CHUNGHWA TELECOM CO LTD
Form 6-K
May 02, 2006

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 May 2, 2006

Chunghwa Telecom Co., Ltd.

(Translation of Registrant s Name into English)

21-3 Hsinyi Road Sec. 1,

Taipei, Taiwan, 100 R.O.C.

(Address of Principal Executive Office)

(Indicate by check mark whether the registrant files or will file annual reports under cover of form 20-F or Form 40-F.)

Form 20-F x Form 40-F ¨

(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes ¨ No x

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

SIGNATURE

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

Date: 2006/5/2

Chunghwa Telecom Co., Ltd.

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

Exhibit

Exhibit	Description
1.	Financial Statements for the Three Months Ended March 31,2006 and 2005 and Independent Accountants Review Report -ROC GAAP
2.	Financial Statements as of December 31, 2005 and March 31, 2006 (Unaudited) and for Three Months Ended March 31, 2005 and 2006 (Unaudited) -US GAAP
3.	Press Release on Operating Results for the First Quarter and forecast of 2006 on 5/2/2006.

Chunghwa Telecom Co., Ltd.

Financial Statements for the

Three Months Ended March 31, 2006 and 2005 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 March 31, 2006 and 2005, and the related statements of operations and cash flows for the three months then ended, all expressed in New Taiwan thousand 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 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 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 stated in Note 11 to the financial statements, we did not review the financial statements of equity-accounted investments, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The aggregate carrying values of the equity-accounted investments were NT$1,515,927 thousand and NT$1,410,062 thousand as of March 31, 2006 and 2005 and the equity in their net losses were NT$9,011 thousand and NT$18,973 thousand for the three months then ended.

Based on our reviews, 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 relevant regulations (applied before August 12, 2005), regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China.

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

As stated in Note 3 to the financial statements, on January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34 Accounting for Financial Instruments (SFAS No. 34) and No. 36 Disclosure and Presentation for Financial Instruments and related revisions of previously released SFASs.

April 15, 2006

Notice to Readers

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

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

CHUNGHWA TELECOM CO., LTD.

BALANCE SHEETS

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

(Reviewed, Not Audited)

	March 31			
	2006		2005	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 5)	$ 43,759,367	10	$ 33,168,410	7
Financial assets at fair value through profit and loss (Notes 2, 3 and 6)	15,997,991	3	17,067,596	4
Trade notes and accounts receivable, net of allowance for doubtful accounts of $3,469,003 thousand in 2006 and $4,297,842 thousand in 2005 (Notes 2, 7 and 24)	12,039,819	3	12,303,640	2
Other current monetary assets (Note 8)	5,864,817	1	1,438,620	
Inventories, net (Notes 2 and 9)	2,432,887	1	1,100,241	
Deferred income taxes (Notes 2 and 21)	802,987		12,390,328	3
Other current assets (Note 10)	3,542,942	1	3,341,940	1
Total current assets	84,440,810	19	80,810,775	17
LONG-TERM INVESTMENTS				
Investments accounted for using equity method (Notes 2 and 11)	1,515,927		1,410,062	
Financial assets at fair value through profit and loss (Notes 2, 3 and 6)	479,440			
Financial assets carried at cost (Notes 2, 3 and 12)	1,866,280	1	2,605,956	1
Other noncurrent monetary assets (Notes 3 and 13)	2,000,000		2,000,000	
Total long-term investments	5,861,647	1	6,016,018	1
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14 and 24)				
Cost				
Land	100,892,970	22	101,837,988	22
Land improvements	1,477,275		1,458,302	
Buildings	58,584,114	13	56,582,569	12
Machinery and equipment	21,876,869	5	22,126,934	5
Telecommunications network facilities	628,711,725	138	621,407,456	131
Miscellaneous equipment	2,033,134		2,078,485	
Total cost	813,576,087	178	805,491,734	170
Revaluation increment on land	5,945,597	2	5,951,339	1
	819,521,684	180	811,443,073	171
Less: Accumulated depreciation	491,128,294	108	467,909,502	98
	328,393,390	72	343,533,571	73
Construction in progress and advances related to acquisitions of equipment	25,039,319	5	29,212,447	6
Property, plant and equipment, net	353,432,709	77	372,746,018	79
INTANGIBLE ASSETS				
3G concession (Note 2)	9,544,762	2	10,179,000	2
Deferred pension cost (Notes 2 and 23)			2,303,310	1

Patents and computer software, net (Note 2)	166,983		182,848	
Total intangible assets	9,711,745	2	12,665,158	3
OTHER ASSETS				
Idle assets (Note 2)	929,473			
Refundable deposits	1,631,838	1	1,417,203	
Deferred income taxes - noncurrent (Notes 2 and 21)	85,866			
Other	370,952		354,134	
Total other assets	3,018,129	1	1,771,337	
TOTAL	$ 456,465,040	100	$ 474,009,306	100

