

CHUNGHWA TELECOM CO LTD
Form 6-K
August 31, 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 August 31, 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 Form 40-F

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

Yes No

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

SIGNATURE

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

Date: 2006/8/31

Chunghwa Telecom Co., Ltd.

By: /s/ Tan HoChen

Name: Tan HoChen

Title: Chairman & CEO

Exhibit

Exhibit	Description
1.	Financial Statements for the Six Months Ended June 30, 2006 and 2005 and Independent Auditor's Report -ROC GAAP
2.	Financial Statements as of December 31, 2005 and June 30, 2006 (Unaudited) and for Three Months and Six Months Ended June 30, 2005 and 2006 (Unaudited) -US GAAP
3.	Press Release on 8/31/2006

Chunghwa Telecom Co., Ltd.

**Financial Statements for the
Six Months Ended June 30, 2006 and 2005 and
Independent Auditors Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have audited the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of June 30, 2006 and 2005, and the related statements of operations, changes in stockholders' equity and cash flows for the six months then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of June 30, 2006 and 2005, and the results of its operations and its cash flows for the six months then ended, 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 stated in Notes 2 and 4 to the financial statements, the Company completed its privatization on August 12, 2005 and the accounts before privatization were subject to examination by the Executive Yuan and by the Ministry of Audit of the Control Yuan. The accounts as of and for the year ended December 31, 2004 have been examined by these government agencies, and adjustments from this examinations have been recognized in the accompanying financial statements.

As stated in Note 3 to the 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 (SFAS No. 36) and related revisions of previously released standards.

August 11, 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****JUNE 30, 2006 AND 2005****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)**

	2006		2005	
	Amount	%	Amount	%
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents (Notes 2 and 5)	\$ 63,206,044	14	\$ 51,393,824	11
Available-for-sale financial assets (Notes 2, 3 and 6)	15,956,060	3	14,518,307	3
Trade notes and accounts receivable, net of allowance for doubtful receivable of \$3,477,198 in 2006 and \$3,888,224 in 2005 (Notes 2, 7 and 24)	11,554,156	3	12,605,536	3
Other current monetary assets (Note 8)	5,144,291	1	1,752,041	
Inventories, net (Notes 2 and 9)	1,327,869		1,198,713	
Deferred income taxes (Notes 2 and 21)	1,643,059		12,519,259	2
Other current assets (Note 10)	3,043,387	1	4,143,460	1
Total current assets	101,874,866	22	98,131,140	20
LONG-TERM INVESTMENTS				
Investments accounted for using equity method (Notes 2 and 11)	1,482,548		1,493,175	
Financial assets carried at cost (Notes 2, 3 and 12)	1,866,280		2,605,956	1
Other monetary assets (Notes 3,13 and 25)	2,000,000	1	2,000,000	
Total investment	5,348,828	1	6,099,131	1
PROPERTY, PLANT AND EQUIPMENT (Notes 2, 14 and 24)				
Cost				
Land	100,892,410	22	101,929,974	21
Land improvements	1,477,700		1,460,144	
Buildings	58,623,832	13	56,589,274	12
Machinery and equipment	21,741,975	5	22,004,380	5
Telecommunications network facilities	629,229,969	134	622,009,585	128
Miscellaneous equipment	2,003,154		2,057,414	
Total cost	813,969,040	174	806,050,771	166
Revaluation increment on land	5,945,551	1	5,951,340	1
	819,914,591	175	812,002,111	167
Less: Accumulated depreciation	496,019,519	106	473,260,856	97
	323,895,072	69	338,741,255	70
Construction in progress and advances related to acquisitions of equipment	25,247,771	5	28,554,197	6
Property, plant and equipment, net	349,142,843	74	367,295,452	76
INTANGIBLE ASSETS				
3G concession (Note 2)	9,357,610	2	10,106,219	2
Deferred pension cost (Notes 2 and 23)			1,737,314	1
Patents and computer software, net (Note 2)	173,000		176,446	

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Total intangible assets	9,530,610	2	12,019,979	3
OTHER ASSETS				
Idle assets (Note 2)	929,256			
Refundable deposits	1,557,287	1	1,354,325	
Deferred income taxes (Notes 2 and 21)	417,868			
Other	527,388		340,634	
Total other assets	3,431,799	1	1,694,959	
TOTAL	\$ 469,328,946	100	\$ 485,240,661	100

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES

Trade notes and accounts payable (Note 24)	\$ 7,720,937	2	\$ 10,569,719	2
Income tax payable (Notes 2 and 21)	4,838,905	1	5,701,198	1
Accrued expenses (Notes 15 and 24)	14,646,373	3	12,645,154	3
Accrued pension liabilities (Notes 2 and 23)			2,013,198	1
Dividends payable (Note 18)	40,659,617	9	45,344,307	9
Current portion of long-term loans (Note 17)	300,000		200,000	
Other current liabilities (Notes 16 and 24)	15,993,753	3	18,511,667	4
Total current liabilities	84,159,585	18	94,985,243	20

LONG-TERM LIABILITIES

Long-term loans (Note 17)			300,000	
Deferred income	674,602		336,008	
Total long-term liabilities	674,602		636,008	

RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 14)

	94,986		94,986	
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OTHER LIABILITIES

Accrued pension liabilities (Notes 2 and 23)	368,025			
Customers deposits	6,878,193	2	5,721,911	1
Other	130,312		216,018	
Total other liabilities	7,376,530	2	5,937,929	1
Total liabilities	92,305,703	20	101,654,166	21

STOCKHOLDERS EQUITY

Common capital stock -\$10 par value; Authorized: 12,000,000 thousand shares in 2006; 9,647,725 thousand shares in 2005 Issued: 9,455,725 thousand shares in 2006; 9,647,725 thousand shares in 2005	94,557,249	20	96,477,249	20
Preferred stock \$10 par value				
Stock dividend to be issued	2,121,202			
Capital surplus:				
Paid-in capital in excess of par value	210,260,235	45	214,529,603	44
Donations	13,170		13,170	
Total capital surplus	210,273,405	45	214,542,773	44

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Retained earnings:				
Legal reserve	44,037,765	9	39,272,477	8
Special reserve	2,680,184	1	2,680,184	1
Unappropriated earnings	17,280,390	4	24,763,066	5
Total retained earnings	63,998,339	14	66,715,727	14
Other adjustments				
Cumulative translation adjustments	(3,683)		(5,607)	
Unrealized gain on financial instruments	226,166			
Capital surplus from revaluation of land	5,850,565	1	5,856,353	1
Total other adjustments	6,073,048	1	5,850,746	1
Total stockholders' equity	377,023,243	80	383,586,495	79
TOTAL	\$ 469,328,946	100	\$ 485,240,661	100

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

(With Deloitte & Touche audit report dated August 11, 2006)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF OPERATIONS****FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005****(Amounts in Thousands of New Taiwan Dollars, Except Basic Net Income Per Share Data)**

