

CHUNGHWA TELECOM CO LTD

Form 6-K

March 30, 2009

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 March 30, 2009

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)

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(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: 2009/03/30

Chunghwa Telecom Co., Ltd.

By: /s/ Joseph C.P. Shieh

Name: Joseph C.P. Shieh

Title: Senior Vice President CFO

Exhibit

| Exhibit | Description |
|----------------|---|
| 1 | Press Release to Report Operating Results for 2008 Full Year |
| 2 | Financial Statements for the Years Ended December 31, 2008 and 2007 and Independent Auditors Report (Stand Alone) |
| 3 | Consolidated Financial Statements for the Years Ended December 31, 2008 and 2007 and Independent Auditors Report |

Chunghwa Telecom Reports Operating Results for Full Year 2008

Taipei, Taiwan, R.O.C. March 30, 2009 Chunghwa Telecom Co., Ltd (TAIEX: 2412, NYSE: CHT) (Chunghwa or the Company), today reported its operating results for full year 2008. All figures are presented on consolidated basis and prepared in accordance with ROC GAAP.

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

Financial Highlights for Full Year 2008:

Total revenue increased by 2.2% to NT\$201.7 billion

Internet and data revenue grew by 1.7%

Mobile revenue decreased 1.9%; Mobile VAS revenue increased by 25.0%

Net income totaled NT\$45.0 billion, a decrease of 6.7%

Earnings per share (EPS) decreased by 6.1% to NT\$4.64, or NT\$46.4 per ADS

Financial Highlights for 4Q08:

Total revenue decreased by 0.3% to NT\$49.8 billion

Internet and data revenue grew by 2.6%

Mobile revenue decreased 1.4%; Mobile VAS revenue increased by 19.8%

Net income totaled NT\$8.5 billion, a decrease of 18.9%

Earnings per share (EPS) decreased by 23.7% to NT\$0.82, or NT\$8.2 per ADS

Management Commentary

Commenting on the fourth quarter and fiscal year 2008 results, Dr. Shyue-Ching Lu, Chunghwa's Chairman and Chief Executive Officer, said "I am pleased that we were able to deliver our top-line performance and to continue to return cash to the shareholders in 2008 given the adverse economic condition. In 2009, our management's primary focus will be on maintaining market leadership for our core services, while expanding our strategic digital-converged services such as, broadband and mobile VAS and MOD/IPTV, as well as key enterprise solutions. Furthermore, we plan to continue the deployment of our next-generation networks as a foundation for our long-term growth in providing high quality total communication solutions. Finally, we will continue to focus on company-wide operational efficiency improvement to enhance our profitability. We are confident that our current strategic initiatives and the healthy financial footing position us for long-term success. As such, our Board of Directors has just approved a cash dividend, which demonstrates our confidence and our commitment to maximizing returns for our

shareholders.

Revenue

Chunghwa's total revenue for 2008 increased by 2.2% year-over-year to NT\$201.7 billion, of which 28.3% was from fixed-line services, 35.9% was from mobile services, 24.8% was from Internet and data services, and the remainder consisted of handset revenue, data card sales and the consolidated revenue of Senao International (Senao).

While Internet and data businesses contributed positively to the overall revenue, revenue growth was mainly driven by the full 12 months consolidation of Chunghwa's subsidiary Senao, compared to only 8.5 months of consolidated Senao's operational results for 2007.

Internet and data revenue in 2008 was 1.7% higher than in 2007, primarily driven by the increased broadband subscriber base and the successful initiatives in upgrading the customers to higher speed fiber services. However, this growth was partly offset by an ADSL tariff adjustment that took effect on April 1, 2008. For mobile business, Chunghwa made progress by increasing the subscriber numbers by 2.9% and by enhancing the VAS service revenues by 25.0% compared to 2007. However, these successes were offset by the traffic decline and the price cuts imposed by the National Communication Commission (or NCC), which resulted in an overall revenue decline of 1.9% year-over-year. Fixed-line revenue decreased by 3.4% year-over-year to NT\$57.1 billion for 2008. Local and Domestic long distance revenues decreased by 3.3% and 6.8%, respectively, year-over-year for 2008, mainly due to mobile and VOIP substitution. International long distance revenues decreased by 1.4% compared to 2007. This was primarily because of the increased competition from prepaid calling card and the decrease in international direct dial traffic. Other revenue increased over 44%, mostly from the consolidation of Senao.

For the fourth quarter of 2008, total revenue was NT\$49.8 billion, a 0.3% decrease over the same period last year. Internet and data revenue was 2.6% higher than the same period last year. Mobile revenue decreased by 1.4%, mainly due to the decrease in traffic. Fixed line revenue as a whole decreased by 2.4% as compared to the same period last year.

Costs and expenses

For 2008, total operating costs and expenses increased year-over-year by 4.4% to NT\$143.0 billion, primarily due to the consolidation of Senao's operating costs and expenses for the full year, compared to only 8.5 months of consolidated Senao's operating costs and

expenses for 2007. For the parent company, total operating costs and expenses increased by NT\$2.9 billion, representing a year-over-year increase of 2.3%. This was primarily because of the increase in handset sale costs, handset subsidies and the employee bonus expenses. However, depreciation and amortization expense for the parent company was 4.3% lower than 2007.

For the fourth quarter of 2008, total operating costs and expenses increased by 1.9% to NT\$38.1 billion, mainly due to the increase in personnel cost resulted from the expensing of the employee bonus.

Income tax

The Company's income tax for 2008 was NT\$13.9 billion, a 6.4% increase compared to NT\$13.1 billion for 2007. This was mainly due to the decrease in tax credit.

EBITDA and net income

EBITDA for 2008 decreased by 3.4% year-over-year to NT\$96.8 billion, resulting in an EBITDA margin of 48.0%, down from 50.8% for 2007. The EBITDA margin decline was primarily attributed to the increase of handset subsidy, cost of handset sales for the parent company and the full year consolidation of Senao, which operates at a lower margin than the parent company.

Net income for 2008 was NT\$45.0 billion, a decrease of 6.7% year-over-year. The reasons for such decline were due to the increase in operating costs and expense, as well as the NT\$1.2 billion financial asset impairment in the fourth quarter 2008 and the NT\$1.7 billion employee bonus which started to be expensed in 2008.

Capex

Capital expenditures totaled NT\$30.1 billion for 2008 compared to NT\$25.1 billion for 2007. The 20.1% increase of capex in 2008 was mainly for the deployment of the next generation network. Going forward, Chunghwa expects the capex spending to remain between NT\$30 billion to NT\$32 billion over the next 2 to 3 years.

These future capex investments will focus on core businesses and on migrating mobile and broadband customers to higher performance platforms.

Cash Flows

Cash flow from operating activities increased by 3.3% to NT\$91.9 billion. The increase was primarily because of a decrease in other financial assets and an increase in accounts payable. Free cash flow for 2008 decreased by 3.4% compared with 2007 as capex increased by 20.1%. Still, the cash and cash equivalents remained solid at NT\$81.3 billion as of the end of 2008.

For the fourth quarter of 2008, cash flow from operating activities increased by 12.1%. This increase was primarily due to the decrease in other financial assets and the increase in other current liabilities.

Business Performance Highlights:

Internet and Data Services

By the end of 2008, Chunghwa Telecom had 410 million HiNet subscribers, a 0.5% increase year-over-year. Overall, the Company had 4.3 million broadband subscribers (including ADSL and FTTB) at the end of 2008, a 1.4% increase as compared to the end of 2007. By the end of 2008, FTTx subscriptions with an average service speed of 10 Mbps reached 1.07 million, representing 24.8% of total broadband subscribers.

As of the end of 2008, Chunghwa had 676 thousand MOD subscribers, a solid 71.4% year-over-year increase.

Mobile Services

As of December 31, 2008, Chunghwa had 8.95 million mobile subscribers, slightly up by 0.87% quarter-over-quarter compared to 8.87 million as of September 31, 2008.

Chunghwa remained the leading mobile operator in Taiwan. According to statistics published by the NCC, at the end of 2008, the Company's total subscriber market share (including 2G, 3G and PHS) was 35.2%, while the revenue market share was 33.5%, respectively.

Chunghwa had 322 thousand net additions to its 3G subscriber base during the fourth quarter 2008, representing an increase of 9.9% quarter-over-quarter resulting in a total number of 3G subscribers of 3.56 million as of December 31, 2008.

Mobile VAS revenue for 2008 was NT\$7.0 billion, representing a 25.0% increase year-over-year, including the increase of SMS revenue by 20.5% and the increase of mobile Internet revenue by 38.5%.

Fixed-line Services

As of the end of 2008, the Company maintained its leading fixed-line market position, with fixed-line subscribers totaling 12.7 million.

Recent Updates

The company has recently completed the second capital reduction program on March 20. The total cash returned to the shareholders was NT\$19.1 billion.

Financial Statements

Financial statements and additional operational data can be found on the Chunghwa Telecom website at www.cht.com.tw/ir/filedownload.

About Chunghwa Telecom

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

Note Concerning Forward-looking Statements

This press release contains forward-looking statements. These statements constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as will, expects, anticipates, future, intends, plans, believes, estimates and similar statements. Chunghwa may also make written or oral forward-looking statements in its periodic reports to the U.S. Securities and Exchange Commission on forms 20-F and 6-K., in its annual report to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Statements that are not historical facts, including statements about Chunghwa's beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Investors are cautioned that actual events and results could differ materially from those statements as a result of a number of factors including, but not limited to: extensive regulation of telecom industry; the intensely competitive telecom industry; our relationship with our labor union; general economic and political conditions, including those related to the telecom industry; possible disruptions in commercial activities caused by natural and human induced events and disasters, including terrorist activity, armed conflict and highly contagious diseases, such as SARS; and those risks outlined in Chunghwa's filings with the U.S. Securities and Exchange Commission, including its registration statements on Form F-1, F-3, F-6 and 20-F, in each case as amended. Chunghwa does not undertake any obligation to update any forward-looking statement, except as required under applicable law.

This release is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the issuer or selling security holder and that will contain detailed information about the company and management, as well as financial statements.

SPECIAL NOTE REGARDING NON-GAAP FINANCIAL MEASURES

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

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

EBITDA is not a measure of financial performance under ROC GAAP. EBITDA should not be considered as an alternate measure of net income or operating income, as determined on a consolidated basis using amounts derived from statements of operations prepared in accordance with ROC GAAP, as an indicator of operating performance or as cash flows from operating activity or as a measure of liquidity. EBITDA has material limitations that impair its value as a measure of a company's overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses and income taxes, depreciation, pension plan reserves or capital expenditures and associated charges. These non-GAAP measures are not in accordance with or an alternative for GAAP financial data, the non-GAAP results should be reviewed together with the GAAP results and are not intended to serve as a substitute for results under GAAP, and may be different from non-GAAP measures used by other companies. For more information on these non-GAAP financial measures, please see the tables captioned set forth at the end of this release and which shall be read together with the accompanying financial statements prepared under ROC GAAP.

If you have any questions in connection with the change of accounting policy, please contact the following person:

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Chunghwa Telecom Co., Ltd.
Financial Statements for the
Years Ended December 31, 2008 and 2007 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 December 31, 2008 and 2007, and the related statements of income, changes in stockholders' equity and cash flows for the years 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 required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 first paragraph present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the financial statements starting from January 1, 2008, the Company changed its method of accounting for bonuses paid to employees, directors and supervisors upon adoption of Interpretation 96-052 issued by the Accounting and Research Development Foundation in the Republic of China.

We have also audited the consolidated financial statements of the Company and its subsidiaries as of and for the year ended December 31, 2008, and have expressed a modified unqualified opinion on those consolidated financial statements.

March 3, 2009

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****DECEMBER 31, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)**

| | 2008 | | 2007 | |
|--|--------------------|------------|--------------------|------------|
| | Amount | % | Amount | % |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 77,137,903 | 17 | \$ 74,752,564 | 16 |
| Financial assets at fair value through profit or loss (Notes 2 and 5) | 258,076 | | 119,139 | |
| Available-for-sale financial assets (Notes 2 and 6) | 14,161,391 | 3 | 17,818,499 | 4 |
| Held-to-maturity financial assets (Notes 2 and 7) | 769,435 | | 651,192 | |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,992,143 thousand in 2008 and \$3,290,123 thousand in 2007 (Notes 2 and 8) | 10,190,150 | 2 | 10,470,802 | 2 |
| Receivables from related parties (Note 24) | 343,016 | | 211,626 | |
| Other current monetary assets (Notes 2, 9 and 26) | 2,187,324 | 1 | 7,089,871 | 2 |
| Inventories, net (Notes 2 and 10) | 3,503,762 | 1 | 2,794,131 | 1 |
| Deferred income tax assets (Notes 2 and 21) | 64,211 | | 186,730 | |
| Other current assets (Note 11) | 1,671,505 | | 1,215,116 | |
| Total current assets | 110,286,773 | 24 | 115,309,670 | 25 |
| LONG-TERM INVESTMENTS | | | | |
| Investments accounted for using equity method (Notes 2, 12 and 24) | 8,691,154 | 2 | 4,395,453 | 1 |
| Financial assets carried at cost (Notes 2 and 13) | 2,521,907 | | 2,107,318 | |
| Held-to-maturity financial assets (Notes 2 and 7) | 3,044,102 | 1 | 498,257 | |
| Other monetary assets (Notes 14 and 25) | 1,000,000 | | 1,000,000 | |
| Total long-term investments | 15,257,163 | 3 | 8,001,028 | 1 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 24) | | | | |
| Cost | | | | |
| Land | 101,259,221 | 22 | 101,340,085 | 22 |
| Land improvements | 1,494,398 | | 1,475,371 | |
| Buildings | 62,612,157 | 14 | 62,140,290 | 13 |
| Computer equipment | 15,751,162 | 3 | 15,365,975 | 3 |
| Telecommunications equipment | 648,805,525 | 141 | 638,467,018 | 137 |
| Transportation equipment | 2,404,125 | 1 | 2,854,880 | 1 |
| Miscellaneous equipment | 7,247,977 | 2 | 7,639,500 | 2 |
| Total cost | 839,574,565 | 183 | 829,283,119 | 178 |
| Revaluation increment on land | 5,810,650 | 1 | 5,822,981 | 1 |
| | 845,385,215 | 184 | 835,106,100 | 179 |
| Less: Accumulated depreciation | 540,010,369 | 117 | 522,054,190 | 112 |
| | 305,374,846 | 67 | 313,051,910 | 67 |
| Construction in progress and advance payments | 15,989,495 | 3 | 16,450,761 | 4 |

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| | | | | |
|---|-----------------------|------------|-----------------------|------------|
| Property, plant and equipment, net | 321,364,341 | 70 | 329,502,671 | 71 |
| INTANGIBLE ASSETS (Note 2) | | | | |
| 3G concession | 7,486,088 | 2 | 8,234,697 | 2 |
| Others | 407,028 | | 337,214 | |
| Total intangible assets | 7,893,116 | 2 | 8,571,911 | 2 |
| OTHER ASSETS | | | | |
| Idle assets (Note 2) | 927,076 | | 927,949 | |
| Refundable deposits | 1,282,539 | | 1,306,847 | 1 |
| Deferred income tax assets (Notes 2 and 21) | 1,487,685 | 1 | 1,186,195 | |
| Others (Note 24) | 769,978 | | 427,846 | |
| Total other assets | 4,467,278 | 1 | 3,848,837 | 1 |
| TOTAL | \$ 459,268,671 | 100 | \$ 465,234,117 | 100 |

| | 2008 | | 2007 | |
|---|-------------------|-----------|-------------------|-----------|
| | Amount | % | Amount | % |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Financial liabilities at fair value through profit or loss (Notes 2 and 5) | \$ 106,896 | | \$ 653,214 | |
| Trade notes and accounts payable | 9,349,489 | 2 | 9,879,234 | 2 |
| Payables to related parties (Note 24) | 2,236,919 | 1 | 1,706,089 | 1 |
| Income tax payable (Notes 2 and 21) | 5,433,630 | 1 | 6,960,504 | 2 |
| Accrued expenses (Note 16) | 15,680,602 | 4 | 14,957,081 | 3 |
| Due to stockholders for capital reduction (Note 18) | 19,115,554 | 4 | 9,557,777 | 2 |
| Other current liabilities (Notes 2, 17 and 26) | 15,446,581 | 3 | 13,882,987 | 3 |
| Total current liabilities | 67,369,671 | 15 | 57,596,886 | 13 |
| DEFERRED INCOME | 2,072,297 | | 1,505,150 | |
| RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15) | 94,986 | | 94,986 | |
| OTHER LIABILITIES | | | | |
| Accrued pension liabilities (Notes 2 and 23) | 5,164,388 | 1 | 3,911,964 | 1 |
| Customers deposits | 6,098,605 | 2 | 6,324,712 | 1 |
| Deferred credits - gain on inter-company transactions (Note 24) | 1,485,916 | | | |
| Others | 426,387 | | 732,711 | |
| Total other liabilities | 13,175,296 | 3 | 10,969,387 | 2 |
| Total liabilities | 82,712,250 | 18 | 70,166,409 | 15 |
| STOCKHOLDERS EQUITY (Notes 2, 15, 18 and 19) | | | | |
| Common stock - \$10 par value; | | | | |
| Authorized: 12,000,000 thousand shares | | | | |
| Issued: 9,696,808 thousand shares in 2008 and 9,667,845 thousand shares in 2007 | 96,968,082 | 21 | 96,678,451 | 21 |

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Preferred stock - \$10 par value

| | | | | |
|--|-----------------------|------------|-----------------------|------------|
| Additional paid-in capital: | | | | |
| Capital surplus | 179,193,097 | 39 | 200,592,390 | 43 |
| Donated capital | 13,170 | | 13,170 | |
| Equity in additional paid-in capital reported by equity-method investees | 3 | | 3 | |
| Total additional paid-in capital | 179,206,270 | 39 | 200,605,563 | 43 |
| Retained earnings: | | | | |
| Legal reserve | 52,859,566 | 11 | 48,036,210 | 10 |
| Special reserve | 2,675,894 | 1 | 2,678,723 | 1 |
| Unappropriated earnings | 41,276,274 | 9 | 48,317,617 | 10 |
| Total retained earnings | 96,811,734 | 21 | 99,032,550 | 21 |
| Other adjustments | | | | |
| Cumulative translation adjustments | 29,474 | | (1,980) | |
| Unrecognized net loss of pension | (84) | | (90) | |
| Unrealized gain (loss) on financial instruments | (2,272,242) | | 37,508 | |
| Unrealized revaluation increment | 5,813,187 | 1 | 5,823,200 | 1 |
| Treasury stocks - 110,068 thousand shares | | | (7,107,494) | (1) |
| Total other adjustments | 3,570,335 | 1 | (1,248,856) | |
| Total stockholders' equity | 376,556,421 | 82 | 395,067,708 | 85 |
| TOTAL | \$ 459,268,671 | 100 | \$ 465,234,117 | 100 |

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

(With Deloitte & Touche audit report dated March 3, 2009)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF INCOME****FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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

| | 2008 | | 2007 | |
|--|-------------------|-----------|-------------------|-----------|
| | Amount | % | Amount | % |
| NET REVENUES (Note 24) | \$ 186,780,650 | 100 | \$ 186,328,955 | 100 |
| OPERATING COSTS (Note 24) | 95,789,726 | 52 | 94,326,091 | 51 |
| GROSS PROFIT | 90,990,924 | 48 | 92,002,864 | 49 |
| OPERATING EXPENSES (Note 24) | | | | |
| Marketing | 27,306,113 | 14 | 25,878,875 | 14 |
| General and administrative | 3,345,977 | 2 | 3,247,337 | 2 |
| Research and development | 3,151,789 | 2 | 3,213,778 | 1 |
| Total operating expenses | 33,803,879 | 18 | 32,339,990 | 17 |
| INCOME FROM OPERATIONS | 57,187,045 | 30 | 59,662,874 | 32 |
| NON-OPERATING INCOME AND GAINS | | | | |
| Interest income | 1,866,875 | 1 | 1,445,003 | 1 |
| Valuation gain on financial instruments, net | 550,649 | 1 | | |
| Equity in earnings of equity method investees, net | 362,314 | | 218,429 | |
| Foreign exchange gain, net | 329,408 | | | |
| Others | 397,635 | | 767,275 | |
| Total non-operating income and gains | 3,506,881 | 2 | 2,430,707 | 1 |
| NON-OPERATING EXPENSES AND LOSSES | | | | |
| Impairment loss on assets | 1,164,105 | 1 | 22,000 | |
| Loss on disposal of financial instruments, net | 660,331 | | | |
| Loss on disposal of property, plant and equipment, net | 276,710 | | 84,386 | |
| Valuation loss on inventory | 22,208 | | 19,165 | |
| Interest expense | 404 | | 846 | |
| Valuation loss on financial instruments, net | | | 584,851 | |
| Foreign exchange loss, net | | | 58,011 | |
| Loss arising from natural calamities | | | 42,202 | |
| Others | 97,303 | | 185,650 | |
| Total non-operating expenses and losses | 2,221,061 | 1 | 997,111 | |
| INCOME BEFORE INCOME TAX | 58,472,865 | 31 | 61,096,470 | 33 |
| INCOME TAX EXPENSE (Notes 2 and 21) | 13,462,523 | 7 | 12,847,151 | 7 |

| | | | | |
|------------|---------------|----|---------------|----|
| NET INCOME | \$ 45,010,342 | 24 | \$ 48,249,319 | 26 |
|------------|---------------|----|---------------|----|

(Continued)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

| | 2008 | | 2007 | |
|--|-----------------------------------|---------------|-----------------------------------|---------------|
| | Income Before Income Tax | Net Income | Income Before Income Tax | Net Income |
| EARNINGS PER SHARE (Notes 2 and 22) | | | | |
| Basic earnings per share | \$ 6.03 | \$ 4.64 | \$ 6.25 | \$ 4.94 |
| Diluted earnings per share | \$ 6.02 | \$ 4.63 | \$ 6.25 | \$ 4.93 |

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

(With Deloitte & Touche audit report dated March 3, 2009)

(Concluded)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

| | Common Stock | | Preferred Stock | | Retained Earnings | | | | Other Adjustments Unrealized | | | Treasury Stock |
|-----------------------|-----------------------|---------------|-----------------------|----------------|----------------------------------|------------------|--------------------|---------------------------------|---|---|--|-------------------|
| | Shares (Thousands) | Amount | Shares (Thousands) | Amount | Additional Paid-in Capital | Legal Reserve | Special Reserve | Un- appropriated Earnings | Cumulative Loss Translation Adjustment | Unrecognized Net Gain (Loss) of Financial Instruments | Unrealized Revaluation Increment | |
| Balance at January 1, | 9,667,845 | \$ 96,678,451 | \$ | \$ 210,273,336 | \$ 44,037,765 | \$ 2,680,184 | \$ 39,984,454 | \$ (3,304) | \$ | \$ 541,072 | \$ 5,824,600 | \$ |
| of | | | | | | | | | | | | |
| aid-in | | | | | | | | | | | | |
| of | | | | | | | | | | | | |
| me | | | | | | | | | | | | |
| al | | | | | | | | | | | (1,400) | |
| ons of | | | | | | | | | | | | |
| gs | | | | | | 3,998,445 | | (3,998,445) | | | | |
| e | | | | | | | | | | | | |
| ive | | | | | | | (1,461) | 1,461 | | | | |
| nd - | | | | | | | | | | | | |
| t | | | | | | | | | | | | |
| onus | | | | | | | | (34,610,885) | | | | |
| on to | | | | | | | | | | | | |
| ectors | | | | | | | | | | | | |
| ors | | | | | | | | | | | | |
| lus | | | | | | | | | | | | |
| o | 966,785 | 9,667,845 | | (9,667,845) | | | | | | | | |
| ck | | | | | | | | | | | | |
| ction | (966,785) | (9,667,845) | | | | | | | | | | 110,068 |
| in | | | | | | | | 48,249,319 | | | | |
| gain | | | | | | | | | | | | |
| held | | | | | | | | | | | 2,258 | |
| in | | | | | 72 | | | (15,764) | | | | |
| or | | | | | | | | | | | | |
| ency | | | | | | | | | | | | |
| held | | | | | | | | | | | | 1,324 |

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| | | | | | | | | | | | |
|----------------------------|-----------|-------------|-------------|-----|-------------|--|--|--|-------------|-----------|--|
| ive ing l of | | | | 475 | (475) | | | | | | |
| of k - usand ures | (110,068) | (1,100,682) | (2,283,739) | | (3,723,073) | | | | | 7,107,494 | |
| oss | | | | | | | | | (2,291,137) | | |

R 31, 9,696,808 \$ 96,968,082 \$ \$ 179,206,270 \$ 52,859,566 \$ 2,675,894 \$ 41,276,274 \$ 29,474 \$ (84) \$ (2,272,242) \$ 5,813,187 \$ \$ 3

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

(With Deloitte & Touche audit report dated March 3, 2009)

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

(Amounts in Thousands of New Taiwan Dollars)

| | 2008 | 2007 |
|---|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 45,010,342 | \$ 48,249,319 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Impairment loss on assets | 1,164,105 | 22,000 |
| Provision for doubtful accounts | 503,753 | 595,563 |
| Depreciation and amortization | 37,968,938 | 39,657,560 |
| Amortization of premium (discount) of financial assets | 3,258 | (183) |
| Loss (gain) on disposal of financial instruments, net | 660,331 | (92,495) |
| Valuation loss (gain) on financial instruments, net | (550,649) | 584,851 |
| Valuation loss on inventory | 22,208 | 19,165 |
| Loss on disposal of property, plant and equipment, net | 276,710 | 84,386 |
| Equity in earnings of equity investees | (362,314) | (218,429) |
| Dividends received from equity investees | 435,285 | 107,106 |
| Deferred income taxes | (178,971) | (802,342) |
| Other | | (2,410) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Financial assets held for trading | (207,463) | (308,132) |
| Trade notes and accounts receivable | (218,461) | 1,476,200 |
| Receivables from related parties | (131,390) | (163,858) |
| Other current monetary assets | 4,860,343 | (122,731) |
| Inventories | (807,397) | (303,017) |
| Other current assets | (456,389) | (199,936) |
| Increase (decrease) in: | | |
| Trade notes and accounts payable | (454,187) | 460,501 |
| Payables to related parties | 553,070 | 631,713 |
| Income tax payable | (1,526,874) | (1,567,036) |
| Accrued expenses | 723,521 | (3,839,740) |
| Other current liabilities | 650,762 | (205,140) |
| Deferred income | 567,147 | 549,731 |
| Accrued pension liabilities | 1,252,424 | 2,658,263 |
| Net cash provided by operating activities | 89,758,102 | 87,270,909 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of available-for-sale financial assets | (7,271,995) | (22,694,362) |
| Proceeds from disposal of available-for-sale financial assets | 6,639,849 | 11,735,207 |
| Acquisition of held-to-maturity financial assets | (3,326,951) | (1,198,301) |
| Proceeds from disposal of held-to-maturity financial assets | 659,605 | 49,035 |
| Acquisition of financial assets carried at cost | (485,859) | (188,038) |
| Proceeds from disposal of financial assets carried at cost | 354,933 | |
| Acquisition of investment accounted for using equity method | (4,461,562) | (2,268,939) |
| Proceeds from disposal of long-term investment | 44,047 | |
| Acquisition of property, plant and equipment | (29,660,351) | (24,909,861) |

(Continued)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars)**

| | 2008 | 2007 |
|---|----------------------|----------------------|
| Proceeds from disposal of property, plant and equipment | \$ 2,642,439 | \$ 106,195 |
| Increase in intangible assets | (258,290) | (272,784) |
| Decrease (increase) in other assets | (331,620) | 39,447 |
| Net cash used in investing activities | (35,455,755) | (39,602,401) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Repayment of long-term loans | | (300,000) |
| Decrease in customers deposits | (160,733) | (306,819) |
| Increase (decrease) in other liabilities | (135,309) | 172,392 |
| Cash dividends paid | (40,716,130) | (34,610,885) |
| Remuneration to board of directors and supervisors and bonus to employees | (1,347,059) | (1,292,523) |
| Purchase of treasury stock | | (7,217,562) |
| Capital reduction | (9,557,777) | |
| Net cash used in financing activities | (51,917,008) | (43,555,397) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 2,385,339 | 4,113,111 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 74,752,564 | 70,639,453 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 77,137,903 | \$ 74,752,564 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | \$ 404 | \$ 846 |
| Income tax paid | \$ 15,168,368 | \$ 15,216,529 |
| NON-CASH FINANCING ACTIVITIES | | |
| Reclassification from common capital stock to due to stockholders for capital reduction | \$ 19,115,554 | \$ 9,557,777 |
| CASH AND NON-CASH INVESTING ACTIVITIES | | |
| Increase in property, plant and equipment | \$ 30,493,115 | \$ 25,302,075 |
| Payables to suppliers | (832,764) | (392,214) |
| | \$ 29,660,351 | \$ 24,909,861 |

(Continued)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

(Amounts in Thousands of New Taiwan Dollars)

The following table presents the allocation of acquisition costs of acquired subsidiaries during 2007 to assets acquired and liabilities assumed, based on their fair values:

| | Senao International Co., Ltd. | Chungghwa System Integration Co., Ltd. | Chungghwa Telecom Global, Inc. | Dongghwa Telecom Co., Ltd. |
|---|-------------------------------------|---|---|----------------------------------|
| Cash and cash equivalents | \$ 617,003 | \$ 96,959 | \$ 38,771 | \$ 16,751 |
| Financial assets at fair value through profit or loss | 86,796 | 325,742 | | |
| Trade notes and accounts receivable | 2,024,443 | 425,113 | 33,395 | 18,044 |
| Inventories | 1,625,790 | 136,310 | | |
| Other current assets | 334,055 | 127,917 | 2,147 | 5,896 |
| Long-term investment | 12,941 | | | |
| Property, plant, and equipment | 1,316,657 | 2,879 | 27,066 | |
| Identifiable intangible assets | 365,920 | 46,792 | | |
| Other assets | 134,869 | 37,602 | 17,450 | |
| Short-term loan and current portion of long-term loan | (100,000) | | | |
| Trade notes and accounts payable | (1,629,324) | (418,667) | (39,993) | (22,827) |
| Other current liabilities | (714,517) | (71,095) | (9,161) | (1,861) |
| Long-term debt | (580,000) | (1,140) | (7,263) | |
| Other liabilities | (92,579) | | | (2,163) |
| Total | 3,402,054 | 708,412 | 62,412 | 13,840 |
| Percentage of ownership | 31.3285% | 100% | 100% | 100% |
| | 1,065,813 | 708,412 | 62,412 | 13,840 |
| Goodwill (negative goodwill) | | 130,094 | 8,017 | (2,410) |
| Acquisition costs of acquired subsidiaries | \$ 1,065,813 | \$ 838,506 | \$ 70,429 | \$ 11,430 |

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

(With Deloitte & Touche audit report dated March 3, 2009)

(Concluded)

CHUNGHWA TELECOM CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

1. GENERAL

Chunghwa Telecom Co., Ltd. (Chunghwa) was incorporated on July 1, 1996 in the Republic of China (ROC) pursuant to the Article 30 of the Telecommunications Act. Chunghwa is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications (MOTC). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications (DGT). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As the dominate telecommunications service provider of fixed-line and Global System for Mobile Communications (GSM) in the ROC, Chunghwa is subject to additional regulations imposed by ROC.

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

As of December 31, 2008 and 2007, the Company had 24,551 and 24,138 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Classification of Current and Noncurrent Assets and Liabilities

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

Cash Equivalents

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

Financial Assets and Liabilities at Fair Value Through Profit or Loss

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

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

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

Available-for-sale Financial Assets

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

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

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

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

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

Held-to-maturity Financial Assets

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

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

Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables

Revenues are recognized when they are realized or realizable and earned. Revenues are realized or realizable and earned when the Company has persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectibility is reasonably assured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

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.

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

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

Where the Company enters into transactions which involve both the provision of air time bundled with products such as 3G data card and handset, total consideration received from handsets in these arrangements is allocated and measured using units of accounting within the arrangement based on relative fair values limited to the amount that is not contingent upon the delivery of other items or services.

Where the Company sells products to third party cellular phone stores the Company records the direct sale of the products, typically handsets, as gross revenue when the Company is the primary obligor in the arrangement and when title is passed and the products are accepted by the stores.