	March 31			
	2006		2005	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS EQUITY				
CURRENT LIABILITIES				
Trade notes and accounts payable (Note 24)	$ 9,024,457	2	$ 11,323,868	2
Income tax payable (Notes 2 and 21)	1,524,934	1	8,107,947	2
Accrued expenses (Note 15)	14,613,829	3	11,557,479	2
Accrued pension liabilities (Notes 2 and 23)			2,244,403	1
Current portion of long-term loans (Note 17)	300,000		200,000	
Other current liabilities (Notes 16 and 24)	15,063,442	3	17,491,011	4
Total current liabilities	40,526,662	9	50,924,708	11
LONG-TERM LIABILITIES				
Long-term loans (Note 17)			300,000	
Deferred income	524,722		349,932	
Total long-term liabilities	524,722		649,932	
RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 14)	94,986		94,986	
OTHER LIABILITIES				
Customers deposits	7,061,485	2	5,893,261	1
Other	160,446		209,195	
Total other liabilities	7,221,931	2	6,102,456	1
Total liabilities	48,368,301	11	57,772,082	12
STOCKHOLDERS EQUITY (Notes 2, 18, 19 and 21)				
Capital stock - $10 par value; authorized, issued and outstanding - 9,647,725 thousand shares	96,477,249	21	96,477,249	20
Capital surplus:				
Paid-in capital in excess of par value	214,529,603	47	214,529,603	46
Capital surplus from revaluation of land	5,850,610	1	5,856,353	1
Donations	13,170		13,170	
Total capital surplus	220,393,383	48	220,399,126	47
Retained earnings:				
Legal reserve	39,272,477	9	34,286,147	7

Special reserve	2,680,184		2,675,941	1
Unappropriated earnings	58,100,093	13	62,403,526	13
Total retained earnings	100,052,754	22	99,365,614	21
Other adjustment				
Cumulative translation adjustments	(2,942)		(4,765)	
Treasury stock - 149,158 thousand shares	(8,823,705)	(2)		
Total stockholders equity	408,096,739	89	416,237,224	88
TOTAL	$ 456,465,040	100	$ 474,009,306	100

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

(With Deloitte & Touche review report dated April 15, 2006)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF OPERATIONS

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

(Reviewed, Not Audited)

	Three Months Ended March 31			
	2006		2005	
	Amount	%	Amount	%
SERVICE REVENUES (Note 24)	$ 44,631,942	100	$ 43,999,505	100
COSTS OF SERVICES (Note 24)	22,413,931	50	22,452,746	51
GROSS PROFIT	22,218,011	50	21,546,759	49
OPERATING EXPENSES				
Marketing	5,933,819	13	5,639,590	13
General and administrative	911,830	2	756,187	2
Research and development	758,660	2	774,059	2
Total operating expenses	7,604,309	17	7,169,836	17
INCOME FROM OPERATIONS	14,613,702	33	14,376,923	32
OTHER INCOME				
Penalties income	316,572	1	299,393	1
Income from sale of scrap	177,049	1	46,304	
Interest	133,051		82,062	
Valuation gain on financial instruments, net	53,751		12,416	
Foreign exchange gain, net	33,941		141,445	
Dividends income	28,650		57,881	
Other	101,390		168,194	1
Total other income	844,404	2	807,695	2
OTHER EXPENSES				
Special termination benefit under early retirement program	2,218,940	5		
Losses on disposal of property, plant and equipment	42,668		18,341	
Equity in net loss of unconsolidated companies	9,011		18,973	
Interest	719		209	
Other	156,418	1	532,996	1
Total other expenses	2,427,756	6	570,519	1

(Continued)

	Three Months Ended March 31			
	2006		2005	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX AND CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE	$ 13,030,350	29	$ 14,614,099	33
INCOME TAX (Notes 2 and 21)	3,059,243	7	2,987,165	7
INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE	9,971,107	22	11,626,934	26
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE, NET OF INCOME TAX $10,273 THOUSAND (Notes 3 and 21)	41,402			
NET INCOME	$ 10,012,509	22	$ 11,626,934	26

	Three Months Ended March 31			
	2006		2005	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
EARNINGS PER SHARE (Notes 2 and 22)				
Basic net income per share	$ 1.36	$ 1.04	$ 1.51	$ 1.21

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

(With Deloitte & Touche review report dated April 15, 2006) (Concluded)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS

(Amounts in New Taiwan Thousand Dollars)

(Reviewed, Not Audited)

	Three Months Ended March 31	
	2006	**2005**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 10,012,509	$ 11,626,934
Cumulative effect of changes in accounting principle	(41,402)	
Income before cumulative effect of changes in accounting principle	9,971,107	11,626,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	130,815	217,052
Depreciation and amortization	10,329,364	10,279,808
Valuation gain on financial instruments, net	(53,751)	(12,416)
Gain on sale of financial assets	(10,392)	(372)
Allowance for losses on inventories	161	
Losses on disposal of property, plant and equipment, net	41,831	18,341
Equity in net losses of unconsolidated companies	9,011	18,973
Deferred income taxes	1,508,139	(100,367)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Purchase and sale of financial assets, net	(1,759,597)	(7,940,295)
Trade notes and accounts receivable	669,184	1,472,157
Other current monetary assets	(158,890)	75,104
Inventories	(129,404)	298,570
Other current assets	(2,295,906)	(2,646,407)
Increase (decrease) in:		
Trade notes and accounts payable	(1,491,021)	(3,119,634)
Income tax payable	1,508,384	3,075,951
Accrued expenses	(913,118)	(2,796,291)
Accrued pension liabilities		(832,372)
Other current liabilities	39,346	284,143
Deferred income	206,194	(11,197)
Net cash provided by operating activities	17,601,457	9,907,682
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of property, plant and equipment	4,186	
Acquisitions of property, plant and equipment	(6,271,182)	(5,266,784)
Acquisitions of patents and computer software	(16,376)	(11,351)
Increase in other assets	(120,930)	(100,932)
Net cash used in investing activities	(6,404,302)	(5,379,067)

