  |                                       | Operating cost and expenses          | 1,321              |  |
| 7                  | Unigate Telecom<br>Inc.                                | Chunghwa<br>Telecom Co., Ltd.                          | 2                                     | Accounts payable                     | 57                 |  |
|                    |  |  |                                       | Operating cost and expenses          | 491                |  |
|                    |  | CHIEF Telecom<br>Inc.                                  | 3                                     | Accounts receivable                  | 375                |  |
|                    |  |  |                                       | Estimated accounts receivable        | 214                |  |
|                    |  |  |                                       | Accrued expenses                     | 3                  |  |
|                    |  |  |                                       | Revenues                             | 3,487              |  |
| Operating expenses | 26   |  |                                       |                                      |                    |  |
| 8                  | Chunghwa<br>International<br>Yellow Pages Co.,<br>Ltd. | Chunghwa<br>Telecom Co., Ltd.                          | 2                                     | Accounts receivable                  | 122,561            |  |
|                    |  |  |                                       | Accounts payable                     | 33,366             |  |
|                    |  |  |                                       | Revenues                             | 109,784            |  |
|                    |  |  |                                       | Operating cost and expenses          | 18,068             |  |
|                    |  | Senao<br>International Co.,<br>Ltd.                    | 3                                     | Accounts receivable                  | 76                 |  |
|                    |  |  |                                       | Revenues                             | 2,513              |  |
|                    |  |  |                                       | Other expense                        | 3                  |  |
|                    |  |  |                                       |                                      |                    |  |
| 9                  | Donghwa Telecom<br>Co., Ltd.                           | Chunghwa<br>Telecom Co., Ltd.                          | 2                                     | Accounts receivable                  | 9,062              |  |
|                    |  |  |                                       | Revenues                             | 71,668             |  |
|                    |  |  |                                       | Operating cost and expenses          | 297                |  |
| 10                 | Light Era<br>Development Co.,<br>Ltd.                  | Chunghwa<br>Telecom Co., Ltd.                          | 2                                     | Prepaid Expenses                     | 243,460            |  |
|                    |  |  |                                       | Accounts payable                     | 60                 |  |
|                    |  |  |                                       | Operating cost and expenses          | 4,156              |  |
| 11                 | Chief International<br>Corp.                           | CHIEF Telecom<br>Inc.                                  | 3                                     | Accounts receivable                  | 6,832              |  |
|                    |  |  |                                       | Accounts payable                     | 2,475              |  |
|                    |  |  |                                       | Revenues                             | 22,320             |  |
| 2007               | 0  | Chunghwa Telecom<br>Co., Ltd.                          | 1                                     | Accounts receivable                  | 20,465             |  |
|                    |  |  |                                       | Revenues                             | 132,879            |  |
|                    |  |  |                                       | Operating cost                       | 49,292             |  |
|                    |  |  |                                       | Accounts payable                     | 4,821              |  |
|                    |  |  |                                       | Payment of receipts under<br>custody | 94                 |  |
|                    |  | Chunghwa<br>International<br>Yellow Pages Co.,<br>Ltd. | 1                                     | Accounts receivable                  | 4,355              |  |
|                    |  |  |                                       | Accounts payable                     | 66                 |  |
|                    |  |  |                                       | Revenues                             | 7,306              |  |
|                    |  |  |                                       | Operating cost                       | 4,043              |  |
|                    |  |  |                                       | Accounts receivable                  | 321,304            |  |
|                    |  |  |                                       | Accounts payable                     | 499,513            |  |
|                    | 434,143  |  |                                       |                                      |                    |  |

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|                                   |           |  |   |
|-----------------------------------|-----------|--|---|
| Payment of receipts under custody |           |  |   |
| Revenues                          | 666,094   |  |   |
| Operating cost and expenses       | 2,232,343 |  | 1 |