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

Inventories

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

Investments Accounted for Using Equity Method

Investments in companies where in the Company exercises significant influence over the 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.

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

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

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

Financial Assets Carried at Cost

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

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash dividends and stock dividends arising from available-for-sale financial assets.

Property, Plant and Equipment

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

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

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

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

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

Intangible Assets

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

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

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

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

Idle Assets

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

Pension Costs

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

Expense Recognition

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

Treasury Stock

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

Income Tax

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

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

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

Income taxes (10%) on undistributed earnings is recorded in the year of stockholders' approval which is the year subsequent to the year the earnings are generated.

Foreign-currency Transactions

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

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

Hedge Accounting

A hedging relationship qualifies for hedge accounting only if, all of the following conditions are met: (a) at the inception of the hedge, there is formal documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge; (b) the hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk, consistently with the risk management strategy documented for that particular hedging relationship; (c) the effectiveness of the hedge can be reliably measured; (d) the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in earnings.

Recent Accounting Pronouncements

The ARDF of the R.O.C. revised Statement of Financial Accounting Standards No. 10, Accounting for Inventories (SFAS No. 10) in November 2007, which requires inventories to be stated at the lower of cost or net realizable value item by item. Inventories are recorded by the specific identification method, first-in, first-out method or weighted average method. The last-in, first-out method is no longer permitted. The revised SFAS No. 10 should be applied to financial statements for the fiscal years beginning on or after January 1, 2009. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ROC SFAS No. 10 will have on its results of operation and financial positions.

Reclassifications

Certain accounts in the financial statements as of and for the year ended December 31, 2007 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2008.

3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE

In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning January 1, 2008. The adoption of this interpretation resulted in a decrease of \$1,317,524 thousand (including \$1,289,556 thousand recorded by Chunghwa and \$27,968 thousand recorded by its equity-method investees) in net income and a decrease in basic earnings per share (after income tax) of \$0.14 for the year ended December 31, 2008. For purposes of the statement of cash flows, such bonuses represent appropriations of the earning from prior years and have been classified as financing activities for 2008 and 2007. Beginning from 2009, such bonuses will be classified as an operating activity for purposes of the statement of cash flows when paid.

4. CASH AND CASH EQUIVALENTS

| | December 31 | |
|--|-------------|------------|
| | 2008 | 2007 |
| Cash | | |
| Cash on hand | \$ 91,441 | \$ 87,165 |
| Bank deposits | 10,207,252 | 14,561,538 |
| Negotiable certificate of deposit, annual yield rate - ranging from 0.31%-2.45% and 2.05%-4.73% for the years ended December 31, 2008 and 2007, respectively | 48,485,481 | 33,096,495 |
| | 58,784,174 | 47,745,198 |

(Continued)

| | December 31 | |
|---|---------------|---------------|
| | 2008 | 2007 |
| Cash equivalents | | |
| Commercial paper, annual yield rate - ranging from 0.70%-1.55% and 1.92%-1.97% for the years ended December 31, 2008 and 2007, respectively | \$ 18,353,729 | \$ 26,901,146 |
| U.S. Treasury bills, annual yield rate 3.18% | | 106,220 |
| | 18,353,729 | 27,007,366 |
| | \$ 77,137,903 | \$ 74,752,564 |

(Concluded)

As of December 31, 2008 and 2007, foreign deposits in bank were as following:

| | December 31 | |
|---|--------------|---------------|
| | 2008 | 2007 |
| United States of America - New York (US\$65,389 thousand and US\$284,756 thousand for the years ended December 31, 2008 and 2007, respectively) | \$ 2,148,690 | \$ 9,238,338 |
| Hong Kong (US\$30,572 thousand, EUR247 thousand, JPY27,844 thousand and GBP270 thousand for 2008 and US\$32,975 thousand, EUR406 thousand, JPY26,445 thousand and GBP217 thousand for 2007) | 1,039,021 | 1,110,885 |
| | \$ 3,187,711 | \$ 10,349,223 |

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

| | December 31 | |
|-------------------------------------|-------------|------------|
| | 2008 | 2007 |
| Derivatives - financial assets | | |
| Index future contracts | \$ 242,868 | \$ 91,945 |
| Forward exchange contracts | 15,208 | 27,194 |
| | \$ 258,076 | \$ 119,139 |
| Derivatives - financial liabilities | | |
| Forward exchange contracts | \$ 95,515 | \$ 67,140 |
| Index future contracts | 11,381 | 5,915 |
| Currency option contracts | | 580,159 |
| | \$ 106,896 | \$ 653,214 |

Chunghwa entered into investment management agreements with a well-known financial institution (fund managers) to manage its investment portfolios in 2006. As of December 31, 2008, Chunghwa's investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. The investment portfolios included listed stocks, mutual funds and derivative instruments.

Chunghwa entered into forward exchange contracts and index future contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates and stock prices. However, derivatives that do not meet the criteria for hedge accounting is classified as financial assets or financial liabilities held for trading.

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Outstanding forward exchange contracts on December 31, 2008 and 2007 were as follows:

| | Currency | Maturity Period | Contract Amount (in Thousands) |
|--------------------------|----------|-----------------|-----------------------------------|
| December 31, 2008 | | | |
| Sell | EUR/USD | 2009.01 | EUR 4,240 |
| | JPY/USD | 2009.01 | JPY 446,200 |
| | GBP/USD | 2009.01 | GBP 1,880 |
| | USD/NTD | 2009.01 | USD 96,000 |
| | USD/JPY | 2009.01 | USD 1,544 |
| | USD/EUR | 2009.01 | USD 777 |
| | USD/GBP | 2009.01 | USD 124 |
| December 31, 2007 | | | |
| Sell | EUR/USD | 2008.02 | EUR 19,100 |
| | JPY/USD | 2008.02 | JPY 590,000 |
| | GBP/USD | 2008.02 | GBP 2,370 |
| | USD/NTD | 2008.01-03 | USD 385,000 |
| | EUR/NTD | 2008.02-03 | EUR 40,000 |
| | NTD/USD | 2008.01 | NTD 323,550 |

Outstanding index future contracts on December 31, 2008 and 2007 were as follows:

| | Maturity Period | Units | Contract Amount (in Thousands) |
|--------------------------|-----------------|-------|-----------------------------------|
| December 31, 2008 | | | |
| AMSTERDAM IDX FUT | 2009.01 | 13 | EUR 642 |
| CAC40 10 EURO FUT | 2009.01 | 14 | EUR 451 |
| DAX INDEX FUTURE | 2009.03 | 3 | EUR 356 |
| IBEX 35 INDX FUTR | 2009.01 | 7 | EUR 633 |
| MINI S&P/MIB FUT | 2009.03 | 37 | EUR 712 |
| FTSE 100 IDX FUT | 2009.03 | 19 | GBP 815 |
| TOPIX INDEX FUTURE | 2009.03 | 35 | JPY 283,990 |
| S&P 500 FUTURE | 2009.03 | 16 | USD 3,541 |
| S&P 500 EMINI FUTURE | 2009.03 | 53 | USD 2,346 |
| December 31, 2007 | | | |
| AMSTERDAM IDX FUT | 2008.01 | 14 | EUR 1,419 |
| CAC40 10 EURO FUT | 2008.01 | 17 | EUR 940 |
| DAX INDEX FUTURE | 2008.03 | 1 | EUR 198 |
| IBEX 35 INDX FUTR | 2008.01 | 7 | EUR 1,076 |
| MINI S&P/MIB FUT | 2008.03 | 35 | EUR 1,366 |
| FTSE 100 IDX FUT | 2008.03 | 35 | GBP 2,204 |
| TOPIX INDEX FUTURE | 2008.03 | 20 | JPY 313,900 |
| S&P 500 FUTURE | 2008.03 | 16 | USD 5,994 |
| S&P 500 EMINI FUTURE | 2008.03 | 23 | USD 1,725 |

As of December 31, 2008 and 2007, the amount paid for future deposit were \$242,768 thousand and \$81,515 thousand, respectively.

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

Net gain and net loss arising from financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2008 and 2007 were \$477,792 thousand (including realized settlement loss of \$46,210 thousand and valuation gain of \$524,002 thousand) and \$876,482 thousand (including realized settlement loss of \$281,474 thousand and valuation loss of \$595,008 thousand, respectively).

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | December 31 | |
|-----------------------------------|---------------|---------------|
| | 2008 | 2007 |
| Open-end mutual funds | \$ 13,420,645 | \$ 16,505,794 |
| Foreign listed stocks | 546,520 | 958,095 |
| Real estate investment trust fund | 194,226 | 238,900 |
| Listed stocks | | 115,710 |
| | \$ 14,161,391 | \$ 17,818,499 |

For the years ended December 31, 2008 and 2007, movements of unrealized gain or loss on financial instruments were as follows:

| | Years Ended December 31 | |
|-----------------------------------|-------------------------|------------|
| | 2008 | 2007 |
| Balance, beginning of year | \$ 35,232 | \$ 541,054 |
| Recognized in stockholders equity | (3,174,015) | (131,852) |
| Transferred to profit or loss | 882,878 | (373,970) |
| Balance, end of year | \$ (2,255,905) | \$ 35,232 |

Global economic and financial circumstances have significantly changed. As a result, the Company determined that the impairment losses of available for sale financial assets is other-than-temporary in nature, and recorded impairment losses of \$1,139,105 thousand in 2008.

7. HELD-TO-MATURITY FINANCIAL ASSETS

| | December 31 | |
|--|--------------|--------------|
| | 2008 | 2007 |
| Corporate bonds, nominal interest rate ranging from 0.994%-3.85% and 0%-4% for the years ended December 31, 2008 and 2007, respectively; effective interest rate ranging from 0.994%-2.95% and 0.994%-4% for 2008 and 2007, respectively | \$ 3,772,177 | \$ 1,048,484 |
| Collateralized loan obligation, nominal and effective interest rate were both 2.175% for 2008 and 2007 | 41,360 | 100,965 |
| | 3,813,537 | 1,149,449 |
| Less: Current portion | 769,435 | 651,192 |
| | \$ 3,044,102 | \$ 498,257 |

8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

| | Years Ended December 31 | |
|---|-------------------------|--------------|
| | 2008 | 2007 |
| Balance, beginning of year | \$ 3,290,123 | \$ 3,535,141 |
| Charge to expense for doubtful accounts | 499,113 | 592,205 |
| Accounts receivable written off | (797,093) | (837,223) |
| | \$ 2,992,143 | \$ 3,290,123 |

9. OTHER CURRENT MONETARY ASSETS

| | December 31 | |
|--|--------------|--------------|
| | 2008 | 2007 |
| Accrued custodial receipts from other carriers | \$ 484,224 | \$ 650,791 |
| Receivables from disposal of financial instruments | 42,688 | 1,011,031 |
| Tax refund receivable | | 3,221,136 |
| Fixed-Line Fund | | 1,000,000 |
| Other | 1,660,412 | 1,206,913 |
| | \$ 2,187,324 | \$ 7,089,871 |

10. INVENTORIES, NET

| | December 31 | |
|----------------------|--------------|--------------|
| | 2008 | 2007 |
| Supplies | \$ 1,609,504 | \$ 1,517,233 |
| Work in process | 283,739 | 165,236 |
| Merchandise | 745,435 | 609,350 |
| Materials in transit | 906,958 | 521,978 |

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| | | |
|---------------------------|--------------|--------------|
| | 3,545,636 | 2,813,797 |
| Less: Valuation allowance | 41,874 | 19,666 |
| | \$ 3,503,762 | \$ 2,794,131 |

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11. OTHER CURRENT ASSETS

| | December 31 | |
|------------------|--------------|--------------|
| | 2008 | 2007 |
| Prepaid rents | \$ 840,889 | \$ 589,075 |
| Prepaid expenses | 597,148 | 380,602 |
| Miscellaneous | 233,468 | 245,439 |
| | \$ 1,671,505 | \$ 1,215,116 |

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | December 31 | | | |
|--|----------------|----------------|----------------|----------------|
| | 2008 | | 2007 | |
| | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| Listed | | | | |
| Senao International Co., Ltd. (SENAO) | \$ 1,331,443 | 29 | \$ 1,270,190 | 31 |
| Non-Listed | | | | |
| Light Era Development Co., Ltd. (LED) | 2,976,434 | 100 | | |
| Chunghwa Investment Co., Ltd. (CHI) | 829,716 | 49 | 974,332 | 49 |
| Chunghwa Telecom Singapore Pte., Ltd. (CHTS) | 791,161 | 100 | | |
| Chunghwa System Integration Co., Ltd. (CHSI) | 747,104 | 100 | 850,398 | 100 |
| Taiwan International Standard Electronics Co., Ltd. (TISE) | 593,441 | 40 | 626,078 | 40 |
| CHIEF Telecom Inc. (CHIEF) | 427,848 | 69 | 423,807 | 69 |
| Donghwa Telecom Co., Ltd. (DHT) | 221,537 | 100 | 15,408 | 100 |
| Chunghwa International Yellow Pages Co., Ltd. (CIYP) | 110,545 | 100 | 31,256 | 100 |
| Viettel-CHT Co., Ltd. (Viettel-CHT) | 95,836 | 33 | | |
| Skysoft Co., Ltd. (SKYSOFT) | 84,992 | 30 | 69,911 | 30 |
| KingWay Technology Co., Ltd. (KWT) | 77,222 | 33 | | |
| Chunghwa Telecom Global, Inc. (CHTG) | 71,097 | 100 | 73,416 | 100 |
| Spring House Entertainment Inc. (SHE) | 45,113 | 56 | 15,659 | 30 |
| Chunghwa Telecom Japan Co., Ltd. (CHTJ) | 4,165 | 100 | | |
| ELTA Technology Co., Ltd. (ELTA) | | | 44,998 | 32 |
| New Prospect Investments Holdings Ltd. (B.V.I.) (New Prospect) | | 100 | | 100 |
| Prime Asia Investments Group Ltd. (B.V.I.) (Prime Asia) | | 100 | | 100 |
| | 8,407,654 | | 4,395,453 | |
| Prepayments for long-term investments - InfoExplorer Co., Ltd. (IFE) | 283,500 | | | |
| | \$ 8,691,154 | | \$ 4,395,453 | |

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

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

Chunghwa established Chunghwa Telecom Singapore Pte., Ltd. (CHTS) in July 2008, for a purchase price of \$200,000 thousand, and increase capital for \$579,280 thousand in September 2008. CHTS engages mainly in data wholesale, IP Transit, IPLC, IP VPN, voice wholesale services, and reinvests in the world satellite business. ST-1 telecommunications satellite is expected be retired in 2011; therefore, CHTS and SingTelSat Pte., Ltd. established a joint venture, ST-2 Satellite Ventures Pte., Ltd. (SSVP) in Singapore in October 2008 in order to maintain the current service. SSVP will engage in the installation and the operation of ST-2 telecommunications satellite.

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

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

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

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

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

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

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

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

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

Chunghwa established Chunghwa Telecom Japan Co., Ltd. (CHTJ), a 100% owned subsidiary in October 2008 by investing \$6,140 thousand cash, and increased its investment on CHTJ by investing \$11,151 thousand cash in January 2009. CHTJ engages mainly in telecommunication business, data processing and related services, development and sale of software and consulting services in telecommunication.

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

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

Chunghwa prepaid \$283,500 thousand to invest in InfoExplorer Co., Ltd. (IFE) and the record date of capital increase of IFE was January 5, 2009. Chunghwa acquired 49% of ownership. Chunghwa has control in IFE by obtaining above half of seats of the board of directors of IFE on January 20, 2009, which was IFE s stockholder s meeting. IFE mainly engages in information system planning and maintenance, software development, and information technology consultation services.

The carrying values of the equity investees as of December 31, 2008 and 2007 and the equity in earnings for the years ended December 31, 2008 and 2007 are determined based on the audited financial statements of the investees for the same years as the Company.

All accounts of Chunghwa s subsidiaries were included in Chunghwa s consolidated financial statements.

13. FINANCIAL ASSETS CARRIED AT COST

| | 2008 | | 2007 | |
|---|----------------|----------------|----------------|----------------|
| | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| Cost investees: | | | | |
| Taipei Financial Center (TFC) | \$ 1,789,530 | 12 | \$ 1,789,530 | 12 |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II) | 200,000 | 17 | | |
| Global Mobile Corp. (GMC) | 127,018 | 11 | 168,038 | 15 |
| iD Branding Ventures (iDBV) | 75,000 | 8 | 75,000 | 8 |
| RPTI International (RPTI) | 34,500 | 12 | 49,500 | 12 |
| Essence Technology Solution, Inc. (ETS) | 10,000 | 9 | 20,000 | 9 |
| Siemens Telecommunication Systems (Siemens) | | | 5,250 | 15 |
| | 2,236,048 | | 2,107,318 | |
| Prepayments for long-term investments in stocks-Taipei Financial Center (TFC) | 285,859 | | | |
| | \$ 2,521,907 | | \$ 2,107,318 | |

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

Chunghwa invested in GMC in December 2007, for a purchase price of \$168,038 thousand for 16,796 thousand shares. GMC engages mainly in wire communication services and computer software wholesale and circuit engineering. The National Communications Commission (NCC) informed Chunghwa with the Communication Letter (#0974102087) on April 1, 2008 that its investment in GMC was not authorized by NCC, and notified Chunghwa on May 5, 2008 that Chunghwa should dispose of its investment in GMC no later than June 30, 2008, otherwise, NCC would fine Chunghwa according to the Telecommunication Act. In April 2008, Chunghwa disposed of a portion of its investment in GMC (4,100 thousand shares) and filed an appeal to NCC to suspend the enforcement. In July, 2008, NCC resolved that according to the Administrative Penalty Act, Chunghwa could not divest of its investment in the short time period provided and that Chunghwa would not be subject to fines as noted above. In October 2008, NCC revoked the original decree about Chunghwa s investment in GMC, therefore, Chunghwa did not dispose of its remaining holding in GMC.

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

Chunghwa invested in ETS in December 2007, for a purchase price of \$20,000 thousand. ETS mainly engaged in IP-Private Branch Exchange (IP PBX) and design of voice security module. After evaluating the investment in ETS, Chunghwa determined the investment in ETS was impaired and recognized an impairment loss of \$10,000 thousand for the year ended December 31, 2008.

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

Chunghwa participated in TFC's capital increase in October 2008 and the prepayment was \$285,859 thousand.

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

14. OTHER NONCURRENT MONETARY ASSETS

| | December 31 | |
|-------------|--------------|--------------|
| | 2008 | 2007 |
| Piping Fund | \$ 1,000,000 | \$ 1,000,000 |

As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute a total of \$1,000,000 thousand to a Piping Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects.

15. PROPERTY, PLANT AND EQUIPMENT

| | December 31 | |
|-------------------------------|--------------------|--------------------|
| | 2008 | 2007 |
| Cost | | |
| Land | \$ 101,259,221 | \$ 101,340,085 |
| Land improvements | 1,494,398 | 1,475,371 |
| Buildings | 62,612,157 | 62,140,290 |
| Computer equipment | 15,751,162 | 15,365,975 |
| Telecommunications equipment | 648,805,525 | 638,467,018 |
| Transportation equipment | 2,404,125 | 2,854,880 |
| Miscellaneous equipment | 7,247,977 | 7,639,500 |
| Total cost | 839,574,565 | 829,283,119 |
| Revaluation increment on land | 5,810,650 | 5,822,981 |
| | 845,385,215 | 835,106,100 |
| Accumulated depreciation | | |
| Land improvements | 898,156 | 844,244 |
| Buildings | 16,238,529 | 15,181,459 |
| Computer equipment | 11,590,417 | 11,457,928 |
| Telecommunications equipment | 502,974,534 | 485,397,314 |

(Continued)

| | December 31 | |
|---|----------------|----------------|
| | 2008 | 2007 |
| Transportation equipment | \$ 2,194,104 | \$ 2,690,767 |
| Miscellaneous equipment | 6,114,629 | 6,482,478 |
| | 540,010,369 | 522,054,190 |
| Construction in progress and advance payments | 15,989,495 | 16,450,761 |
| Property, plant and equipment, net | \$ 321,364,341 | \$ 329,502,671 |

(Concluded)

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

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went effective from February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of \$116,196 thousand to stockholders' equity - other adjustments. As of December 31, 2008, the unrealized revaluation increment was decreased to \$5,813,187 thousand by disposal revaluation assets.

Depreciation expense on property, plant and equipment for the years ended December 31, 2008 and 2007 amounted to \$36,951,384 thousand and \$38,691,561 thousand, respectively. No interest expense was capitalized for the years ended December 31, 2008 and 2007.

16. ACCRUED EXPENSES

| | December 31 | |
|---------------------------------|---------------|---------------|
| | 2008 | 2007 |
| Accrued salary and compensation | \$ 10,664,953 | \$ 9,594,195 |
| Accrued franchise fees | 2,368,996 | 2,159,399 |
| Other accrued expenses | 2,646,653 | 3,203,487 |
| | \$ 15,680,602 | \$ 14,957,081 |

17. OTHER CURRENT LIABILITIES

| | December 31 | |
|---------------------------------------|---------------|---------------|
| | 2008 | 2007 |
| Advances from subscribers | \$ 5,624,497 | \$ 5,037,430 |
| Amounts collected in trust for others | 2,446,647 | 2,804,891 |
| Payables to equipment suppliers | 2,250,041 | 1,786,351 |
| Payables to contractors | 1,546,234 | 1,065,972 |
| Refundable customers' deposits | 980,622 | 915,248 |
| Miscellaneous | 2,598,540 | 2,273,095 |
| | \$ 15,446,581 | \$ 13,882,987 |

18. STOCKHOLDERS EQUITY

Under Chunghwa's Articles of Incorporation, Chunghwa's authorized capital is \$120,000,000,020, which is divided into 12,000,000,000 common shares (at \$10 par value per share), which are issued and outstanding 9,696,808,181 shares. Chunghwa's Articles of Incorporation and the Republic of China Telecommunications Act provide that the MOTC has the right to purchase two redeemable preferred shares at \$10 (par value) in the event its ownership of Chunghwa falls below 50% of the outstanding common shares. On March 28, 2006, the board of directors approved the issuance of the 2 preferred shares, and the MOTC purchased the 2 preferred shares at par value on April 4, 2006.

For the purpose of privatizing Chunghwa, the MOTC sold 1,109,750 thousand common shares of Chunghwa in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of Chunghwa, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. The MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of December 31, 2008, the outstanding ADSs were 1,780,568 thousand common shares, which equaled approximately 178,057 thousand units and represented 18.36% of Chunghwa's total outstanding common shares.

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

- a. Exercise their voting rights,
- b. Sell their ADSs, and
- c. Receive dividends declared and subscribe to the issuance of new shares.

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

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

Under the ROC Company Law, additional paid-in capital may only be utilized to offset deficits. For those companies having no deficits, additional paid-in capital arising from capital surplus can be used to increase capital stock and distribute to stockholders in proportion to their ownership at the ex-dividend date. Also, such amounts can only be declared as a stock dividend by Chunghwa at an amount calculated in accordance with the provisions of existing regulations. The combined amount of any portions capitalized each year may not exceed 10 percent of common stock issued. However, where a company undergoes an organizational change (such as a merger, acquisition, or reorganization) that results in the capitalization of undistributed earnings after the organizational change, the above restriction does not apply.

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

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

For the year ended December 31, 2008, the accrual amounts for bonuses to employees and remuneration to directors and supervisors is based on management estimates including past experience and probable amount to be paid in accordance with Chunghwa's Articles of Incorporation and Implementation Guidance for the Employee's Bonus Distribution of Chunghwa Telecom Co., Ltd.

If the initial accrual amounts of the aforementioned bonus are different from the amounts resolved in the stockholders' meeting, the difference is charged to the earnings of the following year as a result of change in accounting estimate.

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

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

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

The amounts of the appropriations of earnings for 2007 and 2006 were consistent with the resolutions of the meetings of the Board of Directors held on April 25, 2008 and April 24, 2007, respectively.

The stockholders, at a special meeting held on August 14, 2008, resolved to transfer capital surplus in the amount of \$19,115,554 thousand to common capital stock.

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

The stockholders, at the stockholders meeting held on August 14, 2008, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of \$19,115,554 thousand to common capital stock and was effectively registered with SFC. Chunghwa designated December 30, 2008 as the record date and March 9, 2009 as the stock transfer date of capital reduction.

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

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

The stockholders, at the stockholders meeting held on June 15, 2007, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of \$9,667,845 thousand to common capital stock and effectively registered with SFC. Chunghwa decided October 19, 2007 and December 29, 2007 as the record date and stock transfer date of capital reduction, respectively. Subsequently, common capital stock was reduced by \$9,667,845 thousand and a liability for the actual amount of cash to be distributed to stockholders of \$9,557,777 thousand was recorded. The difference between the reduction in common capital stock and the distribution amount represents treasury stock of \$110,068 thousand held by Chunghwa and concurrently cancelled. Such cash payments to stockholders was made in January 2008.

The appropriation of Chunghwa's 2008 earnings has not been resolved by the board of directors as of the report date. Information on the appropriation of 2008 earnings, employee bonus and remuneration to board of directors and supervisors proposed by the board of directors and resolved by the stockholders is available at the Market Observation Post System website.

19. TREASURY STOCK

| | Years Ended December 31 | |
|----------------------------|-------------------------|----------|
| | 2008 | 2007 |
| Balance, beginning of year | 110,068 | |
| Increase | | 121,075 |
| Decrease | (110,068) | (11,007) |
| Balance, end of year | | 110,068 |

According to the Securities and Exchange Act of the ROC, total shares of treasury stock shall not exceed 10% of Chunghwa's stock issued. The total amount of the repurchased shares shall not be more than the total amount of retained earnings, capital surplus and realized additional paid-in capital. The Company shall neither pledge treasury stock nor exercise stockholders' rights on these shares, such as rights to dividends and to vote.

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

20. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

| | Year Ended December 31, 2008 | | |
|----------------------|------------------------------|--------------------|---------------|
| | Cost of Services | Operating Expenses | Total |
| Compensation expense | | | |
| Salaries | \$ 12,108,552 | \$ 8,282,400 | \$ 20,390,952 |
| Insurance | 900,020 | 617,331 | 1,517,351 |
| Pension | 1,606,127 | 1,181,250 | 2,787,377 |
| Other compensation | 8,472,465 | 5,766,107 | 14,238,572 |
| | \$ 23,087,164 | \$ 15,847,088 | \$ 38,934,252 |
| Depreciation expense | \$ 34,925,146 | \$ 2,026,238 | \$ 36,951,384 |
| Amortization expense | \$ 880,086 | \$ 136,596 | \$ 1,016,682 |

| | Year Ended December 31, 2007 | | |
|----------------------|------------------------------|--------------------|---------------|
| | Cost of Services | Operating Expenses | Total |
| Compensation expense | | | |
| Salaries | \$ 12,212,562 | \$ 8,092,151 | \$ 20,304,713 |
| Insurance | 665,350 | 839,133 | 1,504,483 |
| Pension | 1,749,411 | 1,238,306 | 2,987,717 |
| Other compensation | 9,201,910 | 5,497,585 | 14,699,495 |
| | \$ 23,829,233 | \$ 15,667,175 | \$ 39,496,408 |
| Depreciation expense | \$ 36,512,666 | \$ 2,178,895 | \$ 38,691,561 |
| Amortization expense | \$ 866,946 | \$ 98,182 | \$ 965,128 |

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:

| | Years Ended December 31 | |
|---|-------------------------|---------------|
| | 2008 | 2007 |
| Income tax expense computed at statutory income tax rate of 25% to income before income tax | \$ 14,618,206 | \$ 15,274,107 |
| Add (deduct) tax effects of: | | |
| Permanent differences | (135,085) | (446,237) |
| Temporary differences | 325,840 | 910,583 |
| Additional tax at 10% on undistributed earnings | | 8,260 |
| Investment tax credits | (1,502,112) | (2,401,319) |

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| | | |
|--------------------|---------------|---------------|
| Income tax payable | \$ 13,306,849 | \$ 13,345,394 |
|--------------------|---------------|---------------|

The tax liabilities of December 31, 2008 and 2007 are the net amount from deducting income tax payables by prepaid income tax.

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- b. Income tax expense consists of the following:

| | Years Ended December 31 | |
|---------------------------------------|-------------------------|---------------|
| | 2008 | 2007 |
| Income tax payable | \$ 13,306,849 | \$ 13,345,394 |
| Income tax- separated | 296,901 | 242,733 |
| Income tax - deferred | (178,971) | (802,342) |
| Adjustments of prior years income tax | 37,744 | 61,366 |
| | \$ 13,462,523 | \$ 12,847,151 |

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

| | December 31 | |
|--|--------------|--------------|
| | 2008 | 2007 |
| Current | | |
| Provision for doubtful accounts | \$ 478,196 | \$ 331,328 |
| Abandonment of equipment not approved by National Tax Administration | 40,239 | |
| Unrealized accrued expense | 22,384 | |
| Valuation loss on financial instruments, net | 13,696 | 151,358 |
| Unrealized foreign exchange loss (gain) | (35,568) | 9,634 |
| Other | 23,460 | 25,738 |
| | 542,407 | 518,058 |
| Valuation allowance | (478,196) | (331,328) |
| Net deferred income tax assets-current | \$ 64,211 | \$ 186,730 |
| Noncurrent | | |
| Accrued pension cost | \$ 1,407,460 | \$ 1,092,701 |
| Impairment loss | 80,225 | 80,524 |
| Loss on disposal of property, plant and equipment | | 12,970 |
| Net deferred income tax assets-noncurrent | \$ 1,487,685 | \$ 1,186,195 |

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

| | December 31 | |
|--|--------------|--------------|
| | 2008 | 2007 |
| Balance of Imputation Credit Account (ICA) | \$ 7,285,595 | \$ 6,528,877 |

The estimated and the actual creditable ratios distribution of Chunghwa s of 2008 and 2007 for earnings were 30.81% and 28.81%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

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e. Undistributed earnings information

As of December 31, 2008 and 2007, there is no earnings generated prior to June 30, 1998 in Chunghwa's undistributed earnings.

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

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22. EARNINGS PER SHARE

| | Amount (Numerator) | | Weighted- average Number of Common Shares Outstanding (Thousand) (Denominator) | Earning Per Share (Dollars) | |
|--|--------------------------------|---------------|---|-----------------------------------|---------------|
| | Income Before Income Tax | Net Income | | Income Before Income Tax | Net Income |
| Year ended December 31, 2008 | | | | | |
| EPS was calculated as follows: | | | | | |
| Basic EPS | | | | | |
| Income available to stockholders | \$ 58,472,865 | \$ 45,010,342 | 9,696,808 | \$ 6.03 | \$ 4.64 |
| SENAO's stock-based compensation | (13,775) | (13,775) | | | |
| Employee bonus | | | 20,681 | | |
| Diluted EPS | | | | | |
| Income available to stockholders (including effect of dilutive potential common stock) | \$ 58,459,090 | \$ 44,996,567 | 9,717,489 | \$ 6.02 | \$ 4.63 |
| Year ended December 31, 2007 | | | | | |
| EPS was calculated as follows: | | | | | |
| Basic EPS | | | | | |
| Income available to stockholders | \$ 61,096,470 | \$ 48,249,319 | 9,776,237 | \$ 6.25 | \$ 4.94 |
| SENAO's stock-based compensation | (8,099) | (8,099) | | | |
| Diluted EPS | | | | | |
| Income available to stockholders (including effect of dilutive potential common stock) | \$ 61,088,371 | \$ 48,241,220 | 9,776,237 | \$ 6.25 | \$ 4.93 |

According to the Interpretation 97-169 issued by ARDF in May 2008, Chunghwa presumed that the employees bonuses to be paid will be settled in shares and takes those shares into consideration when calculating the weighted average number of outstanding shares used in the calculation of diluted EPS if the share have a dilutive effect for the year ended December 31, 2008. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa's shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The diluted earnings per share for the years ended December 31, 2008 and 2007 was due to the effect of potential common stock of stock options by SENAO.

23. PENSION PLAN

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

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

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

Pension costs of Chunghwa were \$2,871,428 thousand (\$2,774,274 thousand subject to defined benefit plan and \$97,154 thousand subject to defined contribution plan) and \$3,101,497 thousand (\$3,023,558 thousand subject to defined benefit plan and \$77,939 thousand subject to defined contribution plan) for the years ended December 31, 2008 and 2007, respectively.