	2006 Amount	%	2005 Amount	%
SERVICE REVENUES (Note 24)	\$ 90,594,341	100	\$ 89,719,082	100
COSTS OF SERVICES (Note 24)	45,601,157	51	45,836,600	51
GROSS PROFIT	44,993,184	49	43,882,482	49
OPERATING EXPENSES				
Marketing	12,219,549	13	12,017,291	13
General and administrative	1,600,521	2	1,511,035	2
Research and development	1,580,588	2	1,608,047	2
Total operating expenses	15,400,658	17	15,136,373	17
INCOME FROM OPERATIONS	29,592,526	32	28,746,109	32
OTHER INCOME				
Penalties income	829,833	1	516,405	1
Income from sale of scrap inventories	424,454	1	201,333	
Interest	314,434		215,551	
Dividends income	31,776		57,881	
Equity in earnings of equity investees	682		64,982	
Foreign exchange gain, net			349,450	
Other	193,802		437,995	1
Total other income	1,794,981	2	1,843,597	2
OTHER EXPENSES				
Special termination benefit under early retirement program	2,302,035	3		
Foreign exchange loss, net	70,857			
Losses on disposal of property, plant and equipment	65,794		27,977	
Interest	1,413		941	
Valuation loss on financial instruments, net			13,862	
Other	395,736		725,750	1
Total other expenses	2,835,835	3	768,530	1
INCOME BEFORE INCOME TAX	28,551,672	31	29,821,176	33
INCOME TAX (Notes 2 and 21)	6,364,399	7	5,492,809	6
NET INCOME	\$ 22,187,273	24	\$ 24,328,367	27

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

	2006		2005	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
EARNINGS PER SHARE				
Basic net income per share (Notes 2 and 22)	\$ 2.93	\$ 2.28	\$ 3.02	\$ 2.47

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

(With Deloitte & Touche audit report dated August 11, 2006)

(Concluded)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(Amounts in Thousands of New Taiwan Dollars)

Common Capital Stock		Preferred Stock		Capital Surplus (Notes 18)		Retained Earnings (Notes 18 and 19)			Other Adjustments (Notes 2, 3 and 14)			Treasury Stock (Notes 2 and 19)	
Shares (Thousands)	Amount	Shares (Thousands)	Amount	Stock Dividend to be Issued	Paid-in Capital in Excess of Par Value	Donations	Legal Reserve	Special Reserve	Unappropriated Earnings	Cumulative Translation Adjustments	Unrealized Gain on Financial Instruments	Capital Surplus from Revaluation of Land	
9,647,725	\$ 96,477,249		\$		\$ 214,529,603	\$ 13,170	\$ 39,272,477	\$ 2,680,184	\$ 48,087,583	\$ (2,942)		\$ 5,850,864	\$
												51,675	
													(299)
							4,765,288		(4,765,288)				
									(40,659,617)				
				1,891,145					(1,891,145)				
									(230,057)				
				230,057					(230,057)				
									(15,337)				
									22,187,273				
										(741)			

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005****(Amounts in Thousands of New Taiwan Dollars)**

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 22,187,273	\$ 24,328,367
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	320,723	459,270
Depreciation and amortization	20,581,559	20,603,978
Valuation loss on financial instruments, net		13,862
Loss (gain) on sale of financial assets, net	17,549	(67,744)
Losses on disposal of property, plant and equipment, net	64,485	27,977
Equity in earnings of equity investees	(682)	(64,982)
Dividends received from equity investees	42,331	
Deferred income taxes	346,338	(229,298)
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Trade notes and accounts receivable	965,228	928,483
Other current monetary assets	561,347	(238,757)
Inventories	880,597	43,705
Other current assets	(1,796,351)	(3,479,333)
Increase (decrease) in:		
Trade notes and accounts payable	(2,699,363)	(3,717,390)
Income tax payable	4,822,355	671,540
Accrued expenses	(880,574)	(1,686,561)
Other current liabilities	484,526	1,221,322
Accrued pension liabilities	368,025	(497,581)
Deferred income	356,074	(25,121)
Net cash provided by operating activities	46,621,440	38,291,737
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of available-for-sale financial assets	(2,986,894)	(17,352,766)
Proceeds from disposal of available-for-sale financial assets	1,841,468	12,002,854
Acquisitions of property, plant and equipment	(11,947,382)	(9,791,919)
Proceeds from disposal of property, plant and equipment	6,472	1,364
Increase of intangible assets	(57,293)	(42,611)
Increase in other assets	(62,824)	(45,892)
Net cash used in investing activities	(13,206,453)	(15,228,970)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment on principal of long-term loans	(200,000)	(200,000)
Decrease in customers' deposits	(430,305)	(764,473)
Increase (decrease) in other liabilities	(76,973)	12,719
Increase in treasury stock	(11,392,333)	
Net cash used in financing activities	(12,099,611)	(951,754)

(Continued)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005****(Amounts in Thousands of New Taiwan Dollars)**

	2006	2005
NET INCREASE IN CASH AND CASH EQUIVALENTS	\$ 21,315,376	\$ 22,111,013
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	41,890,668	29,282,811
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 63,206,044	\$ 51,393,824
SUPPLEMENTAL INFORMATION		
Interest paid	\$ 1,413	\$ 941
Income tax paid	\$ 78,363	\$ 5,050,567
NON-CASH FINANCING ACTIVITIES		
Dividend payable	\$ 40,659,617	\$ 45,344,307
Current portion of long-term loans	\$ 300,000	\$ 200,000
Adjustment to property tax reserve in connection with land appreciation	\$	\$ 116,196

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

(With Deloitte & Touche audit report dated August 11, 2006)

(Concluded)

CHUNGHWA TELECOM CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

1. GENERAL

Chunghwa Telecom Co., Ltd. (Chunghwa or the Company) was incorporated on July 1, 1996 in the Republic of China (ROC) pursuant to the Telecommunications Act No. 30. The Company is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications (MOTC). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications (DGT). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off to 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 numbers of employees as of June 30, 2006 and 2005 are 25,407 and 27,984, 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.

Available-for-sale Financial Assets

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

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

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

Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables

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

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

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

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

Allowance for doubtful receivables is provided on the basis of 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 shareholder's equity-other adjustments from revaluation under the heading shareholder's equity-other adjustments from revaluation. However, to the extent that an impairment loss on the same revalued asset was previously recognized in profit or loss, a reversal of that impairment loss is also recognized in profit or loss.

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

Expense Recognition

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

Treasury Stock

Cost of treasury stock is shown as a deduction to stockholders' equity. Treasury stock is recorded and is shown as a reduction to stockholders' equity. Upon cancellation of treasury stock, the accounts of common stock and treasury stock are reversed out based on the number of shares registered to be cancelled. The account of additional paid-in capital is adjusted for the difference of the repurchase price and the par value of common stock.

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 (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 (SFAS No. 36) and related revisions of previously released SFASs.