(Continued)

| No.<br>(Note 1) | Company Name  | Related Party                 | Nature of<br>Relationship<br>(Note 2) | Transaction Details         |                    |                           |  |
|-----------------|---|-------------------------------|---------------------------------------|-----------------------------|--------------------|---------------------------|--|
|                 |   |                               |                                       | Financial Statement Account | Amount<br>(Note 5) | Payment Terms<br>(Note 3) | % to<br>Total Sales or<br>Assets<br>(Note 4) |
|                 |   | Unigate Telecom<br>Inc.       | 3                                     | Other expense               | \$ 14              |                           |  |
|                 |   |                               |                                       | Accounts receivable         | 57                 |                           |  |
|                 |   |                               |                                       | Revenues                    | 496                |                           |  |
| 1               | Senao International<br>Co., Ltd.                    | Chunghwa Telecom<br>Co., Ltd. | 2                                     | Accounts receivable         | 933,656            |                           |  |
|                 |   |                               |                                       | Accounts payable            | 321,304            |                           |  |
|                 |   |                               |                                       | Revenues                    | 2,232,343          |                           | 1  |
|                 |   |                               |                                       | Other income                | 14                 |                           |  |
|                 |   |                               |                                       | Operating cost and expenses | 666,094            |                           |  |
| 2               | CHIEF Telecom Inc.                                  | Chunghwa Telecom<br>Co., Ltd. | 2                                     | Accounts payable            | 20,465             |                           |  |
|                 |   |                               |                                       | Revenues                    | 49,292             |                           |  |
|                 |   |                               |                                       | Operating cost and expenses | 132,879            |                           |  |
|                 |   |                               |                                       | Accounts receivable         | 4,915              |                           |  |
|                 |   | Unigate Telecom<br>Inc.       | 3                                     | Accounts receivable         | 5                  |                           |  |
|                 |   |                               |                                       | Accounts payable            | 263                |                           |  |
|                 |   |                               |                                       | Estimated accounts payable  | 130                |                           |  |
|                 |   |                               |                                       | Revenues                    | 23                 |                           |  |
|                 |   |                               |                                       | Operating cost              | 3,798              |                           |  |
| 7               | Unigate Telecom Inc.                                | Chunghwa Telecom<br>Co., Ltd. | 2                                     | Accounts payable            | 57                 |                           |  |
|                 |   |                               |                                       | Operating cost and expenses | 496                |                           |  |
|                 |   | CHIEF Telecom<br>Inc.         | 3                                     | Accounts receivable         | 393                |                           |  |
|                 |   |                               |                                       | Accounts payable            | 5                  |                           |  |
|                 |   |                               |                                       | Revenues                    | 3,798              |                           |  |
|                 |   |                               |                                       | Operating cost              | 23                 |                           |  |
| 8               | Chunghwa<br>International Yellow<br>Pages Co., Ltd. | Chunghwa Telecom<br>Co., Ltd. | 2                                     | Accounts payable            | 4,355              |                           |  |
|                 |   |                               |                                       | Accounts receivable         | 66                 |                           |  |
|                 |   |                               |                                       | Revenues                    | 4,043              |                           |  |
|                 |   |                               |                                       | Operating cost              | 7,306              |                           |  |

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

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

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

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

Note 3: Except part transaction prices of SENAO, CHIEF and CIYP were determined in accordance with mutual agreements, the foregoing transactions with related parties were conducted under normal commercial terms.

Note 4: For assets and liabilities, amount is shown as a percentage to consolidated total assets as of September 30, 2008, while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the nine months ended September 30, 2008.

Note 5: The amount are eliminated upon consolidation.

(Concluded)



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

**GAAP Reconciliations of**

**Consolidated Financial Statements for the**

**Nine Months Ended September 30, 2007 and 2008**

**1. UNAUDITED GAAP RECONCILIATIONS OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007 AND 2008 (AMOUNTS IN MILLIONS OF NEW TAIWAN DOLLARS, UNLESS STATED OTHERWISE)**

The following is a reconciliation of consolidated net income and stockholders' equity under ROC GAAP as reported in the unaudited consolidated financial statements to unaudited consolidated net income and stockholders' equity determined under US GAAP. For the descriptions of principal differences between ROC GAAP and US GAAP, please refer to Form 6-K furnished with the Securities and Exchange Commission of the United States (the "SEC") on April 25, 2008 (File No. 001-31731). Certain additional adjustments impacting the reconciliation but not included in the SEC Form 6-K referenced above have been included in the notes to the reconciliation below.