Pension information of the defined benefit plan was summarized as follows:

a. Components of net periodic pension cost for the year

| | Years Ended December 31 | |
|---|--------------------------------|---------------------|
| | 2008 | 2007 |
| Service cost | \$ 2,658,562 | \$ 2,807,927 |
| Interest cost | 185,873 | 107,931 |
| Expected return on plan assets | (82,006) | (78,198) |
| Amortization of unrecognized loss | (2,529) | 7,003 |
| Curtailement/settlement loss to be recognized | 14,374 | 178,895 |
| | \$ 2,774,274 | \$ 3,023,558 |

b. Reconciliation between the fund status and accrued pension cost is summarized as follows:

| | December 31 | |
|--|-----------------------|-----------------------|
| | 2008 | 2007 |
| Benefit obligation | | |
| Vested benefit obligation | \$ (5,658,116) | \$ (3,526,887) |
| Non-vested benefit obligation | (2,832,135) | (2,150,100) |
| Accumulated benefit obligation | (8,490,251) | (5,676,987) |
| Additional benefit obligation | (930,915) | (970,516) |
| Projected benefit obligation | (9,421,166) | (6,647,503) |
| Fair values of plan assets | 4,282,694 | 2,754,779 |
| Funded status | (5,138,472) | (3,892,724) |
| Unrecognized prior service cost effect | (49,776) | |
| Amortization of unrecognized net loss (gain) | 23,860 | (19,240) |
| Accrued pension liabilities | \$ (5,164,388) | \$ (3,911,964) |

c. Vested benefit \$ 7,664,921 \$ 5,009,083

d. Actuarial assumptions

| | | |
|---|-------|-------|
| Discount rate used in determining present value | 2.00% | 2.50% |
| Rate of compensation increase | 1.00% | 1.50% |
| Rate of return on plan assets | 2.50% | 2.75% |

e. Contributions and payments of the Fund

| | Years Ended December 31 | |
|---------------|-------------------------|------------|
| | 2008 | 2007 |
| Contributions | \$ 1,515,234 | \$ 365,368 |
| Payments | \$ 105,910 | \$ 600,239 |

24. TRANSACTIONS WITH RELATED PARTIES

The ROC Government, one of Chunghwa's customers held significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, Internet and data and other services to the various departments and institutions of the ROC Government and other state-owned enterprises in the normal course of business and at arm's-length prices. The information on service revenues from government bodies and related organizations have not been provided because details of the type of transactions were not summarized by Chunghwa. Chunghwa believes that all costs of doing business are reflected in the financial statements.

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

| Company | Relationship |
|--|---|
| Senao International Co., Ltd. (SENAO) | Subsidiary (it was the equity-method investee in January 2007, and has control in April 2007) |
| Chunghwa International Yellow Pages Co., Ltd. (CIYP) | Subsidiary |
| CHIEF Telecom, Inc. (CHIEF) | Subsidiary |
| Chunghwa System Integration Co., Ltd. (CHSI) | Subsidiary (it was the subsidiary of equity-method investee, Chunghwa Investment Co., Ltd., and it becomes to Chunghwa's subsidiary since December 2007) |
| Chunghwa Telecom Global, Inc. (CHTG) | Subsidiary (it was the subsidiary of equity-method investee, Chunghwa Investment Co., Ltd., and it becomes to Chunghwa's subsidiary since December 2007) |
| Donghwa Telecom Co., Ltd. (DHT) | Subsidiary (it was the indirect owned subsidiary of equity-method investee, Chunghwa Investment Co., Ltd., and it becomes to Chunghwa's subsidiary since December 2007) |
| Spring House Entertainment Inc. (SHE) | Subsidiary (it was the equity-method investee, and it becomes to Chunghwa's subsidiary since January 2008) |
| Light Era Development Co., Ltd. (LED) | Subsidiary |
| Chunghwa Telecom Singapore Pte., Ltd. (CHTS) | Subsidiary |
| Chunghwa Telecom Japan Co., Ltd. (CHTJ) | Subsidiary |
| New Prospect Investments Holdings Ltd. (B.V.I.) (New Prospect) | Subsidiary |
| Prime Asia Investments Group Ltd. (B.V.I.) (Prime Asia) | Subsidiary |
| Uni-Gate Telecom Inc. (Uni-Gate) | Subsidiary of CHIEF |
| CHIEF Telecom (Hong Kong) Limited (CHK) | Subsidiary of CHIEF |
| Chief International Corp. (CIC) | Subsidiary of CHIEF |
| Concord Technology Co., Ltd. (Concord) | Subsidiary of CHSI |
| Glory Network System Service (Shanghai) Co., Ltd. (Glory) | Subsidiary of Concord |
| Chunghwa Investment Co., Ltd. (CHI) | Equity-method investee |
| Taiwan International Standard Electronics Co., Ltd. (TISE) | Equity-method investee |
| Skysoft Co., Ltd. (SKYSOFT) | Equity-method investee |
| ELTA Technology Co., Ltd. (ELTA) | Equity-method investee before Chunghwa sold all shares in July 2008 |
| Senao Networks, Inc. (SNI) | Equity-method investee of SENAO |
| Chunghwa Precision Test Technical Co., Ltd. (CHPT) | Subsidiary of CHI |
| Chunghwa Investment Holding Company (CIHC) | Subsidiary of CHI |

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

| | December 31 | | | |
|--|--------------|-----|--------------|-----|
| | 2008 | | 2007 | |
| | Amount | % | Amount | % |
| 1) Receivables | | | | |
| Trade notes and accounts receivable | | | | |
| SENAO | \$ 178,878 | 52 | \$ 156,861 | 74 |
| CHSI | 41,256 | 12 | | |
| CIYP | 38,782 | 11 | 16,909 | 8 |
| LED | 22,566 | 7 | | |
| CHIEF | 20,906 | 6 | 17,612 | 9 |
| CHTG | 18,618 | 5 | 17,345 | 8 |
| SHE | 10,863 | 3 | | |
| DHT | 9,155 | 3 | | |
| Others | 1,992 | 1 | 2,899 | 1 |
| | \$ 343,016 | 100 | \$ 211,626 | 100 |
| 2) Payables | | | | |
| Trade notes payable, accounts payable and accrued expenses | | | | |
| CHSI | \$ 628,485 | 28 | \$ 344,032 | 20 |
| SENAO | 606,990 | 27 | 584,198 | 34 |
| TISE | 492,883 | 22 | 141,192 | 8 |
| CIYP | 35,198 | 2 | 8,039 | |
| CHIEF | 34,215 | 2 | 8,599 | 1 |
| DHT | 17,063 | 1 | 9,113 | 1 |
| CHTG | 14,867 | 1 | 9,520 | 1 |
| SHE | 14,782 | | | |
| Others | 2,947 | | 5,344 | |
| | 1,847,430 | 83 | 1,110,037 | 65 |
| Payable to construction supplier | | | | |
| CHSI | 53,502 | 2 | | |
| TISE | 26,188 | 1 | 191,218 | 11 |
| | 79,690 | 3 | 191,218 | 11 |
| Amounts collected in trust for others | | | | |
| SENAO | 244,291 | 11 | 398,019 | 24 |
| CIYP | 61,273 | 3 | | |
| Others | 4,235 | | 6,815 | |
| | 309,799 | 14 | 404,834 | 24 |
| | \$ 2,236,919 | 100 | \$ 1,706,089 | 100 |

| | Years Ended December 31 | | | |
|---|-------------------------|---|--------------|----|
| | 2008 | | 2007 | |
| | Amount | % | Amount | % |
| 3) Revenues | | | | |
| SENAO | \$ 1,634,017 | 1 | \$ 1,107,649 | 1 |
| CHIEF | 208,227 | | 189,083 | |
| CHTG | 140,416 | | 91,217 | |
| CHSI | 32,865 | | 17,950 | |
| SKYSOFT | 32,738 | | 7,303 | |
| CIYP | 23,499 | | 26,152 | |
| ELTA | 9,831 | | 14,947 | |
| CHPT | 6,743 | | 7,169 | |
| Others | 11,047 | | 2,393 | |
| | \$ 2,099,383 | 1 | \$ 1,463,863 | 1 |
| 4) Operating costs and expenses | | | | |
| SENAO | \$ 6,667,907 | 5 | \$ 4,658,811 | 4 |
| TISE | 538,389 | | 388,111 | |
| CHSI | 401,740 | | 455,307 | |
| CHIEF | 207,345 | | 89,694 | |
| ELTA | 189,744 | | 98,610 | |
| SHE | 51,836 | | | |
| CIYP | 50,679 | | 15,512 | |
| CHTG | 41,122 | | 65,641 | |
| DHT | 8,599 | | 23,524 | |
| SNI | 8,412 | | 3,258 | |
| Others | 6,070 | | 3 | |
| | \$ 8,171,843 | 5 | \$ 5,798,471 | 4 |
| 5) Acquisitions of property, plant and equipment | | | | |
| CHSI | \$ 1,388,118 | 5 | \$ 568,367 | 2 |
| TISE | 849,985 | 3 | 947,835 | 4 |
| CHTG | 56,740 | | 43,393 | |
| SENAO | 1,701 | | 1,044 | |
| SNI | 355 | | | |
| | \$ 2,296,899 | 8 | \$ 1,560,639 | 6 |
| 6) Acquisitions of investment accounted for using equity method | | | | |
| CHI | \$ | | \$ 908,935 | 41 |
| CIHC | | | 11,430 | |
| | \$ | | \$ 920,365 | 41 |

Chunghwa acquired all of the shares of CHSI and CHTG from CHI in December 2007, for a total purchase price of \$908,935 thousand cash. The Company also acquired all of the shares of DHT from CIHC, for a total purchase price of \$11,430 thousand cash.

Chunghwa sold the land with a carrying value of \$936,016 thousand to LED at price of \$2,421,932 thousand during 2008. However, since the gain on disposal of land amounting to \$1,485,916 thousand is unrealized, the gain is recognized as deferred credits - gain on inter-company transactions, and will not be recognized as revenue till the gain is realized in the future.

Chunghwa sold the land with a carrying value of \$378,927 thousand to LED at price of \$207,030 thousand in 2008 and resulted in a disposal loss amounting to \$171,897 thousand. The disposal loss on land is unrealized and the unrealized loss is included in other assets - other. The unrealized loss is not recognized in earnings until it is sold to the third party and realized in the future.

The foregoing transactions with related parties were conducted as arm's length transactions, except for the transactions with SENAO, CHIEF and CIYP were determined in accordance with mutual agreements.

- c. The compensation of directors, supervisors and managements is showed as follows:

| | Years Ended December 31 | |
|---------------|--------------------------------|-------------|
| | 2008 | 2007 |
| Salaries | \$ 48,355 | \$ 48,533 |
| Compensations | 35,978 | 38,028 |
| Bonus | 48,238 | 48,758 |
| | \$ 132,571 | \$ 135,319 |

The compensation of directors, supervisors and management personnel for the year ended December 31, 2007 included the bonuses appropriated from earnings for 2007 which had been approved by stockholders in their annual meeting held in 2008.

25. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2008, Chunghwa's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of land and buildings of \$399,116 thousand.
- b. Acquisitions of telecommunications equipment of \$17,090,893 thousand.
- c. Unused letters of credit \$912,714 thousand.
- d. Contract to print billing, envelopes and telephone directories of \$115,725 thousand.
- e. Chunghwa also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Future lease payments were as follows:

| Year | Rental Amount |
|-------------|----------------------|
| 2009 | \$ 1,460,359 |
| 2010 | 1,070,118 |
| 2011 | 796,618 |
| 2012 | 572,531 |

2013 and thereafter

314,256

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- f. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by Chunghwa on August 15, 1996 (classified as long-term investment - other monetary assets). If the fund is not sufficient, Chunghwa will contribute the remaining \$1,000,000 thousand upon notification from the Taipei City Government. Based on Chunghwa's understanding of the Piping Fund terms, if the project is considered to be no longer necessary by the ROC government, Chunghwa will receive back its proportionate share of the net equity of the Piping Fund upon its dissolution. Chunghwa does not know when its contribution to the Piping Fund will be returned; therefore, Chunghwa did not discount the face amount of its contribution on the Piping Fund.
- g. A portion of the land used by Chunghwa during the period July 1, 1996 to December 31, 2004 was co-owned by Chunghwa and Chunghwa Post Co., Ltd. (the former Chunghwa Post Co., Ltd. directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to Chunghwa to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of Chunghwa's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. Chunghwa stated that both parties have the right to use co-management land without consideration. Chunghwa Post Co., Ltd. can't request payment for land compensation. However, Chunghwa believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, Chunghwa has filed an appeal at the Taiwan Taipei District Court. As of audit report date, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.
- h. Giga Media filed a civil action against Chunghwa with the Taiwan Taipei District Court (the Court) on June 12, 2008. The complaint alleged that Chunghwa infringed Giga Media's ROC Patent No. I 258284 which is a Point-to-Point Protocol over Ethernet (PPPoE) technique used to launch fixed IP of ADSL. Giga Media is seeking damages of \$500,000 thousand and interest calculated at 5% for the period from one day following the date Chunghwa received the official notification from the Court to the payment date.

26. FAIR VALUE OF FINANCIAL INSTRUMENTS

- a. Carrying amounts and fair value of financial instruments were as follows:

| | 2008 | | 2007 | |
|---|-----------------|---------------|-----------------|---------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets | | | | |
| Cash and cash equivalents | \$ 77,137,903 | \$ 77,137,903 | \$ 74,752,564 | \$ 74,752,564 |
| Financial assets at fair value through profit or loss | 258,076 | 258,076 | 119,139 | 119,139 |
| Available-for-sale financial assets | 14,161,391 | 14,161,391 | 17,818,499 | 17,818,499 |
| Held-to-maturity financial assets - current | 769,435 | 769,435 | 651,192 | 651,192 |
| Trade notes and accounts receivable, net | 10,190,150 | 10,190,150 | 10,470,802 | 10,470,802 |
| Receivables from related parties | 343,016 | 343,016 | 211,626 | 211,626 |
| Other current monetary assets | 2,187,324 | 2,187,324 | 7,089,871 | 7,089,871 |
| Investments accounted for using equity method | 8,691,154 | 9,620,760 | 4,395,453 | 5,954,659 |
| Financial assets carried at cost | 2,521,907 | 2,521,907 | 2,107,318 | 2,107,318 |
| Held-to-maturity financial assets - noncurrent | 3,044,102 | 3,044,102 | 498,257 | 498,257 |
| Other noncurrent monetary assets | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Refundable deposits | 1,282,539 | 1,282,539 | 1,306,847 | 1,306,847 |

(Continued)

| | December 31 | | | |
|---|--------------------|------------|--------------------|------------|
| | 2008 | | 2007 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | \$ 106,896 | \$ 106,896 | \$ 653,214 | \$ 653,214 |
| Trade notes and accounts payable | 9,349,489 | 9,349,489 | 9,879,234 | 9,879,234 |
| Payables to related parties | 2,236,919 | 2,236,919 | 1,706,089 | 1,706,089 |
| Accrued expenses | 15,680,602 | 15,680,602 | 14,957,081 | 14,957,081 |
| Due to stockholders for capital reduction | 19,115,554 | 19,115,554 | 9,557,777 | 9,557,777 |
| Amounts collected in trust for others (included in other current liabilities) | 2,446,647 | 2,446,647 | 2,804,891 | 2,804,891 |
| Payables to equipment suppliers (included in other current liabilities) | 2,250,041 | 2,250,041 | 1,786,351 | 1,786,351 |
| Payables to contractors (included in other current liabilities) | 1,546,234 | 1,546,234 | 1,065,972 | 1,065,972 |
| Refundable customers deposits (included in other current liabilities) | 980,622 | 980,622 | 915,248 | 915,248 |
| Hedging derivative financial liabilities (included in other current liabilities) | 27,616 | 27,616 | 35,162 | 35,162 |
| Customers deposits | 6,098,605 | 6,098,605 | 6,324,712 | 6,324,712 |

(Concluded)

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

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

c. Fair values of financial assets and liabilities using quoted market prices or valuation techniques were as follow:

| | Amount Based on Quoted Market Price December 31 | | Amount Determined Using Valuation Techniques December 31 | |
|---|---|------------|--|------|
| | 2008 | 2007 | 2008 | 2007 |
| Assets | | | | |
| Financial assets at fair value through profit or loss | \$ 258,076 | \$ 119,139 | \$ | \$ |
| Available-for-sale financial assets | 14,161,391 | 17,818,499 | | |
| Hedging derivative financial assets (classified as other current monetary assets) | | 990 | | |

| | Amount Based on Quoted Market Price December 31 | | Amount Determined Using Valuation Techniques December 31 | |
|--|---|-----------|--|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| <u>Liabilities</u> | | | | |
| Financial liabilities at fair value through profit or loss | \$ 106,896 | \$ 73,055 | \$ | \$ 580,159 |
| Hedging derivative financial liabilities (classified as other current liabilities) | 27,616 | 35,162 | | |
| | | | | (Concluded) |

d. Information about financial risks

1) Market risk

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

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

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

2) Credit risk

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

3) Liquidation risk

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

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

4) Cash flow interest rate risk

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

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

e. Fair value hedge

Chunghwa entered into forward exchange contracts is mainly to hedge the fluctuation in exchange rates of beneficiary certificate denominated in foreign currency, which is fair value hedge. The transaction was assessed as highly effective for the year ended December 31, 2008 and 2007.

Outstanding forward exchange contracts for hedge as of December 31, 2007 and 2008:

| | Currency | Maturity Date | Contract Amount (in Thousands) |
|--------------------------|----------|---------------|-----------------------------------|
| <u>December 31, 2008</u> | | | |
| Sell | USD/NTD | 2009.01 | USD 30,000 |
| <u>December 31, 2007</u> | | | |
| Sell | USD/NTD | 2008.03 | USD 65,000 |
| | EUR/NTD | 2008.02-03 | EUR 40,000 |

As of December 31, 2008 and 2007, the forward exchange contract measured at fair value resulting in hedging derivative financial liability of \$27,616 thousand and \$35,162 thousand (classified as other current liabilities), respectively. As of December 31, 2007, the forward exchange contract measured at fair value resulting in hedging derivative financial asset of \$990 thousand (classified as other current monetary assets).

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

1) Holding period and contract amounts

SENA0 entered into a forward exchange contract for the years ended December 31, 2008 and 2007 to reduce the exposure to foreign currency risk.

Outstanding forward exchange contracts as of December 31, 2008 and 2007:

| | Currency | Maturity Period | Contract Amount (in Thousands) |
|--------------------------|-----------|-----------------|-----------------------------------|
| <u>December 31, 2008</u> | | | |
| Buy | NTD / USD | 2009.01 | NTD 131,412 |
| <u>December 31, 2007</u> | | | |
| Buy | NTD / USD | 2008.01 | NTD 64,945 |

2) Market risk

The foreign exchange rate fluctuations would result in SENA0's foreign-currency-dominated assets and liabilities and open forward exchange contracts exposed to rate risk.

The financial instruments categorized as available-for-sale financial assets are mainly beneficiary certificates. Therefore, the market risk is the fluctuations of market price. In order to manage this risk, SENA0 would assess the risk before investing, therefore, no material market risk are anticipated.

3) Credit risk

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

4) Liquidation risk

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

SENAO's investments in domestic open-end mutual funds are traded in active markets and can be disposed readily approximately to their fair values. The financial instruments categorized as financial assets carried at cost are investments that do not have a quoted market price in an active market; therefore, material liquidation risk would be anticipated on financial assets carried at cost.

27. ADDITIONAL DISCLOSURES

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

- a. Financing provided: None.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Please see Table 1.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 2.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 5.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 6.
- i. Names, locations, and other information of investees on which Chunghwa exercises significant influence: Please see Table 7.
- j. Financial transactions: Please see Notes 5 and 26.

k. Investment in Mainland China: Please see Table 8.

28. SEGMENT INFORMATION

a. Industry

The financial information of Chunghwa by industry: Please see Table 9.

b. Geographic

As of December 31, 2008, Chunghwa hasn't established any foreign operation.

c. Export sales

The export sales of Chunghwa is less than 10% of total net revenues.

d. Major customers

For the years ended December 31, 2008 and 2007, Chunghwa did not have any single customer whose net revenue exceeded 10% of the total net revenues.

TABLE 1**CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| | | | | | December 31, 2008 | | | | |
|-----|----------------------------|--|-------------------------------|---|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares (Thousands/Thousand Units) | Carrying Value (Note 6) | Percentage of Ownership | Market Value or Net Asset Value | Note |
| | | | | | | | | | |
| 0 | Chunghwa Telecom Co., Ltd. | <u>Stocks</u> | | | | | | | |
| | | Senao International Co., Ltd. | Subsidiary | Investments accounted for using equity method | 71,773 | \$ 1,331,443 | 29 | \$ 2,260,854 | Note 5 |
| | | Light Era Development Co., Ltd. | Subsidiary | Investments accounted for using equity method | 300,000 | 2,976,434 | 100 | 2,977,016 | Note 1 |
| | | Chunghwa Investment Co., Ltd. | Equity-method investee | Investments accounted for using equity method | 98,000 | 829,716 | 49 | 905,908 | Note 1 |
| | | Chunghwa Telecom Singapore Pte., Ltd. | Subsidiary | Investments accounted for using equity method | 34,869 | 791,161 | 100 | 791,161 | Note 1 |
| | | Chunghwa System Integration Co., Ltd. | Subsidiary | Investments accounted for using equity method | 60,000 | 747,104 | 100 | 647,846 | Note 1 |
| | | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee | Investments accounted for using equity method | 1,760 | 593,441 | 40 | 774,610 | Note 1 |
| | | CHIEF Telecom Inc. | Subsidiary | Investments accounted for using equity method | 37,942 | 427,848 | 69 | 379,496 | Note 1 |
| | | Donghwa Telecom Co., Ltd. | Subsidiary | Investments accounted for using equity method | 51,590 | 221,537 | 100 | 221,537 | Note 1 |
| | | Chunghwa International Yellow Pages Co., Ltd. | Subsidiary | Investments accounted for using equity method | 15,000 | 110,545 | 100 | 111,272 | Note 1 |
| | | Viettel-CHT Co., Ltd. | Equity-method investee | Investments accounted for using equity method | 3,000 | 95,836 | 33 | 95,836 | Note 1 |
| | | Skysoft Co., Ltd. | Equity-method investee | Investments accounted for using equity method | 4,438 | 84,992 | 30 | 45,625 | Note 1 |
| | | KingWay Technology Co., Ltd. | Equity-method investee | Investments accounted for using equity method | 1,002 | 77,222 | 33 | 20,670 | Note 1 |
| | | Chunghwa Telecom Global, Inc. | Subsidiary | Investments accounted for using equity method | 6,000 | 71,097 | 100 | 70,851 | Note 1 |
| | | Spring House Entertainment Inc. | Subsidiary | Investments accounted for using equity method | 5,996 | 45,113 | 56 | 30,413 | Note 1 |
| | | Chunghwa Telecom Japan Co., Ltd. | Subsidiary | Investments accounted for using equity method | | 4,165 | 100 | 4,165 | Note 1 |
| | | New Prospect Investments Holdings Ltd. (B.V.I.) | Subsidiary | Investments accounted for using equity method | | US\$ (1 dollar) | 100 | US\$ (1 dollar) | Note 3 |
| | | Prime Asia Investments Group Ltd. (B.V.I.) | Subsidiary | Investments accounted for using equity method | | US\$ (1 dollar) | 100 | US\$ (1 dollar) | Note 3 |
| | | InfoExplorer Co., Ltd. | Equity-method investee | Prepayments for long-term investments | 16,200 | 283,500 | | 283,500 | Note 8 |
| | | Taipei Financial Center | | Financial assets carried at cost | 172,927 | 1,789,530 | 12 | 1,412,661 | Note 2 |
| | | Industrial Bank of Taiwan II Venture Capital Co., Ltd. | | Financial assets carried at cost | 20,000 | 200,000 | 17 | 197,676 | Note 2 |
| | | Global Mobile Corp. | | Financial assets carried at cost | 12,696 | 127,018 | 11 | 118,243 | Note 2 |
| | | iD Branding Ventures | | Financial assets carried at cost | 7,500 | 75,000 | 8 | 75,796 | Note 2 |

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| | | | | | | |
|---------------------------------------|--|--------|---------|----|---------|--------|
| PRTI International | Financial assets carried at cost | 9,234 | 34,500 | 12 | 35,679 | Note 2 |
| Essence Technology Solution, Inc. | Financial assets carried at cost | 2,000 | 10,000 | 9 | 5,333 | Note 2 |
| Taipei Financial Center | Prepayments for long-term investments in stock | 28,586 | 285,859 | | 285,859 | Note 9 |
| ABBOTT LABORATORIES COM NPV | Available-for-sale financial assets | 4 | 5,424 | | 6,140 | Note 5 |
| ADIDAS AG NPV | Available-for-sale financial assets | 4 | 7,155 | | 4,463 | Note 5 |
| AEGIS GROUP PLC GBP0.05 | Available-for-sale financial assets | 58 | 4,797 | | 2,056 | Note 5 |
| AGGREKO PLC ORD | Available-for-sale financial assets | 10 | 2,262 | | 2,100 | Note 5 |
| AIOI INSURANCE CO LTD. NPV | Available-for-sale financial assets | 20 | 3,117 | | 3,351 | Note 5 |
| ALLIANZ SE-REG NPV(REGD) (VINKULIERT) | Available-for-sale financial assets | 1 | 2,037 | | 2,428 | Note 5 |

(Continued)

| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2008 | | Percentage of Ownership | Market Value or Net Asset Value | Note |
|-----|-------------------|---|-------------------------------|-------------------------------------|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| | | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 6) | | | |
| | | ALSTOM EUR7.00 (POST-SUBD) | | Available-for-sale financial assets | 2 | \$ 3,580 | | \$ 3,909 | Note 5 |
| | | ALTERA CORP COM | | Available-for-sale financial assets | 8 | 5,489 | | 4,338 | Note 5 |
| | | ANGLO AMERICAN PLC USD0.54945 (POST CONSOLIDAT) | | Available-for-sale financial assets | 2 | 4,611 | | 1,778 | Note 5 |
| | | APOLLO GROUP INC CL A | | Available-for-sale financial assets | 1 | 2,749 | | 3,203 | Note 5 |
| | | APPLE INC | | Available-for-sale financial assets | 1 | 2,860 | | 2,931 | Note 5 |
| | | ARCELORMITTAL NPV | | Available-for-sale financial assets | 5 | 3,856 | | 3,751 | Note 5 |
| | | ASTELLAS PHARMA INC SHS | | Available-for-sale financial assets | 2 | 3,088 | | 2,909 | Note 5 |
| | | ASTRAZENECA PLC ORD USD0.25 | | Available-for-sale financial assets | 3 | 4,569 | | 3,894 | Note 5 |
| | | AVIVA PLC ORDINARY 25P SHARES | | Available-for-sale financial assets | 15 | 5,765 | | 2,689 | Note 5 |
| | | AXA EUR2.29 | | Available-for-sale financial assets | 5 | 5,878 | | 3,964 | Note 5 |
| | | BANCO POPOLARE SPA EUR3.60 | | Available-for-sale financial assets | 12 | 6,986 | | 2,706 | Note 5 |
| | | BANCO SANTANDER SA | | Available-for-sale financial assets | 11 | 5,470 | | 3,517 | Note 5 |
| | | BANCO SANTANDER SA | | Available-for-sale financial assets | | | | | |
| | | BANK OF NEW YORK MELLON CORP COM STK USD0.01 | | Available-for-sale financial assets | 3 | 2,943 | | 2,621 | Note 5 |
| | | BAXTER INTERNATIONAL INC COM USD1 | | Available-for-sale financial assets | 2 | 4,376 | | 4,344 | Note 5 |
| | | BECTON DICKINSON & CO COM | | Available-for-sale financial assets | 2 | 4,772 | | 4,551 | Note 5 |
| | | BG GROUP PLC ORD GBP0.10 | | Available-for-sale financial assets | 7 | 4,546 | | 3,092 | Note 5 |
| | | BHP BILLITON PLC USD0.50 | | Available-for-sale financial assets | 5 | 2,947 | | 2,806 | Note 5 |
| | | BMC SOFTWARE INC COM | | Available-for-sale financial assets | 5 | 5,621 | | 4,700 | Note 5 |
| | | BNP PARIBAS EUR2 | | Available-for-sale financial assets | 2 | 6,079 | | 2,407 | Note 5 |
| | | BP PLC ORD USD0.25 | | Available-for-sale financial assets | 29 | 10,863 | | 7,289 | Note 5 |
| | | CAMERON INTERNATIONAL CORP COM USD0.01 | | Available-for-sale financial assets | 4 | 5,568 | | 2,659 | Note 5 |
| | | CAMPBELL SOUP CO CAP USD0.0375 | | Available-for-sale financial assets | 5 | 5,609 | | 4,931 | Note 5 |
| | | CAPITA GROUP PLC ORD GBP0.02066667 | | Available-for-sale financial assets | 12 | 5,048 | | 4,056 | Note 5 |
| | | CHEVRON CORP COM USD0.75 | | Available-for-sale financial assets | 2 | 4,201 | | 4,878 | Note 5 |
| | | CHUBU ELECTRIC POWER | | Available-for-sale financial assets | 3 | 2,502 | | 2,889 | Note 5 |
| | | CHUGAI PHARMACEUTICAL LTD. NPV | | Available-for-sale financial assets | 5 | 2,662 | | 3,326 | Note 5 |
| | | COLGATE PALMOLIVE CO COM | | Available-for-sale financial assets | 2 | 5,610 | | 5,027 | Note 5 |
| | | COMPASS GROUP PLC ORD | | Available-for-sale financial assets | 19 | 4,005 | | 3,043 | Note 5 |
| | | CVS CAREMARK CORP COM STK USD0.01 | | Available-for-sale financial assets | 4 | 5,326 | | 3,778 | Note 5 |
| | | DAIHATSU MOTOR CO LTD. NPV | | Available-for-sale financial assets | 8 | 3,145 | | 2,281 | Note 5 |
| | | DE LA RUE ORD GBP0.4486857 | | Available-for-sale financial assets | 5 | 3,115 | | 2,056 | Note 5 |
| | | DEUTSCHE BANK AG NAMEN ORD | | Available-for-sale financial assets | 1 | 1,024 | | 940 | Note 5 |
| | | E.ON AG NPV | | Available-for-sale financial assets | 4 | 7,180 | | 4,624 | Note 5 |
| | | EISAI CO LTD. | | Available-for-sale financial assets | 3 | 3,215 | | 3,369 | Note 5 |
| | | EMC CORP COM | | Available-for-sale financial assets | 9 | 2,492 | | 2,947 | Note 5 |

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| | | | | | |
|---------------------------------|-------------------------------------|----|-------|-------|--------|
| ENEL | Available-for-sale financial assets | 23 | 6,854 | 4,768 | Note 5 |
| ENI SPA | Available-for-sale financial assets | 6 | 7,203 | 4,640 | Note 5 |
| EXPEDITORS INTL WASH INC COM | Available-for-sale financial assets | 3 | 2,607 | 3,264 | Note 5 |
| EXXON MOBIL CORP COM | Available-for-sale financial assets | 2 | 5,322 | 4,984 | Note 5 |
| FAMILYMART CO LTD. | Available-for-sale financial assets | 3 | 2,547 | 3,703 | Note 5 |
| FAST RETAILING CO LTD. NPV | Available-for-sale financial assets | 2 | 3,570 | 7,091 | Note 5 |
| FIAT SPA | Available-for-sale financial assets | 12 | 6,441 | 2,475 | Note 5 |
| FIRSTENERGY CORP COM USD0.10 | Available-for-sale financial assets | 2 | 2,723 | 2,835 | Note 5 |