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

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

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

	Recognized as a Separate Component of Stockholders Equity
Available-for-sale financial assets	\$ 51,675

For the six months ended June 30, 2006, the adoption of the newly released SFASs had no impact on net income after income tax and basic earnings per share.

b. Reclassifications

Upon the adoption of SFAS No. 34, certain accounts in the financial statements as of and for the six months ended June 30, 2005 were reclassified to conform to the financial statements as of and for the six months ended June 30, 2006. The previous issued financial statements as of and for the six months ended June 30, 2005 are not required to 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 six months ended June 30, 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
<u>Balance sheets</u>		
Short-term investments	\$ 14,518,307	\$
Fund	2,000,000	
Long-term investments accounted for using cost method	2,605,956	
Available-for-sale financial assets-current		14,518,307
Financial assets carried at cost - noncurrent		2,605,956
Other noncurrent monetary assets		2,000,000
	\$ 19,124,263	\$ 19,124,263

(Continued)

	Before Reclassification	After Reclassification
Statements of operations		
Reversal of allowance on short-term investments	\$ 13,862	\$
Valuation loss on financial instruments, net		13,862
	\$ 13,862	\$ 13,862
Statements of cash flows		
Cash flows from operating activities		
Gain on sale of short-term investments	\$ (67,744)	\$
Unrealized valuation loss on short-term investments	13,862	
Valuation loss on financial instruments, net		13,862
Gain on sale of financial assets, net		(67,744)
	(53,882)	(53,882)
Cash flows from investing activities		
Acquisition of short-term investment, net	(5,349,912)	
Acquisition of available-for-sale financial assets		(17,352,766)
Proceeds from disposal of available-for-sale financial assets		12,002,854
	(5,349,912)	(5,349,912)
	\$ (5,403,794)	\$ (5,403,794)

(Concluded)

4. ADJUSTMENTS OF FINANCIAL STATEMENTS

For the Year Ended December 31, 2004

The Company's financial statements for the year ended December 31, 2004 have been examined by the Executive Yuan and the Ministry of Audit of the Control Yuan (government agencies), and the resulting adjustments 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 sheets			
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

(Continued)

	As Previously Reported	Adjustment Increase (Decrease)	As Adjusted
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 operations			
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

	June 30	
	2006	2005
Cash		
Cash on hand	\$ 87,770	\$ 97,203
Cash in banks	4,132,744	2,729,045
Negotiable certificate of deposit, annual yield rate - ranging from 1.00%-1.95% and 1.18%-1.30% for 2006 and 2005, respectively	13,802,500	15,100,000
	18,023,014	17,926,248
Cash equivalents		
Commercial paper purchased, annual yield rates - ranging from 1.15%-1.18% and 1.17%-1.20% for 2006 and 2005, respectively	45,183,030	33,467,576
	\$ 63,206,044	\$ 51,393,824

6. AVAILABLE-FOR-SALES FINANCIAL ASSETS

	June 30	
	2006	2005
Open-end bond mutual funds	\$ 15,822,206	\$ 14,198,283
Real estate investment trust fund	114,300	100,700
List stocks	19,554	25,034
Principal guarantee notes		194,290
	\$ 15,956,060	\$ 14,518,307

7. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Six Months Ended	
	June 30	
	2006	2005
Balance, beginning of period	\$ 3,604,605	\$ 4,473,433
Provision for doubtful accounts	319,620	456,349
Accounts receivable written off	(447,027)	(1,041,558)
Balance, end of period	\$ 3,477,198	\$ 3,888,224

8. OTHER CURRENT MONETARY ASSETS

	June 30	
	2006	2005
Tax refund receivable	\$ 3,221,136	\$
Other receivable	1,923,155	1,752,041
	\$ 5,144,291	\$ 1,752,041

9. INVENTORIES, NET

	June 30	
	2006	2005
Supplies	\$ 1,110,087	\$ 1,187,780
Work in process	40,263	10,933
Merchandise	14,685	
Materials in transit	162,834	
	\$ 1,327,869	\$ 1,198,713

The insurance coverage on inventories as of June 30, 2006 and 2005 amounted to \$965,712 thousand and \$1,213,989 thousand, respectively.

10. OTHER CURRENT ASSETS

	June 30	
	2006	2005
Prepayments	\$ 2,904,909	\$ 4,019,587
Miscellaneous	138,478	123,873
	\$ 3,043,387	\$ 4,143,460

11. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	June 30			
	2006		2005	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Equity investee:				
Chunghwa Investment (CHI)	\$ 963,922	49	\$ 925,719	49
Taiwan International Standard Electronics (TISE)	518,626	40	567,456	40
New Prospect Investments Holdings, Ltd. (NPIH)		100		
Prime Asia Investments Group, Ltd. (PAIG)		100		
	\$ 1,482,548		\$ 1,493,175	

The Company has established New Prospect Investments Holdings Ltd. B.V.I and Prime Asia Investments Group Ltd. B.V.I 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.

The carrying values of the equity investees and the equity in their net losses and net income as of and for the six months ended June 30, 2006 and 2005 are based on audited financial statements.

12. FINANCIAL ASSETS CARRIED AT COST

	June 30			
	2006		2005	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
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

	June 30	
	2006	2005
Fixed - Line Fund	\$ 1,000,000	\$ 1,000,000
Piping Fund	1,000,000	1,000,000
	\$ 2,000,000	\$ 2,000,000

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

14. PROPERTY, PLANT AND EQUIPMENT

	June 30	
	2006	2005
Cost		
Land	\$ 100,892,410	\$ 101,929,974
Land improvements	1,477,700	1,460,144
Buildings	58,623,832	56,589,274
Machinery and equipment	21,741,975	22,004,380
Telecommunications network facilities	629,229,969	622,009,585
Miscellaneous equipment	2,003,154	2,057,414
Total cost	813,969,040	806,050,771
Revaluation increment on land	5,945,551	5,951,340
	819,914,591	812,002,111
Accumulated depreciation		
Land improvements	780,935	725,184
Buildings	13,753,731	12,736,584
Machinery and equipment	16,279,217	15,633,885
Telecommunications network facilities	463,466,682	442,409,554
Miscellaneous equipment	1,738,954	1,755,649
	496,019,519	473,260,856
Construction in progress and advances related to acquisitions of equipment	25,247,771	28,554,197
Property, plant and equipment-net	\$ 349,142,843	\$ 367,295,452

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

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

value incremental tax of \$116,196 thousand to stockholder's equity - other adjustments.

Depreciation on property, plant and equipment for the years ended June 30, 2006 and 2005 amounted to \$20,104,132 thousand and \$20,407,512 thousand, respectively. No interest expense was capitalized for the six months ended June 30, 2006 and 2005.

The insurance coverage on property, plant and equipment as of June 30, 2006 and 2005 aggregated in the amount of \$3,661,695 thousand and \$2,294,560 thousand, respectively.

15. ACCRUED EXPENSES

	June 30	
	2006	2005
Accrued salary and compensation	\$ 9,589,569	\$ 9,227,385
Accrued franchise fees	1,207,665	1,237,201
Other accrued expenses	3,849,139	2,180,568
	\$ 14,646,373	\$ 12,645,154

16. OTHER CURRENT LIABILITIES

	June 30	
	2006	2005
Advances from subscribers	\$ 4,740,846	\$ 4,606,859
Amounts collected in trust for others	3,960,462	4,207,821
Payables to equipment suppliers	3,179,947	3,838,658
Other payables	1,310,388	1,312,668
Payables to constructors	963,436	1,198,097
Refundable customers deposits	941,755	2,775,821
Miscellaneous	896,919	571,743
	\$ 15,993,753	\$ 18,511,667

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

	June 30	
	2006	2005
Loan from the Fixed - Line Fund	\$ 300,000	\$ 500,000
Less: Current portion of long-term loans	300,000	200,000
	\$	\$ 300,000

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

As of June 30, 2006, the Company had unused credit lines totaling approximately \$33,729,000 thousand, which are available for short-term and long-term borrowings.

18. STOCKHOLDERS EQUITY

Under the revised Company's Articles of Incorporation dated May 30, 2006, the Company's authorized capital is \$120,000,000,020, which is divided into 12,000,000,000 common shares (at \$10 par value per share), which are issued and outstanding 9,455,724,900 shares, and 2 preferred shares (at \$10 par value per share), which are issued and approved by the board of directors on March 28, 2006, and the MOTC purchased 2 preferred shares at par value on April 4, 2006.