(Continued)

	Three Months Ended March 31 2006	2005
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on principal of long-term loans	$ (200,000)	$ (200,000)
Decrease in customers deposits	(257,912)	(448,913)
Increase (decrease) in other liabilities	(46,839)	5,897
Purchase of treasury stock	(8,823,705)	
Net cash used in financing activities	(9,328,456)	(643,016)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,868,699	3,885,599
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	41,890,668	29,282,811
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 43,759,367	$ 33,168,410
SUPPLEMENTAL INFORMATION		
Interest paid	$ 719	$ 209
Income tax paid	$ 42,719	$ 16,341
NON-CASH FINANCING ACTIVITIES		
Current portion of long-term loans	$ 300,000	$ 200,000
Reclassification of reserve for land value incremental tax to capital surplus	$	$ 116,196

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

(With Deloitte & Touche review report dated April 15, 2006) (Concluded)

CHUNGHWA TELECOM CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED MARCH 31, 2006 AND 2005

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

(Reviewed, Not Audited)

1. GENERAL

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

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

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

The number of employees as of March 31, 2006 and 2005 are 27,417 and 28,035, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Presentation

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

Current Assets and Liabilities

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

Cash Equivalents

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

Financial Assets Measured at Fair Value Through Profit or Loss

A financial asset or financial liability at fair value through profit or loss includes a financial asset or financial liability classified as held for trading and upon initial recognition it is designated by the entity as a fair value through profit or loss. Financial assets are initial recognized at fair value, with transaction costs expensed as incurred. After initial recognition, the derivatives are remeasured at fair value with the changes in fair value recognized in earnings. A regular way purchase or sale of financial assets is recognized and derecognized using settlement date accounting.

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

Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables

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

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

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

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

Allowance for doubtful receivables is provided on the basis of review of the collectibility of individual receivables.

Inventories

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

Investments Accounted for Using Equity Method

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

When an indication of impairment is identified in an investment, the carrying amount of the investment is reduced, with the related impairment loss charged to current income.

Financial Assets Carried at Cost

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

Property, Plant and Equipment

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

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

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

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

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

Intangible Assets

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

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

Idle Assets

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

Pension Costs

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

Treasury Stock

Cost of treasury stock is shown as a deduction to stockholders equity.

Expense Recognition

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

Income Tax

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

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

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

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

Earnings Per Share

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

Foreign-currency Transactions

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

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

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

3. REASON AND EFFECT OF THE CHANGES OF ACCOUNTING PRINCIPLE

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

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

The Company had properly categorized its financial assets and liabilities upon initial adoption of the newly released SFASs. The adjustments made to the carrying amounts of the financial instruments categorized as financial assets or financial liabilities at fair value through profit or loss were included in the cumulative effect of changes in accounting principles.

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

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)
Financial assets at fair value through profit or loss	$ 41,402

The adoption of the newly released SFASs resulted in an increased in net income before cumulative effect of changes in accounting principles of NT$53,751 thousand, an increase in net income of NT$91,153 thousand, and an increase in after income tax basic earnings per share of NT$0.01, for the three months ended March 31, 2006.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the three months ended March 31, 2005 were reclassified to conform with the financial statements as of and for the three months ended March 31, 2006. The previous issued financial statements as of and for the three months ended March 31, 2005 need not be restated.

Certain accounting policies prior to the adoption of the newly released SFASs are summarized as follows:

Short-term investments

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

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

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

	Before Reclassification	**After Reclassification**
Balance sheet		
Short-term investments	$ 17,067,596	$
Fund	2,000,000	
Long-term investments accounted for using cost method	2,605,956	
Financial assets at fair value through profit or loss		17,067,596
Financial assets carried at cost - noncurrent		2,605,956
Other noncurrent monetary assets		2,000,000
	$ 21,673,552	$ 21,673,552
Statement of operation		
Reversal of allowance on short-term investments	$ 12,416	$
Valuation gain on financial instruments, net		12,416
	$ 12,416	$ 12,416