(Continued)

| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2008 | | | Market Value or Net Asset Value Note |
|-----|-------------------|---|-------------------------------|-------------------------------------|-----------------------------------|-------------------------|-------------------------|--------------------------------------|
| | | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 6) | Percentage of Ownership | |
| | | FIRSTGROUP PLC ORD GBP0.05 | | Available-for-sale financial assets | 11 | \$ 3,792 | | \$ 2,317 Note 5 |
| | | FLUOR CORP NEW COM | | Available-for-sale financial assets | 2 | 5,289 | | 3,614 Note 5 |
| | | FRANCE TELECOM SA EUR4 | | Available-for-sale financial assets | 5 | 5,919 | | 4,647 Note 5 |
| | | FUJI HEAVY INDUSTRIES LTD. NPV | | Available-for-sale financial assets | 16 | 2,969 | | 1,393 Note 5 |
| | | FURUKAWA ELEC LTD. ORD | | Available-for-sale financial assets | 22 | 3,544 | | 3,438 Note 5 |
| | | GAMESTOP CORP-CL A NEW CLASS A COM USD0.001 | | Available-for-sale financial assets | 4 | 6,448 | | 2,762 Note 5 |
| | | GEMALTO EUR1 | | Available-for-sale financial assets | 3 | 3,622 | | 2,421 Note 5 |
| | | GENERAL DYNAMICS CORP COM | | Available-for-sale financial assets | 2 | 2,734 | | 3,225 Note 5 |
| | | GENERAL MILLS INC | | Available-for-sale financial assets | 3 | 5,511 | | 5,969 Note 5 |
| | | GILEAD SCIENCES INC COM | | Available-for-sale financial assets | 4 | 4,327 | | 6,505 Note 5 |
| | | GLAXOSMITHKLINE PLC ORD GBP0.25 | | Available-for-sale financial assets | 3 | 2,719 | | 1,864 Note 5 |
| | | HEINZ H J CO COM | | Available-for-sale financial assets | 4 | 5,532 | | 4,952 Note 5 |
| | | HITACHI CONSTRUCTION MACHINE NPV | | Available-for-sale financial assets | 3 | 3,741 | | 1,248 Note 5 |
| | | HOME DEPOT INC COM USD0.05 | | Available-for-sale financial assets | 3 | 2,657 | | 2,617 Note 5 |
| | | IMPERIAL TOBACCO GROUP PLC ORD GBP0.10 | | Available-for-sale financial assets | 4 | 4,716 | | 3,212 Note 5 |
| | | INDRA SISTEMAS SA EURO.20 SER A | | Available-for-sale financial assets | 4 | 3,653 | | 3,049 Note 5 |
| | | ING GROEP NV CVA EURO.24 | | Available-for-sale financial assets | 5 | 4,191 | | 1,840 Note 5 |
| | | INPEX CORP | | Available-for-sale financial assets | | 2,368 | | 2,288 Note 5 |
| | | INTESA SANPAOLO SPA | | Available-for-sale financial assets | 36 | 6,677 | | 4,224 Note 5 |
| | | INTL BUSINESS MACHINES CORP COM USD0.20 | | Available-for-sale financial assets | 1 | 4,629 | | 3,952 Note 5 |
| | | ITOCHU CORP ORD | | Available-for-sale financial assets | 11 | 3,518 | | 1,775 Note 5 |
| | | ITT CORP | | Available-for-sale financial assets | 2 | 5,033 | | 3,636 Note 5 |
| | | JAPAN PETROLEUM EXPLORATION SHS | | Available-for-sale financial assets | 2 | 3,039 | | 2,273 Note 5 |
| | | JFE HOLDINGS INC NPV | | Available-for-sale financial assets | 3 | 3,013 | | 2,126 Note 5 |
| | | JGC CORPORATION | | Available-for-sale financial assets | 5 | 3,260 | | 2,382 Note 5 |
| | | JOHNSON & JOHNSON COM USD1 | | Available-for-sale financial assets | 3 | 6,336 | | 5,926 Note 5 |
| | | JPMORGAN CHASE & CO COM USD1 | | Available-for-sale financial assets | 2 | 2,950 | | 2,056 Note 5 |
| | | KDDI CORPORATION | | Available-for-sale financial assets | | 2,583 | | 3,007 Note 5 |
| | | KONAMI CORP jpy50 | | Available-for-sale financial assets | 3 | 3,518 | | 2,325 Note 5 |
| | | KONINKLIJKE AHOLD NV EURO.30 | | Available-for-sale financial assets | 16 | 7,788 | | 6,424 Note 5 |
| | | KONINKLIJKE KPN NV EURO.24 | | Available-for-sale financial assets | 12 | 7,438 | | 5,927 Note 5 |
| | | KYUSHU ELECTRIC POWER | | Available-for-sale financial assets | 3 | 2,426 | | 2,786 Note 5 |
| | | LAWSON INC LAWSON INC | | Available-for-sale financial assets | 2 | 2,483 | | 2,835 Note 5 |
| | | LVMH MOET HENNESSY LOUIS VUI EURO.30 | | Available-for-sale financial assets | 2 | 6,686 | | 4,194 Note 5 |
| | | MAN GROUP PLC ORD USD0.03428571 | | Available-for-sale financial assets | 12 | 4,725 | | 1,351 Note 5 |
| | | MAPFRE S.A. | | Available-for-sale financial assets | 45 | 7,218 | | 5,042 Note 5 |
| | | MARUBENI CORPORATION | | Available-for-sale financial assets | 16 | 3,380 | | 1,958 Note 5 |
| | | MCDONALD S CORP COM USD0.01 | | Available-for-sale financial assets | 3 | 4,207 | | 6,539 Note 5 |

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| | | | | | |
|------------------------------------|-------------------------------------|----|-------|-------|--------|
| MERCK KGAA NPV | Available-for-sale financial assets | 2 | 8,248 | 5,140 | Note 5 |
| MICROSOFT CORP COM USD0.0000125 | Available-for-sale financial assets | 6 | 5,102 | 3,513 | Note 5 |
| MITSUBISHI CORP ORD | Available-for-sale financial assets | 3 | 1,946 | 1,533 | Note 5 |
| MITSUBISHI ELECTRIC CORP NPV | Available-for-sale financial assets | 12 | 3,470 | 2,413 | Note 5 |
| MITSUBISHI MOTORS CORP NPV | Available-for-sale financial assets | 56 | 3,106 | 2,488 | Note 5 |

(Continued)

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| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2008 | | | Market Value or Net Asset Value Note |
|-----|-------------------|---|-------------------------------|-------------------------------------|-----------------------------------|-------------------------|-------------------------|--------------------------------------|
| | | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 6) | Percentage of Ownership | |
| | | MITSUI OSK LINES LTD. NPV | | Available-for-sale financial assets | 9 | \$ 3,539 | | \$ 1,777 Note 5 |
| | | MONSANTO CO NEW COM | | Available-for-sale financial assets | 1 | 5,448 | | 3,352 Note 5 |
| | | MOODY S CORP COM USD0.01 | | Available-for-sale financial assets | 2 | 2,729 | | 1,376 Note 5 |
| | | MORRISON W SUPRMKT ORD GBP0.10 | | Available-for-sale financial assets | 25 | 4,899 | | 3,289 Note 5 |
| | | NATIONAL BANK OF GREECE EUR5.00(REGD) | | Available-for-sale financial assets | 6 | 3,491 | | 3,582 Note 5 |
| | | NATIONAL-OILWELL VARCO INC COM USD0.01 | | Available-for-sale financial assets | 2 | 3,059 | | 1,585 Note 5 |
| | | NIKE INC -CL B CLASS B COM NPV | | Available-for-sale financial assets | 3 | 6,496 | | 5,388 Note 5 |
| | | NIKON CORP | | Available-for-sale financial assets | 4 | 2,636 | | 1,541 Note 5 |
| | | NINTENDO CO LTD. NPV | | Available-for-sale financial assets | | 3,327 | | 2,458 Note 5 |
| | | NIPPON ELECTRIC GLASS CO LTD. | | Available-for-sale financial assets | 6 | 3,830 | | 1,012 Note 5 |
| | | NIPPON SHEET GLASS CO LTD. | | Available-for-sale financial assets | 17 | 2,923 | | 1,802 Note 5 |
| | | NIPPON YUSEN KABUSHIKI KAISH NPV | | Available-for-sale financial assets | 12 | 3,912 | | 2,382 Note 5 |
| | | NOKIA OYJ NPV | | Available-for-sale financial assets | 4 | 3,647 | | 2,018 Note 5 |
| | | NYSE EURONEXT COM STK USD0.01 | | Available-for-sale financial assets | 3 | 6,325 | | 2,347 Note 5 |
| | | OLD MUTUAL PLC GBP0.10 | | Available-for-sale financial assets | 58 | 5,622 | | 1,528 Note 5 |
| | | ORIENTAL LAND CO LTD. NPV | | Available-for-sale financial assets | 1 | 2,997 | | 3,773 Note 5 |
| | | PANASONIC CORP | | Available-for-sale financial assets | 5 | 3,406 | | 2,027 Note 5 |
| | | PEABODY ENERGY CORP COM USD0.01 | | Available-for-sale financial assets | 4 | 2,666 | | 2,761 Note 5 |
| | | PERNOD-RICARD SA EUR1.55 | | Available-for-sale financial assets | 2 | 6,307 | | 5,399 Note 5 |
| | | PNC FINL SVCS GROUP IN COM | | Available-for-sale financial assets | 2 | 5,360 | | 3,864 Note 5 |
| | | PRAXAIR INC COM | | Available-for-sale financial assets | 2 | 4,743 | | 3,550 Note 5 |
| | | QUALCOMM INC COM USD0.0001 | | Available-for-sale financial assets | 4 | 5,434 | | 4,503 Note 5 |
| | | RAYTHEON CO COM COM USD0.01 | | Available-for-sale financial assets | 2 | 5,187 | | 4,025 Note 5 |
| | | RECKITT BENCKISER GROUP PLC | | Available-for-sale financial assets | 3 | 3,953 | | 3,333 Note 5 |
| | | ROCKWELL COLLINS COM | | Available-for-sale financial assets | 3 | 5,571 | | 3,846 Note 5 |
| | | ROYAL DUTCH SHELL PLC-A SHS A SHS EUR0.07 | | Available-for-sale financial assets | 6 | 6,910 | | 4,892 Note 5 |
| | | RWE AG NEU NPV | | Available-for-sale financial assets | 2 | 8,759 | | 5,849 Note 5 |
| | | SANOFI-AVENTIS EUR2 | | Available-for-sale financial assets | 3 | 6,368 | | 6,068 Note 5 |
| | | SAP AG-COMMON ORD NPV | | Available-for-sale financial assets | 4 | 7,066 | | 4,619 Note 5 |
| | | SCOT + STHN ENERGY ORD GBP0.50 | | Available-for-sale financial assets | 5 | 3,972 | | 2,741 Note 5 |
| | | SHIONOGI & CO LTD. | | Available-for-sale financial assets | 6 | 3,971 | | 5,015 Note 5 |
| | | SHISEIDO CO LTD. ORD | | Available-for-sale financial assets | 4 | 2,909 | | 2,659 Note 5 |
| | | SIEMENS AG-REG NPV(REGD) | | Available-for-sale financial assets | 2 | 6,716 | | 4,388 Note 5 |
| | | STANDARD CHARTERED PLC ORD USD0.50 | | Available-for-sale financial assets | 5 | 5,195 | | 2,247 Note 5 |
| | | STANDARD LIFE PLC ORD GBP0.10 | | Available-for-sale financial assets | 31 | 4,619 | | 3,019 Note 5 |
| | | STATE STR CORP COM | | Available-for-sale financial assets | 3 | 6,413 | | 3,318 Note 5 |
| | | SUZUKI MOTOR CORP NPV | | Available-for-sale financial assets | 5 | 3,587 | | 2,147 Note 5 |
| | | T&D HOLDINGS INC | | Available-for-sale financial assets | 2 | 3,491 | | 2,695 Note 5 |
| | | | | Available-for-sale financial assets | 2 | 3,179 | | 3,211 Note 5 |

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| | | | | | |
|-------------------------------------|-------------------------------------|---|-------|-------|--------|
| TAKEDA PHARMACEUTICAL NPV SHS | | | | | |
| TECHNIP NPV NPV | Available-for-sale financial assets | 4 | 4,147 | 4,246 | Note 5 |
| TELEFONICA SA EUR1 | Available-for-sale financial assets | 8 | 6,798 | 5,517 | Note 5 |
| TERUMO CORPORATION | Available-for-sale financial assets | 3 | 3,389 | 3,949 | Note 5 |
| THALES SA THALES SA | Available-for-sale financial assets | 3 | 4,094 | 4,381 | Note 5 |

(Continued)

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| | | | | December 31, 2008 | | | | | |
|-----|-------------------|--|-------------------------------|-------------------------------------|----------------------------|-------------------------|-------------------------|---------------------|--------|
| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares | Carrying Value (Note 6) | Percentage of Ownership | Market Value or Net | |
| | | | | | (Thousands/Thousand Units) | | | Asset Value | Note |
| | | THERMO FISHER SCIENTIFIC INC COM USD1 | | Available-for-sale financial assets | 3 | \$ 5,681 | | \$ 3,666 | Note 5 |
| | | TOKIO MARINE HOLDINGS INC | | Available-for-sale financial assets | 3 | 3,570 | | 2,819 | Note 5 |
| | | TOTAL SA EUR2.5 | | Available-for-sale financial assets | 3 | 7,504 | | 4,988 | Note 5 |
| | | TOYO SUISAN KAISHA LTD. | | Available-for-sale financial assets | 5 | 3,535 | | 4,698 | Note 5 |
| | | TULLOW OIL PLC ORD GBP0.10 | | Available-for-sale financial assets | 8 | 3,052 | | 2,540 | Note 5 |
| | | UNILEVER NV-CVA CVA EUR0.16 | | Available-for-sale financial assets | 5 | 5,623 | | 4,196 | Note 5 |
| | | UNION PACIFIC CORP COM USD2.50 | | Available-for-sale financial assets | 3 | 5,720 | | 4,712 | Note 5 |
| | | UNITED UTILITIES GROUP PLC ORD GBP5 | | Available-for-sale financial assets | 7 | 3,482 | | 2,231 | Note 5 |
| | | VALLOUREC (USIN A T EUR4 (POST SUBDIVISION)) | | Available-for-sale financial assets | 1 | 3,602 | | 3,974 | Note 5 |
| | | VERIZON COMMUNICATIONS COM | | Available-for-sale financial assets | 3 | 2,715 | | 3,471 | Note 5 |
| | | VINCI EUR2.50 (POST SUBDIVISION) | | Available-for-sale financial assets | 4 | 6,867 | | 5,212 | Note 5 |
| | | VIVENDI SA EUR5.50 | | Available-for-sale financial assets | 5 | 6,884 | | 5,642 | Note 5 |
| | | VODAFONE GROUP PLC ORD USD0.11428571 | | Available-for-sale financial assets | 70 | 7,366 | | 4,646 | Note 5 |
| | | VOESTALPINE AG NPV | | Available-for-sale financial assets | 5 | 9,909 | | 3,428 | Note 5 |
| | | WACKER CHEMIE AG NPV(BR) | | Available-for-sale financial assets | 2 | 7,246 | | 7,898 | Note 5 |
| | | WAL-MART STORES INC COM USD0.10 | | Available-for-sale financial assets | 3 | 5,431 | | 5,342 | Note 5 |
| | | WELLS FARGO & CO COM USD1 2/3 | | Available-for-sale financial assets | 5 | 5,482 | | 4,688 | Note 5 |
| | | WISCONSIN ENERGY CORP COM | | Available-for-sale financial assets | 2 | 2,658 | | 2,813 | Note 5 |
| | | WYETH COM USD0.333 | | Available-for-sale financial assets | 2 | 2,702 | | 2,779 | Note 5 |
| | | XSTRATA PLC ORD USD0.50 | | Available-for-sale financial assets | 2 | 2,684 | | 563 | Note 5 |
| | | XTO ENERGY INC COM USD0.01 | | Available-for-sale financial assets | 3 | 5,868 | | 3,048 | Note 5 |
| | | REITS | | | | | | | |
| | | Fubon No. 1 Fund | | Available-for-sale financial assets | 10,000 | 100,000 | | 97,000 | Note 5 |
| | | Cathay No. 2 REIT | | Available-for-sale financial assets | 2,288 | 22,880 | | 20,226 | Note 5 |
| | | Gallop No. 1 REIT | | Available-for-sale financial assets | 10,000 | 100,000 | | 77,000 | Note 5 |
| | | Beneficiary certificates (mutual fund) | | | | | | | |
| | | Polaris /P-shares Taiwan Dividend + ETF | | Available-for-sale financial assets | 600 | 15,000 | | 8,094 | Note 4 |
| | | SINOPIA ALT-GL BD M/N 600\$ I GBL BD MKT NEUTR 600 USD I | | Available-for-sale financial assets | | 623,332 | | 655,389 | Note 4 |
| | | PCA Well Pool Fund | | Available-for-sale financial assets | 117,079 | 1,500,000 | | 1,515,101 | Note 4 |
| | | | | | 104,520 | 1,500,000 | | 1,508,096 | Note 4 |

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| | | | | | |
|---|-------------------------------------|--------|-----------|-----------|--------|
| Yuan Ta Wan Tai Bond Fund | Available-for-sale financial assets | | | | |
| Polaris De-Li Fund | Available-for-sale financial assets | 97,388 | 1,500,000 | 1,515,220 | Note 4 |
| MFS Meridian Emerging Markets Debt Fund | Available-for-sale financial assets | 336 | 208,578 | 206,457 | Note 4 |
| Fidelity US High Yield Fund | Available-for-sale financial assets | 535 | 206,588 | 136,427 | Note 4 |
| MFS Meridian Funds-Strategic Income Fund | Available-for-sale financial assets | 316 | 132,592 | 115,946 | Note 4 |
| Fidelity Fds Intl Bond | Available-for-sale financial assets | 14,644 | 565,387 | 520,653 | Note 4 |
| Credit Suisse BF (Lux) Euro Bond Fund | Available-for-sale financial assets | 4 | 55,632 | 67,248 | Note 4 |
| Fidelity European High Yield Fund | Available-for-sale financial assets | 324 | 126,425 | 83,835 | Note 4 |
| Parvest Europe Convertible Bond Fond | Available-for-sale financial assets | 78 | 443,097 | 330,346 | Note 4 |
| JPMorgan Funds-Global Convertibles Fund (EUR) | Available-for-sale financial assets | 868 | 491,450 | 370,542 | Note 4 |
| Parvest Euro Bond | Available-for-sale financial assets | 39 | 287,400 | 293,022 | Note 4 |
| Fuh-Hwa Aegis Fund | Available-for-sale financial assets | 17,813 | 234,684 | 188,543 | Note 4 |
| AGI Global Quantitative Balanced Fund | Available-for-sale financial assets | 22,968 | 267,269 | 239,098 | Note 4 |

(Continued)

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| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2008 | | | | |
|-----|-------------------|--|-------------------------------|-------------------------------------|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| | | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 6) | Percentage of Ownership | Market Value or Net Asset Value | Note |
| | | Capital Asset Manager Income | | Available-for-sale financial assets | 11,285 | \$ 200,000 | | \$ 146,911 | Note 4 |
| | | Fuh Hwa Life Goal Fund | | Available-for-sale financial assets | 6,832 | 100,000 | | 83,267 | Note 4 |
| | | Fuh Hwa Asia Pacific Balanced | | Available-for-sale financial assets | 7,764 | 100,000 | | 65,295 | Note 4 |
| | | Asia-Pacific Mega - Trend Fund | | Available-for-sale financial assets | 13,059 | 175,000 | | 111,001 | Note 4 |
| | | AIG Flagship Global Balanced Fund of Funds | | Available-for-sale financial assets | 25,679 | 350,000 | | 272,970 | Note 4 |
| | | Franklin Templeton Global Bond Fund of Funds | | Available-for-sale financial assets | 18,089 | 200,000 | | 193,452 | Note 4 |
| | | Cathay Global Aggressive Fund of Funds | | Available-for-sale financial assets | 14,692 | 200,000 | | 127,231 | Note 4 |
| | | Polaris Global Emerging Market Funds | | Available-for-sale financial assets | 9,791 | 150,000 | | 75,490 | Note 4 |
| | | HSBC Global Fund of Bond Funds | | Available-for-sale financial assets | 22,838 | 250,000 | | 240,729 | Note 4 |
| | | Fubon Taiwan Selected Fund | | Available-for-sale financial assets | 100,000 | 618,404 | | 602,000 | Note 4 |
| | | HSBC Taiwan Balanced Strategy Fund | | Available-for-sale financial assets | 100,000 | 797,811 | | 745,000 | Note 4 |
| | | Cathay Chung Hwa No. 1 Fund | | Available-for-sale financial assets | 100,000 | 717,909 | | 585,000 | Note 4 |
| | | Fuh Hwa Power Fund III | | Available-for-sale financial assets | 100,000 | 726,771 | | 725,000 | Note 4 |
| | | JPM (Taiwan) JF Balanced Fund | | Available-for-sale financial assets | 2,462 | 50,000 | | 38,508 | Note 4 |
| | | MFS Meridian Funds-Global Equity Fund (A1 class) | | Available-for-sale financial assets | 253 | 262,293 | | 175,235 | Note 4 |
| | | Fidelity Fds International | | Available-for-sale financial assets | 128 | 163,960 | | 94,857 | Note 4 |
| | | Fidelity Fds America | | Available-for-sale financial assets | 937 | 163,960 | | 98,248 | Note 4 |
| | | JPMorgan Funds-Global Dynamic Fund (B) | | Available-for-sale financial assets | 303 | 165,640 | | 99,714 | Note 4 |
| | | MFS Meridian Funds-Research International Fund (A1 share) | | Available-for-sale financial assets | 173 | 131,920 | | 79,545 | Note 4 |
| | | Fidelity Fds Emerging Markets | | Available-for-sale financial assets | 144 | 122,175 | | 50,085 | Note 4 |
| | | Credit Suisse Equity Fund (Lux) Global Resources | | Available-for-sale financial assets | 13 | 162,990 | | 72,557 | Note 4 |
| | | Fidelity Euro Balanced Fund | | Available-for-sale financial assets | 879 | 560,819 | | 411,064 | Note 4 |
| | | Fidelity Fds World | | Available-for-sale financial assets | 295 | 171,568 | | 95,383 | Note 4 |
| | | Fidelity Fds Euro Blue Chip | | Available-for-sale financial assets | 259 | 233,544 | | 135,862 | Note 4 |
| | | MFS Meridian Funds - European Equity Fund (A1 share) | | Available-for-sale financial assets | 171 | 178,920 | | 106,083 | Note 4 |
| | | Henderson Horizon Fund - Pan European Equity Fund | | Available-for-sale financial assets | 230 | 180,886 | | 123,499 | Note 4 |
| | | JPM (Taiwan) Global Balanced Fund | | Available-for-sale financial assets | 9,071 | 125,000 | | 112,642 | Note 4 |
| | | Enterprise Debt Securitization Cathay United Bank CLO 96-1 | | Held-to-maturity financial assets | | 41,360 | | 41,360 | Note 7 |
| | | Bonds | | | | | | | |
| | | Mega Securities Corp. 1st Unsecured Corporate Bonds in 2007 | | Held-to-maturity financial assets | | 150,000 | | 150,000 | Note 7 |
| | | KGI Securities 1st Unsecured Corporate Bonds 2007-B Issue | | Held-to-maturity financial assets | | 100,000 | | 100,000 | Note 7 |
| | | Mege Financial Holding 1st Unsecured Corporate Bond 2007-B Issue | | Held-to-maturity financial assets | | 200,000 | | 200,000 | Note 7 |
| | | | | Held-to-maturity financial assets | | 300,000 | | 300,000 | Note 7 |

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| | | | | |
|---|-----------------------------------|---------|---------|--------|
| Mega Securities Corp. 1st Unsecured Corporate Bond 2008 - A issue | | | | |
| Formosa Petrochemical Corp. | Held-to-maturity financial assets | 99,841 | 99,841 | Note 7 |
| Taiwan Power Company 3rd Boards in 2008 | Held-to-maturity financial assets | 149,914 | 149,914 | Note 7 |
| GreTai Company 1st Unsecured Corporate Bonds-A issue in 2008 | Held-to-maturity financial assets | 100,000 | 100,000 | Note 7 |
| China Development Industrial B | Held-to-maturity financial assets | 198,309 | 198,309 | Note 7 |

(Continued)

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| | | | | December 31, 2008 | | | | | |
|-----|-------------------------------|---|-------------------------------|-----------------------------------|-----------------------------------|-------------------|-----------------|-----------------------|--------|
| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares | Carrying | Percentage | Market Value | Note |
| | | | | | (Thousands/ Thousand Units) | Value (Note 6) | of Ownership | or Net Asset Value | |
| | | Fubon Financial Holding Company 2005 1st Unsecured Debenture | | Held-to-maturity financial assets | | \$ 99,171 | | \$ 99,171 | Note 7 |
| | | Formosa Petrochemical Corporation 3rd Unsecured Corporate Bonds Issue in 2008. | | Held-to-maturity financial assets | | 49,916 | | 49,916 | Note 7 |
| | | Cathay United Bank 9St Financial Debentures-03 Issue in 2004 | | Held-to-maturity financial assets | | 199,832 | | 199,832 | Note 7 |
| | | Chang Hwa Bank 1st Subordinate Financial Debentures-B Issue in 2002 | | Held-to-maturity financial assets | | 170,445 | | 170,445 | Note 7 |
| | | Chang Hwa Bank 1st Subordinate Financial Debentures-B Issue in 2002 | | Held-to-maturity financial assets | | 70,183 | | 70,183 | Note 7 |
| | | Hua Nan Commercial Bank the Tenth Subordinate Financial Debentures Issue in 2003 | | Held-to-maturity financial assets | | 200,243 | | 200,243 | Note 7 |
| | | Hua Nan Commercial Bank 2nd of the two Subordinate Financial Debentures Issue in 2004 | | Held-to-maturity financial assets | | 99,886 | | 99,886 | Note 7 |
| | | China Development Industrial Bank 2nd Financial Debentures issue in 2006 | | Held-to-maturity financial assets | | 198,107 | | 198,107 | Note 7 |
| | | Taiwan Power Company 5th Boards in 2008 | | Held-to-maturity financial assets | | 273,673 | | 273,673 | Note 7 |
| | | Yuanta Unsecured Corporate Bond 2008 - A Issue | | Held-to-maturity financial assets | | 100,064 | | 100,064 | Note 7 |
| | | Formosa Petrochemical Corporation 4th Unsecured Corporate Bonds Issue in 2006 | | Held-to-maturity financial assets | | 301,261 | | 301,261 | Note 7 |
| | | NAN YA Company 2nd Unsecured Corporate Bonds Issue in 2008 | | Held-to-maturity financial assets | | 409,739 | | 409,739 | Note 7 |
| | | Taiwan Power Company 3rd Boards in 2006 | | Held-to-maturity financial assets | | 201,551 | | 201,551 | Note 7 |
| | | China Steel Corporation 2nd Unsecured Corporate Bonds-A Issue in 2008 | | Held-to-maturity financial assets | | 100,042 | | 100,042 | Note 7 |
| 1 | Senao International Co., Ltd. | Senao Networks, Inc. | Equity-method investee | Equity-method investee | 15,152 | 264,271 | 45 | 264,271 | Note 1 |
| | | N.T.U. Innovation Incubation Corporation | | Financial assets carried at cost | 1,200 | 12,000 | 9 | 12,600 | Note 2 |
| 2 | CHIEF Telecom Inc. | Unigate Telecom Inc. | Subsidiary | Equity-method investee | 200 | 1,964 | 100 | 1,964 | Note 1 |
| | | CHIEF Telecom (Hong Kong) Limited | Subsidiary | Equity-method investee | 400 | 1,208 | 100 | 1,208 | Note 1 |
| | | Chief International Corp. | Subsidiary | Equity-method investee | 200 | 6,624 | 100 | 6,624 | Note 1 |
| | | eASPNet Inc. | | Financial assets carried at cost | 1,000 | | 2 | | Note 2 |
| | | 3 Link Information Service Co., Ltd. | | Financial assets carried at cost | 374 | 3,450 | 10 | 6,200 | Note 2 |

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| | | | | | | | | | |
|----|--------------------------|---|------------------------|-------------------------------------|--------|--------------|--------|--------------|--------|
| 3 | Chunghwa System | Concord Technology Corp. | Subsidiary | Equity-method investee | 500 | 13,147 | 100 | 13,147 | Note 1 |
| | Integration Co., Ltd. | | | | | | | | |
| | | | | | | US\$ (401) | | US\$ (401) | |
| | | Cathy Global Aggressive Fund of Fund | | Available-for-sale financial assets | 1,233 | 15,000 | | 10,682 | Note 4 |
| | | Cathy Global Infrastructure Fund | | Available-for-sale financial assets | 1,418 | 15,000 | | 10,312 | Note 4 |
| 4 | Concord Technology Corp. | Glory Network System Service (Shanghai) Co., Ltd. | Subsidiary | Equity-method investee | 500 \$ | 13,142 | 100 \$ | 13,142 | Note 1 |
| | | | | | | US\$ (401) | | US\$ (401) | |
| 12 | Chunghwa Telecom | ST-2 Satellite Ventures Pte., Ltd. | Equity-method investee | Equity-method investee | 4,375 | 108,212 | 38 | 108,212 | Note 1 |
| | Singapore Pte., Ltd. | | | | | | | | |
| | | | | | | SG\$ (4,736) | | SG\$ (4,736) | |

(Continued)

- Note 1: The net asset values of investees were based on audit financial statements.
- Note 2: The net asset values of investees were based on unaudit financial statements.
- Note 3: New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) were incorporated in March 2006 and Chunghwa has 100% ownership right in an amount of US\$1 in each holding company, but not on operating stage, yet.
- Note 4: The net asset values of beneficiary certification (mutual fund) were base on the net asset values on December 31, 2008.
- Note 5: Market value was based on the closing price of December 31, 2008.
- Note 6: Showing at their original carrying amounts without the adjustments of fair values except Held-to-Maturity financial assets.
- Note 7: The net asset values of investees were based on amortized cost.
- Note 8: Chunghwa prepaid \$283,500 thousand cash of this long-term investment in December 2008, and acquire 49% ownership.
- Note 9: Chunghwa prepaid \$283,859 thousand cash of this long-term investment in October 2008.