For the purpose of privatizing the Company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange 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 June 30, 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 June 30, 2006, the outstanding ADSs were 246,043 thousand units and represented 26.02% of the Company's total outstanding common shares.

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

- a. The holder of the preferred shares, or its nominated representative, will act as a director and/or supervisor during the entire period in which the preferred shares are outstanding.
- b. The holder of preferred shares has the same pre-emptive rights as holders of common shares when the Company raises capital by issuing new shares.
- c. The holder of the preferred shares will have the right to veto on any change in the name of the Company or the nature of its business and any transfer of a substantial portion of the Company's business or property.
- d. The holder of the preferred shares may not transfer the ownership. The Company must redeem all outstanding preferred shares within three years from the date of their issuance.

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

In addition, before distributing a dividend or making any other distribution to stockholders, the Company must pay all outstanding taxes, recover any past losses and set aside a legal reserve equal to 10% of its net income, and depending on its business needs or requirements, may also set aside a special reserve. In accordance with the Articles of Incorporation, no less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed in the following 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 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; and c. cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividends to be distributed is less than NT\$0.10 per share, such cash dividend shall be distributed in the form of common shares.

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

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

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

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

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

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)

As of

Purpose	As of January 1, 2006	Increase	Decrease	June 30, 2006
To improve the Company's financial condition and utilize excess funds		192,000	192,000	

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 may stockholder's rights be enjoyed before transfer in compliance with Securities and Exchange Law of the ROC.

The Company repurchased of treasury stock 192,000 thousand shares, from February 10, 2006 to April 7, 2006, for \$11,392,333 thousand. On June 30, 2006, the company cancelled the treasury stock by reducing common stock of \$1,920,000 thousand, additional paid-in capital of \$4,269,368 thousand and retained earnings of \$5,202,965 thousand.

20. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

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

	Six Months Ended June 30, 2005		
	Cost of Services	Operating Expenses	Total
Compensation expense			
Salaries	\$ 7,817,833	\$ 4,808,808	\$ 12,626,641
Insurance	289,692	186,218	475,910
Pension	1,417,963	880,180	2,298,143
Other compensation	2,903,717	1,760,618	4,664,335
	12,429,205	7,635,824	20,065,029
Depreciation expense	19,247,995	1,159,517	20,407,512
Amortization expense	135,663	53,826	189,489
	\$ 31,812,863	\$ 8,849,167	\$ 40,662,030

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:

	Six Months Ended June 30	
	2006	2005
Income tax expense computed at statutory income tax rate of 25% to income before income tax	\$ 7,137,908	\$ 7,455,284
Deduct tax effects of:		
Permanent differences	(79,966)	(99,536)
Temporary differences	(1,336,065)	(152,696)
Investment tax credits	(882,114)	(1,518,053)
Income tax payable	\$ 4,839,763	\$ 5,684,999

- b. Income tax expense consists of the following:

	Six Months Ended June 30	
	2006	2005
Income tax payable	\$ 4,839,763	\$ 5,684,999
Income tax - separated	60,946	41,858
Income tax - deferred	1,353,084	(229,298)
Adjustments of prior years income tax	110,606	(4,750)
	\$ 6,364,399	\$ 5,492,809

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

	June 30	
	2006	2005
Current		
Deferred income tax assets:		
Investment tax credits	\$ 1,562,913	\$
Provision for doubtful accounts	254,672	302,845
Accrued pension cost		12,507,506
Other	80,782	85,717
	1,898,367	12,896,068
Less: Valuation allowance	(254,672)	(302,845)
	1,643,695	12,593,223
Deferred income tax liability:		
Unrealized foreign exchange gain	(636)	(73,964)
Net deferred income tax assets	\$ 1,643,059	\$ 12,519,259

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Noncurrent deferred income tax assets:		
Accrued pension cost	\$ 332,002	\$
Losses on impairment	85,866	
	\$ 417,868	\$

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d. As of June 30, 2006, investment tax credits consists of the following:

Regulation	Items	Total Creditable Amounts	Remaining Creditable Amounts	Expiry Year
Statute for Upgrading Industries	Purchase of automated machinery and equipment	\$ 995,489	\$ 843,449	2009
		189,190	189,190	2010
	Research and development expenditure	254,501	254,501	2010
Statute for Upgrading Recovery of 921 Earthquake	Personnel training	73,278	73,278	2010
	Investment in disaster areas	146,025	146,025	2009
		56,470	56,470	2010
		\$ 1,714,953	\$ 1,562,913	

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

	June 30	
	2006	2005
Balance of Imputation Credit Account (ICA)	\$ 3,314,620	\$ 11,364,834

The estimated ICA rate for the year ended December 31, 2005 and the actual ICA rate for the year ended December 31, 2004 were 6.89% and 22.49%, respectively. The credit available for allocation to the stockholders is calculated on the basis of the balance of ICA on the date of distribution of dividends. Accordingly, the estimated rate as of December 31, 2005 may differ from the actual rate determined based on the balance of the ICA on the dividend distribution date.

f. Undistributed earnings information

As of June 30, 2006 and 2005, the Company's undistributed earnings generated in June 30, 1998 and onward was zero.

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

22. EARNINGS PER SHARE

	Amount (Numerator)		Weighted-average Number of Common Shares Outstanding (Denominator)	Net Income per Share (Dollars)	
	Income Before Income Tax	Net Income		Income Before Income Tax	Net Income
<u>Six months ended June 30, 2006</u>					
Net income	\$ 28,551,672	\$ 22,187,273			
Basic net income per share			9,740,368	\$ 2.93	\$ 2.28
<u>Six months ended June 30, 2005</u>					
Net income	\$ 29,821,176	\$ 24,328,367			
Basic net income per share			9,859,845	\$ 3.02	\$ 2.47

The impact of stock dividends was considered in calculating basic and diluted net income per share for 2005. The basic EPS income before income tax and net income in 2005 would have decreased from NT\$3.09 to NT\$3.02 and from NT\$2.52 to NT\$2.47, respectively.

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 June 30, 2006, the remaining balance of funds to be disbursed to employees on behalf of the MOTC and transferred to Privatization Fund amounted to NT\$501 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 \$2,183,922 thousand and \$1,049,791 thousand as of June 30, 2006 and 2005, respectively.

Pension costs amounted to \$1,699,345 thousand (\$1,678,987 thousand subject to defined benefit plan and \$20,358 thousand subject to defined contribution plan) and \$2,409,284 thousand for the six months ended June 30, 2006 and 2005, respectively.

24. TRANSACTIONS WITH RELATED PARTIES

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:

	June 30			
	2006		2005	
	Amount	%	Amount	%
1) Receivables				
Trade notes and accounts receivable				
CHTG	\$ 24,690		\$	
CHPT	1,839			
	\$ 26,529		\$	
2) Payables				
Trade notes and accounts payable				
CSI	\$ 74,658		\$	
TISE	14,578			
CHTG	8,220			
	\$ 97,456		\$	
Accrued expense				
TISE	\$ 46,496		\$ 47,953	
CHTG	16,307			
CSI	956			
	\$ 63,759		\$ 47,953	
Payable to construction supplier (included in other current liabilities)				
TISE	\$ 251,480		\$ 3,478	

	Six Months Ended June 30			
	2006		2005	
	Amount	%	Amount	%
3) Service revenues				
CHTG	\$ 52,401		\$	
CHPT	10,461			
	\$ 62,862		\$	
4) Costs of services				
TISE	\$ 249,215		\$ 69,325	
CSI	83,212		15,317	
CHTG	59,207			
	\$ 391,634		\$ 84,642	
5) Acquisition of properties				
TISE	\$ 239,504	2	\$ 306,062	3
CSI	25,660		205,216	2
CHTG	860			
	\$ 266,024	2	\$ 511,278	5

The foregoing acquisitions were conducted under normal commercial terms.