4. ADJUSTMENTS OF FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

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

	As Previously Reported	Adjustment Increase (Decrease)	As Adjusted
Balance sheet			
Assets			
Current assets	$ 67,893,025	$ (31,407)	$ 67,861,618
Investments in unconsolidated companies and Funds	6,034,991		6,034,991
Property, plant and equipment, net	379,483,488		379,483,488
Intangible assets	11,630,126		11,630,126
Other assets	2,127,067		2,127,067
Total assets	$ 467,168,697	$ (31,407)	$ 467,137,290
Liabilities			
Current liabilities	$ 55,213,108	$ 45,319,914	$ 100,533,022
Long-term liabilities	861,129		861,129
Reserve for land value incremental tax	211,182		211,182
Other liabilities	6,380,161		6,380,161
Total liabilities	62,665,580	45,319,914	107,985,494
Total stockholders equity	404,503,117	(45,351,321)	359,151,796
Total liabilities and stockholders equity	$ 467,168,697	$ (31,407)	$ 467,137,290
Statement of operation			
Service revenues	$ 182,562,682	$	$ 182,562,682
Costs of services	92,951,836	7,974	92,959,810
Operating expenses	29,947,953	1,377	29,949,330
Other income	2,743,037		2,743,037
Other expenses	1,644,048		1,644,048
Income before income tax	60,761,882	(9,351)	60,752,531
Income tax	10,891,570	(2,337)	10,889,233
Net income	49,870,312	(7,014)	49,863,298

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

5. CASH AND CASH EQUIVALENTS

	March 31 2006	March 31 2005
Cash		
Cash on hand	$ 87,272	$ 111,217
Cash in banks	1,167,377	1,686,298
Negotiable Certificate of Deposit, annual yield rate - ranging from 1.350%-1.425% and 1.15%-1.30% for 2006 and 2005, respectively	13,802,500	13,300,000
	15,057,149	15,097,515
Cash equivalents		
Commercial paper, annual yield rate - ranging from 1.350%-1.435% and 1.10%-1.19% for 2006 and 2005, respectively	28,702,218	18,070,895
	$ 43,759,367	$ 33,168,410

6. FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS

	March 31 2006	March 31 2005
Financial assets held for trading		
Open-end bond mutual funds	$ 15,833,300	$ 11,800,372
Real estate investment trust fund	105,000	100,000
List stocks	59,691	
Commercial paper, annual yield rate 1.13%		5,167,224
	$ 15,997,991	$ 17,067,596
Financial assets at fair value through profit or loss - noncurrent		
Yuanta Structured Principal Protected Private Placement	$ 479,440	$

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

Gains on financial assets at fair value through profit or loss for the three months ended March 31, 2006 and 2005 are $53,751 thousand and $12,416 thousand, respectively.

7. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Three Months Ended March 31 2006	Three Months Ended March 31 2005
Balance, beginning of period	$ 3,604,605	$ 4,473,433
Provision for doubtful accounts	130,002	214,571
Accounts receivable written off	(265,604)	(390,162)
Balance, end of period	$ 3,469,003	$ 4,297,842

8. OTHER CURRENT MONETARY ASSETS

	March 31 2006	March 31 2005
Tax refund receivable	$ 4,338,479	$
Other receivable	1,526,338	1,438,620
	$ 5,864,817	$ 1,438,620

9. INVENTORIES, NET

	March 31 2006	March 31 2005
Supplies	$ 1,166,095	$ 1,095,798
Work in process	18,496	4,443
Finished goods	7,117	
Materials in transit	1,241,340	
	2,433,048	1,100,241
Less: Valuation allowance	161	
	$ 2,432,887	$ 1,100,241

10. OTHER CURRENT ASSETS

	March 31 2006	March 31 2005
Prepayments	$ 2,979,001	$ 3,185,837
Miscellaneous	563,941	156,103
	$ 3,542,942	$ 3,341,940

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	March 31			
	2006		2005	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-Ship
Equity investee:				
Chunghwa Investment (CHI)	$ 959,116	49	$ 928,390	49
Taiwan International Standard Electronics (TISE)	556,811	40	481,672	40
	$ 1,515,927		$ 1,410,062	

The carrying values of the equity investees and the equity in their net losses as of and for the three months ended March 31, 2006 and 2005 are based on unreviewed financial statements. The aggregate carrying values of the equity-accounted investments were NT$1,515,927 thousand and NT$1,410,062 thousand as of March 31, 2006 and 2005, respectively. The equity in their net losses were $9,011 thousand and $18,973 thousand for the three months ended March 31, 2006 and 2005, respectively.

12. FINANCIAL ASSETS CARRIED AT COST

	March 31			
	2006		2005	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-Ship
Cost investees:				
Taipei Financial Center (TFC)	$ 1,789,530	12	$ 2,529,206	12
RPTI International (RPTI)	71,500	12	71,500	12
Siemens Telecommunication Systems (Siemens)	5,250	15	5,250	15
	$ 1,866,280		$ 2,605,956	

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.

The Company identified an impairment indicator and determined the investment in TFC was impaired due to an adverse change in the market condition of the industry in which TFC operates as of December 31, 2005. The Company recognized an other-than-temporary impairment loss of $739,676 thousand in 2005.