(Concluded)

TABLE 2**CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance Shares | | Acquisition Shares | | Shares (Thousands/Thousand Units) | Disposal | | Gain (Loss) on Disposal | Ending Shares (Thousands/Thousand Units) |
|--|--|---------------|------------------------|----------------------------|-----------------|----------------------------|--------------|-----------------------------------|-------------------------|-----------|-------------------------|--|
| | | | | (Thousands/Thousand Units) | Amount (Note 1) | (Thousands/Thousand Units) | Amount | | Carrying Value (Note 1) | Amount | | |
| Stocks | | | | | | | | | | | | |
| Right Era Development Co., Ltd. | Investment accounted for using equity method | | Subsidiary | | \$ | 300,000 | \$ 3,000,000 | | \$ | \$ | \$ | 300,000 |
| Chunghwa Telecom Co., Ltd. | Investment accounted for using equity method | | Subsidiary | 4,590 | 15,408 | 47,000 | 189,833 | | | | | 51,590 |
| Chunghwa Singapore Pte., Ltd. | Investment accounted for using equity method | | Subsidiary | | | 34,869 | 779,280 | | | | | 34,869 |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. | Financial assets carried at cost | | | | | 20,000 | 200,000 | | | | | 20,000 |
| Siemens Telecommunication Systems | Financial assets carried at cost | | | 75 | 5,250 | | | 75 | 314,055 | 5,250 | 308,805 | |
| Mega Financial Holding Co., Ltd. | Available-for-sale financial assets | | | 5,800 | 119,781 | | | 5,800 | 126,499 | 119,781 | 6,718 | |
| Beneficiary certificates (mutual fund) | | | | | | | | | | | | |
| CA Well Pool Fund | Available-for-sale financial assets | | | | | 117,079 | 1,500,000 | | | | | 117,079 |
| BT Securities Bond Fund | Available-for-sale financial assets | | | | | 75,393 | 1,000,000 | 75,393 | 1,011,120 | 1,000,000 | 11,120 | |
| Huan Ta Wan Tai Bond Fund | Available-for-sale financial assets | | | | | 104,520 | 1,500,000 | | | | | 104,520 |
| Mega Diamond Bond Fund | Available-for-sale financial assets | | | | | 85,334 | 1,000,000 | 85,334 | 1,009,677 | 1,000,000 | 9,677 | |
| Solaris De-Li Fund | Available-for-sale financial assets | | | | | 97,388 | 1,500,000 | | | | | 97,388 |
| Solaris Global Reits Fund | Available-for-sale financial assets | | | 16,018 | 200,000 | | | 16,018 | 120,846 | 200,000 | (79,154) | |
| P Morgan Global Balance Fund | Available-for-sale financial assets | | | | | 9,071 | 125,000 | | | | | 9,071 |
| KIT Strategy Balanced Fund | Available-for-sale financial assets | | | 47,979 | 559,554 | | | 47,979 | 522,195 | 559,554 | (37,359) | |
| | | | | 7,867 | 100,000 | | | 7,867 | 78,526 | 100,000 | (21,474) | |

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| | | | | | | | | | |
|--|-------------------------------------|--------|---------|--------|---------|--------|---------|---------|----------|
| Capital Stable Value Fund | Available-for-sale financial assets | | | | | | | | |
| KIT Fortune Balanced Fund | Available-for-sale financial assets | 6,097 | 100,000 | | | 6,097 | 80,581 | 100,000 | (19,419) |
| inoPac Trend Fund | Available-for-sale financial assets | 4,400 | 100,000 | | | 4,400 | 79,673 | 100,000 | (20,327) |
| ING Global Balanced Portfolio | Available-for-sale financial assets | 8,569 | 100,000 | | | 8,569 | 69,471 | 100,000 | (30,529) |
| ING Flagship Global Growth Fund of Funds | Available-for-sale financial assets | 22,878 | 350,000 | | | 22,878 | 273,078 | 350,000 | (76,922) |
| Intie ING CHTG Fund | Available-for-sale financial assets | 8,104 | 100,000 | | | 8,104 | 73,373 | 100,000 | (26,627) |
| ISBC Global Fund of Bond Funds | Available-for-sale financial assets | | | 22,838 | 250,000 | | | | 22,838 |
| Sh Sun Mortgage Backed Securities Fund | Available-for-sale financial assets | 20,305 | 200,000 | | | 20,305 | 193,565 | 200,000 | (6,435) |
| uh-Hwa Homerun Fund | Available-for-sale financial assets | 9,977 | 100,000 | | | 9,977 | 103,868 | 100,000 | 3,868 |
| uh-Hwa Income Fund | Available-for-sale financial assets | 9,872 | 100,000 | | | 9,872 | 102,960 | 100,000 | 2,960 |
| MFS Meridian Emerging Markets Debt Fund | Available-for-sale financial assets | 858 | 532,846 | | | 522 | 323,523 | 324,268 | (745) |
| SD Special Bond Fund | Available-for-sale financial assets | 25 | 353,540 | | | 25 | 344,621 | 353,540 | (8,919) |
| idelity US High Yield Fund | Available-for-sale financial assets | 995 | 389,718 | 74 | 23,458 | 534 | 137,104 | 206,588 | (69,484) |
| PMorgan Lux Funds-Emerging Markets Bond Fund | Available-for-sale financial assets | 21 | 199,638 | | | 21 | 136,476 | 199,638 | (63,162) |
| GAM Diversity - SD Open | Available-for-sale financial assets | 10 | 262,293 | | | 10 | 234,297 | 262,293 | (27,996) |
| ermal Fixed Income Holdings I.V. | Available-for-sale financial assets | 7 | 264,095 | | | 7 | 247,956 | 264,095 | (16,139) |
| idelity European High Yield Fund | Available-for-sale financial assets | 1,402 | 549,027 | 93 | 34,968 | 1,171 | 369,484 | 457,570 | (88,086) |

(Continued)

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| Company | Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance Shares | | Acquisition Shares | | Shares (Thousands/Thousand Units) | Disposal | | | Ending Shares (Thousand Units) |
|---------|---|-------------------------------------|---------------|------------------------|----------------------------|-----------------|----------------------------|--------|-----------------------------------|-------------------------|-------------------------|-------------|--------------------------------|
| | | | | | (Thousands/Thousand Units) | Amount (Note 1) | (Thousands/Thousand Units) | Amount | | Carrying Value (Note 1) | Gain (Loss) on Disposal | | |
| | Parvest Europe Convertible Bond Fund | Available-for-sale financial assets | | | 102 | \$ 577,813 | | \$ | 24 | \$ 117,044 | \$ 134,716 | \$ (17,672) | |
| | Bonds | | | | | | | | | | | | |
| | Mega Securities Corp. 1st Unsecured Corporate | Held-to-maturity financial assets | | | | | | | 300,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | China Delequent Industrial B | Held-to-maturity financial assets | | | | | | | 200,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Taiwan Power Company 3rdA Boards in 2008 | Held-to-maturity financial assets | | | | | | | 150,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Yuantu Unsecured Corporate Bond in 2008 | Held-to-maturity financial assets | | | | | | | 100,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Cathay United Bank 9St Financial Debentures-03 Issue in 2004 | Held-to-maturity financial assets | | | | | | | 200,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Chang Hwa Bank 1st Subordinate Financial Debentures-B Issue in 2002 | Held-to-maturity financial assets | | | | | | | 170,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Hwa Nan Commercial Bank the Tenth Subordinate Financial Debentures Issue in 2003 | Held-to-maturity financial assets | | | | | | | 200,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Hwa Nan Commercial Bank 2nd of the two Subordinate Financial Debentures Issue in 2004 | Held-to-maturity financial assets | | | | | | | 100,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | China Development Industrial Bank 2nd Financial Debentures issue in 2006 | Held-to-maturity financial assets | | | | | | | 200,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Taiwan Power Company 5th Boards in 2008 | Held-to-maturity financial assets | | | | | | | 270,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Yuanta Unsecured Corporate Bond 2007 - A Issue | Held-to-maturity financial assets | | | | | | | 100,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Formosa Petrochemical Corporation 4th Unsecured | Held-to-maturity financial assets | | | | | | | 300,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |

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| | | | | | | | | |
|--|--|--------|---------|--------|---------|---------|-----|----------|
| Corporate Bonds Issue in 2006 | | | | | | | | |
| NAN YA Company 2nd Unsecured Corporate Bonds Issue in 2008 | Held-to-maturity financial assets | | 400,000 | | | | | |
| | | | | | | | | (Note 5) |
| Taiwan Power Company 3rd Boards in 2006 | Held-to-maturity financial assets | | 200,000 | | | | | |
| | | | | | | | | (Note 5) |
| China Steel Corporation 2nd Unsecured Corporate Bonds-A Issue in 2008 | Held-to-maturity financial assets | | 100,000 | | | | | |
| | | | | | | | | (Note 5) |
| Fubon Financial Holding Company 2005 1st Unsecured Debenture | Held-to-maturity financial assets | | 100,000 | | | | | |
| | | | | | | | | (Note 5) |
| Formosa Detrochemical | Held-to-maturity financial assets | | 100,000 | | | | | |
| | | | | | | | | (Note 5) |
| <u>Beneficiary certificates (mutual fund)</u> | | | | | | | | |
| Taishin Lucky Fund | Available-for-sale financial assets | 23,894 | 250,000 | 23,894 | 250,843 | 250,000 | 843 | |
| UPAMC James Bond Fund | Available-for-sale financial assets | 18,451 | 290,000 | 18,451 | 290,381 | 290,000 | 381 | |
| IBT Ta Chong Bond Fund | Available-for-sale financial assets | 18,846 | 250,000 | 18,846 | 250,355 | 250,000 | 355 | |
| HSBC NTD Money Management Fund 2 | Available-for-sale financial assets | 17,473 | 250,000 | 17,473 | 250,320 | 250,000 | 320 | |
| Prudential Financial Bond Fund | Available-for-sale financial assets | 6,702 | 100,000 | 6,702 | 100,266 | 100,000 | 266 | |
| IBT 1699 Bond Fund | Available-for-sale financial assets | 11,805 | 150,000 | 11,805 | 150,635 | 150,000 | 635 | |
| Mega Diamond Bond Fund | Available-for-sale financial assets | 12,727 | 150,000 | 12,727 | 150,541 | 150,000 | 541 | |

(Continued)

| Company Name | Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance Shares | | Acquisition Shares | | Shares (Thousands/Thousand Units) | Disposal | | Gain (Loss) on Disposal | Ending Balance |
|----------------------------|-------------------------------------|--|---------------|--|----------------------------|-----------------|----------------------------|--------------|-----------------------------------|-----------------|-----------------------------------|-------------------------|----------------|
| | | | | | (Thousands/Thousand Units) | Amount (Note 1) | (Thousands/Thousand Units) | Amount | | Amount (Note 1) | Shares (Thousands/Thousand Units) | | |
| Chunghwa Telecom Co., Ltd. | Stock | | | | | | | | | | | | |
| | ST-2 Satellite Ventures Pte., Ltd. | Investment accounted for using equity method | | Investment accounted for using equity method | | | 4,735 | 106,432 | | | | | 4,735 |
| | | | | | | | | SG\$ (4,735) | | | | | |

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

Note 2: The amount was less equity in losses of equity investees \$23,566 thousand.

Note 3: The ending balance includes \$6,598 thousand and \$9,698 thousand which are investment income recognized under equity method and cumulative adjustment, respectively.

Note 4: The ending balance includes (\$5,454) thousand and \$17,335 thousand which are investment loss recognized under equity method and cumulative adjustment, respectively.

Note 5: Stated at its nominal amounts.

Note 6: The ending balance included equity in earnings accounted for using equity method of \$27 thousand and cumulative adjustment of \$1,753 thousand.

(Concluded)

TABLE 3**CHUNGHWA TELECOM CO., LTD.****ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars)**

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

TABLE 4**CHUNGHWA TELECOM CO., LTD.****DISPOSAL OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2008**

(Amounts in Thousands of New Taiwan Dollars)

| Company Name | Property | Date of Disposal | Date of Obtained | Carrying Amount | Transaction Amount | Receipt Condition | Disposed Gain (Loss) | Parties Involved | Relation with the Corporation | Purpose | Reference for Price Settlement | Other Limitation |
|------------------------------|----------|------------------|------------------------------|-----------------|--------------------|-------------------|----------------------|---------------------------------|-------------------------------|--------------------|---|------------------|
| Chungghwa Telecom. Co., Ltd. | Land | 2008.6.25 | Acquired during April 2000 | \$ 704,890 | \$ 1,820,880 | \$ 1,820,880 | \$ 1,115,990 | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | | | (Note 1) | | | | | |
| | | 2008.10.17 | Acquired during January 2001 | 63,498 | 191,600 | 191,600 | 128,102 | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | | | (Note 1) | | | | | |
| | | 2008.12.23 | Acquired during April 2000 | 85,563 | 242,853 | 230,639 | 157,290 | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | | | (Note 1) | | | | | |
| | | 2008.12.23 | Acquired during May 2000 | 74,572 | 158,431 | 158,431 | 83,859 | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | | | (Note 1) | | | | | |
| | | 2008.12.23 | Acquired during July 2008 | 7,493 | 8,168 | 8,168 | 675 | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | | | (Note 1) | | | | | |
| | | 2008.12.25 | Acquired during October 1997 | 378,927 | 207,030 | 196,678 | (171,897) | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | | | (Note 2) | | | | | |

Note 1: Since it is unrealized, the unrealized gain is treated as deferred credits - gain on inter-company transactions.

Note 2: Since it is unrealized, the unrealized loss is included in other assets - other.

TABLE 5**CHUNGHWA TELECOM CO., LTD.****TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| No. | Company Name | Related Party | Nature of Relationship | Purchase/Sale | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable Ending | |
|-----|---|-------------------------------|------------------------|---------------|---------------------|------------|---------------|-------------|----------------------|------------------|---|--|
| | | | | | Amount | % to Total | Payment Terms | Units Price | Payment Terms | Balance (Note 1) | % to Total | |
| 0 | Chunghwa Telecom Co., Ltd. | Senao International Co., Ltd. | Subsidiary | Sales | \$ 1,634,017 | 1 | 30 days | (Note 2) | (Note 2) | \$ 178,658 | 2 | |
| | | | | | (Note 3) | | | | | | | |
| | | | Purchase | 6,667,907 | 5 | 30-90 days | (Note 2) | (Note 2) | (606,720) | (5) | | |
| | | | | (Note 4) | | | | | | | | |
| | | | CHIEF Telecom Inc. | Subsidiary | Sales | 208,277 | | 30 days | (Note 2) | (Note 2) | 20,277 | |
| | | | | | | (Note 6) | | | | | | |
| | | | | | Purchase | 207,345 | | 30-45 days | (Note 2) | (Note 2) | (34,215) | |
| | Chunghwa Telecom Global, Inc. | Subsidiary | Sales | 140,416 | | 30-90 days | | | 18,618 | | | |
| | | | | (Note 6) | | | | | | | | |
| | | Subsidiary | Purchase | 401,740 | | 30-90 days | | | (628,485) | (5) | | |
| | | | | (Note 5) | | | | | (Note 7) | | | |
| | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee | Purchase | 538,389 | | 30 days | | | (492,883) | (4) | | |
| | | | | (Note 7) | | | | | | | | |
| | ELTA Technology Co., Ltd. | (Note 8) | Purchase | 189,774 | | 30 days | | | | | | |
| 1 | Senao International Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 6,670,564 | 30 | 30-90 days | (Note 2) | (Note 2) | 606,720 | 46 | |
| | | | | | (Note 4) | | | | | | | |
| | | | | Purchase | 1,591,876 | 8 | 30 days | (Note 2) | (Note 2) | (178,658) | (14) | |
| | | | | (Note 3) | | | | | | | | |
| 2 | CHIEF Telecom Inc. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 207,345 | 22 | 30-45 days | (Note 2) | (Note 2) | 34,215 | 27 | |
| | | | | | (Note 6) | | | | | | | |
| | | | | Purchase | 204,397 | 25 | 30 days | (Note 2) | (Note 2) | (20,277) | (9) | |
| | | | | (Note 6) | | | | | | | | |
| 3 | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 1,859,106 | 94 | 30-90 days | | | 681,987 | 95 | |
| | | | | | (Note 5) | | | | (Note 7) | | | |
| 5 | Chunghwa Telecom Global, Inc. | Chunghwa Telecom Co., Ltd. | Parent company | Purchase | 140,416 | 59 | 30-90 days | | | (18,618) | (66) | |

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

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

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

(Continued)

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

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

Note 6: The difference was because CHIEF classified the amount within property, plant and equipment and operating expenses.

Note 7: The difference was because Chunghwa classified as payables to contractors.

Note 8: The investment accounted for using equity method was sold all shares in July 2008.

(Concluded)

TABLE 6**CHUNGHWA TELECOM CO., LTD.****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| No. | Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Rate | Overdue Amounts | Action Taken | Amounts Received in Subsequent Period | Allowance for Bad Debts |
|-----|---------------------------------------|-------------------------------|------------------------|----------------|---------------|-----------------|--------------|---------------------------------------|-------------------------|
| 0 | Chunghwa Telecom Co., Ltd. | Senao International Co., Ltd. | Subsidiary | \$ 178,878 | 9.73 | \$ | | \$ 144,936 | \$ |
| 1 | Senao International Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | 851,011 | 11.54 | | | 748,328 | |
| 3 | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | 681,987 | 3.70 | | | 614,050 | |

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

TABLE 7**CHUNGHWA TELECOM CO., LTD.****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****FOR THE YEAR ENDED DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Parent Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2008 | | | Recognized Gain (Loss) | |
|---------------------------|---|----------------------|--|----------------------------|-------------------|---------------------------------|-----------------------------|----------------|-----------------------------------|-----------------|
| | | | | December 31, 2008 | December 31, 2007 | Shares (Thousands) | Percentage of Ownership (%) | Carrying Value | Net Income (Loss) of the Investee | (Notes 1 and 2) |
| Donghua Telecom Co., Ltd. | Senao International Co., Ltd. | Sindian City, Taipei | Selling and maintaining mobile phones and its peripheral products | \$ 1,065,813 | \$ 1,065,813 | 71,773 | 29 | \$ 1,331,443 | \$ 1,089,382 | \$ 308,439 |
| | Light Era Development Co., Ltd. | Taipei | Housing, office building development, rent and sale services | 3,000,000 | | 300,000 | 100 | 2,976,434 | (22,984) | (23,566) |
| | Chunghwa Investment Co., Ltd. | Taipei | Investment | 980,000 | 980,000 | 98,000 | 49 | 829,716 | (151,323) | (75,280) |
| | Chunghwa Telecom Singapore Ptd., Ltd. | Singapore | Telecommunication wholesale, internet transfer services international data and long distance call wholesales to carriers | 779,280 | | 34,869 | 100 | 791,161 | (5,454) | (5,454) |
| | Chunghwa System Integration Co., Ltd. | Taipei | Providing communication and information aggregative services | 838,506 | 838,506 | 60,000 | 100 | 747,104 | 40,780 | (41,091) |
| | Taiwan International Standard Electronics Co., Ltd. | Taipei | Manufacturing, selling, designing, and maintaining of telecommunications systems and equipment | 164,000 | 164,000 | 1,760 | 40 | 593,441 | 184,824 | 79,363 |
| | CHIEF Telecom Inc. | Taipei | Internet communication and internet data center (IDC) service | 482,165 | 482,165 | 37,942 | 69 | 427,848 | 2,591 | 3,707 |
| | Donghua Telecom Co., Ltd. | Hong Kong | International telecommunications IP fictitious internet and internet transfer services | 201,263 | 11,430 | 51,590 | 100 | 221,537 | 6,598 | 6,598 |
| | Chunghwa Yellow Pages Co., Ltd. | Taipei | Yellow pages sales and advertisement services | 150,000 | 150,000 | 15,000 | 100 | 110,545 | 80,016 | 79,289 |
| | Viettel-CHT Co., Ltd. | Vietnam | IDC services | 91,239 | | 3,000 | 33 | 95,836 | 9,570 | 3,190 |
| | Skysoft Co., Ltd. | Taipei | Providing of music on-line, software, electronic information, and advertisement services | 67,025 | 67,025 | 4,438 | 30 | 84,992 | 50,275 | 15,082 |
| | KingWay Technology Co., Ltd. | Taipei | Publishing books, data processing and software services | 71,770 | | 1,002 | 33 | 77,222 | 31,535 | 5,452 |
| | Chunghwa Telecom Global, Inc. | United States | International data and internet services and long distance call wholesales to carriers | 70,429 | 70,429 | 6,000 | 100 | 71,097 | 4,526 | (3,245) |
| | Spring House Entertainment Inc. | Taipei | Network services, producing digital entertainment contents and broadband visual sound terrace development | 62,209 | 22,409 | 5,996 | 56 | 45,113 | 11,889 | 6,525 |

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| | | | | | | | | | | | |
|---------------|---|------------------------|--|----------|----------|--------|-----|----------|----------|----------|--------|
| | Chunghwa Telecom Japan Ptd., Ltd. | Japan | Telecom business, information process and information provide service, development and sale of software and consulting services in telecommunication | 6,140 | | | 100 | 4,165 | (2,939) | (2,939) | Su |
| | New Prospect Investments Holdings Ltd. (B.V.I.) | British Virgin Islands | Investment | (Note 3) | (Note 3) | | 100 | | | | Su |
| | Prime Asia Investments Group Ltd. (B.V.I.) | British Virgin Islands | Investment | (Note 3) | (Note 3) | | 100 | | | | Su |
| | | | | | | | | (Note 3) | (Note 3) | (Note 3) | |
| International | Senao Networks, Inc. | Linkou Hsiang, Taipei | Telecommunication facilities manufactures and sales | 206,190 | 206,190 | 15,152 | 45 | 264,271 | 74,547 | 30,636 | Eq inv |
| | | | | | | | | | | (Note 1) | |
| Telecom | Unigate Telecom Inc. | Taipei | Telecommunication and internet service | 2,000 | 2,000 | 200 | 100 | 1,964 | (4) | (4) | Su |
| | | | | | | | | | | (Note 1) | |
| | CHIET Telecom (Hong Kong) Limited | Hong Kong | Network communication and engine room hiring | 1,678 | 1,678 | 400 | 100 | 1,208 | (51) | (51) | Su |
| | | | | | | | | | | (Note 1) | |
| | Chief International Corp. | Samoa Islands | Network communication and engine room hiring | 6,068 | | 200 | 100 | 6,624 | 61 | 61 | Su |
| | | | | US\$ | (200) | | | | | (Note 1) | |

(Continued)

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| No. | Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2008 | | | Recognized Gain (Loss) | | Note |
|-----|---------------------------------------|---|-----------|---|----------------------------|-------------------|---------------------------------|-----------------------------|----------------|-----------------------------------|-----------------|------------------------|
| | | | | | December 31, 2008 | December 31, 2007 | Shares (Thousands) | Percentage of Ownership (%) | Carrying Value | Net Income (Loss) of the Investee | (Notes 1 and 2) | |
| 3 | Chunghwa System Integrated Co., Ltd. | Concord Technology Corp. | Brunei | Providing advanced business solutions to telecommunications | \$ 16,179 | \$ 6,489 | 500 | 100 | \$ 13,147 | \$ (3,982) | \$ (3,982) | Subsidiary |
| | | | | | US\$ (500) | US\$ (200) | | | US\$ (401) | US\$ ((126)) | US\$ ((126)) | (Note 1) |
| 4 | Concord Technology Corp. | Glory Network System Service (Shanghai) Co., Ltd. | Shanghai | Providing advanced business solutions to telecommunications | 16,179 | 6,489 | 500 | 100 | 13,142 | (3,980) | (3,980) | Subsidiary |
| | | | | | US\$ (500) | US\$ (200) | | | US\$ (401) | US\$ ((126)) | US\$ ((126)) | (Note 1) |
| 12 | Chunghwa Telecom Singapore Ptd., Ltd. | ST-2 Satellite Ventures Ptd., Ltd. | Singapore | Operation of ST-2 telecommunication satellite | 108,212 | | 4,735 | 38 | 108,212 | 70 | 27 | Equity-method investee |
| | | | | | SG\$ (4,735) | | | | SG\$ (4,736) | SG\$ (3) | SG\$ (1) | (Note 1) |

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

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

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

(Concluded)

TABLE 8**CHUNGHWA TELECOM CO., LTD.****INVESTMENT IN MAINLAND CHINA****FOR THE YEAR ENDED DECEMBER 31, 2008**

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

| Investee | Main Businesses and Products | Total Amount of | | Accumulated Investment | | Accumulated | % Ownership of | Investment | Carrying Value | Accumulated |
|---|---|-----------------|------------|------------------------|------------|--------------|----------------|--------------|----------------|--------------|
| | | Paid-in | Investment | Outflow | Flows | | | | | |
| | | Capital | Type | as of | as of | of | of | of | as of | as of |
| | | | | January 1, | January 1, | December 31, | December 31, | December 31, | December 31, | December 31, |
| | | | | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 | 2008 |
| Glory Network System Service (Shanghai) Co., Ltd. | Providing advanced business solutions to telecommunications | \$ 16,179 | Note 1 | \$ 6,489 | \$ 9,690 | \$ 16,179 | | 100% | \$ (3,980) | \$ 13,142 |
| | | US\$ (500) | | US\$ (200) | US\$ (300) | US\$ (500) | | | US\$ ((126)) | US\$ (401) |

| Accumulated Investment in Mainland China as of | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment Stipulated by Investment Commission, MOEA |
|--|--|---|
| December 31, 2008 | | |
| \$ 16,179 | \$ 16,179 | \$ 388,708 |
| US\$ (500) | US\$ (500) | (Note 3) |

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

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

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

(Concluded)

TABLE 9**CHUNGHWA TELECOM CO., LTD.****INDUSTRY FINANCIAL INFORMATION****FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

(Amount in Thousands of New Taiwan Dollars)

| Year ended December 31, 2008 | Local Telephone Service | Domestic Long Distance Call Service | International Long Distance Call Service | Cellular Service | Internet and Data Service (Note 6) | All Other | Adjustment | Total |
|--|--------------------------------|--|---|-------------------------|---|---------------------|------------------------|-----------------------|
| Service revenues from external customers | \$ 34,611,229 | \$ 8,480,349 | \$ 14,100,047 | \$ 72,290,568 | \$ 49,368,451 | \$ 7,930,006 | \$ | \$ 186,780,650 |
| Intersegment service revenues (Note 2) | 4,695,344 | 1,975,325 | 416 | 6,015,809 | 18,005,486 | 797,752 | (31,490,132) | |
| Total service revenues | \$ 39,306,573 | \$ 10,455,674 | \$ 14,100,463 | \$ 78,306,377 | \$ 67,373,937 | \$ 8,727,758 | \$ (31,490,132) | \$ 186,780,650 |
| Segment income before income tax (Note 3) | \$ (5,749,019) | \$ 5,663,482 | \$ 3,096,630 | \$ 32,037,263 | \$ 24,120,677 | \$ 1,561,069 | \$ | \$ 60,730,102 |
| Interest income | | | | | | | | 1,866,875 |
| Equity in net gain of unconsolidated companies | | | | | | | | 362,314 |
| Other income | | | | | | | | 1,277,692 |
| Interest expense | | | | | | | | (404) |
| General expense (Note 4) | | | | | | | | (3,543,057) |
| Other expense | | | | | | | | (2,220,657) |
| Income before tax | | | | | | | | \$ 58,472,865 |
| Reportable assets (Note 5) | \$ 134,287,650 | \$ 5,027,734 | \$ 8,221,113 | \$ 57,146,629 | \$ 99,672,699 | \$ 41,314,943 | \$ | \$ 345,670,768 |
| Investment in unconsolidated companies and funds | | | | | | | | 8,691,154 |
| Other assets | | | | | | | | 104,906,749 |
| Total assets | | | | | | | | \$ 459,268,671 |
| Depreciation expenses | \$ 14,954,380 | \$ 520,591 | \$ 325,078 | \$ 7,868,868 | \$ 12,398,309 | \$ 884,158 | | |
| Expenditures for segment assets | \$ 5,296,493 | \$ | \$ 394,905 | \$ 5,161,562 | \$ 16,325,605 | \$ 2,481,786 | | |

(Continued)

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| Year ended December 31, 2007 | Local Telephone Service | Domestic Long Distance Call Service | International Long Distance Call Service | Cellular Service | Internet and Data Service (Note 6) | All Other | Adjustment | Total |
|--|-------------------------|-------------------------------------|--|----------------------|------------------------------------|---------------------|------------------------|-----------------------|
| Service revenues from external customers | \$ 35,746,903 | \$ 9,095,006 | \$ 14,268,522 | \$ 73,644,445 | \$ 48,652,925 | \$ 4,921,154 | \$ | \$ 186,328,955 |
| Intersegment service revenues (Note 2) | 5,327,041 | 2,283,439 | 4,111 | 5,704,140 | 14,684,045 | 249,447 | (28,252,223) | |
| Total service revenues | \$ 41,073,944 | \$ 11,378,445 | \$ 14,272,633 | \$ 79,348,585 | \$ 63,336,970 | \$ 5,170,601 | \$ (28,252,223) | \$ 186,328,955 |
| Segment income before income tax (Note 3) | \$ (4,478,702) | \$ 6,384,066 | \$ 2,807,703 | \$ 36,393,737 | \$ 21,482,462 | \$ 1,466,806 | \$ | \$ 64,056,072 |
| Interest income | | | | | | | | 1,445,003 |
| Equity in net gain of unconsolidated companies | | | | | | | | 218,429 |
| Other income | | | | | | | | 767,275 |
| Interest expense | | | | | | | | (846) |
| General expense (Note 4) | | | | | | | | (4,393,198) |
| Other expense | | | | | | | | (996,265) |
| Income before tax | | | | | | | | \$ 61,096,470 |
| Reportable assets (Note 5) | \$ 147,536,713 | \$ 5,178,581 | \$ 8,843,651 | \$ 64,564,912 | \$ 91,655,567 | \$ 34,922,908 | \$ | \$ 352,702,332 |
| Investment in unconsolidated companies and funds | | | | | | | | 4,395,453 |
| Other assets | | | | | | | | 108,136,332 |
| Total assets | | | | | | | | \$ 465,234,117 |
| Depreciation expenses | \$ 15,782,763 | \$ 608,196 | \$ 423,845 | \$ 8,140,130 | \$ 13,202,628 | \$ 533,999 | | |
| Expenditures for segment assets | \$ 4,795,419 | \$ | \$ 323,251 | \$ 5,340,474 | \$ 13,966,684 | \$ 484,033 | | |

Note 1: The major business segments operated by the Company are local telephone service, domestic long distance call service, international long distance call service, cellular service, internet and data service, and other service.

Note 2: Inter-division revenues from goods and services.

Note 3: Represents revenues minus costs and operating expenses. Operating expenses include costs and expenses directly pertaining to an industry segment, i.e., excluding general and interest expenses.

Note 4: Represents general expense that cannot be allocated to each division.

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Note 5: Represents tangible assets used by the industry segment, excluding:

- a. Assets maintained for general corporate purposes.
- b. Advances or loans to another industry segment.
- c. Long-term investments accounted for using equity method.

Note 6: Service revenues of internet and data service and electronic rent are included.

Note 7: In order to strengthen the internal management, Chunghwa allocated some of its costs of non-regulated services directly to other segments instead of using internal transfer pricing starting from 2008. Segment assets were adjusted accordingly to conform with the change. The effect of the change of measurement method caused intersegment service revenues of Local Telephone Service operations and All Others operations to decrease by \$8,705,817 thousand and \$4,392,728 thousand, respectively. There was no impact on the intersegment service of DLD operations, ILD operations, Cellular Service operations and Internet and Data Service operations due to the change of measurement method. The effect of the change of measurement method caused segment income before income tax of Local Telephone Service operations and All Others operations to decrease by \$748,937 thousand and \$481,641 thousand, respectively and that of DLD operations, ILD operations, Cellular Service operations and Internet and Data Service operations to increase by \$165,212 thousand, \$136,901 thousand, \$576,385 thousand and \$352,080 thousand, respectively. The effect of the change of measurement method caused segment assets of Local Telephone Service operations and All Other operations to decrease by \$7,582,799 thousand and \$3,640,950 thousand, respectively and that of DLD operations, ILD operations, Cellular Service operations and Internet and data service operations to increase by \$295,718 thousand, \$727,872 thousand, \$5,226,502 thousand and \$4,973,657 thousand, respectively. There was no impact on segment assets of Cellular Phone operations due to the change of measurement method. The disclosure of 2007 was changed to conform with the segment disclosure of 2008.

(Concluded)

Chunghwa Telecom Co., Ltd. and

Subsidiaries

Consolidated Financial Statements for the

**Years Ended December 31, 2008 and 2007 and Independent
Auditors Report**

REPRESENTATION LETTER

The entities included in the combined financial statements of Chunghwa Telecom Co., Ltd. as of and for the year ended December 31, 2008, which were prepared in conformity with the Criteria Governing the Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises, are the same as the entities included in the consolidated financial statements prepared in conformity with the revised ROC Statement of Financial Accounting Standards No. 7, Consolidated Financial Statements . In addition, the information needed to be disclosed in the combined financial statements is included in the consolidated financial statements. Thus, Chunghwa Telecom Co., Ltd. and its subsidiaries did not prepare a separate set of combined financial statements.

Very truly yours,

CHUNGHWA TELECOM CO., LTD.

By

SHYUE CHING LU
Chairman

March 3, 2009

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of

Chunghwa Telecom Co., Ltd.

We have audited the accompanying consolidated balance sheet of Chunghwa Telecom Co., Ltd. and subsidiaries (the Company) as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the years ended December 31, 2008 and 2007. 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 auditing standards generally accepted in the Republic of China. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Chunghwa Telecom Co., Ltd. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations and their cash flows for the years ended December 31, 2008 and 2007, in conformity with accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the consolidated financial statements starting from January 1, 2008, the Company changed its method of accounting for bonuses paid to employees, directors and supervisors upon adoption of Interpretation 96-052 issued by the Accounting and Research Development Foundation in the Republic of China.

March 3, 2009

Notice to Readers

The accompanying consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying consolidated 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 consolidated financial statements shall prevail.