25. COMMITMENTS AND CONTINGENT LIABILITIES

As of June 30, 2006, the Company's remaining commitments under non-cancellable contracts with various parties were as follows:

- a. Acquisitions of buildings of \$2,242,556 thousand.
 - b. Acquisitions of telecommunications equipment of \$18,520,835 thousand.
 - c. Unused letters of credit of approximately \$3,085,985 thousand.
 - d. Contracts to print billing, envelopes and telephone directories of approximately \$256,796 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
The six months ended December 31, 2006	\$ 671,616
2007	1,015,318
2008	687,263
2009	419,980
2010 and thereafter	284,918

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 August 11, 2006, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.

i. On June 2, 2006, the Company's board of directors approved an investment plan to purchase more than 50% of the common stocks issued from CHIEF Telecom Co., Ltd. However, a formalized purchase contract has not been signed by the Company as of August 11, 2006.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Fair value of financial instruments were as follows:

	2006		June 30		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets						
Cash and cash equivalents	\$ 63,206,044	\$ 63,206,044	\$ 51,393,824	\$ 51,393,824	\$ 51,393,824	\$ 51,393,824
Available-for-sale financial assets	15,956,060	15,956,060	14,518,307	14,518,307	14,518,307	14,518,307
Trade notes and accounts receivable, net	11,554,156	11,554,156	12,605,536	12,605,536	12,605,536	12,605,536
Other current monetary assets	5,144,291	5,144,291	1,752,041	1,752,041	1,752,041	1,752,041
Investments accounted for using equity method	1,482,548	1,679,484	1,493,175	1,717,781	1,493,175	1,717,781
Financial assets carried at cost	1,866,280	1,866,280	2,605,956	2,605,956	2,605,956	2,605,956
Other noncurrent monetary assets	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Refundable deposits	1,557,287	1,557,287	1,354,325	1,354,325	1,354,325	1,354,325
Liabilities						
Trade notes and accounts payable	7,720,937	7,720,937	10,569,719	10,569,719	10,569,719	10,569,719
Accrued expenses	14,646,373	14,646,373	12,645,154	12,645,154	12,645,154	12,645,154
Dividend payable	40,659,617	40,659,617	45,344,307	45,344,307	45,344,307	45,344,307
Current portion of long-term loans	300,000	300,000	200,000	200,000	200,000	200,000
Long-term loans			300,000	300,000	300,000	300,000
Customers' deposits	6,878,193	6,878,193	5,721,911	5,721,911	5,721,911	5,721,911

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 discussed in notes 2, 3, and 4 below.
- 2) If 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 financial assets are not immediately available, they must be calculated using standard valuation models on the basis of current market parameters.
- 3) Long-term investments are based on the net asset values of the investments in 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	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Assets				
Available-for-sale financial assets	\$ 15,956,060	\$ 14,518,307	\$	\$

d. Information about financial risks

1) Market risk

The financial instruments categorized as available for sale financial assets 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 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.

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: 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****JUNE 30, 2006****(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2006		Percentage of Market Value Ownership	Net Asset
				Shares (Thousands/ Thousand Units)	Carrying Value (Note 6)		
<u>Common stock</u>							
Chunghwa Investment Co., Ltd.		Equity method investee	Long-term investments - equity method	98,000	\$ 963,922	49	\$ 963,922
Taiwan International Standard Electronics		Equity method investee	Long-term investments - equity method	1,760	518,626	40	715,000
New Prospect Investments Holdings Ltd.		Subsidiary	Long-term investments - equity method			100	
					(US\$1)		(US\$1)
Prime Asia Investments Group Ltd.		Subsidiary	Long-term investments - equity method			100	
					(US\$1)		(US\$1)
Taipei Financial Center			Financial assets carried at cost	288,211	1,789,530	12	1,680,000
RPTI International			Financial assets carried at cost	9,234	71,500	12	105,000
Siemens Telecommunication Systems			Financial assets carried at cost	75	5,250	15	192,000
China Motor Corporation			Available-for-sale financial assets	273	8,126		8,000
KINPO Electronics, Inc.			Available-for-sale financial assets	292	3,822		3,000
D-Link Corporation			Available-for-sale financial assets	182	6,004		6,000
Realtek Semiconductor Corp.			Available-for-sale financial assets	20	668		
<u>Beneficiary certificates (mutual fund)</u>							
JF (Taiwan) First Bond Fund			Available-for-sale financial assets	72,139	1,000,000		1,006,000
JF (Taiwan) Taiwan Bond Fund			Available-for-sale financial assets	66,450	1,000,000		1,006,000
Dresdner Bond DAM Fund			Available-for-sale financial assets	70,008	800,000		805,000
Invesco ROC Bond Fund			Available-for-sale financial assets	29,061	426,463		429,000
ABN AMRO Bond Fund			Available-for-sale financial assets	60,579	900,000		906,000
ABN AMRO Select Bond Fund			Available-for-sale financial assets	89,476	1,000,000		1,007,000
HSBC Taiwan Dragon Fund			Available-for-sale financial assets	13,147	200,000		201,000
FUBON Ju-I III Fund			Available-for-sale financial assets	41,413	500,000		502,000
Shinkong Chi-Shin Fund			Available-for-sale financial assets	77,829	1,100,000		1,107,000
NITC Bond Fund			Available-for-sale financial assets	12,326	2,000,000		2,014,000
Barits Bond Fund			Available-for-sale financial assets	40,857	490,000		493,000
Taishin Lucky Fund			Available-for-sale financial assets	9,881	100,000		100,000
TIIM High Yield Fund			Available-for-sale financial assets	47,451	579,555		584,000
NITC Taiwan Bond Fund			Available-for-sale financial assets	14,385	200,000		201,000
Prudential Financial Bond Fund			Available-for-sale financial assets	13,867	200,000		201,000
Jih Sun Bond Fund			Available-for-sale financial assets	14,847	200,000		201,000
Fuh-Hwa YouLi Fund			Available-for-sale financial assets	16,345	200,000		201,000
Fuh-Hwa Heirloom No. 2 Balance Fund			Available-for-sale financial assets	17,659	240,000		243,000
HSBC Taiwan Safe & Rich Fund			Available-for-sale financial assets	6,637	110,000		117,000
HSBC Global Balanced Select Fund			Available-for-sale financial assets	7,046	80,000		79,000
AIG Flagship Global Balance Fund of Funds			Available-for-sale financial assets	4,274	50,000		49,000

(Continued)