13. OTHER NONCURRENT MONETARY ASSETS

	March 31	
	2006	2005
Fixed Line Funds	$ 1,000,000	$ 1,000,000
Piping Funds	1,000,000	1,000,000
	$ 2,000,000	$ 2,000,000

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

14. PROPERTY, PLANT AND EQUIPMENT

	March 31	
	2006	2005
Cost		
Land	$ 100,892,970	$ 101,837,988
Land improvements	1,477,275	1,458,302
Buildings	58,584,114	56,582,569
Machinery and equipment	21,876,869	22,126,934
Telecommunications network facilities	628,711,725	621,407,456
Miscellaneous equipment	2,033,134	2,078,485
Total cost	813,576,087	805,491,734
Revaluation increment on land	5,945,597	5,951,339
	819,521,684	811,443,073

(Continued)

	March 31	
	2006	2005
Accumulated depreciation		
Land improvements	$ 767,615	$ 709,934
Buildings	13,496,520	12,488,803
Machinery and equipment	16,102,486	15,430,403
Telecommunications network facilities	459,003,753	437,512,732
Miscellaneous equipment	1,757,920	1,767,630
	491,128,294	467,909,502
Construction in progress and advances related to acquisition of equipment	25,039,319	29,212,447
Property, plant and equipment, net	$ 353,432,709	$ 372,746,018

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

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

No interest expense was capitalized for the three months ended March 31, 2006 and 2005.

15. ACCRUED EXPENSES

	March 31	
	2006	2005
Accrued compensation	$ 7,115,988	$ 6,500,430
Accrued franchise fees	3,168,368	3,118,230
Other accrued expenses	4,329,473	1,938,819
	$ 14,613,829	$ 11,557,479

16. OTHER CURRENT LIABILITIES

	March 31	
	2006	2005
Advances from subscribers	$ 4,603,964	$ 4,474,011
Amounts collected from subscribers on behalf of other telecommunications companies and carriers	3,047,510	3,190,938
Payables to equipment suppliers	2,611,703	3,732,420
Payables to constructors	1,283,396	1,032,768
Deposit from subscribers	930,856	2,920,031
Miscellaneous	2,586,013	2,140,843
	$ 15,063,442	$ 17,491,011

17. LONG-TERM LOANS (INCLUDING CURRENT PORTION OF LONG-TERM LOANS)

	March 31	
	2006	**2005**
Loan from the Common Tunnel Fund	$ 300,000	$ 500,000
Less: Current portion of long-term loans	300,000	200,000
	$	$ 300,000

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

18. STOCKHOLDERS EQUITY

Under the Company s Articles of Incorporation, authorized capital is $96,477,249,020, which is divided into 9,647,724,900 common shares (at $10 par value per share), all of which are issued and outstanding, and 2 preferred shares (at $10 par value per share), which are issued and approved by the board of directors on March 28, 2006, and the MOTC purchased 2 preferred shares at par value on April 4, 2006.

For the purpose of privatizing the Company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange in July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. As of March 31, 2006, the MOTC has sold 2,460,432 thousand common shares in the form of ADS amounting to 246,043 thousand units.

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

a. Exercise their voting rights;

b. Sell their ADSs; and

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

As of March 31, 2006, the outstanding ADSs were 246,043 thousand units, which equaled approximately 2,460,431 thousand common shares and represented 25.50% of the Company s total outstanding common shares.

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

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

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

- 19 -

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

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

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

In addition, before distributing a dividend or making any other distribution to stockholders, the Company must pay all outstanding taxes, recover any past losses and set aside a legal reserve equal to 10% of its net income, and depending on its business needs or requirements, may also set aside a special reserve. In accordance with the Articles of Incorporation, no less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed in the following: No less than 1% of distributable earnings shall be distributed to employees as employee bonus and no more than 0.2% of distributable earnings shall be distributed to board of directors and supervisors as remuneration in the following years after privatization. During the year of privatization, the distributable earnings are limited to the earnings generated after privatization. The remaining distributable earnings can be distributed to the shareholders based on the resolution of shareholders meeting. Cash dividends to be distributed shall not be less than 10% of the total amount of dividends to be distributed. If cash dividends to be distributed is less than NT$0.10 per share, such cash dividend shall be distributed in the form of common shares.

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

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

The appropriations and distributions of the 2005 earnings of the company have been approved by the board of directors on March 28, 2006 as follows, and are pending for the approval of stockholders:

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

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

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

19. TREASURY STOCK

				(In Thousands of Shares)
Purpose	**As of January 1, 2006**	**Increase**	**Decrease**	**As of March 31, 2006**
To improve the Company s financial condition and utilize excess funds		149,158		149,158

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

Treasury stock shall not be pledged, nor does the shareholder s right be enjoyed before transfer in compliance with Securities and Exchange Law of the ROC.

From April 1, 2006 to April 9, 2006, the Company has acquired 42,842 thousand common shares for $2,568,628 thousand. As of April 9, 2006, the Company held 192,000 thousand common shares with an average cost basis of $11,392,333 thousand.

20. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

	Three Months Ended March 31, 2006		
	Cost of Services	**Operating Expenses**	**Total**
Compensation expense			
Salaries	$ 3,482,542	$ 2,178,922	$ 5,661,464
Insurance	126,908	76,606	203,514
Pension	486,760	311,362	798,122
Other compensation	1,722,162	1,073,618	2,795,780
	5,818,372	3,640,508	9,458,880
Depreciation expense	9,541,101	549,691	10,090,792
Amortization expense	213,173	25,390	238,563
	$ 15,572,646	$ 4,215,589	$ 19,788,235

	Three Months Ended March 31, 2005		
	Cost of Services	Operating Expenses	Total
Compensation expense			
Salaries	$ 3,935,899	$ 2,389,057	$ 6,324,956
Insurance	125,568	74,828	200,396
Pension	711,241	438,036	1,149,277
Other compensation	1,394,759	867,928	2,262,687
	6,167,467	3,769,849	9,937,316
Depreciation expense	9,636,747	582,249	10,218,996
Amortization expense	30,512	26,951	57,463
	$ 15,834,726	$ 4,379,049	$ 20,213,775

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:

	Three Months Ended March 31	
	2006	2005
Income tax expense computed at statutory income tax rate of 25% to income before income tax	$ 3,257,578	$ 3,653,515
Deduct tax effects of:		
Permanent differences	(30,888)	(30,113)
Temporary differences	(1,513,481)	(185,272)
Investment tax credits	(187,695)	(362,082)
Income tax payable	$ 1,525,514	$ 3,076,048

b. Income tax expense consisted of the following:

	Three Months Ended March 31	
	2006	2005
Income tax payable	$ 1,525,514	$ 3,076,048
Income tax - separated	25,590	16,234
Income tax - deferred	1,518,412	(100,367)
Income tax - cumulative effect of changes in accounting principle	(10,273)	
Adjustments of prior years income tax		(4,750)
	$ 3,059,243	$ 2,987,165

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

	March 31	
	2006	**2005**
Current		
Deferred income tax assets:		
Investment tax credits	$ 553,924	$
Provision for doubtful accounts	228,296	399,200
Accrued pension cost	212,782	12,338,968
Other	53,016	82,417
	1,048,018	12,820,585
Less: Valuation allowance	(228,296)	(399,200)
	819,722	12,421,385
Deferred income tax liability:		
Unrealized foreign exchange gain	(6,462)	(31,057)
Unrealized gains on financial instruments	(10,273)	
	(16,735)	(31,057)
Net deferred income tax assets	$ 802,987	$ 12,390,328
Noncurrent deferred income tax assets:		
Losses on impairment	$ 85,866	$

d. As of March 31, 2006, investment tax credits consisted of the following:

Regulation	**Items**	**Total Creditable Amounts**	**Remaining Creditable Amounts**	**Expiry Year**
Statute for Upgrading Industries	Purchase of machinery and equipment	$ 1,807,256	$ 553,924	2009

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

	March 31	
	2006	**2005**
Balance of Imputation Credit Account (ICA)	$ 2,141,929	$ 6,328,570

The estimated ICA rate for 2005 earnings and the actual ICA rate for 2004 earnings were 4.45% and 22.49%, respectively. The credit available for allocation to the stockholders is calculated on the basis of the balance of ICA on the date of distribution of dividends. Accordingly, the estimated rate as of March 31, 2005 may differ from the actual rate determined based on the balance of the ICA on the dividend distribution date.

f. Undistributed earnings information

As of March 31, 2006, the Company s undistributed earnings generated in June 30, 1998 and onward was zero. As of March 31, 2005, the Company s undistributed earnings generated in June 30, 1998 and onward was $32,336 thousand.

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

22. EARNINGS PER SHARE

	Three Months Ended March 31			
	2006		2005	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
Basic earnings per share				
Net income before cumulative effect of changes in accounting principle	$ 1.36	$ 1.04	$ 1.51	$ 1.21
Cumulative effect of changes in accounting principle				
Net income	$ 1.36	$ 1.04	$ 1.51	$ 1.21

	Amount (Numerator)		Weighted-average	Net Income Per Share (Dollars)	
	Income Before Income Tax	Net Income	Number of Common Shares Outstanding (Denominator)	Income Before Income Tax	Net Income
Three months ended March 31, 2006					
Net income	$ 13,082,025	$ 10,012,509			
Basic net income per share			9,601,455	$ 1.36	$ 1.04
Three months ended March 31, 2005					
Net income	$ 14,614,099	$ 11,626,934			
Basic net income per share			9,647,725	$ 1.51	$ 1.21

23. PENSION PLAN

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

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

The Company completed privatization plans on August 12, 2005. The Company is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in accordance with the Statute Governing Privatization of Stated-owned Enterprises (the Privatization Fund). After paying all pension obligations for privatization, the plan assets of the Company should be transferred to the Fund for Privatization of Government-owned Enterprises under the Executive Yuan. However, according to the instructions of MOTC, the Company would, on behalf of the MOTC pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization. As of March 31, 2006 the remaining balance of funds to be disbursed to employees on behalf of the MOTC and transferred to Privatization Fund amounted to NT$850 million.

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

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

The balance of the Company s plan assets subject to defined benefit plan were $2,096,115 thousand and $985,377 thousand as of March 31, 2006 and 2005, respectively.

Pension costs amounted to $833,614 thousand ($826,178 thousand subject to defined benefit plan and $7,436 thousand subject to defined contribution plan) and $1,204,632 thousand for the three months ended March 31, 2006 and 2005, respectively.