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

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

| | 2008 | | 2007 | |
|--|---------------|-----|---------------|-----|
| | Amount | % | Amount | % |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 81,288,165 | 18 | \$ 76,233,001 | 16 |
| Financial assets at fair value through profit or loss (Notes 2 and 5) | 258,578 | | 119,139 | |
| Available-for-sale financial assets (Notes 2 and 6) | 14,182,385 | 3 | 18,157,513 | 4 |
| Held-to-maturity financial assets (Notes 2 and 7) | 769,435 | | 651,192 | |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$3,050,691 in 2008 and \$3,430,157 in 2007 (Notes 2 and 8) | 10,844,712 | 2 | 11,450,865 | 3 |
| Receivables from related parties (Note 28) | 2,052 | | 4,693 | |
| Other current monetary assets (Notes 2, 9 and 31) | 2,226,256 | 1 | 7,227,250 | 2 |
| Inventories, net (Notes 2, 10 and 20) | 6,412,477 | 1 | 4,302,997 | 1 |
| Deferred income taxes assets (Notes 2 and 25) | 118,535 | | 268,648 | |
| Restricted assets (Notes 20 and 29) | 58,914 | | 864 | |
| Other current assets (Notes 11 and 20) | 2,046,061 | | 1,361,380 | |
| Total current assets | 118,207,570 | 25 | 119,777,542 | 26 |
| LONG-TERM INVESTMENTS | | | | |
| Investments accounted for using equity method (Notes 2, 12 and 28) | 2,337,190 | | 2,018,348 | |
| Financial assets carried at cost (Notes 2 and 13) | 2,537,357 | 1 | 2,122,768 | 1 |
| Held-to-maturity financial assets (Notes 2 and 7) | 3,044,102 | 1 | 498,257 | |
| Other monetary assets (Notes 14 and 30) | 1,000,000 | | 1,000,000 | |
| Total long-term investment | 8,918,649 | 2 | 5,639,373 | 1 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15, 28 and 29) | | | | |
| Cost | | | | |
| Land | 101,460,017 | 22 | 101,533,590 | 22 |
| Land improvements | 1,494,398 | | 1,475,371 | |
| Buildings | 63,029,159 | 14 | 62,671,185 | 13 |
| Computer equipment | 16,130,398 | 3 | 15,687,851 | 3 |
| Telecommunications equipment | 650,204,202 | 140 | 639,299,029 | 136 |
| Transportation equipment | 2,406,111 | 1 | 2,856,103 | 1 |
| Miscellaneous equipment | 7,331,543 | 2 | 7,715,229 | 2 |
| Total cost | 842,055,828 | 182 | 831,238,358 | 177 |
| Revaluation increment on land | 5,810,650 | 1 | 5,822,981 | 1 |
| | 847,866,478 | 183 | 837,061,339 | 178 |
| Less: Accumulated depreciation | 540,822,370 | 117 | 522,730,591 | 111 |

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| | | | | |
|--|----------------|-----|----------------|-----|
| | 307,044,108 | 66 | 314,330,748 | 67 |
| Construction in progress and advances related to acquisitions of equipment | 16,005,390 | 4 | 16,466,398 | 3 |
| Property, plant and equipment, net | 323,049,498 | 70 | 330,797,146 | 70 |
| INTANGIBLE ASSETS (Note 2) | | | | |
| 3G concession | 7,486,088 | 2 | 8,234,697 | 2 |
| Goodwill | 226,257 | | 210,523 | |
| Others | 558,435 | | 499,053 | |
| Total intangible assets | 8,270,780 | 2 | 8,944,273 | 2 |
| OTHER ASSETS | | | | |
| Leased assets (Note 29) | 516,637 | | 348,804 | |
| Idle assets (Note 2) | 957,757 | | 964,869 | |
| Refundable deposits | 1,373,644 | | 1,409,785 | 1 |
| Deferred income taxes assets (Notes 2 and 25) | 1,543,315 | 1 | 1,229,812 | |
| Restricted assets (Note 29) | 8,536 | | | |
| Others (Note 27) | 743,903 | | 514,513 | |
| Total other assets | 5,143,792 | 1 | 4,467,783 | 1 |
| TOTAL | \$ 463,590,289 | 100 | \$ 469,626,117 | 100 |

| | 2008 | | 2007 | |
|--|------------|----|------------|----|
| | Amount | % | Amount | % |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Short-term loans (Note 16) | \$ 258,000 | | \$ 36,000 | |
| Financial liabilities at fair value through profit or loss (Notes 2 and 5) | 107,344 | | 653,286 | |
| Trade notes and accounts payable (Note 20) | 11,359,570 | 2 | 11,254,863 | 3 |
| Payables to related parties (Note 28) | 523,488 | | 343,302 | |
| Income tax payable (Notes 2 and 25) | 5,687,100 | 1 | 7,257,958 | 2 |
| Accrued expenses (Note 17) | 16,345,702 | 4 | 15,559,672 | 3 |
| Current portion of long-term loans (Note 19) | 8,440 | | 20,000 | |
| Due to stockholders for capital reduction (Note 21) | 19,115,554 | 4 | 9,557,777 | 2 |
| Other current liabilities (Notes 2, 18, 20, 28 and 31) | 16,529,811 | 4 | 14,459,650 | 3 |
| Total current liabilities | 69,935,009 | 15 | 59,142,508 | 13 |
| NONCURRENT LIABILITY | | | | |
| Long-term loans (Note 19) | 29,400 | | | |
| Deferred income | 2,072,297 | | 1,505,150 | |
| Total noncurrent liability | 2,101,697 | | 1,505,150 | |
| RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15) | 94,986 | | 94,986 | |

OTHER LIABILITIES

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| | | | | |
|---|-----------------------|------------|-----------------------|------------|
| Accrued pension liabilities (Notes 2 and 27) | 5,173,489 | 1 | 3,922,324 | 1 |
| Customers deposits | 6,159,722 | 2 | 6,386,169 | 1 |
| Other | 431,515 | | 732,711 | |
| Total other liabilities | 11,764,726 | 3 | 11,041,204 | 2 |
| Total liabilities | 83,896,418 | 18 | 71,783,848 | 15 |
| EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT | | | | |
| (Notes 2, 15, 21 and 23) | | | | |
| Common stock - \$10 par value; | | | | |
| Authorized: 12,000,000 thousand shares | | | | |
| Issued: 9,696,808 thousand shares in 2008 and 9,667,845 thousand shares in 2007 | 96,968,082 | 21 | 96,678,451 | 20 |
| Preferred stock - \$10 par value | | | | |
| Additional paid-in capital: | | | | |
| Capital surplus | 179,193,097 | 38 | 200,592,390 | 43 |
| Donated capital | 13,170 | | 13,170 | |
| Equity in additional paid-in capital reported by equity-method investees | 3 | | 3 | |
| Total additional paid-in capital | 179,206,270 | 38 | 200,605,563 | 43 |
| Retained earnings: | | | | |
| Legal reserve | 52,859,566 | 11 | 48,036,210 | 10 |
| Special reserve | 2,675,894 | 1 | 2,678,723 | 1 |
| Unappropriated earnings | 41,276,274 | 9 | 48,317,617 | 10 |
| Total retained earnings | 96,811,734 | 21 | 99,032,550 | 21 |
| Other adjustments | | | | |
| Cumulative translation adjustments | 29,474 | | (1,980) | |
| Unrecognized net loss of pension | (84) | | (90) | |
| Unrealized gain (loss) on financial instruments | (2,272,242) | | 37,508 | |
| Unrealized revaluation increment | 5,813,187 | 1 | 5,823,200 | 1 |
| Total other adjustments | 3,570,335 | 1 | 5,858,638 | 1 |
| Treasury stocks - 110,068 thousand shares | | | (7,107,494) | (1) |
| Total equity attributable to stockholders of the parent | 376,556,421 | 81 | 395,067,708 | 84 |
| MINORITY INTEREST IN SUBSIDIARIES | 3,137,450 | 1 | 2,774,561 | 1 |
| Total stockholders equity | 379,693,871 | 82 | 397,842,269 | 85 |
| TOTAL | \$ 463,590,289 | 100 | \$ 469,626,117 | 100 |

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

(With Deloitte & Touche audit report dated March 3, 2009)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

| | 2008 | | 2007 | |
|--|-------------------|-----------|-------------------|-----------|
| | Amount | % | Amount | % |
| NET REVENUES (Note 28) | \$ 201,669,521 | 100 | \$ 197,390,883 | 100 |
| OPERATING COSTS (Note 28) | 113,487,579 | 56 | 106,625,294 | 54 |
| GROSS PROFIT | 88,181,942 | 44 | 90,765,589 | 46 |
| OPERATING EXPENSES (Note 28) | | | | |
| Marketing | 22,732,128 | 11 | 23,731,951 | 12 |
| General and administrative | 3,680,178 | 2 | 3,422,672 | 2 |
| Research and development | 3,143,935 | 2 | 3,236,919 | 1 |
| Total operating expenses | 29,556,241 | 15 | 30,391,542 | 15 |
| INCOME FROM OPERATIONS | 58,625,701 | 29 | 60,374,047 | 31 |
| NON-OPERATING INCOME AND GAINS (Note 28) | | | | |
| Interest income | 1,916,263 | 1 | 1,453,184 | 1 |
| Valuation gain on financial instruments, net | 550,703 | 1 | | |
| Foreign exchange gain, net | 336,037 | | | |
| Equity in earnings of equity method investees, net | 63,648 | | 140,804 | |
| Gain on disposal of financial instruments, net | | | 99,159 | |
| Other | 509,482 | | 757,298 | |
| Total non-operating income and gains | 3,376,133 | 2 | 2,450,445 | 1 |
| NON-OPERATING EXPENSES AND LOSSES | | | | |
| Impairment loss on assets | 1,168,399 | 1 | 24,374 | |
| Loss on disposal of financial instruments, net | 671,685 | | | |
| Loss on disposal of property, plant and equipment | 278,091 | | 88,662 | |
| Valuation loss on inventory | 57,849 | | 25,369 | |
| Interest expense | 4,256 | | 15,043 | |
| Valuation loss on financial instruments, net | | | 584,744 | 1 |
| Foreign exchange loss, net | | | 53,551 | |
| Loss arising from natural calamities | | | 42,202 | |
| Other | 137,634 | | 189,100 | |
| Total non-operating expenses and losses | 2,317,914 | 1 | 1,023,045 | 1 |
| INCOME BEFORE INCOME TAX | 59,683,920 | 30 | 61,801,447 | 31 |
| INCOME TAX EXPENSES (Notes 2 and 25) | 13,892,308 | 7 | 13,059,108 | 6 |

| | | | | |
|-------------------------|---------------|----|---------------|----|
| CONSOLIDATED NET INCOME | \$ 45,791,612 | 23 | \$ 48,742,339 | 25 |
|-------------------------|---------------|----|---------------|----|

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF INCOME****FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

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

| | 2008 | | 2007 | |
|----------------------------|---------------|----|---------------|----|
| | Amount | % | Amount | % |
| ATTRIBUTED TO | | | | |
| Stockholders of the parent | \$ 45,010,342 | 22 | \$ 48,249,319 | 25 |
| Minority interest | 781,270 | 1 | 493,020 | |
| | \$ 45,791,612 | 23 | \$ 48,742,339 | 25 |

| | 2008 | | 2007 | |
|---|--------------------------------|---------------|--------------------------------|---------------|
| | Income Before Income Tax | Net Income | Income Before Income Tax | Net Income |
| CONSOLIDATED EARNINGS PER SHARE (Note 26) | | | | |
| Basic earnings per share | \$ 6.03 | \$ 4.64 | \$ 6.25 | \$ 4.94 |
| Diluted earnings per share | \$ 6.02 | \$ 4.63 | \$ 6.25 | \$ 4.93 |

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

(With Deloitte & Touche audit report dated March 3, 2009)

(Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

| Common Stock | | Preferred Stock | Retained Earnings | | | | Un-cumulative Translation Adjustments | Unrecognized Net Loss of Pension | Other Adjustments Unrealized Gain (Loss) on Financial Instruments | Unrealized Revaluation Increment | Treasury Stock | Minority Interests in Subsidiaries |
|--------------------|---------------|--------------------|----------------------------|---------------|-----------------|--------------------------|---------------------------------------|----------------------------------|---|----------------------------------|----------------|------------------------------------|
| Shares (Thousands) | Amount | Shares (Thousands) | Additional Paid-in Capital | Legal Reserve | Special Reserve | Un-appropriated Earnings | Adjust-ments | | | | | |
| 9,667,845 | \$ 96,678,451 | | \$ 210,273,336 | \$ 44,037,765 | \$ 2,680,184 | \$ 39,984,454 | \$ (3,304) | | \$ 541,072 | \$ 5,824,600 | | \$ 97,641 |
| | | | | | | | | | | (1,400) | | |
| | | | | 3,998,445 | | (3,998,445) | | | | | | |
| | | | | | (1,461) | 1,461 | | | | | | |
| | | | | | | (34,610,885) | | | | | | |
| | | | | | | (1,256,619) | | | | | | |
| | | | | | | (35,904) | | | | | | |
| 966,785 | 9,667,845 | | (9,667,845) | | | | | | | | | |
| (966,785) | (9,667,845) | | | | | | | | | | 110,068 | |
| | | | | | | | | | | | | 2,183,900 |
| | | | | | | 48,249,319 | | | | | | 493,020 |
| | | | | | | | | | 2,258 | | | |
| | | | 72 | | | (15,764) | | | | | | |
| | | | | | | | | 1,324 | | | | |

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| | | | | | | | | | | | | |
|-----|-------------|--------------|--------------|------------|-----------|--------------|---------|------|-----------|-----------|-------------|-----------|
| | | | | | | | (90) | | | | | |
| n | | | | | | | | | | | (7,217,562) | |
| n | | | | | | | | | (505,822) | | | |
| | 9,667,845 | 96,678,451 | 200,605,563 | 48,036,210 | 2,678,723 | 48,317,617 | (1,980) | (90) | 37,508 | 5,823,200 | (7,107,494) | 2,774,561 |
| | | | | | | | | | | | (10,013) | |
| | | | | 4,823,356 | | (4,823,356) | | | | | | |
| al | | | | | (3,304) | 3,304 | | | | | | |
| 6 | | | | | | (40,716,130) | | | | | | |
| | 95,578 | 955,778 | | | | (955,778) | | | | | | |
| | | | | | | (1,303,605) | | | | | | |
| | 43,453 | 434,535 | | | | (434,535) | | | | | | |
| s | | | | | | (43,454) | | | | | | |
| | 1,911,555 | 19,115,554 | (19,115,554) | | | | | | | | | |
| | | | | | | | | | | | | (418,381) |
| | (1,911,555) | (19,115,554) | | | | | | | | | | |
| | | | | | | 45,010,342 | | | | | | 781,270 |
| n | | | | | | | | | (18,613) | | | |
| nts | | | | | | (54,583) | | | | | | |
| | | | | | | | | | | | | 31,454 |

| | | | | | | | | | | | |
|--|-----------|-------------|-------------|-----|-------------|--|--|--|-------------|-----------|--|
| | | | | 475 | (475) | | | | | | |
| | (110,068) | (1,100,682) | (2,283,739) | | (3,723,073) | | | | | 7,107,494 | |
| | | | | | | | | | (2,291,137) | | |

9,696,808 \$ 96,968,082 \$ \$ 179,206,270 \$ 52,859,566 \$ 2,675,894 \$ 41,276,274 \$ 29,474 \$ (84) \$ (2,272,242) \$ 5,813,187 \$ \$ 3,137,450

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

(With Deloitte & Touche audit report dated March 3, 2009)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars)**

| | 2008 | 2007 |
|---|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Consolidated net income | \$ 45,791,612 | \$ 48,742,339 |
| Provision for doubtful accounts | 505,285 | 606,234 |
| Depreciation and amortization | 38,216,171 | 39,814,950 |
| Amortization of premium (discount) of financial assets | 3,258 | (183) |
| Loss (gain) on disposal of financial instruments, net | 671,685 | (99,159) |
| Valuation loss on inventory | 57,849 | 25,369 |
| Valuation loss (gain) on financial instruments, net | (550,703) | 584,744 |
| Loss on disposal of property, plant and equipment, net | 278,091 | 88,662 |
| Equity in earnings of equity investees | (63,648) | (140,804) |
| Dividends received from equity investees | 217,177 | 44,000 |
| Impairment loss on assets | 1,168,399 | 24,374 |
| Loss on disposal of leased assets, net | 733 | |
| Loss from obsolescence of deferred charges | 4,505 | |
| Deferred income taxes | (155,852) | (825,407) |
| Other | | (2,410) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Financial assets held for trading | (207,535) | (265,372) |
| Trade notes and accounts receivable | 126,578 | 1,763,211 |
| Receivables from related parties | (388,712) | (505,390) |
| Other current monetary assets | 4,841,092 | (193,801) |
| Inventories | (823,315) | (283,666) |
| Other current assets | (628,079) | (221,111) |
| Increase (decrease) in: | | |
| Trade notes and accounts payable | 190,333 | 340,299 |
| Payables to related parties | 656,488 | 683,744 |
| Income tax payable | (1,570,848) | (1,385,380) |
| Accrued expenses | 906,990 | (3,377,587) |
| Other current liabilities | 808,494 | 354,774 |
| Deferred income | 567,147 | 549,731 |
| Accrued pension liabilities | 1,244,325 | 2,639,886 |
| Net cash provided by operating activities | 91,867,520 | 88,962,047 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of available-for-sale financial assets | (8,759,539) | (22,694,501) |
| Proceeds from disposal of available-for-sale financial assets | 8,425,156 | 11,735,997 |
| Acquisition of held-to-maturity financial assets | (3,326,951) | (1,198,301) |
| Proceeds from disposal of held-to-maturity financial assets | 659,605 | 49,035 |
| Acquisition of financial assets carried at cost | (485,859) | (188,038) |
| Proceeds from financial assets carried at cost | 354,933 | |
| Increase in other current monetary assets | (30,000) | |
| Proceeds from other current monetary assets | 29,109 | |
| Acquisition of investments accounted for using equity method | (554,693) | (1,177,061) |

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars)**

| | 2008 | 2007 |
|---|----------------------|----------------------|
| Proceeds from disposal of long-term investment | \$ 44,256 | \$ 69,475 |
| Acquisition of property, plant and equipment | (30,118,922) | (25,068,039) |
| Proceeds from disposal of property, plant and equipment | 14,077 | 108,055 |
| Increase in intangible assets | (208,323) | (273,335) |
| Increase in restricted assets | (3,065) | |
| Increase in other assets | (569,806) | (4,532) |
| Net cash used in investing activities | (34,530,022) | (38,641,245) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Increase (decrease) in short-term loans | 222,000 | (90,000) |
| Increase in long-term loans | | 21,944 |
| Repayment of long-term loans | (37,280) | (910,473) |
| Decrease in customers' deposits | (126,699) | (325,122) |
| Increase (decrease) in other liabilities | (293,747) | 171,062 |
| Cash dividends paid | (41,202,177) | (34,750,742) |
| Remuneration to board of directors and supervisors and bonus to employees | (1,394,077) | (1,300,059) |
| Purchase of treasury stock | | (7,217,562) |
| Proceeds from exercise of employee stock option | 63,436 | 28,889 |
| Cash proceeds from subsidiary's stock issuance | | 78,487 |
| Capital reduction | (9,557,777) | |
| Net cash used in financing activities | (52,326,321) | (44,293,576) |
| EFFECT OF EXCHANGE RATE CHANGES | 30,795 | (1,126) |
| EFFECT OF CHANGE ON CONSOLIDATED SUBSIDIARIES | 13,192 | (466,073) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 5,055,164 | 5,560,027 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 76,233,001 | 70,672,974 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 81,288,165 | \$ 76,233,001 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | \$ 4,095 | \$ 16,760 |
| Income tax paid | \$ 15,620,016 | \$ 15,268,249 |
| NON-CASH FINANCING ACTIVITIES | | |
| Current portion of long-term loans | \$ 8,440 | \$ 20,000 |

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| | | |
|---|---------------|--------------|
| Reclassified from common capital stock to due to stockholders for capital reduction | \$ 19,115,554 | \$ 9,557,777 |
|---|---------------|--------------|

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

(Amounts in Thousands of New Taiwan Dollars)

| | 2008 | 2007 |
|---|---------------|---------------|
| CASH AND NON-CASH INVESTING ACTIVITIES | | |
| Increase in property, plant and equipment | \$ 31,162,149 | \$ 25,492,751 |
| Payables to suppliers | (1,070,843) | (428,066) |
| Prepayments for equipment | 27,616 | 3,354 |
| | \$ 30,118,922 | \$ 25,068,039 |

The following table presents the allocation of acquisition costs of acquired subsidiaries during 2007 to assets acquired and liabilities assumed, based on their fair values:

| | Senao International Co., Ltd. | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Global, Inc. | Donghua Telecom Co., Ltd. |
|---|-------------------------------------|--|-------------------------------------|---------------------------------|
| Cash and cash equivalents | \$ 617,003 | \$ 96,959 | \$ 38,771 | \$ 16,751 |
| Financial assets at fair value through profit or loss | 86,796 | 325,742 | | |
| Trade notes and accounts receivable | 2,024,443 | 425,113 | 33,395 | 18,044 |
| Inventories | 1,625,790 | 136,310 | | |
| Other current assets | 334,055 | 127,917 | 2,147 | 5,896 |
| Long-term investment | 12,941 | | | |
| Property, plant, and equipment | 1,316,657 | 2,879 | 27,066 | |
| Identifiable intangible assets | 365,920 | 46,792 | | |
| Other assets | 134,869 | 37,602 | 17,450 | |
| Short-term loan and current portion of long-term loan | (100,000) | | | |
| Trade notes and accounts payable | (1,629,324) | (418,667) | (39,993) | (22,827) |
| Other current liabilities | (714,517) | (71,095) | (9,161) | (1,861) |
| Long-term debt | (580,000) | (1,140) | (7,263) | |
| Other liabilities | (92,579) | | | (2,163) |
| Total | 3,402,054 | 708,412 | 62,412 | 13,840 |
| Percentage of ownership | 31.3285% | 100% | 100% | 100% |
| | 1,065,813 | 708,412 | 62,412 | 13,840 |
| Goodwill (negative goodwill) | | 130,094 | 8,017 | (2,410) |
| Acquisition costs of acquired subsidiaries | \$ 1,065,813 | \$ 838,506 | \$ 70,429 | \$ 11,430 |

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

(With Deloitte & Touche audit report dated March 3, 2009)

(Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENT

FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007

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

1. GENERAL

Chunghwa Telecom Co., Ltd. (Chunghwa) was incorporated on July 1, 1996 in the Republic of China (ROC) pursuant to the Article 30 of the Telecommunications Act. Chunghwa is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications (MOTC). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications (DGT). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off to as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As the dominate telecommunications service provider of fixed-line and Global System for Mobile Communications (GSM) in the ROC, Chunghwa is subject to additional regulations imposed by ROC.

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

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

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

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

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

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

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

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

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

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

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

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

Spring House Entertainment Inc. (SHE) was incorporated in 2000. SHE engages mainly in network services, producing digital entertainment contents and broadband visual sound terrace development. SHE was an equity method investee before Chunghwa obtained control interest over it in January 2008.

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

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

Chunghwa established Chunghwa Telecom Japan Co., Ltd. (CHTJ) 100% owned subsidiary in October 2008. CHTJ engages mainly in telecommunication business, information processing and information providing service, development and sale of software and consulting services in telecommunication.

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

As of December 31, 2008 and 2007, the Company had 27,165 and 26,154 employees, respectively.

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of December 31, 2008:

Chunghwa together with its subsidiaries are hereinafter referred to collectively as the Company . Minority interest in the aforementioned subsidiaries are presented as a separate component of stockholders' equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Principle of Consolidation

Chunghwa need to comply with the Statement of Financial Accounting Standards No. 25 Business Combinations the accounting treatment of Purchase method when acquiring the information of its subsidiaries.

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

The consolidated financial statements for the year ended December 31, 2008 include the accounts of Chunghwa, SENA, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, CHTS, CHTJ, New Prospect and Prime Asia. The consolidated financial statements for the year ended December 31, 2007 include the accounts of Chunghwa, SENA, CIYP, CHIEF, Unigate, CHIEF (HK), CHSI, Concord, GNSS (Shanghai), CHTG, DHT, New Prospect and Prime Asia.

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

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

Classification of Current and Noncurrent Assets and Liabilities

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

As LED engages mainly in the development of property for rent and sale, its operating cycle is over one year.

Cash Equivalents

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

Financial Assets and Liabilities at Fair Value Through Profit or Loss

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

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

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

Available-for-sale Financial Assets

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

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

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

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

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

Held-to-maturity Financial Assets

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

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

Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables

Revenues are recognized when they are realized or realizable and earned. Revenues are realized or realizable and earned when the Company has persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectibility is reasonably assured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

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.

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

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

Where the Company enters into transactions which involve both the provision of air time bundled with products such as 3G data card and handset, total consideration received from handsets in these arrangements is allocated and measured using units of accounting within the arrangement based on relative fair values limited to the amount that is not contingent upon the delivery of other items or services.

Where the Company sells products to third party cellular phone stores the Company records the direct sale of the products, typically handsets, at gross revenue when the Company is the primary obligor in the arrangement and when title is passed and the products are accepted by the stores.

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

Inventories

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

Beginning from 2008, the Company classified certain land as land held for development within inventories. Prior to 2008, such land was classified as part of property, plant, and equipment. Such land is stated at the lower of cost or market value. Prepayments for licensing and other miscellaneous costs have been capitalized as part of inventory. Profit shall be recognized in full when the land is sold, provided (a) the profit is determinable, that is, the collectibility of the sales price is reasonably assured or the amount that will not be collectible can be estimated, and (b) the earnings process is virtually complete.

Investments Accounted for using Equity Method

Investments in companies in which Chunghwa exercises significant influence over the operating and financial policy decisions are accounted for by the equity method. Under the equity method, the investment is initially stated at cost and subsequently adjusted for its proportionate share in the net earnings of the investee companies. Any cash dividends received are recognized as a reduction in the carrying value of the investments.

Gains or losses on sales from the Company to equity method investees wherein Chunghwa exercises significant influence over these equity investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties. Gains or losses on sales from equity method investees to Chunghwa are deferred in proportion to Chunghwa's ownership percentages in the investees until they are realized through transactions with third parties.

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

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

Financial Assets Carried at Cost

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

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash dividends and stock dividends arising from available-for-sale financial assets.

Property, Plant and Equipment

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

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

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

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

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

Intangible Assets

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

The 3G Concession is valid through December 31, 2018. The 3G Concession and any additional licensing fees are amortized on a straight-line basis from the date operations commence through the date the license expires. Computer software costs and patents are amortized using the straight-line method over the estimated useful lives of 2-20 years.

Goodwill represents the excess of the consideration paid for acquisition over the fair value of identifiable net assets acquired. Goodwill is tested for impairment annually. If an event occurs or circumstances change which indicates that the fair value of goodwill is more likely than not below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

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

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

Pension Costs

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

Expense Recognition

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

Treasury Stock

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

Share-based Compensation

Employee stock options granted on or after January 1, 2008 are accounted for using fair value method in accordance with under SFAS No. 39, Accounting for Share-based Payment. The adoption of SFAS No. 39 did not have any impact on the Company.

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation (the ARDF). The Company adopted the intrinsic value method, under which compensation cost was amortized over the vesting period.

Income Tax

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

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

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

Income taxes (10%) on undistributed earnings is recorded in the year of stockholders approval which is the year subsequent to the year the earnings are generated.

Foreign-currency Transactions

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

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

Hedge Accounting

A hedging relationship qualifies for hedge accounting only if, all of the following conditions are met: (a) at the inception of the hedge, there is formal documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge; (b) the hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk, consistently with the risk management strategy documented for that particular hedging relationship; (c) the effectiveness of the hedge can be reliably measured; (d) the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in earnings.

Recent Accounting Pronouncements

The ARDF of the ROC revised Statement of Financial Accounting Standards No. 10, Accounting for Inventories (SFAS No. 10) in November 2007, which requires inventories to be stated at the lower of cost or net realizable value item by item. Inventories are recorded by the specific identification method, first-in, first-out method or weighted average method. The last-in, first-out method is no longer permitted. The revised SFAS No. 10 should be applied to financial statements for the fiscal years beginning on or after January 1, 2009. Early adoption is permitted. The Company is currently evaluating the impact that the adoption of ROC SFAS No. 10 will have on its results of operation and financial positions.

Reclassifications

Certain accounts in the financial statements as of and for the years ended December 31, 2007 have been reclassified to conform to the presentation of the financial statements as of and for the year ended December 31, 2008.

3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning from January 1, 2008. The adoption of this interpretation resulted in a decrease of \$1,317,524 thousand in consolidated net income which was attributed to shareholders of the parent and a decrease in basic earnings per share (after income tax) of \$0.14 for the year ended December 31, 2008. Beginning from 2009, such bonuses will be classified as an operating activity for purposes of the statement of cash flows when paid.

4. CASH AND CASH EQUIVALENTS

| | December 31 | |
|---|----------------------|----------------------|
| | 2008 | 2007 |
| Cash | | |
| Cash on hand | \$ 148,216 | \$ 126,401 |
| Bank deposits | 12,829,954 | 15,652,126 |
| Negotiable certificate of deposit, annual yield rate - ranging from 0.31%-2.45% and 2.05%-4.73% for the years ended December 31, 2008 and 2007, respectively. | 48,486,241 | 33,096,495 |
| | 61,464,411 | 48,875,022 |
| Cash equivalents | | |
| Commercial paper, annual yield rate - ranging from 0.70%-1.55% and 1.92%-2.03% for the years ended December 31, 2008 and 2007, respectively | 19,823,754 | 27,251,759 |
| U.S. Treasury bills, annual yield rate 3.18% | | 106,220 |
| | 19,823,754 | 27,357,979 |
| | \$ 81,288,165 | \$ 76,233,001 |

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

| | December 31 | |
|--|--------------------|-------------------|
| | 2008 | 2007 |
| Current | | |
| Derivatives - financial assets | | |
| Index future contracts | \$ 242,868 | \$ 91,945 |
| Forward exchange contracts | 15,710 | 27,194 |
| | \$ 258,578 | \$ 119,139 |
| Derivatives - financial liabilities | | |
| Forward exchange contracts | \$ 95,963 | \$ 67,212 |
| Index future contracts | 11,381 | 5,915 |

| | | |
|---------------------------|---------|-----------------------|
| Currency option contracts | 580,159 | |
| | | \$ 107,344 \$ 653,286 |

Chunghwa entered into investment management agreements with a well-known financial institution (fund managers) to manage its investment portfolios in 2006. As of December 31, 2008, Chunghwa's investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. The investment portfolios included listed stocks, mutual funds and derivative instruments.

The Company entered into forward exchange contracts and index future contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates and stock prices. However, derivatives that do not meet the criteria for hedge accounting is classified as financial assets or financial liabilities held for trading.

Outstanding forward exchange contracts as of December 31, 2008 and 2007:

| | Currency | Maturity Period | Contract Amount (in Thousands) |
|--------------------------|----------|-----------------|-----------------------------------|
| <u>December 31, 2008</u> | | | |
| Buy | NTD/USD | 2009.01 | NTD 131,412 |
| Sell | EUR/USD | 2009.01 | EUR 4,240 |
| | JPY/USD | 2009.01 | JPY 446,200 |
| | GBP/USD | 2009.01 | GBP 1,880 |
| | USD/NTD | 2009.01 | USD 96,000 |
| | USD/JPY | 2009.01 | USD 1,544 |
| | USD/EUR | 2009.01 | USD 777 |
| | USD/GBP | 2009.01 | USD 124 |
| <u>December 31, 2007</u> | | | |
| Buy | NTD/USD | 2008.01 | NTD 64,945 |
| Sell | EUR/USD | 2008.02 | EUR 19,100 |
| | JPY/USD | 2008.02 | JPY 590,000 |
| | GBP/USD | 2008.02 | GBP 2,370 |
| | USD/NTD | 2008.01-03 | USD 385,000 |
| | EUR/NTD | 2008.02-03 | EUR 40,000 |
| | NTD/USD | 2008.01 | NTD 323,550 |

Outstanding index future contracts on December 31, 2008 and 2007 were as follows:

| | Maturity Period | Units | Contract Amount (in Thousands) |
|--------------------------|-----------------|-------|-----------------------------------|
| <u>December 31, 2008</u> | | | |
| AMSTERDAM IDX FUT | 2009.01 | 13 | EUR 642 |
| CAC40 10 EURO FUT | 2009.01 | 14 | EUR 451 |
| DAX INDEX FUTURE | 2009.03 | 3 | EUR 356 |
| IBEX 35 INDX FUTR | 2009.01 | 7 | EUR 633 |
| MINI S&P/MIB FUT | 2009.03 | 37 | EUR 712 |
| FTSE 100 IDX FUT | 2009.03 | 19 | GBP 815 |
| TOPIX INDEX FUTURE | 2009.03 | 35 | JPY 283,990 |
| S&P 500 FUTURE | 2009.03 | 16 | USD 3,541 |
| S&P 500 EMINI FUTURE | 2009.03 | 53 | USD 2,346 |

(Continued)

| | Maturity Period | Units | Contract Amount (in Thousands) |
|--------------------------|-----------------|-------|-----------------------------------|
| December 31, 2007 | | | |
| AMSTERDAM IDX FUT | 2008.01 | 14 | EUR 1,419 |
| CAC40 10 EURO FUT | 2008.01 | 17 | EUR 940 |
| DAX INDEX FUTURE | 2008.03 | 1 | EUR 198 |
| IBEX 35 INDX FUTR | 2008.01 | 7 | EUR 1,076 |
| MINI S&P/MIB FUT | 2008.03 | 35 | EUR 1,366 |
| FTSE 100 IDX FUT | 2008.03 | 35 | GBP 2,204 |
| TOPIX INDEX FUTURE | 2008.03 | 20 | JPY 313,900 |
| S&P 500 FUTURE | 2008.03 | 16 | USD 5,994 |
| S&P 500 EMINI FUTURE | 2008.03 | 23 | USD 1,725 |

As of December 31, 2008 and 2007, the deposits paid for index future contracts were \$242,768 thousand and \$81,515 thousand, respectively.