				June 30, 2006			
				Shares			
				(Thousands/ Carrying Value		Market Va	
Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Thousand Units)	(Note 6)	Percentage of Ownership	Net Asset Va
	ING CHB Tri-Gold Balanced Portfolio		Available-for-sale financial assets	8,143	\$ 100,000		\$ 99,1
	Fuh-Hwa Albatross Fund		Available-for-sale financial assets	11,679	130,000		130,9
	Fuhwa Atex Bond Fund		Available-for-sale financial assets	25,752	300,000		301,9
	Fubon Global Reit Fund		Available-for-sale financial assets	15,000	150,000		161,1
	Jih Sun Navigation No. 1 Fund		Available-for-sale financial assets	5,000	50,050		53,7
	HSBC Trinity Balanced Fund		Available-for-sale financial assets	16,101	161,010		169,4
	JF (Taiwan) Pacific Balanced Fund		Available-for-sale financial assets	10,000	100,000		101,2
	Polaris Global Reits Fund		Available-for-sale financial assets	10,000	104,500		111,9
	JF (Taiwan) Global Balance Fund		Available-for-sale financial assets	15,108	170,000		173,0
	JF (Taiwan) Wealth Management Fund		Available-for-sale financial assets	9,362	100,000		104,4
	Shinkong Strategy Balanced Fund		Available-for-sale financial assets	14,069	150,000		155,2
	Fuh-Hua Home Run Fund		Available-for-sale financial assets	9,977	100,000		100,9
	Fuh-Hua Total Return Fund		Available-for-sale financial assets	9,872	100,000		102,2
	Fuh-Hua Elite Angel Fund		Available-for-sale financial assets	947	10,000		10,0
	PCA Quality-Quantity Fund		Available-for-sale financial assets	4,514	50,000		48,3
	Fubon No. 1		Available-for-sale financial assets	10,000	100,000		114,3
	Fidelity Euro Bond Fund		Available-for-sale financial assets	669	322,166		329,1
	Credit Suisse BF (Lux) Euro Bond Fund		Available-for-sale financial assets	24	357,515		364,4
	Fidelity European Highyield Fund		Available-for-sale financial assets	1,359	509,404		546,8
	Parvest European Convertible Bond Fund		Available-for-sale financial assets	41	200,373		207,0
	MFS Emerging Market Debt Fund		Available-for-sale financial assets	622	354,450		362,1
	GAM USD Special Bond Fund		Available-for-sale financial assets	25	353,540		360,5
	Fidelity US High Yield Fund		Available-for-sale financial assets	428	161,875		161,8
	Fidelity Euro Balanced Fund		Available-for-sale financial assets	374	200,373		204,8
wa Investment							
	<u>Common stock</u>						
	Chunghwa System Integration Co., Ltd.	Subsidiary	Long-term investments - equity method	60,000	634,605	100	634,6
	Chunghwa Telecom Global, Inc.	Subsidiary	Long-term investments - equity method	6,000	86,805	100	86,8
	Chunghwa Precision Test Technical Co., Ltd.	Subsidiary	Long-term investments - equity method	6,000	79,636	60	79,6
	Chunghwa Investment Holding Company	Subsidiary	Long-term investments - equity method	589	7,029	100	7,0
	PandaMonium Company	Equity method investee	Long-term investments - equity method	602	19,951	43	19,9
	Wayia Com Inc.		Financial assets carried at cost	4,000	40,000	19	16,3
	TVbean Co., Ltd. Wayia Com Inc.		Financial assets carried at cost	1,200	12,000	6	12,6
	Vantech Software Company		Financial assets carried at cost	1,223	12,960	7	15,1
	Digimax Production Center		Financial assets carried at cost	2,000	60,000	5	14,9
	Crystal Media Incorporation		Prepayments for stock	1,000	15,000		15,0
	<u>Beneficiary certification (mutual fund)</u>						
	Fuhwa Bond Fund		Financial assets held for trading	4,473	56,493		56,8
	Fuhwa Atex Bond Fund		Financial assets held for trading	5,492	64,066		64,3
	Home Ren Bond Fund		Financial assets held for trading	2,076	31,609		31,8
	PCA Bond Fund		Financial assets held for trading	1,132	17,364		17,4
	Polaris De-Bao Fund		Financial assets held for trading	2,899	31,699		31,9
	Mega Diamond Bond Fund		Financial assets held for trading	3,600	40,866		41,1
	NITC Bond Fund		Financial assets held for trading	124	20,137		20,2

(Continued)

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				June 30, 2006			
				Shares			
				(Thousands/Carrying Value		Market Value	
Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Thousand Units	(Note 6)	Percentage of Ownership	Net Asset Value
	JF (Taiwan) Bond Fund		Financial assets held for trading	1,663	\$ 25,028		\$ 25,194
	Cash Reserves Capital fund		Financial assets held for trading	3,489	40,352		40,637
	Safe Income Capital Fund		Financial assets held for trading	1,514	22,193		22,370
	Grand Cathay Bond Fund		Financial assets held for trading	5,650	72,495		72,689
	Jih Sun Bond Fund		Financial assets held for trading	3,146	42,575		42,645
	Cathay Bond Fund		Financial assets held for trading	2,619	30,000		30,002
	KGI Victory Fund		Financial assets held for trading	1,873	20,000		20,001
	Jih Sun Navigation No. 1 Fund		Financial assets held for trading	935	10,010		10,056
	HSBC New Japan Fund of Fund		Financial assets held for trading	3,006	30,000		28,707
	SinoPac Global Fixed Income Portfolio Fund		Financial assets held for trading	2,000	20,000		19,987
	Cathay No. 1 REIT		Financial assets held for trading	5,000	50,000		52,250
	94 Anshin Card 02A1		Financial assets held for trading		30,000		30,000
Fuhwa System Investment Co., Ltd.	<u>Beneficiary certification (mutual fund)</u>						
	Fuh-Hwa Bond Fund		Financial assets held for trading	3,239	42,604		42,885
	Mega Diamond Bond Fund		Financial assets held for trading	4,405	50,004		50,330
	Polaris Di-Po Fund		Financial assets held for trading	920	10,078		10,128
	Jih Sun Bond Fund		Financial assets held for trading	1,850	25,000		25,082
	Grand Cathay Bond Fund		Financial assets held for trading	4,056	52,025		52,174
	Cathay Bond Fund		Financial assets held for trading	2,896	33,026		33,175
	Cathay Global Aggressive Fund		Financial assets held for trading	3,000	30,060		30,270
	Cathay No. 1 REIT		Financial assets held for trading	5,000	50,750		52,250
	Fuhwa Advantage Bond Fund		Financial assets held for trading	4,844	50,000		50,166
	The Increment Fund		Financial assets held for trading	2,064	31,000		31,190
	94 Anshin Card 02A1		Financial assets held for trading		30,000		30,000
	Fuh-Hua Albatross Fund		Financial assets held for trading	2,830	31,510		31,726
	Cathay Fund		Financial assets held for trading	400	5,165		4,384
	SinoPac Global Fixed Income Portfolio Fund		Financial assets held for trading	3,000	30,000		29,981
Fuhwa Investment Management Company	<u>Common stock</u>						
	Donghua Telecom Co., Limited	Subsidiary	Long-term investments - equity method	4,590	7,091	100	7,091

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

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

Note 3: New Prospect Investments Holdings Ltd. and Prime Asia Investments Group Ltd. were incorporated in March 2006, but not on operating stage yet.

Note 4: The net asset values of beneficiary certification (mutual fund) were base on the net asset values as of June 30, 2006.

Note 5: Market value was based on the closing price of June 30, 2006.

Note 6: Available-for-sale financial assets and financial assets at fair value through profit and loss are showed as their original carrying amounts without the adjustments of fair values.