1) Net Income Reconciliation

|   | September 30     |                  |
|---|------------------|------------------|
|   | 2007<br>NT\$     | 2008<br>NT\$     |
| Consolidated net income under ROC GAAP  | \$ 38,105        | \$ 37,143        |
| Net income attributable to minority interests under ROC GAAP                    | (319)            | (621)            |
| <b>Net income attributable to stockholders of the parent under ROC GAAP</b>     | <b>37,786</b>    | <b>36,522</b>    |
| Adjustment:   |                  |                  |
| a. Property, plant and equipment  |                  |                  |
| 1. Adjustments of gains and losses on disposal of property, plant and equipment | 25               | 12               |
| 2. Adjustments for depreciation expenses  | 271              | 244              |
| b. 10% tax on unappropriated earnings   | 555              | 964              |
| c. Employee bonuses and remuneration to directors and supervisors (Note 1)      | (1,165)          | (3,993)          |
| d. Revenues recognized from deferred income of prepaid phone cards              | 93               | 568              |
| e. Revenues recognized from deferred one-time connection fees                   | 1,088            | 1,438            |
| f. Share-based compensation (Note 2)  | (11)             | (17)             |
| g. Benefit pension plan   | 1                | 1                |
| i. Income tax effect of US GAAP adjustments                                     | (320)            | (642)            |
| Others  | (178)            | (27)             |
| Minority interest effect of US GAAP adjustments                                 | 150              | 217              |
| <b>Net adjustments</b>  | <b>509</b>       | <b>(1,235)</b>   |
| <b>Net income under US GAAP</b>   | <b>\$ 38,295</b> | <b>\$ 35,287</b> |
| US GAAP earnings per common share:  |                  |                  |
| Basic (in dollars)  | \$ 3.96          | \$ 3.69          |
| Diluted (in dollars)  | \$ 3.96          | \$ 3.69          |
| Weighted-average number of common shares outstanding (in 1,000 shares)          | 9,663,124        | 9,557,777        |
| US GAAP earnings per pro forma equivalent ADSs                                  |                  |                  |
| Basic (in dollars)  | \$ 39.63         | \$ 36.92         |
| Diluted (in dollars)  | \$ 39.62         | \$ 36.91         |
| Weighted-average number of pro forma equivalent ADSs (in 1,000 shares)          | 966,312          | 955,777          |





## 2) Stockholders Equity Reconciliation

|  | September 30 |              |
|--|--------------|--------------|
|  | 2007<br>NT\$ | 2008<br>NT\$ |
| Stockholders equity  |              |              |
| Equity attributable to stockholders of the parent based on ROC GAAP            | \$ 399,047   | \$ 386,818   |
| Adjustment:  |              |              |
| a. Property, plant and equipment   |              |              |
| 1. Capital surplus reduction   | (60,168)     | (60,168)     |
| 2. Adjustment on depreciation expenses, and disposal gains and losses          | 3,479        | 3,901        |
| 3. Adjustments of revaluation of land  | (5,824)      | (5,823)      |
| b. 10% tax on unappropriated earnings  | (3,386)      | (3,374)      |
| c. Employee bonuses and remuneration to directors and supervisors (Note 1)     | (860)        |              |
| d. Deferred income of prepaid phone cards                                      |              |              |
| 1. Capital surplus reduction   | (2,798)      | (2,798)      |
| 2. Adjustment on deferred income recognition                                   | 549          | 1,695        |
| e. Revenue recognized from deferred one-time connection fees                   |              |              |
| 1. Capital surplus reduction   | (18,487)     | (18,487)     |
| 2. Adjustment on deferred income recognition                                   | 9,412        | 12,677       |
| f. Share-based compensation (Note 2)   |              |              |
| 1. Capital surplus reduction   | 15,673       | 15,678       |
| 2. Adjustment on retained earnings   | (15,673)     | (15,678)     |
| g. 1. Accrual for accumulative other comprehensive income under US SFAS No.158 | (225)        | 30           |
| 2. Accrued pension cost  | (20)         | (29)         |
| h. Adjustment for pension plan upon privatization                              |              |              |
| 1. Adjustment on capital surplus   | 1,782        | 1,782        |
| 2. Adjustment on retained earnings   | (9,665)      | (9,665)      |
| i. Income tax effect of US GAAP adjustments                                    | 7,601        | 6,321        |
| Others   | 391          | 201          |
| Minority interest effect of US GAAP adjustments                                | 82           | 78           |
| Net adjustments  | (78,137)     | (73,659)     |
| Stockholders equity under US GAAP  | \$ 320,910   | \$ 313,159   |

## 3) Cash Flows Differences

The Company applies R.O.C. SFAS No. 17, Statement of Cash Flows. Its objectives and principles are similar to those set out in U.S. SFAS No. 95, Statement of Cash Flows. The principal differences between the two standards relate to classification. Cash flows from investing activities for changes in other assets, and cash flows from financing activities for changes in customer deposits, other liabilities and cash bonuses paid to employees, directors and supervisors are reclassified to operating activities under U.S. SFAS No. 95.