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

Net gain and net loss arising from financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2008 and 2007 were \$485,929 thousand (including realized settlement loss of \$38,127 thousand and valuation gain of \$524,056 thousand), and \$866,040 thousand (including realized settlement loss of \$271,138 thousand and valuation loss of \$594,902 thousand) respectively.

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | December 31 | |
|-----------------------------------|---------------|---------------|
| | 2008 | 2007 |
| Open-end mutual funds | \$ 13,441,639 | \$ 16,837,056 |
| Foreign listed stocks | 546,520 | 958,295 |
| Real estate investment trust fund | 194,226 | 246,452 |
| Listed stocks | | 115,710 |
| | \$ 14,182,385 | \$ 18,157,513 |

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For the years ended December 31, 2008 and 2007, movements of unrealized gain or loss on financial instruments mentioned above were as follows:

| | Years Ended December 31 | |
|------------------------------------|-------------------------|------------|
| | 2008 | 2007 |
| Balance, beginning of year | \$ 35,232 | \$ 541,054 |
| Recognized in stockholders' equity | (3,174,015) | (131,852) |
| Transferred to profit or loss | 882,878 | (373,970) |
| Balance, end of year | \$ (2,255,905) | \$ 35,232 |

Global economic and financial circumstances have significantly changed. As a result, the Company determined that the impairment losses of available-for-sale financial assets is other-than-temporary in nature, and recorded impairment losses of \$1,139,105 thousand in 2008.

7. HELD-TO-MATURITY FINANCIAL ASSETS

| | December 31 | |
|--|--------------|--------------|
| | 2008 | 2007 |
| Corporate bonds, nominal interest rate ranging from 0.994%-3.85% and 0%-4% for the years ended December 31, 2008 and 2007, respectively; effective interest rate ranging from 0.994%-2.95% and 0.994%-4% for 2008 and 2007, respectively | \$ 3,772,177 | \$ 1,048,484 |
| Collateralized loan obligation, nominal and effective interest rate were both 2.175% for 2008 and 2007 | 41,360 | 100,965 |
| | 3,813,537 | 1,149,449 |
| Less: Current portion | 769,435 | 651,192 |
| | \$ 3,044,102 | \$ 498,257 |

8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

| | Years Ended December 31 | |
|---|-------------------------|--------------|
| | 2008 | 2007 |
| Balance, beginning of year | \$ 3,430,157 | \$ 3,550,086 |
| Charge to expense for doubtful accounts | 500,898 | 607,907 |
| Impact on acquisition of subsidiaries | 983 | 112,831 |
| Accounts receivable written off | (881,347) | (840,667) |
| Balance, end of year | \$ 3,050,691 | \$ 3,430,157 |

9. OTHER CURRENT MONETARY ASSETS

| | December 31 | |
|---|--------------|--------------|
| | 2008 | 2007 |
| Accrued custodial receipts from other carriers | \$ 484,224 | \$ 650,791 |
| Receivable from disposal of financial instruments | 42,688 | 1,011,031 |
| Tax refund receivable | 12,834 | 3,221,608 |
| Fixed-line fund | | 1,000,000 |
| Other receivable | 1,686,510 | 1,343,820 |
| | \$ 2,226,256 | \$ 7,227,250 |

10. INVENTORIES, NET

| | December 31 | |
|-----------------------------|--------------|--------------|
| | 2008 | 2007 |
| Supplies | \$ 1,608,470 | \$ 1,517,233 |
| Work in process | 319,324 | 165,236 |
| Merchandise | 2,422,566 | 2,161,381 |
| Materials in transit | 906,818 | 521,978 |
| | 5,257,178 | 4,365,828 |
| Less: Valuation allowance | 122,573 | 62,831 |
| | 5,134,605 | 4,302,997 |
| Land held under development | 706,176 | |
| Land held for development | 531,501 | |
| Prepayment for construction | 40,195 | |
| | \$ 6,412,477 | \$ 4,302,997 |

Land held under development on December 31, 2008 was for Wan-Xi project which is expected to be completed in 2012.

11. OTHER CURRENT ASSETS

| | December 31 | |
|------------------|--------------|--------------|
| | 2008 | 2007 |
| Prepaid rents | \$ 843,420 | \$ 589,860 |
| Prepaid expenses | 681,672 | 523,025 |
| Miscellaneous | 520,969 | 248,495 |
| | \$ 2,046,061 | \$ 1,361,380 |

12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

| | December 31 | | | |
|--|--------------------|-------------------|--------------------|-------------------|
| | 2008 | | 2007 | |
| | Carrying Amount | % of Ownership | Carrying Amount | % of Ownership |
| Chunghwa Investment Co., Ltd. (CHI) | \$ 829,716 | 49 | \$ 974,332 | 49 |
| Taiwan International Standard Electronics Co., Ltd. (TISE) | 593,441 | 40 | 626,078 | 40 |
| Senao Networks, Inc. (SNI) | 264,271 | 45 | 287,370 | 48 |
| ST-2 Satellite Ventures Pte., Ltd.(SSVP) | 108,212 | 38 | | |
| Viettel-CHT Co., Ltd. (Viettel-CHT) | 95,836 | 33 | | |
| Skysoft Co., Ltd. (SKYSOFT) | 84,992 | 30 | 69,911 | 30 |
| KingWay Technology Co., Ltd. (KWT) | 77,222 | 33 | | |
| ELTA Technology Co., Ltd. (ELTA) | | | 44,998 | 32 |
| Spring House Entertainment Inc. (SHE) | | | 15,659 | 30 |
| | 2,053,690 | | 2,018,348 | |
| Prepayments for long-term investments - InfoExplorer Co., Ltd.(IFE) | 283,500 | | | |
| | \$ 2,337,190 | | \$ 2,018,348 | |

ST-1 telecommunications satellite is expected be retired in 2011; therefore, CHTS and Sing TelSat Pte., Ltd. established a joint venture, ST-2 Satellite Ventures Pte., Ltd. (SSVP) in Singapore in October 2008 in order to maintain the current service. SSVP will engage in the installation and the operation of ST-2 telecommunications satellite.

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

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

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

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

Chunghwa prepaid \$283,500 thousand to invest InfoExplorer Co., Ltd. (IFE) and the record date of capital increase of IFE was January 5, 2009. Chunghwa acquired 49% of ownership. Chunghwa has control in IFE by obtaining above half of seats of the board of directors of IFE on January 20, 2009, which was IFE's stockholder's meeting. IFE mainly engages in information system planning and maintenance, software development, and information technology consultation services.

The carrying values of the equity investees as of December 31, 2008 and 2007 and the equity in earnings for the years ended December 31, 2008 and 2007 are determined based on the audited financial statements of the investees for the same years as the Company.

13. FINANCIAL ASSETS CARRIED AT COST

| | December 31 | | | |
|--|--------------------|-------------------|--------------------|-------------------|
| | 2008 | | 2007 | |
| | Carrying Amount | % of Ownership | Carrying Amount | % of Ownership |
| Taipei Financial Center (TFC) | \$ 1,789,530 | 12 | \$ 1,789,530 | 12 |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II) | 200,000 | 17 | | |
| Global Mobile Corp. (GMC) | 127,018 | 11 | 168,038 | 15 |
| iD Branding Ventures (iDBV) | 75,000 | 8 | 75,000 | 8 |
| RPTI International (RPTI) | 34,500 | 12 | 49,500 | 12 |
| N.T.U. Innovation Incubation Corporation (NTUI) | 12,000 | 9 | 12,000 | 9 |
| Essence Technology Solution, Inc. (ETS) | 10,000 | 9 | 20,000 | 9 |
| 3 Link Information Service Co., Ltd. (3 Link) | 3,450 | 10 | 3,450 | 10 |
| Siemens Telecommunication Systems (Siemens) | | | 5,250 | 15 |
| eASPNet Taiwan Inc. (eASPNet) | | 2 | | 2 |
| | 2,251,498 | | 2,122,768 | |
| Prepayments for long-term investments in stocks - Taipei Financial Center (TFC) | 285,859 | | | |
| | \$ 2,537,357 | | \$ 2,122,768 | |

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

Chunghwa invested in GMC in December 2007, for a purchase price of \$168,038 thousand for 16,796 thousand shares. GMC engages mainly in wire communication services and computer software wholesale and circuit engineering. The National Communications Commission (NCC) informed Chunghwa with the Communication Letter (#0974102087) on April 1, 2008 that its investment in GMC was not authorized by NCC, and notified Chunghwa on May 5, 2008 that Chunghwa should dispose of its investment in GMC no later than June 30, 2008, otherwise, NCC would fine Chunghwa according to the Telecommunication Act. In April 2008, Chunghwa disposed of a portion of its investment in GMC (4,100 thousand shares) and filed an appeal to NCC to suspend the enforcement. In July, 2008, NCC resolved that according to the Administrative Penalty Act, Chunghwa could not divest of its investment in the short time period provided and that Chunghwa would not be subject to fines as noted above. In October 2008, NCC revoked the original decree about Chunghwa's investment in GMC, therefore, Chunghwa did not dispose of its remaining holding in GMC.

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

Chunghwa invested in ETS in December 2007, for a purchase price of \$20,000 thousand. ETS mainly engages in IP-Private Branch Exchange (IP PBX) and design of voice security module. After evaluating the investment in ETS, Chunghwa determined the investment in ETS was impaired and recognized an impairment loss of \$10,000 thousand for the year ended December 31, 2008.

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

Chunghwa participated in TFC's capital increase in October 2008 and the prepayment was \$285,859 thousand.

In January 2008, CHSI invested in Taiwan Goal Co., Ltd. (TG) for a purchase price of \$30,000 thousand. TG engages mainly in import and export activities for machine wholesale, arms and ammunition products. On March 17, 2008, the stockholders of TG resolved to dissolve TG at a special meeting. As of December 31, 2008, TG has completed its dissolution process. CHSI received \$29,585 thousand for the liquidation and recognized a loss of \$415 thousand in 2008.

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

14. OTHER MONETARY ASSETS-NONCURRENT

| | December 31 | |
|-------------|--------------|--------------|
| | 2008 | 2007 |
| Piping Fund | \$ 1,000,000 | \$ 1,000,000 |

As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute a total of \$1,000,000 thousand to a Piping Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects.

15. PROPERTY, PLANT AND EQUIPMENT

| | December 31 | |
|--|-----------------------|-----------------------|
| | 2008 | 2007 |
| Cost | | |
| Land | \$ 101,460,017 | \$ 101,533,590 |
| Land improvements | 1,494,398 | 1,475,371 |
| Buildings | 63,029,159 | 62,671,185 |
| Computer equipment | 16,130,398 | 15,687,851 |
| Telecommunications equipment | 650,204,202 | 639,299,029 |
| Transportation equipment | 2,406,111 | 2,856,103 |
| Miscellaneous equipment | 7,331,543 | 7,715,229 |
| Total cost | 842,055,828 | 831,238,358 |
| Revaluation increment on land | 5,810,650 | 5,822,981 |
| | 847,866,478 | 837,061,339 |
| Accumulated depreciation | | |
| Land improvements | 898,156 | 844,244 |
| Buildings | 16,298,698 | 15,235,968 |
| Computer equipment | 11,846,090 | 11,662,483 |
| Telecommunications equipment | 503,425,455 | 485,766,784 |
| Transportation equipment | 2,195,401 | 2,690,936 |
| Miscellaneous equipment | 6,158,570 | 6,530,176 |
| | 540,822,370 | 522,730,591 |
| Construction in progress and advances payments | 16,005,390 | 16,466,398 |
| Property, plant and equipment, net | \$ 323,049,498 | \$ 330,797,146 |

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

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The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went effective from February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of \$116,196 thousand to stockholders' equity - other adjustments. As of December 31, 2008, the unrealized revaluation increment was decreased to \$5,813,187 thousand by disposal revaluation assets.

Depreciation expense on property, plant and equipment was \$37,101,335 thousand and \$38,816,292 thousand for the years ended December 31, 2008 and 2007, respectively. Interest expense capitalized for the years ended December 31, 2008 and 2007 were nil, \$1,916 thousand and \$1,469 thousand. The capitalized interest rate were 2.268%-2.928% and 2.850%-3.215%, respectively, for the years ended December 31, 2008 and 2007.

16. SHORT-TERM LOANS

| | December 31 | |
|---|-------------|-----------|
| | 2008 | 2007 |
| Unsecured loans - annual rate - 1.7% and 2.850% for 2008 and 2007, respectively | \$ 258,000 | \$ 36,000 |

17. ACCRUED EXPENSES

| | December 31 | |
|---------------------------------|---------------|---------------|
| | 2008 | 2007 |
| Accrued salary and compensation | \$ 11,145,312 | \$ 10,027,725 |
| Accrued franchise fees | 2,368,996 | 2,159,399 |
| Other accrued expenses | 2,831,394 | 3,372,548 |
| | \$ 16,345,702 | \$ 15,559,672 |

18. OTHER CURRENT LIABILITIES

| | December 31 | |
|---------------------------------------|---------------|---------------|
| | 2008 | 2007 |
| Advances from subscribers | \$ 6,151,140 | \$ 5,449,204 |
| Amounts collected in trust for others | 2,534,600 | 2,834,457 |
| Payables to equipment suppliers | 2,526,229 | 1,824,681 |
| Payables to constructors | 1,546,234 | 1,065,972 |
| Refundable customers' deposits | 980,622 | 915,248 |
| Miscellaneous | 2,790,986 | 2,370,088 |
| | \$ 16,529,811 | \$ 14,459,650 |

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

| | December 31 | |
|---|-------------|--------|
| | 2008 | 2007 |
| Secured loans - annual rate - 1% for 2008 | \$ 37,840 | \$ |
| Unsecured loans - annual rate - 2.794% for 2007 | | 20,000 |
| | 37,840 | 20,000 |
| Less: Current portion of long-term loans | 8,440 | 20,000 |
| | \$ 29,400 | \$ |

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

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

20. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The Company classified LED s assets and liabilities of the construction operations as current and noncurrent according to the length of the operating cycle of the construction operations. Maturity analysis of LED s related assets and liabilities was as follows:

| | December 31, 2008 | | |
|---|---------------------|------------------|--------------|
| | With in One Year | Over One Year | Total |
| Assets | | | |
| Inventories | \$ | \$ 1,277,872 | \$ 1,277,872 |
| Deferred expenses (classified as other current assets) | | 91,580 | 91,580 |
| Restricted assets (classified as other assets - others) | | 55,546 | 55,546 |
| | \$ | \$ 1,424,998 | \$ 1,424,998 |
| Liabilities | | | |
| Trade notes and accounts payable | \$ (3,711) | \$ | \$ (3,711) |
| Advance from of land and building (classified as other current liabilities) | | (226,567) | (226,567) |
| | \$ (3,711) | \$ (226,567) | \$ (230,278) |

21. STOCKHOLDERS EQUITY

Under Chunghwa's Articles of Incorporation, Chunghwa's authorized capital is \$120,000,000,020 which is divided into 12,000,000,000 common shares (at \$10 par value per share), which are issued and outstanding 9,696,808,181 shares. Chunghwa's Articles of Incorporation and the Republic of China Telecommunications Act provide that the MOTC has the right to purchase two redeemable preferred shares at \$10 (par value) in the event its ownership of Chunghwa falls below 50% of the outstanding common shares. On March 28, 2006, the board of directors approved the issuance of the 2 preferred shares, and the MOTC purchased the 2 preferred shares at par value on April 4, 2006.

For the purpose of privatizing Chunghwa, the MOTC sold 1,109,750 thousand common shares of Chunghwa in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of Chunghwa, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. The MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of December 31, 2008, the outstanding ADSs were 1,780,568 thousand common shares, which equaled approximately 178,057 thousand units and represented 18.36% of Chunghwa's total outstanding common shares.

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

- a. Exercise their voting rights,
- b. Sell their ADSs, and
- c. Receive dividends declared and subscribe to the issuance of new shares.

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

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

Under the ROC Company Law, additional paid-in capital may only be utilized to offset deficits. For those companies having no deficits, additional paid-in capital arising from capital surplus can be used to increase capital stock and distribute to stockholders in proportion to their ownership at the ex-dividend date. Also, such amounts can only be declared as a stock dividend by Chunghwa at an amount calculated in accordance with the provisions of existing regulations. The combined amount of any portions capitalized each year may not exceed 10 percent of common stock issued. However, where a company undergoes an organizational change (such as a merger, acquisition, or reorganization) that results in the capitalization of undistributed earnings after the organizational change, the above restriction does not apply.

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

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

For the year ended December 31, 2008, the accrual amounts for bonuses to employees and remuneration to directors and supervisors is based on management estimates including past experience and probable amount to be paid in accordance with Chunghwa's Articles of Incorporation and Implementation Guidance for the Employee's Bonus Distribution of Chunghwa Telecom Co., Ltd.

If the initial accrual amounts of the aforementioned bonus are different from the amounts resolved in the stockholders' meeting and the difference is charged to the earnings of the following year as a result of change in accounting estimate.

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

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

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

The amounts of the appropriations of earnings for 2007 and 2006 were consistent with the resolutions of the meetings of the Board of Directors held on April 25, 2008 and, April 24, 2007 respectively.

The stockholders, at a special meeting held on August 14, 2008, resolved to transfer capital surplus in the amount of \$19,115,554 thousand to common capital stock.

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

The stockholders, at the stockholders meeting held on August 14, 2008, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of \$19,115,554 thousand to common capital stock and was effectively registered with SFC. Chunghwa designated December 30, 2008 as the record date and March 9, 2009 as the stock transfer date of capital reduction.

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

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

The stockholders, at the stockholders meeting held on June 15, 2007, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of \$9,667,845 thousand to common capital stock, and was effectively registered with SFC. Chunghwa decided October 19, 2007 and December 29, 2007 as the record date and stock transfer date of capital reduction, respectively. Subsequently, common capital stock was reduced by \$9,667,845 thousand and a liability for the actual amount of cash to be distributed to stockholders of \$9,557,777 thousand was recorded. The difference between the reduction in common capital stock and the distribution amount represents treasury stock of \$110,068 thousand held by Chunghwa and concurrently cancelled. Such cash payments to stockholders was made in January 2008.

The appropriation of Chunghwa s 2008 earnings has not been resolved by the board of directors as of the report date. Information on the appropriation of 2008 earnings, employee bonus and remuneration to board of directors and supervisors proposed by the board of directors and resolved by the stockholders is available at the Market Observation Post System website.

22. SHARE-BASED COMPENSATION PLANS

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

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

Each option is eligible to subscribe for one common share when exercisable. Under the terms of the Plans, the options are granted at an exercise price equal to the closing price of the SENAOS common shares listed on the TSE on the higher of closing price or par value. The SENAOS Plans have exercise price adjustment formula upon the issuance of new common shares, capitalization of retained earnings and/or capital reserves, stock split as well as distribution of cash dividend (except for 2007 Plan), except (i) in the case of issuance of new shares in connection with mergers and in the case of cancellation of outstanding shares in connection with capital reduction (2007 Plan is out of this exception), and (ii) except if the exercise price after adjustment exceeds the exercise price before adjustment. The options of all the Plans are valid for six years and the graded vesting schedule for which 50% of option granted will vest two years after the grant date and another two tranches of 25% will vest three and four years after the grant date respectively.

Information about SENAOS outstanding stock options for the years ended December 31, 2008 and 2007 was as follows:

| | Stock Options Outstanding | | | |
|--|------------------------------|---------------------|------------------------------|---------------------|
| | 2008 | Weighted Average | 2007 | Weighted Average |
| | Number of Options (Thousand) | Exercise Price NT\$ | Number of Options (Thousand) | Exercise Price NT\$ |
| Options outstanding, beginning of year | 18,592 | \$ 24.70 | 16,488 | \$ 14.66 |
| Options issued | | | 6,181 | 44.20 |
| Options exercised | (4,299) | 13.64 | (3,419) | 13.31 |
| Options cancelled | (475) | 23.10 | (658) | 15.30 |
| Options outstanding, end of year | 13,818 | 26.34 | 18,592 | 24.70 |
| Options exercisable, end of year | 2,559 | | 1,053 | |

As of December 31, 2008, information about SENAOS outstanding and exercisable options was as follows:

| Range of Exercise Price (NT\$) | Options Outstanding | | | Options Exercisable | |
|--------------------------------|------------------------------|---|--|------------------------------|--|
| | Number of Options (Thousand) | Weighted-average Remaining Contractual Life (Years) | Weighted Average Exercise Price (NT\$) | Number of Options (Thousand) | Weighted Average Exercise Price (NT\$) |
| \$10.0-\$14.3 | 6,852 | 3.08 | \$ 13.49 | 1,959 | \$ 13.38 |
| \$15.5-\$18.9 | 933 | 2.25 | 15.60 | 600 | 15.65 |
| \$42.6 | 6,033 | 4.92 | 42.60 | | |

As of December 31, 2007, information about SENAOS outstanding and exercisable options was as follows:

| Range of Exercise Price (NT\$) | Options Outstanding | | | Options Exercisable | |
|--------------------------------|------------------------------|---|--|------------------------------|--|
| | Number of Options (Thousand) | Weighted-average Remaining Contractual Life (Years) | Weighted Average Exercise Price (NT\$) | Number of Options (Thousand) | Weighted Average Exercise Price (NT\$) |
| \$10.5-\$15.7 | 10,945 | 4.08 | \$ 14.69 | 310 | \$ 10.50 |
| \$17.1-\$20.8 | 1,466 | 3.24 | 17.23 | 743 | 17.29 |
| \$44.2 | 6,181 | 5.92 | 44.20 | | |

No compensation cost was recognized under the intrinsic value method for the years ended December 31, 2008 and 2007. Had SENAO used the fair value method to recognize the compensation cost, there were no significant impact on the consolidated net income and earnings per share.

Had SENAO used the fair value method to evaluate the options using the Black-Scholes model, the assumptions and pro forma results of SENAO for the year ended December 31, 2008 would have been as follows:

| | 2007.10.31 Options Exercisable | 2006.05.05 Options Exercisable | 2005.11.28 Options Exercisable | 2004.12.28 Options Exercisable | 2004.03.04 Options Exercisable |
|---------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Expected dividend yield | 1.49% | | | | |
| Risk free interest rate | 2.00% | 1.75% | 2.00% | 1.88% | 1.88% |
| Expected life (years) | 4.375 | 4.375 | 4.375 | 4.375 | 4.375 |
| Expected volatility | 39.82% | 39.63% | 43.40% | 49.88% | 52.65% |
| Weighted-average fair value of grants | \$ 13.69 | \$ 5.88 | \$ 6.93 | \$ 4.91 | \$ 10.56 |

23. TREASURY STOCK

| | Years Ended December 31 | |
|----------------------------|----------------------------|-----------|
| | 2008 | 2007 |
| Balance, beginning of year | 110,068 | |
| Increase | | 121,075 |
| Decrease | (110,068) | (11,007) |
| Balance, end of year | | 110,068 |

According to the Securities and Exchange Law of the ROC, total shares of treasury stock shall not exceed 10% of Chunghwa's stock issued. The total amount of the repurchased shares shall not be more than the total amount of retained earnings, capital surplus and realized additional paid-in capital. The Company shall neither pledge treasury stock nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

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

24. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

| | Year Ended December 31, 2008 | | |
|----------------------|------------------------------|--------------------|---------------|
| | Operating Costs | Operating Expenses | Total |
| Compensation expense | | | |
| Salaries | \$ 12,335,481 | \$ 9,789,863 | \$ 22,125,344 |
| Insurance | 915,170 | 703,331 | 1,618,501 |
| Pension | 1,616,950 | 1,237,295 | 2,854,245 |
| Other compensation | 8,494,259 | 5,838,074 | 14,332,333 |
| | \$ 23,361,860 | \$ 17,568,563 | \$ 40,930,423 |
| Depreciation expense | \$ 35,018,348 | \$ 2,082,987 | \$ 37,101,335 |
| Amortization expense | \$ 889,019 | \$ 185,862 | \$ 1,074,881 |

| | Year Ended December 31, 2007 | | |
|----------------------|------------------------------|--------------------|---------------|
| | Operating Costs | Operating Expenses | Total |
| Compensation expense | | | |
| Salaries | \$ 12,305,605 | \$ 8,987,009 | \$ 21,292,614 |
| Insurance | 671,920 | 888,685 | 1,560,605 |
| Pension | 1,754,508 | 1,273,045 | 3,027,553 |
| Other compensation | 9,204,006 | 5,519,418 | 14,723,424 |
| | \$ 23,936,039 | \$ 16,668,157 | \$ 40,604,196 |
| Depreciation expense | \$ 36,589,727 | \$ 2,226,565 | \$ 38,816,292 |
| Amortization expense | \$ 869,531 | \$ 128,256 | \$ 997,787 |

25. INCOME TAX

- a. Income tax expense consisted of the following:

| | Years Ended December 31 | |
|---------------------------------------|-------------------------|---------------|
| | 2008 | 2007 |
| Income tax payable | \$ 13,666,740 | \$ 13,565,493 |
| Income tax - separated | 300,915 | 243,596 |
| Income tax - deferred | (153,646) | (825,986) |
| Adjustments of prior years income tax | 78,299 | 76,005 |
| | \$ 13,892,308 | \$ 13,059,108 |

The balance of income tax payable as of December 31, 2008 and 2007 was shown net of prepaid income tax.

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

| | December 31 | |
|--|---------------------|---------------------|
| | 2008 | 2007 |
| Current | | |
| Provision for doubtful accounts | \$ 489,405 | \$ 361,095 |
| Abandonment of equipment not approved by National Tax Administration | 40,239 | |
| Valuation loss on inventory | 31,181 | 15,708 |
| Unrealized accrued expense | 22,384 | |
| Valuation loss on financial instruments, net | 13,696 | 149,254 |
| Estimated warranty liabilities | 12,726 | 17,025 |
| Loss carryforward | 11,291 | 66,822 |
| Unrealized foreign exchange loss(gain) | (35,600) | 10,149 |
| Other | 11,246 | 21,330 |
| | 596,568 | 641,383 |
| Valuation allowance | (478,033) | (372,735) |
| Net deferred income tax assets-current | \$ 118,535 | \$ 268,648 |
| Noncurrent | | |
| Accrued pension cost | \$ 1,404,718 | \$ 1,094,208 |
| Impairment loss | 138,499 | 83,514 |
| Loss carryforward | 137,280 | 81,919 |
| Loss on disposal of property, plant and equipment | 2,566 | 17,460 |
| Other | 6,424 | 3,589 |
| | 1,689,487 | 1,280,690 |
| Valuation allowance | (146,172) | (50,878) |
| Net deferred income tax assets-noncurrent | \$ 1,543,315 | \$ 1,229,812 |

- c. As of December 31, 2008, loss carryforward of CHIEF, Unigate, SHE, CIYP and LED are as follows:

| Company | Total Amounts | Unused Amounts | Expiry Year |
|----------------|------------------|-------------------|----------------|
| CHIEF | \$ 28,261 | \$ 28,261 | 2013 |
| | 22,427 | 22,427 | 2014 |
| | 25,392 | 25,392 | 2015 |
| | 21,975 | 21,975 | 2016 |
| | 12,125 | 12,125 | 2017 |
| | 3,991 | 3,991 | 2018 |
| Unigate | 20 | 20 | 2017 |
| | 8 | 8 | 2018 |
| SHE | 6,529 | 5,712 | 2013 |
| | 1,973 | 1,973 | 2014 |
| | 6,262 | 6,262 | 2016 |
| | 1,152 | 1,152 | 2017 |
| CIYP | 38,561 | 11,291 | 2017 |
| LED | 7,982 | 7,982 | 2018 |
| | \$ 176,658 | \$ 148,571 | |

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

| | December 31 | |
|--|--------------|--------------|
| | 2008 | 2007 |
| Balance of Imputation Credit Account (ICA) | | |
| Chunghwa | \$ 7,285,595 | \$ 6,528,877 |

The estimated and the actual creditable ratios distribution of Chunghwa s of 2008 and 2007 for earnings were 30.81% and 28.81%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

e. Undistributed earnings information

All Chunghwa s earnings generated prior to June 30, 1998 have been appropriated.

Chunghwa s income tax returns have been examines by tax authorities through 2005. The following entities income tax returns have been examined by tax authorities through 2006: SENAO, CHIEF, Unigate, and CHSI. SHE s income tax returns have been examines by tax authorities through 2007.

26. EARNINGS PER SHARE

| | Amount (Numerator) | | Weighted- average Number of Common Shares (Thousand) (Denominator) | Earnings Per Share (Dollars) | |
|---|--------------------------------|---------------|--|-----------------------------------|---------------|
| | Income Before Income Tax | Net Income | | Income Before Income Tax | Net Income |
| <u>Year ended December 31, 2008</u> | | | | | |
| EPS was calculated as follows: | | | | | |
| Basic EPS: | | | | | |
| Income available to stockholders of the parent | \$ 58,472,865 | \$ 45,010,342 | 9,696,808 | \$ 6.03 | \$ 4.64 |
| Effect of dilutive potential common stock - SENAO s stock options | (13,775) | (13,775) | | | |
| Employee bonus | | | 20,681 | | |
| Diluted EPS | | | | | |
| Income available to stockholders of the parent (including effect of dilutive potential common stock) | \$ 58,459,090 | \$ 44,996,567 | 9,717,489 | \$ 6.02 | \$ 4.63 |

(Continued)

| | Amount (Numerator) | | Weighted- average Number of Common Shares (Thousand) (Denominator) | Earnings Per Share (Dollars) | |
|---|--------------------------------|---------------|--|---------------------------------|---------------|
| | Income Before Income Tax | Net Income | | Income Before Tax | Net Income |
| Year ended December 31, 2007 | | | | | |
| Basic EPS | | | | | |
| Income available to stockholders of the parent | \$ 61,096,470 | \$ 48,249,319 | 9,776,237 | \$ 6.25 | \$ 4.94 |
| Effect of dilutive potential common stock - SENAO's stock options | (8,099) | (8,099) | | | |
| Diluted EPS | | | | | |
| Income available to stockholders of the parent (including effect of dilutive potential common stock) | \$ 61,088,371 | \$ 48,241,220 | 9,776,237 | \$ 6.25 | \$ 4.93 |

(Concluded)

According to the Interpretation 97-169 issued by ARDF in May 2008, Chunghwa presumed that the employees bonuses to be paid will be settled in shares and takes those shares into consideration when calculating the weighted average number of outstanding shares used in the calculation of diluted EPS if the share have a dilutive effect for the year ended December 31, 2008. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa's shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The diluted earnings per share for the years ended December 31, 2008 and 2007 was due to the effect of potential common stock of stock options by SENAO.

27. PENSION PLAN

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

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

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

The Company used December 31 as the measurement date for their pension plans.

Pension costs of the Company amounted to \$2,938,297 thousand (\$2,774,487 thousand subject to defined benefit plan and \$163,810 thousand subject to defined contribution plan) and \$3,138,987 thousand (\$3,026,778 thousand subject to defined benefit plan and \$112,209 thousand subject to defined contributed plan) for the years ended December 31, 2008 and 2007, respectively.