Note 7: Additional capital was raised for Chunghwa Investment Co., Ltd. in June 2006; however, the entity has not completed its registration process for the additional paid - in capital at the end of June 30,2006.

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 SIX MONTHS ENDED JUNE 30, 2006****(Amounts in Thousands of New Taiwan Dollars)**

Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal		Gain (Loss) on Disposal	
				Shares (Thousands/Thousand Units)	Amount (Note 1)	Shares (Thousands/Thousand Units)	Amount	Shares (Thousands/Thousand Units)	Amount (Note 1)		Carrying Value (Note 1)
Beneficiary certificates (mutual fund)											
ADAM Global Bond Fund	Available-for-sale financial assets			9,286	\$ 100,000		\$	9,286	\$ 98,888	\$ 100,000	\$ (1,112)
NITC Taiwan Bond Fund	Available-for-sale financial assets					14,385	200,000				
Prudential Financial Bond Fund	Available-for-sale financial assets					13,867	200,000				
Jih Sun Bond Fund	Available-for-sale financial assets					14,847	200,000				
INVESTCO ROC Bond Fund	Available-for-sale financial assets			45,998	675,000			16,937	250,000	248,537	1,463
Fuh-Hwa YouLi Fund	Available-for-sale financial assets					16,345	200,000				
MFS Emerging Market Debt Fund	Available-for-sale financial assets			351	192,600	271	161,850				
GAM USD Special Bond Fund	Available-for-sale financial assets			14	191,520	11	162,020				
Fidelity US High Yield Fund	Available-for-sale financial assets					428	161,875				
Fuh-Hwa Heirloom No. 2 Balance Fund	Available-for-sale financial assets					17,659	240,000				
HSBC Taiwan Safe & Rich Fund	Available-for-sale financial assets					6,637	110,000				
ING CHB Tri-Gold Balanced Portfolio	Available-for-sale financial assets					8,143	100,000				
Fidelity Zuro Bond Fund	Available-for-sale financial assets			1,256	604,960			587	280,897	282,794	(1,897)
Credit Suisse BF (Lux) Euro Bond Fund	Available-for-sale financial assets			41	601,003			17	241,572	243,488	(1,916)
Fidelity European Highyield Fund	Available-for-sale financial assets			539	193,500	820	315,904				
Pervext European Convertible Bond Fund	Available-for-sale financial assets					41	200,373				
Fidelity Euro Balanced Fund	Available-for-sale financial assets					374	200,373				
Yuanta Structured Principal Protected Private Placement	Available-for-sale financial assets noncurrent			50,000	500,000			50,000	473,666	500,000	(26,334)
Beneficiary certificates (mutual fund)											
				9,130	98,513	2,816	30,495	11,946	129,240	129,008	232

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Cathay Capital Income Growth Bond Fund	Financial assets held for trading
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Beneficiary certificates

Cathay Bond Fund	Financial assets held for trading	5,179	58,953	6,394	72,914	8,677	98,967	98,841	126
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Note 1: Available-for-sale financial assets and financial assets at fair value through profit and loss are showed as their original carrying amounts without the adjustments of fair values.

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 SIX MONTHS ENDED JUNE 30, 2006****(Amounts in Thousands of New Taiwan Dollars)**

Item	Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship	Prior Transactions with Related Counter-party			Price Reference	Purpose of Acquisition
							Owner	Relationship	Transfer Date		
	Building	2006.2.17	\$ 754,444	Paid	Steve Lin Architect and Associates	None				Bidding	New office
	Building	2006.3.13	178,880	Paid	Bank of Taiwan	None				Bidding	New office

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TABLE 4

CHUNGHWA TELECOM CO., LTD.

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

FOR THE SIX MONTHS ENDED JUNE 30, 2006

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

Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2006			Net Income (Loss) of the Investee		Recognized Gain (Loss)
				June 30, 2006	December 31, 2005	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value	Investee	Gain (Loss)	
telecom	Chunghwa Investment Co., Ltd.	24F, No. 456, Hsinyi Rd., Sec. 4, Taipei	Investment	\$ 980,000	\$ 980,000	98,000	49	\$ 963,922	\$ 29,815	\$ 14,609	(Note 1)
	Taiwan International Standard Electronics	No. 4, Min Sheng St., Tu-Chen Taipei Hsien	Manufacturing, selling, designing and maintaining of telecommunications systems and equipment	164,000	164,000	1,760	40	518,626	(138,922)	(13,927)	(Note 2)
	New Prospect Investments Holdings Ltd.	British Virgin Islands	Investment	(US\$1) (Note 4)			100	(US\$1) (Note 1)			
	Prime Asia Investments Group Ltd.	British Virgin Islands	Investment	(US\$1) (Note 4)			100	(US\$1) (Note 1)			
Co.,	Chunghwa System Integration Co., Ltd.	24F, No. 458, Hsinyi Rd., Sec. 4, Taipei	Integrated communication and information services	600,000	600,000	60,000	100	634,605	28,153	28,153	(Note 1)
	Chunghwa Telecom Global	United States	Multinational enterprise data service, Internet gateway and voice wholesale, mobile commerce value-added services, and content services	204,271 (US\$6,000) thousand	204,271 (US\$6,000) thousand	6,000	100	86,805 (US\$2,667) thousand	(13,468) (US\$418) thousand	(13,468) (Note 3)	
	Chunghwa Precision Test Technical Co., Ltd.	2F., No. 15, Gongye 3rd., Pingjhen City, Taoyuan County	Electronics parts manufacturing industry Computer and peripheral device manufacturing industry Data storage manufacturing industry	60,000	60,000	6,000	60	79,636	16,003	9,602	(Note 3)
	Chunghwa Investment Holding Company	Brunei	Investment	20,000 (US\$589) thousand	20,000 (US\$589) thousand	589	100	7,029 (US\$217) thousand			(Note 3)

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PandaMomum Company	British Virgin Islands	Develop PandaMomum project and provide multimedia services	20,000 (¥65,094) thousand	20,000 (¥65,094) thousand	602	43	19,951	(Note 3)
Donghua Telecom Co., Ltd.	Hong Kong	Engage in telecom related investments, provide international private leased circuits (IPLC), internet protocol virtual private network (IPVPN), and internet transit	20,000 (US\$589) thousand	20,000 (US\$589) thousand	4,590	100	7,091 (HK\$1,691) thousand	(Note 3)

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

Note 2: The equity in net loss of an unconsolidated company amounted to \$55,569 thousand was calculated from audited financial statements plus a gain on realized upstream transactions of \$55,721 thousand less a gain on unrealized upstream transactions of \$14,079 thousand.

Note 3: The equity in net income (net loss) of unconsolidated companies was based on unaudited financial statements.

Note 4: New Prospect Investments Holdings Ltd. and Prime Asia Investments Group Ltd. were incorporated in March 2006 but not on operating stage yet.

Chunghwa Telecom Co., Ltd.