24. TRANSACTIONS WITH RELATED PARTIES

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

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

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

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

	March 31			
	2006		2005	
	Amount	%	Amount	%
1) Receivables				
Trade notes and accounts receivable				
CHTG	$ 28,062		$	
CHPT	4,237			
	$ 32,299		$	
2) Payables				
Trade notes and accounts payable				
CSI	$ 57,017	1	$	
TISE	37,038			
CHTG	9,728			
	$ 103,783	1	$	
Payable to construction supplier (included in other current liabilities)				
TISE	$ 257,007	2	$ 12,464	

	Three Months Ended March 31			
	2006		2005	
	Amount	%	Amount	%
3) Service revenues				
CHTG	$ 28,062		$	
CHPT	7,095			
	$ 35,157		$	
4) Cost of services				
CSI	$ 52,163		$ 2,691	
TISE	45,725		25,057	
CHTG	25,431			
	$ 123,319		$ 27,748	
5) Acquisition of properties				
TISE	$ 134,086	2	$ 282,935	5
CSI	22,439		151,526	3
CHTG	870			
	$ 157,395	2	$ 434,461	8

The foregoing transactions were conducted under normal commercial terms.

25. COMMITMENTS AND CONTINGENT LIABILITIES

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

a. Acquisitions of buildings of $2,601,352 thousand.

b. Acquisitions of telecommunications equipment of $14,566,631 thousand.

c. Unused letters of credit of approximately $3,633,251 thousand.

d. Contracts to print billing, envelops and telephone directories of approximately $192,983 thousand.

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

Year	**Rental Amount**
2006 (from April 1, 2006 to December 31, 2006)	$ 1,081,779
2007	959,095
2008	623,637
2009	364,023
2010 and thereafter	198,375

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

g. A commitment to contribute $2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which $1,000,000 thousand was contributed by the Company on August 15, 1996.

h. A portion of the land used by the Company during the period July 1, 1996 to December 31, 2004 was co-owned by the Company and Chunghwa Post Co., Ltd. (the former Directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to the Company to reimburse Chunghwa Post Co., Ltd. in the amount of $767,852 thousand for land usage compensation due to the portion of land usage area in excess of the Company s ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. However, the Company believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, the Company has filed an appeal at the Taiwan Taipei District Court. As of April 15, 2006, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Fair value of financial instruments were as follows:

	March 31			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	$ 43,759,367	$ 43,759,367	$ 33,168,410	$ 33,168,410
Financial assets at fair value through profit or loss - current	15,997,991	15,997,991	17,067,596	17,102,361
Trade notes and accounts receivable, net	12,039,819	12,039,819	12,303,640	12,303,640
Other current monetary assets	5,864,817	5,864,817	1,438,620	1,438,620
Financial assets at fair value through profit or loss - noncurrent	479,440	479,440		
Financial assets carried at cost	1,866,280	2,061,942	2,605,956	2,332,954
Other noncurrent monetary assets	2,000,000	2,000,000	2,000,000	2,000,000
Investments accounted for using equity method	1,515,927	1,684,422	1,410,062	1,722,207
Refundable deposits	1,631,838	1,631,838	1,417,203	1,417,203
Liabilities				
Trade notes and accounts payable	9,024,457	9,024,457	11,323,868	11,323,868
Accrued expenses	14,613,829	14,613,829	11,557,479	11,557,479
Current portion of long-term loans	300,000	300,000	200,000	200,000
Long-term loans			300,000	300,000
Customers deposits	7,061,485	7,061,485	5,893,261	5,893,261

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

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

1) The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. This method does not apply to the financial instruments as follows.

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

3) Long-term investments except for financial assets at fair value through profit and loss are based on the net asset values of the investments in unconsolidated companies, if quoted market prices are not available.

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

c. Fair value of financial instruments were as follow:

	Amount Based on Quoted Market Price		Amount Determined Using Valuation Techniques	
	March 31, 2006	**March 31, 2005**	**March 31, 2006**	**March 31, 2005**
Assets				
Financial assets measured at fair value through profit or loss - current	$ 15,997,991	$ 17,102,361	$	$
Financial assets measured at fair value through profit or loss - noncurrent	479,440			

d. Information about financial risks

1) Market risk

The financial instruments categorized as financial assets measured at fair value through profit or loss are mainly list stocks and open-end bond 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

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

3) Liquidation risk

The financial instruments categorized as financial assets measured at fair value through profit or loss 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.

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 Note 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.

- 29 -

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

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

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

i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 4.

j. Financial transactions: Please see Note 26.

k. Investment in Mainland China: None.

TABLE 1

CHUNGHWA TELECOM CO., LTD.