Note 1: In March 2007, the Accounting Research and Development Foundation ( ARDF ) in the R.O.C. issued Interpretation 96-052 for the fiscal year beginning after January 1, 2008. From that date, the accounting treatment under ROC GAAP is as follows:

- (1) Nature - employees bonuses and remuneration of directors and supervisors are treated as an expense rather than an appropriation of earnings.

- (2) Measurement and recognition - such bonuses to employees and remuneration to directors and supervisors are initially accrued based on management's estimate pursuant to the Articles of Incorporation of CHT. If the amounts initially accrued are significantly different from the amounts proposed subsequently by the board of directors in the following year, the difference needs to be retroactively adjusted. Otherwise, any difference between the amount initially accrued and actual amount of the bonuses approved by the stockholders is adjusted subsequently. If such bonuses and remuneration are in the form of shares, compensation expenses remains the same but the units of shares are determined by divided by the fair value of the day prior to the shareholders' meeting in the following year.

Note 2: In August 2007, the ARDF issued ROC SFAS No. 39, Accounting for Share-based Payment, which require companies to record share-based payment transactions granted on or after January 1, 2008 using fair value method. There is no impact of the adoption this statement since the Company did not grant options on or after January 1, 2008.

Note 3: There are significant differences in the classification of items on the statements of income under ROC GAAP and US GAAP. These include:

(1) Gains (losses) on disposal of property, plant and equipment:

- Under ROC GAAP: Such amount is recorded as non-operating income (expense).

- Under US GAAP: Such amount is recorded as cost of revenues

(2) Valuation loss on inventory:

- Under ROC GAAP: Such amount is recorded as non-operating expense.

- Under US GAAP: Such amount is recorded as cost of revenues

(3) Under US GAAP the minority interest in the income of subsidiaries is deducted in arriving at net income whereas under ROC GAAP the minority interest forms part of stockholders' funds.

## 2. RECENT ACCOUNTING PRONOUNCEMENTS

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combination, which replaces SFAS No. 141, Business Combinations. SFAS No. 141(R) retains the fundamental requirements in SFAS No. 141 that the acquisition method of accounting (which SFAS No. 141 called the purchase method) be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination and establishes the acquisition date as the date that the acquirer achieves control. SFAS No. 141 did not define the acquirer, although it included guidance on identifying the acquirer. SFAS No. 141(R)'s scope is broader than that of SFAS No. 141, which applied only to business combinations in which control was obtained by transferring consideration. The result of applying SFAS No. 141's guidance on recognizing and measuring assets and liabilities in a step acquisition was to measure them at a blend of historical costs and fair values. In addition, SFAS No. 141(R) requires to measure the noncontrolling interest in the acquire at fair value which results in recognizing the goodwill attributable to the noncontrolling interest in addition to that attributable to the acquirer. SFAS No. 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008, the beginning of the Company's 2009 fiscal year. Earlier adoption is prohibited. This Statement is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008, the beginning of the Company's 2009 fiscal year.

In December 2007, the FASB issued SFAS No. 160 Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51, which clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. The effective date of SFAS No. 160 is the same as that of the related SFAS No. 141(R). Earlier adoption is prohibited. SFAS No. 160 shall be applied prospectively as of the beginning of the fiscal year in which this statement is initially applied, except for the presentation and disclosure requirements. The presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is currently evaluating the impact of such new pronouncement in its consolidated financial statements but believes that it will not generate a material impact on the Company's consolidated results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities - An Amendment of FASB Statement No. 133, which requires enhanced disclosures about an entity's derivative and hedging activities and thereby improves the transparency of financial reporting. SFAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The Company is assessing the impact of the adoption of this standard.

In February 2008, the FASB issued FSP 157-2 Partial Deferral of the Effective Date of Statement 157 ( FSP 157-2 ). FSP 157-2 delays the effective date of FAS 157, for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008. The Company is assessing the impact of the adoption of this statement.

In April 2008, the FASB issued FSP FAS 142-3 Determination of the Useful Life of Intangible Assets ( FSP FAS 142-3 ) which amends the list of factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under Statement 142. The new guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. FSP FAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. While the guidance on determining the useful life of a recognized intangible asset must be applied prospectively only to intangible assets acquired after the FSP's effective date, the disclosure requirements of the FSP must be applied prospectively to all intangible assets recognized as of, and after, the FSP FAS 142-3's effective date. Early adoption is prohibited. The Company is assessing the impact of the adoption of this statement.