**Financial Statements as of December 31, 2005 and
June 30, 2006 (Unaudited) and for Three Months and
Six Months Ended June 30, 2005 and 2006 (Unaudited)**

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

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

	December 31,		June 30	
	2005 NT\$	2006 NT\$ (Unaudited)	2006 US\$ (Unaudited) (Note 3)	
ASSETS				
CURRENT ASSETS				
Cash and cash equivalents	\$ 41,891	\$ 63,206	\$ 1,955	
Short-term investments	14,171	15,956	494	
Trade notes and accounts receivable, net	12,839	11,554	357	
Inventories, net	2,120	1,328	41	
Prepaid expenses	1,149	2,905	90	
Deferred income taxes	3,353	2,647	82	
Other current assets	5,805	5,282	163	
Total current assets	81,328	102,878	3,182	
LONG-TERM INVESTMENTS	3,391	3,349	104	
INVESTMENT IN PRIVATE MUTUAL FUND	481			
PROPERTY, PLANT AND EQUIPMENT, NET	293,525	282,640	8,742	
INTANGIBLE ASSETS				
3G concession, net	9,732	9,358	290	
Patents and computer software, net	184	173	5	
Total intangible assets	9,916	9,531	295	
OTHER ASSETS				
Deferred income taxes, non-current	2,626	2,779	86	
Other	3,901	4,267	132	
Total other assets	6,527	7,046	218	
TOTAL	\$ 395,168	\$ 405,444	\$ 12,541	

LIABILITIES AND STOCKHOLDERS EQUITY

CURRENT LIABILITIES				
Trade notes and accounts payable	\$ 10,332	\$ 7,721	\$ 239	
Income tax payable	997	6,791	210	
Accrued expenses	16,010	15,098	467	
Current portion of deferred income	1,486	1,505	47	
Current portion of long-term loan	200	300	9	
Dividend payable		40,660	1,258	
Customers deposits	8,250	7,820	242	
Other current liabilities	19,411	17,606	544	

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Total current liabilities	56,686	97,501	3,016
LONG-TERM LIABILITIES			
Deferred income, net of current portion	10,147	9,762	302
Long-term loan, net of current portion	300		
Accrued pension liabilities		368	11
Other	207	130	4
Total long-term liabilities	10,654	10,260	317
Total liabilities	67,340	107,761	3,333
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13 and 14)			
STOCKHOLDERS EQUITY			
Capital stock - NT\$10 (US\$0.3) par value; preferred stock - NT\$10 (US\$0.3) par value; Authorized - 9,647,724,900 common shares at December 31, 2005; 12,000,000,000 common shares and 2 preferred shares at June 30, 2006; Issued and outstanding - 9,647,724,900 common shares at December 31, 2005, 9,455,724,900 common shares and 2 preferred shares at June 30, 2006			
	96,477	94,557	2,925
Stock dividend to be issued		2,121	66
Capital surplus	157,490	164,354	5,083
Retained earnings	73,864	36,429	1,127
Other comprehensive income	(3)	222	7
Total stockholders equity	327,828	297,683	9,208
TOTAL	\$ 395,168	\$ 405,444	\$ 12,541

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

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

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

	Three Months Ended June 30			Six Months Ended June 30		
	2005 NT\$ (Unaudited)	2006 NT\$ (Unaudited)	2006 US\$ (Unaudited) (Note 3)	2005 NT\$ (Unaudited)	2006 NT\$ (Unaudited)	2006 US\$ (Unaudited) (Note 3)
SERVICE REVENUES	\$ 46,151	\$ 46,384	\$ 1,435	\$ 90,698	\$ 91,404	\$ 2,827
OPERATING COSTS AND EXPENSES						
Costs of services, excluding depreciation and						
amortization	15,290	16,209	501	29,611	32,124	994
Marketing, excluding depreciation and						
amortization	4,906	4,930	153	9,268	9,972	308
General and administrative, excluding						
depreciation and amortization	676	743	23	1,364	1,781	55
Research and development, excluding						
depreciation and amortization	660	733	23	1,259	1,382	43
Depreciation and amortization - costs of services	9,620	9,578	296	19,190	19,235	595
Depreciation and amortization - operating expenses	602	583	18	1,208	1,155	36
Total operating costs and expenses	31,754	32,776	1,014	61,900	65,649	2,031
INCOME FROM OPERATIONS	14,397	13,608	421	28,798	25,755	796
OTHER INCOME						
Interest	134	181	6	216	314	10
Other income	899	764	23	1,640	1,429	44
Total other income	1,033	945	29	1,856	1,743	54
OTHER EXPENSES						
Interest		1		1	1	
Other expense	55	155	5	115	177	5

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Total other expenses	55	156	5	116	178	5
INCOME BEFORE						
INCOME TAX	15,375	14,397	445	30,538	27,320	845
INCOME TAX	2,585	3,941	122	5,680	7,545	233
NET INCOME	\$ 12,790	\$ 10,456	\$ 323	\$ 24,858	\$ 19,775	\$ 612
NET INCOME PER						
SHARE	\$ 1.30	\$ 1.08	\$ 0.03	\$ 2.52	\$ 2.03	\$ 0.06
WEIGHTED-AVERAGE						
NUMBER OF COMMON						
SHARES OUTSTANDING	9,859,845,093	9,669,220,815	9,669,220,815	9,859,845,093	9,740,368,137	9,740,368,137
NET INCOME PER PRO						
FORMA EQUIVALENT						
ADS	\$ 12.97	\$ 10.81	\$ 0.33	\$ 25.21	\$ 20.30	\$ 0.63
WEIGHTED-AVERAGE						
NUMBER OF PRO						
FORMA EQUIVALENT						
ADSs OUTSTANDING	985,984,509	966,922,082	966,922,082	985,984,509	974,036,814	974,036,814
COMPREHENSIVE						
INCOME						
Net income	\$ 12,790	\$ 10,456	\$ 323	\$ 24,858	\$ 19,775	\$ 612
Cumulative translation adjustments		(1)			(1)	
Unrealized gain on available-for-sale securities		226	7		226	7
Comprehensive income	\$ 12,790	\$ 10,681	\$ 330	\$ 24,858	\$ 20,000	\$ 619

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

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(Amounts in Millions, Except Shares Data)

	Capital Stock			Retained Earnings			Other	Total		
	Common Shares	Amount NT\$	Stock Dividend NT\$	Capital Surplus NT\$	Legal Reserve NT\$	Special Reserve NT\$	Unappropriated Earnings NT\$	Comprehensive Total Income NT\$	Treasury Stock NT\$	Stockholders Equity NT\$
BALANCE, DECEMBER 31, 2005 (IN NT\$)	9,647,724,900	\$ 96,477	\$	\$ 157,490	\$ 39,273	\$ 2,680	\$ 31,911	\$ 73,864	\$ (3)	\$ 327,828
Additional capital contributed by government (unaudited)				23						23
Additional capital contributed by the MOTC through selling shares to employees at a discounted price (unaudited)				503						503
Employee stock bonus (unaudited)			230	1,151						1,381
Appropriations and distributions of 2005 earnings (unaudited):										
Legal reserve					4,765		(4,765)			
Special reserve										
Cash dividends - NT\$4.3 Per Share dividends declared							(40,660)	(40,660)		(40,660)
Stock dividends - NT\$0.2 Per Share			1,891	9,456			(11,347)	(11,347)		
Net income for the six months ended June 30, 2006 (unaudited)							19,775	19,775		19,775
Cumulative translation adjustment for foreign-currency investments in unconsolidated companies (unaudited)									(1)	(1)
Purchase treasury stock - 192,000									(11,392)	(11,392)

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thousand shares
(unaudited)

Cancellation treasury stock - 192,000 thousand shares (unaudited)	(192,000,000)	(1,920)	(4,269)	(5,203)	(5,203)	11,392	
Unrealized gain on available-for-sale securities (unaudited)						226	226