MARKETABLE SECURITIES HELD

MARCH 31, 2006

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

No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2006 Shares (Thousands/ Thousand Units)	Carrying Value (Note 5)	Percentage of Ownership	Market Value or Net Asset Value	Note
0	Chunghwa Telecom Co., Ltd.	Common stock							
		Chunghwa Investment Co., Ltd.	Equity method investee	Long-term investments - equity method	98,000	$ 959,116	49	$ 959,116	Note 1
		Taiwan International Standard Electronics	Equity method investee	Long-term investments - equity method	1,760	556,811	40	725,306	Note 1
		New Prospect Investments Holdings Ltd.	Subsidiary	Long-term investments - equity method			100		Note 2
						(USD $1)		(USD $1)	
		Prime Asia Investments Group Ltd.	Subsidiary	Long-term investments - equity method			100		Note 2
						(USD $1)		(USD $1)	
		Taipei Financial Center		Financial assets carried at cost	288,211	1,789,530	12	1,757,952	Note 1
		RPTI International		Financial assets carried at cost	9,234	71,500	12	107,790	Note 1
		Siemens Telecommunication Systems		Financial assets carried at cost	75	5,250	15	196,200	Note 1
		Beneficiary certificates (mutual fund)							
		Yuanta Structured Principal Protected Private Placement		Financial assets at fair value through profit or loss - noncurrent	50,000	500,000		479,440	Note 3
		Common stock							
		Nan Ya Plastics Corporation		Financial assets held for trading	94	3,625		4,516	Note 4
		Nien Hsing Textile Co., Ltd.		Financial assets held for trading	333	7,969		6,693	Note 4
		China Steel Corporation		Financial assets held for trading	154	4,069		4,682	Note 4
		China Motor Corporation		Financial assets held for trading	383	11,400		12,639	Note 4
		KINPO Electronics, Inc.		Financial assets held for trading	292	3,822		3,650	Note 4
		D-Link Corporation		Financial assets held for trading	267	8,809		9,145	Note 4
		Benq Corporation			402	11,864		10,834	Note 4

		Financial assets held for trading				
	Gigabyte Technology Co., Ltd.	Financial assets held for trading	283	8,618	6,806	Note 4
	Realtek Semiconductor Corp.	Financial assets held for trading	20	668	726	Note 4
	Beneficiary certificates (mutual fund)					
	JF (Taiwan) First Bond Fund	Financial assets held for trading	72,139	1,000,000	1,003,535	Note 3
	JF (Taiwan) Taiwan Bond Fund	Financial assets held for trading	66,450	1,000,000	1,003,555	Note 3
	Dresdner Bond DAM Fund	Financial assets held for trading	70,008	800,000	802,863	Note 3
	Invesco ROC Bond Fund	Financial assets held for trading	45,998	675,000	677,222	Note 3
	ABN AMRO Bond Fund	Financial assets held for trading	60,579	900,000	903,374	Note 3
	ABN AMRO Select Bond Fund	Financial assets held for trading	89,476	1,000,000	1,003,776	Note 3
	HSBC Taiwan Dragon Fund	Financial assets held for trading	13,147	200,000	200,614	Note 3
	FUBON Ju-I III Fund	Financial assets held for trading	41,413	500,000	501,429	Note 3
	Shinkong Chi-Shin Fund	Financial assets held for trading	77,829	1,100,000	1,103,884	Note 3
	NITC Bond Fund	Financial assets held for trading	12,326	2,000,000	2,007,248	Note 3
	Barits Bond Fund	Financial assets held for trading	40,857	490,000	491,561	Note 3
	Taishin Lucky Fund	Financial assets held for trading	9,881	100,000	100,324	Note 3
	TIIM High Yield Fund	Financial assets held for trading	47,451	519,555	582,413	Note 3
	NITC Taiwan Bond Fund	Financial assets held for trading	14,385	200,000	200,624	Note 3

(Continued)

No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	March 31, 2006 Shares (Thousands/ Thousand Units)	Carrying Value (Note 5)	Percentage of Ownership	Market Value or Net Asset Value	Note
		Prudential Financial Bond Fund		Financial assets held for trading	13,867	$ 200,000		$ 200,614	Note 3
		Jih Sun Bond Fund		Financial assets held for trading	14,847	200,000		200,598	Note 3
		Fuh-Hwa YouLi Fund		Financial assets held for trading	16,345	200,000		200,633	Note 3
		Fuh-Hwa Heirloom No. 2 Balance Fund		Financial assets held for trading	17,659	240,000		242,663	Note 3
		HSBC Taiwan Safe & Rich Fund		Financial assets held for trading	6,053	100,000		101,392	Note 3
		HSBC Global Balanced Select Fund		Financial assets held for trading	5,317	60,000		61,364	Note 3
		AIG Flagship Global Balance Fund of Funds		Financial assets held for trading	4,274	50,000		50,598	Note 3
		ING CHB Tri-Gold Balanced Portfolio		Financial assets held for trading	8,143	100,000		102,199	Note 3
		Fuh-Hwa Albatross Fund		Financial assets held for trading	11,679	130,000		130,503	Note 3
		Fuhwa Atex Bond Fund		Financial assets held for trading	25,752	300,000		301,009	Note 3
		Fubon Global Reit Fund		Financial assets held for trading	15,000	150,000		162,900	Note 3
		Jih Sun Navigation No. 1 Fund		Financial assets held for trading	5,000	50,050		52,250	Note 3
		HSBC Trinity Balanced Fund		Financial assets held for trading	20,000	200,000		204,100	Note 3
		JF (Taiwan) Pacific Balanced Fund		Financial assets held for trading	10,000	100,000		103,798	Note 3
		Polaris Global Reits Fund		Financial assets held for trading	10,000	100,000		113,000	Note 3
		JF (Taiwan) Global Balance Fund		Financial assets held for trading	15,108	170,000		173,390	Note 3