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

a. Components of net periodic pension cost for the year

2008

| | Chunghwa | SENAO | CHIEF |
|---|-----------------|--------------|--------------|
| Service cost | \$ 2,658,562 | \$ 1,610 | \$ |
| Interest cost | 185,873 | 2,656 | 443 |
| Expected return on plan assets | (82,006) | (3,154) | (227) |
| Amortization of unrecognized loss | (2,529) | 924 | 111 |
| Curtailement/settlement loss to be recognized | 14,374 | | (3,081) |
| Net periodic benefit pension cost | \$ 2,774,274 | \$ 2,036 | \$ (2,754) |

2007

| | Chunghwa | SENAO | CHIEF |
|---|-----------------|--------------|--------------|
| Service cost | \$ 2,807,927 | \$ 2,121 | \$ |
| Interest cost | 107,931 | 2,117 | 411 |
| Expected return on plan assets | (78,198) | (1,958) | (200) |
| Amortization of unrecognized loss | 7,003 | 666 | 63 |
| Curtailement/settlement loss to be recognized | 178,895 | | |
| Net periodic benefit pension cost | \$ 3,023,558 | \$ 2,946 | \$ 274 |

- b. Reconciliation between the fund status and accrued pension liabilities, vested benefit, actuarial assumptions and contributions and payments of the fund is summarized as follows:

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

| 2008 | Chunghwa | SENAO | CHIEF |
|---|----------------|-------------|------------|
| Benefit obligation | | | |
| Vested benefit obligation | \$ (5,658,116) | \$ (13,691) | \$ |
| Non-vested benefit obligation | (2,832,135) | (72,787) | (7,661) |
| Accumulated benefit obligation | (8,490,251) | (86,478) | (7,661) |
| Additional benefit obligation | (930,915) | (36,350) | (6,659) |
| Projected benefit obligation | (9,421,166) | (122,828) | (14,320) |
| Fair values of plan assets | 4,282,694 | 112,186 | 8,877 |
| Funded status | (5,138,472) | (10,642) | (5,443) |
| Amortization of unrecognized net transition obligation | | 2,770 | 5,712 |
| Unrecognized prior service cost effect | (49,776) | (7,831) | |
| Amortization of unrecognized net loss (gain) | 23,860 | 27,614 | (5,933) |
| Net amount recognized - prepaid pension cost - included in other assets - other (accrued pension liabilities) | \$ (5,164,388) | \$ 11,911 | \$ (5,664) |

| 2007 | Chunghwa | SENAO | CHIEF |
|---|-----------------|------------|------------|
| Benefit obligation | | | |
| Vested benefit obligation | \$ (3,526,887) | \$ (2,395) | \$ |
| Non-vested benefit obligation | (2,150,100) | (66,330) | (9,272) |
| Accumulated benefit obligation | (5,676,987) | (68,725) | (9,272) |
| Additional benefit obligation | (970,516) | (27,937) | (6,851) |
| Projected benefit obligation | (6,647,503) | (96,662) | (16,123) |
| Fair values of plan assets | 2,754,779 | 101,757 | 7,853 |
| Funded status | (3,892,724) | 5,095 | (8,270) |
| Amortization of unrecognized net transition obligation | | 3,694 | 7,383 |
| Amortization of unrecognized net loss | (19,240) | (1,489) | (8,267) |
| Net amount recognized - prepaid pension cost - included in other assets - other (accrued pension liabilities) | \$ (3,911,964) | \$ 7,300 | \$ (9,154) |

- 2) Vested benefit

| | Chunghwa | SENAO | CHIEF |
|------|--------------|-----------|-------|
| 2008 | \$ 7,664,921 | \$ 17,776 | \$ |

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2007

\$ 5,009,083 \$ 2,460 \$

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3) Actuarial assumptions

| | Years Ended December 31 | |
|---|----------------------------|-------|
| | 2008 | 2007 |
| Discount rate used in determining present value | 2.00% | 2.50% |
| Rate of compensation increase | 1.00% | 1.50% |
| Rate of return on plan assets | 2.50% | 2.75% |

c. Contributions and payments of the Fund

| 2008 | Chunghwa | SENAO | CHIEF |
|---------------|--------------|----------|--------|
| Contributions | \$ 1,515,234 | \$ 6,647 | \$ 735 |
| Payments | \$ 105,910 | \$ | \$ |
| 2007 | Chunghwa | SENAO | CHIEF |
| Contributions | \$ 365,368 | \$ 4,848 | \$ 842 |
| Payments | \$ 600,239 | \$ 1,986 | \$ |

28. TRANSACTIONS WITH RELATED PARTIES

The ROC Government, one of Chunghwa's customers held significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, Internet and data and other services to the various departments and institutions of the ROC Government and other state-owned enterprises in the normal course of business and at arm's-length prices. The information on service revenues from government bodies and related organizations have not been provided because details of the type of transactions were not summarized by Chunghwa. Chunghwa believes that all costs of doing business are reflected in the financial statements.

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

| Company | Relationship |
|---|---|
| Senao International Co., Ltd. (SENAO) | Equity-method investee before Chunghwa has control over SENAO on April 12, 2007 |
| Chunghwa System Integration Co., Ltd. (CHSI) | Subsidiary of CHI prior to acquisition. |
| Spring House Entertainment Inc.(SHE) | Equity-method investee before Chunghwa has control over SHE on January 2008 |
| Chunghwa Telecom Global, Inc. (CHTG) | Subsidiary of CHI prior to acquisition. |
| Donghua Telecom Co., Ltd. (DHT) | Subsidiary of CHI prior to acquisition. |
| Chunghwa Investment Co., Ltd. (CHI) | Equity-method investee |
| Taiwan International Standard Electronics Co., Ltd. (TISE) | Equity-method investee |
| ELTA Technology Co., Ltd. (ELTA) | Equity-method investee before Chunghwa sold all shares in July, 2008. |

Skysoft Co., Ltd. (SKYSOFT)

Equity-method investee

(Continued)

| Company | Relationship |
|--|---|
| Chunghwa Precision Test Technical Co., Ltd. (CHPT) | Subsidiary of CHI |
| Senao Networks, Inc. (SNI) | Equity-method investee of SENAO |
| SENAO Technology Education Foundation (STEF) | A nonprofit organization of which the funds donated by SENAO exceeds one third of its total funds |
| Paul Lin | Vice chairman and general manager of SENAO |
| Chunghwa Investment Holding Company (CIHC) | Subsidiary of CHI |
| Senao International Miami Inc. (SIM) | Chairman of SIM is vice chairman and general manager of SENAO |
| Senora Trading Company (STC) | Chairman of STC and SENAO s vice chairman and general manager is immediate family |

(Concluded)

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

| | December 31 | | | |
|--|-------------|-----|------------|-----|
| | 2008 | | 2007 | |
| | Amount | % | Amount | % |
| 1) Receivables | | | | |
| Trade notes and accounts receivable | | | | |
| CHPT | \$ 1,234 | 60 | \$ 2,841 | 61 |
| SNI | | | 1,852 | 39 |
| Others | 818 | 40 | | |
| | \$ 2,052 | 100 | \$ 4,693 | 100 |
| 2) Payables | | | | |
| Trade notes payable, accounts payable, and accrued expenses | | | | |
| TISE | \$ 492,883 | 94 | \$ 141,192 | 41 |
| STEF | 2,385 | 1 | 2,550 | 1 |
| Others | 2,032 | | 6,094 | 2 |
| | 497,300 | 95 | 149,836 | 44 |
| Payable to construction supplier | | | | |
| TISE | 26,188 | 5 | 191,218 | 55 |
| Amounts collected in trust for others | | | | |
| SHE | | | 2,248 | 1 |
| | \$ 523,488 | 100 | \$ 343,302 | 100 |
| 3) Advances from customers (include in other current liabilities) | | | | |
| SNI | \$ 2,688 | | \$ | |
| Others | 152 | | | |
| | \$ 2,840 | | \$ | |

| | Years Ended December 31 | | | |
|--|-------------------------|---|--------------|----|
| | 2008 | | 2007 | |
| | Amount | % | Amount | % |
| 4) Revenues | | | | |
| SKYSOFT | \$ 32,738 | | \$ 7,303 | |
| ELTA | 9,831 | | 14,947 | |
| CHPT | 6,800 | | 7,169 | |
| STC | | | 135,049 | |
| CHTG | | | 88,476 | |
| SENAO | | | 32,349 | |
| CHSI | | | 17,409 | |
| Others | 4,147 | | 68,192 | |
| | \$ 53,516 | | \$ 370,894 | |
| 5) Operating costs and expenses | | | | |
| TISE | \$ 538,389 | | \$ 388,111 | |
| ELTA | 189,744 | | 98,610 | |
| STEF | 11,028 | | 9,766 | |
| SNI | 8,452 | | | |
| SENAO | | | 1,174,966 | 1 |
| CHSI | | | 441,585 | 1 |
| CHTG | | | 63,663 | |
| SIM | | | 35,506 | |
| Others | 6,070 | | 27,169 | |
| | \$ 753,683 | | \$ 2,239,376 | 2 |
| 6) Non-operating income and gains | | | | |
| SNI | \$ 30,731 | 1 | \$ 23,771 | 1 |
| Others | 155 | | | |
| | \$ 30,886 | 1 | \$ 23,771 | 1 |
| 7) Acquisitions of property, plant and equipment | | | | |
| TISE | \$ 849,985 | 3 | \$ 947,835 | 4 |
| CHSI | | | 577,202 | 2 |
| CHTG | | | 43,393 | |
| Others | 355 | | 1,108 | |
| | \$ 850,340 | 3 | \$ 1,569,538 | 6 |
| 8) Acquisitions of investment accounted for using equity method | | | | |
| CHI | \$ | | \$ 908,935 | 41 |
| CIHC | | | 11,430 | |
| | \$ | | \$ 920,365 | 41 |

Chunghwa acquired all of the shares of CHSI and CHTG from CHI in December 2007, for a total purchase price of \$908,935 thousand cash. The Company also acquired all of the shares of DHT from CIHC, for a total purchase price of \$11,430 thousand cash.

The above transactions between the Company and SENAO, CHSI, SHE, CHTG and DHT occurred prior to the Company obtaining control over SENAO, CHSI, SHE, CHTG and DHT. After obtaining control such to transaction were eliminated upon consolidation.

SENAO rents out part of its plant to SNI. The rent is collected monthly.

The foregoing transactions with related parties were conducted as arm's length transactions, except for the transactions with SENAO, SNI, STEF, STC, and SIM were determined in accordance with mutual agreements.

- c. The compensation of directors, supervisors and managements is showed as follow:

| | Years Ended December 31 | |
|--------------|----------------------------|------------|
| | 2008 | 2007 |
| Salaries | \$ 136,923 | \$ 121,738 |
| Compensation | 56,671 | 43,899 |
| Bonus | 58,239 | 66,794 |
| | \$ 251,833 | \$ 232,431 |

The compensation of directors, supervisors and management personnel for the year ended December 31, 2007 include the bonus appropriated from earnings for 2007 which had been approved by stockholders in the annual meeting held in 2008.

29. PLEDGED ASSETS

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

| | December 31 | |
|------------------------------------|-------------|------------|
| | 2008 | 2007 |
| Property, plant and equipment, net | \$ 337,857 | \$ 505,747 |
| Leased assets, net | 435,166 | 288,998 |
| Restricted assets | 11,904 | 864 |
| | \$ 784,927 | \$ 795,609 |

30. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2008, the Company's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisitions of land and buildings of \$399,116 thousand.
- b. Acquisitions of telecommunications equipment of \$15,605,897 thousand.

- c. Unused letters of credit of \$912,714 thousand.

- d. Contract to print billing, envelopes and telephone directories of \$115,725 thousand.
- e. LED has already contracted to advance sale of land for \$1,667,660 thousand, and collected \$226,567 thousand according to the contracts.
- f. For the purpose of completion the construction, acquisition of the building construction license and registration ownerships of all buildings for Wan-Xi Project, LED signed the trust deeds with Hua Nan Bank and China Real Estate Management Co., Ltd. for the fund management, property rights and related development to the extent of authority they are given.

Trust assets are as follow:

| | December 31, 2008 |
|----------------------------------|------------------------------|
| Restricted assets -Bank deposits | \$ 55,546 |
| Land used in construction | 1,822,166 |
| | \$ 1,877,712 |

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

| | Amount |
|---------------------|---------------|
| 2009 | \$ 1,405,635 |
| 2010 | 1,059,955 |
| 2011 | 864,480 |
| 2012 | 650,805 |
| 2013 and thereafter | 645,749 |

- h. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by Chunghwa on August 15, 1996 (classified as long-term investment other monetary assets). If the fund is not sufficient, Chunghwa will contribute the remaining \$1,000,000 thousand upon notification from the Taipei City Government. Based on Chunghwa's understanding of the Piping Fund terms, if the project is considered to be no longer necessary by the ROC government, Chunghwa will receive back its proportionate share of the net equity of the Piping Fund upon its dissolution. The Company does not know when its contribution to the Piping Fund will be returned; therefore, the Company did not discount the face amount of its contribution to the Piping Fund.
- i. A portion of the land used by Chunghwa during the period July 1, 1996 to December 31, 2004 was co-owned by Chunghwa and Chunghwa Post Co., Ltd. (the former Chunghwa Post Co., Ltd. directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to Chunghwa to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of Chunghwa's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. Chunghwa stated that both parties have the right to use co-management land without consideration. Chunghwa Post Co., Ltd. can't request payment for land compensation. However, Chunghwa believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, Chunghwa has filed an appeal at the Taiwan Taipei District Court. As of audit report date, the case is still in the procedure of the first instance at the Taiwan Taipei District Court.

- j. Giga Media filed a civil action against Chunghwa with the Taiwan Taipei District Court (the Court) on June 12, 2008. The complaint alleged that Chunghwa infringed Giga Media's ROC Patent No. I258284 which is a Point-to-Point Protocol over Ethernet (PPPoE) technique used to launch fixed IP of ADSL. Giga Media is seeking damages of \$500,000 thousand and interest calculated at 5% for the period from one day following the date Chunghwa received the official notification from the Court to the payment date.

31. FAIR VALUE OF FINANCIAL INSTRUMENTS

- a. Carrying amounts and fair values of financial instruments were as follows:

| | December 31 | | | |
|--|--------------------|---------------|--------------------|---------------|
| | 2008 | | 2007 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Assets | | | | |
| Cash and cash equivalents | \$ 81,288,165 | \$ 81,288,165 | \$ 76,233,001 | \$ 76,233,001 |
| Financial assets at fair value through profit or loss | 258,578 | 258,578 | 119,139 | 119,139 |
| Available-for-sale financial assets | 14,182,385 | 14,182,385 | 18,157,513 | 18,157,513 |
| Held-to-maturity financial assets - current | 769,435 | 769,435 | 651,192 | 651,192 |
| Trade notes and accounts receivable, net | 10,844,712 | 10,844,712 | 11,450,865 | 11,450,865 |
| Receivables from related parties | 2,052 | 2,052 | 4,693 | 4,693 |
| Other current monetary assets | 2,226,256 | 2,226,256 | 7,227,250 | 7,227,250 |
| Restricted assets - current | 58,914 | 58,914 | 864 | 864 |
| Investments accounted for using equity method | 2,337,190 | 2,498,632 | 2,018,348 | 2,220,280 |
| Financial assets carried at cost | 2,537,357 | 2,537,357 | 2,122,768 | 2,122,768 |
| Held-to-maturity financial assets - noncurrent | 3,044,102 | 3,044,102 | 498,257 | 498,257 |
| Other noncurrent monetary assets | 1,000,000 | 1,000,000 | 1,000,000 | 1,000,000 |
| Refundable deposits | 1,373,644 | 1,373,644 | 1,409,785 | 1,409,785 |
| Restricted assets - noncurrent | 8,536 | 8,536 | | |
| Liabilities | | | | |
| Short-term loans | 258,000 | 258,000 | 36,000 | 36,000 |
| Financial liabilities at fair value through profit or loss | 107,344 | 107,344 | 653,286 | 653,286 |
| Trade notes and accounts payable | 11,359,570 | 11,359,570 | 11,254,863 | 11,254,863 |
| Payables to related parties | 523,488 | 523,488 | 343,302 | 343,302 |
| Accrued expenses | 16,345,702 | 16,345,702 | 15,559,672 | 15,559,672 |
| Amounts collected in trust for others (included in other current liabilities) | 2,534,600 | 2,534,600 | 2,834,457 | 2,834,457 |
| Payables to equipment suppliers (included in other current liabilities) | 2,526,229 | 2,526,229 | 1,824,681 | 1,824,681 |
| Payables to contractors (included in other current liabilities) | 1,546,234 | 1,546,234 | 1,065,972 | 1,065,972 |
| Refundable customers deposits (included in other current liabilities) | 980,622 | 980,622 | 915,248 | 915,248 |
| Hedging derivative financial liabilities (included in other current liabilities) | 27,616 | 27,616 | 35,162 | 35,162 |
| Current portion of long-term loans | 8,440 | 8,440 | 20,000 | 20,000 |
| Due to stockholder for capital reduction | 19,115,554 | 19,115,554 | 9,557,777 | 9,557,777 |
| Long-term loans | 29,400 | 29,400 | | |
| Customers deposits | 6,159,722 | 6,159,722 | 6,386,169 | 6,386,169 |

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

- 1) The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. Because of the short maturities of these instruments, the carrying value represents a reasonable basis to estimate fair values. This method does not apply to the financial instruments discussed in Notes 2, 3, and 4 below.
- 2) If the financial assets/liabilities at fair value through profit or loss and the available-for-sale financial assets have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market price of the available-for-sale financial assets are not readily available, valuation techniques are used incorporating estimates and assumptions that are consistent with prevailing market conditions.
- 3) Long-term investments are based on the net asset values of the investments in unconsolidated companies if quoted market prices are not available.
- 4) The fair value of long-term loans (including current portion) is discounted based on projected cash flow with approximate their carrying amounts. The projected cash flows were discounted using the interest rate of similar long-term loans.

c. Fair values of financial assets and liabilities using quoted market price or valuation techniques were as follows:

| | Amount Based on Quoted Market Price December 31 | | Amount Determined Using Valuation Techniques December 31 | |
|--|---|------------|--|---------|
| | 2008 | 2007 | 2008 | 2007 |
| Assets | | | | |
| Financial assets at fair value through profit or loss | \$ 258,578 | \$ 119,139 | \$ | \$ |
| Available-for-sale financial assets | 14,182,385 | 18,157,513 | | |
| Hedging derivative financial assets (classified as other current monetary assets) | | 990 | | |
| Liabilities | | | | |
| Financial liabilities at fair value through profit or loss | 107,344 | 73,127 | | 580,159 |
| Hedging derivative financial liabilities (classified as other current liabilities) | 27,616 | 35,162 | | |

d. Information about financial risks

1) Market risk

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

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

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

2) Credit risk

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

3) Liquidation risk

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

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

4) Cash flow interest rate risk

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

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

e. Fair value hedge

Chunghwa entered into forward exchange contracts is mainly to hedge the fluctuation in exchange rates of beneficiary certificate denominated in foreign currency, which is fair value hedge. The transaction was assessed as highly effective for the years ended December 31, 2008 and 2007.

Outstanding forward exchange contracts for hedge as of December 31, 2008 and 2007:

| | Currency | Holding Period | Contract Amount (in Thousands) | |
|--------------------------|----------|----------------|-----------------------------------|--------|
| <u>December 31, 2008</u> | | | | |
| Sell | USD/NTD | 2009.01 | USD | 30,000 |
| <u>December 31, 2007</u> | | | | |
| Sell | USD/NTD | 2008.03 | USD | 65,000 |
| | EUR/NTD | 2008.02-03 | EUR | 40,000 |

As of December 31, 2008 and 2007, the forward exchange contract measured at fair value resulting in hedging derivative financial liability of \$27,616 thousand and \$35,162 thousand (classified as other current liabilities), respectively. As of December 31, 2007, the forward exchange contract measured at fair value resulting in hedging derivative financial asset of \$990 thousand (classified as other current monetary assets).

32. ADDITIONAL DISCLOSURES

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

- a. Financing provided: None.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Please see Table 1.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 2.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 5.
- h. Receivables from related parties amounting to \$100 thousand or 20% of the paid-in capital: Please see Table 6.
- i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 7.
- j. Financial transactions: Please see Notes 5 and 31.
- k. Investment in Mainland China: Please see Table 8.
- l. Intercompany relationships and significant intercompany transaction: Please see Table 9.

33. SEGMENT INFORMATION

a. Industry

The financial information of the Company by industry: Please see Table 10.

b. Geographic

As of December 31, 2008, the Company had established foreign operations in U.S., Hong Kong, China, Singapore and Japan and none of their revenues is greater than 10% of total net revenues.

c. Export sales

The export sales of the Company is less than 10% of total net revenues.

d. Major customers

For the years ended December 31, 2008 and 2007, the Company did not have any single customer whose net revenue exceeded 10% of the total net revenues.

TABLE 1**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES HELD****DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2008 | | | | Note |
|-----|----------------------------|---|-------------------------------|---|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| | | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value | |
| 0 | Chunghwa Telecom Co., Ltd. | <u>Stocks</u> | | | | | | | |
| | | Senao International Co., Ltd. | Subsidiary | Investments accounted for using equity method | 71,773 | \$ 1,331,443 | 29 | \$ 2,260,854 | Note 5 |
| | | | | | | (Note 10) | | | |
| | | Light Era Development Co., Ltd. | Subsidiary | Investments accounted for using equity method | 300,000 | 2,976,434 | 100 | 2,977,016 | Note 1 |
| | | | | | | (Note 10) | | | |
| | | Chunghwa Investment Co., Ltd. | Equity-method investee | Investments accounted for using equity method | 98,000 | 829,716 | 49 | 905,908 | Note 1 |
| | | Chunghwa Telecom Singapore Pte. Ltd. | Subsidiary | Investments accounted for using equity method | 34,869 | 791,161 | 100 | 791,161 | Note 1 |
| | | | | | | (Note 10) | | | |
| | | Chunghwa System Integration Co., Ltd. | Subsidiary | Investments accounted for using equity method | 60,000 | 747,104 | 100 | 647,846 | Note 1 |
| | | | | | | (Note 10) | | | |
| | | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee | Investments accounted for using equity method | 1,760 | 593,441 | 40 | 774,610 | Note 1 |
| | | CHIEF Telecom Inc. | Subsidiary | Investments accounted for using equity method | 37,942 | 427,848 | 69 | 379,496 | Note 1 |
| | | | | | | (Note 10) | | | |
| | | Donghwa Telecom Co., Ltd. | Subsidiary | Investments accounted for using equity method | 51,590 | 221,537 | 100 | 221,537 | Note 1 |
| | | | | | | (Note 10) | | | |
| | | Chunghwa International Yellow Pages Co., Ltd. | Subsidiary | Investments accounted for using equity method | 15,000 | 110,545 | 100 | 111,272 | Note 1 |
| | | | | | | (Note 10) | | | |
| | | Viettel-CHT Co., Ltd. | Equity-method investee | Investments accounted for using equity method | 3,000 | 95,836 | 33 | 95,836 | Note 1 |
| | | Skysoft Co., Ltd. | Equity-method investee | Investments accounted for using equity method | 4,438 | 84,992 | 30 | 45,625 | Note 1 |
| | | KingWay Technology Co., Ltd. | Equity-method investee | Investments accounted for using equity method | 1,002 | 77,222 | 33 | 20,670 | Note 1 |
| | | Chunghwa Telecom Global, Inc. | Subsidiary | Investments accounted for using equity method | 6,000 | 71,097 | 100 | 70,851 | Note 1 |
| | | | | | | (Note 10) | | | |
| | | Spring House Entertainment Inc. | Subsidiary | Investments accounted for using equity method | 5,996 | 45,113 | 56 | 30,413 | Note 1 |
| | | | | | | (Note 10) | | | |

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| | | | | | | | | |
|---|------------------------|---|---------|-----------------|--|-----|-----------------|--------|
| Chunghwa Telecom Japan Co., Ltd. | Subsidiary | Investments accounted for using equity method | | 4,165 | | 100 | 4,165 | Note 1 |
| | | | | (Note 10) | | | | |
| New Prospect Investments Holdings Ltd. (B.V.I.) | Subsidiary | Investments accounted for using equity method | | US\$ (1 dollar) | | 100 | US\$ (1 dollar) | Note 3 |
| | | | | (Note 10) | | | | |
| Prime Asia Investments Group Ltd. (B.V.I.) | Subsidiary | Investments accounted for using equity method | | US\$ (1 dollar) | | 100 | US\$ (1 dollar) | Note 3 |
| | | | | (Note 10) | | | | |
| InfoExplorer Co., Ltd. | Equity-method investee | Prepayments for long-term investments | 16,200 | 283,500 | | | 283,500 | Note 8 |
| Taipei Financial Center | | Financial assets carried at cost | 172,927 | 1,789,530 | | 12 | 1,412,661 | Note 2 |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II) | | Financial assets carried at cost | 20,000 | 200,000 | | 17 | 197,676 | Note 2 |
| Global Mobile Corp. | | Financial assets carried at cost | 12,696 | 127,018 | | 11 | 118,243 | Note 2 |
| iD Branding Ventures | | Financial assets carried at cost | 7,500 | 75,000 | | 8 | 75,796 | Note 2 |

(Continued)

| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2008 | | | | |
|-----|-------------------|---|-------------------------------|---------------------------------------|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| | | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value | Note |
| | | PRTI International | | Financial assets carried at cost | 9,234 | \$ 34,500 | 12 | \$ 35,679 | Note 2 |
| | | Essence Technology Solution, Inc. | | Financial assets carried at cost | 2,000 | 10,000 | 9 | 5,333 | Note 2 |
| | | Taipei Financial Center | | Prepayments for long-term investments | 28,586 | 285,859 | | 285,859 | Note 9 |
| | | ABBOTT LABORATORIES COM NPV | | Available-for-sale financial assets | 4 | 5,424 | | 6,140 | Note 5 |
| | | ADIDAS AG NPV | | Available-for-sale financial assets | 4 | 7,155 | | 4,463 | Note 5 |
| | | AEGIS GROUP PLC GBP0.05 | | Available-for-sale financial assets | 58 | 4,797 | | 2,056 | Note 5 |
| | | AGGREKO PLC ORD | | Available-for-sale financial assets | 10 | 2,262 | | 2,100 | Note 5 |
| | | AIOI INSURANCE CO LTD NPV | | Available-for-sale financial assets | 20 | 3,117 | | 3,351 | Note 5 |
| | | ALLIANZ SE-REG NPV(REGD) (VINKULIERT) | | Available-for-sale financial assets | 1 | 2,037 | | 2,428 | Note 5 |
| | | ALSTOM EUR7.00 (POST-SUBD) | | Available-for-sale financial assets | 2 | 3,580 | | 3,909 | Note 5 |
| | | ALTERA CORP COM | | Available-for-sale financial assets | 8 | 5,489 | | 4,338 | Note 5 |
| | | ANGLO AMERICAN PLC USD0.54945 (POST CONSOLIDAT) | | Available-for-sale financial assets | 2 | 4,611 | | 1,778 | Note 5 |
| | | APOLLO GROUP INC CL A | | Available-for-sale financial assets | 1 | 2,749 | | 3,203 | Note 5 |
| | | APPLE INC | | Available-for-sale financial assets | 1 | 2,860 | | 2,931 | Note 5 |
| | | ARCELORMITTAL NPV | | Available-for-sale financial assets | 5 | 3,856 | | 3,751 | Note 5 |
| | | ASTELLAS PHARMA INC SHS | | Available-for-sale financial assets | 2 | 3,088 | | 2,909 | Note 5 |
| | | ASTRAZENECA PLC ORD USD0.25 | | Available-for-sale financial assets | 3 | 4,569 | | 3,894 | Note 5 |
| | | AVIVA PLC ORDINARY 25P SHARES | | Available-for-sale financial assets | 15 | 5,765 | | 2,689 | Note 5 |
| | | AXA EUR2.29 | | Available-for-sale financial assets | 5 | 5,878 | | 3,964 | Note 5 |
| | | BANCO POPOLARE SPA EUR3.60 | | Available-for-sale financial assets | 12 | 6,986 | | 2,706 | Note 5 |
| | | BANCO SANTANDER SA BANCO SANTANDER SA | | Available-for-sale financial assets | 11 | 5,470 | | 3,517 | Note 5 |
| | | BANK OF NEW YORK MELLON CORP COM STK USD0.01 | | Available-for-sale financial assets | 3 | 2,943 | | 2,621 | Note 5 |
| | | BAXTER INTERNATIONAL INC COM USD1 | | Available-for-sale financial assets | 2 | 4,376 | | 4,344 | Note 5 |
| | | BECTON DICKINSON & CO COM | | Available-for-sale financial assets | 2 | 4,772 | | 4,551 | Note 5 |
| | | BG GROUP PLC ORD GBP0.10 | | Available-for-sale financial assets | 7 | 4,546 | | 3,092 | Note 5 |
| | | BHP BILLITON PLC USD0.50 | | Available-for-sale financial assets | 5 | 2,947 | | 2,806 | Note 5 |
| | | BMC SOFTWARE INC COM | | Available-for-sale financial assets | 5 | 5,621 | | 4,700 | Note 5 |
| | | BNP PARIBAS EUR2 | | Available-for-sale financial assets | 2 | 6,079 | | 2,407 | Note 5 |

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| | | | | | |
|--|-------------------------------------|----|--------|-------|--------|
| BP PLC ORD USD0.25 | Available-for-sale financial assets | 29 | 10,863 | 7,289 | Note 5 |
| CAMERON INTERNATIONAL CORP COM USD0.01 | Available-for-sale financial assets | 4 | 5,568 | 2,659 | Note 5 |
| CAMPBELL SOUP CO CAP USD0.0375 | Available-for-sale financial assets | 5 | 5,609 | 4,931 | Note 5 |
| CAPITA GROUP PLC ORD GBP0.02066667 | Available-for-sale financial assets | 12 | 5,048 | 4,056 | Note 5 |
| CHEVRON CORP COM USD0.75 | Available-for-sale financial assets | 2 | 4,201 | 4,878 | Note 5 |
| CHUBU ELECTRIC POWER | Available-for-sale financial assets | 3 | 2,502 | 2,889 | Note 5 |
| CHUGAI PHARMACEUTICAL LTD NPV | Available-for-sale financial assets | 5 | 2,662 | 3,326 | Note 5 |
| COLGATE PALMOLIVE CO COM | Available-for-sale financial assets | 2 | 5,610 | 5,027 | Note 5 |
| COMPASS GROUP PLC ORD | Available-for-sale financial assets | 19 | 4,005 | 3,043 | Note 5 |
| CVS CAREMARK CORP COM STK USD0.01 | Available-for-sale financial assets | 4 | 5,326 | 3,778 | Note 5 |
| DAIHATSU MOTOR CO LTD NPV | Available-for-sale financial assets | 8 | 3,145 | 2,281 | Note 5 |
| DE LA RUE ORD GBP0.4486857 | Available-for-sale financial assets | 5 | 3,115 | 2,056 | Note 5 |
| DEUTSCHE BANK AG NAMEN ORD | Available-for-sale financial assets | 1 | 1,024 | 940 | Note 5 |
| E.ON AG NPV | Available-for-sale financial assets | 4 | 7,180 | 4,624 | Note 5 |

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| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2008 | | | | |
|-----|-------------------|---|-------------------------------|-------------------------------------|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| | | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value | Note |
| | | EISAI CO LTD | | Available-for-sale financial assets | 3 | \$ 3,215 | | \$ 3,369 | Note 5 |
| | | EMC CORP COM | | Available-for-sale financial assets | 9 | 2,492 | | 2,947 | Note 5 |
| | | ENEL | | Available-for-sale financial assets | 23 | 6,854 | | 4,768 | Note 5 |
| | | ENI SPA | | Available-for-sale financial assets | 6 | 7,203 | | 4,640 | Note 5 |
| | | EXPEDITORS INTL WASH INC COM | | Available-for-sale financial assets | 3 | 2,607 | | 3,264 | Note 5 |
| | | EXXON MOBIL CORP COM | | Available-for-sale financial assets | 2 | 5,322 | | 4,984 | Note 5 |
| | | FAMILYMART CO LTD | | Available-for-sale financial assets | 3 | 2,547 | | 3,703 | Note 5 |
| | | FAST RETAILING CO LTD NPV | | Available-for-sale financial assets | 2 | 3,570 | | 7,091 | Note 5 |
| | | FIAT SPA | | Available-for-sale financial assets | 12 | 6,441 | | 2,475 | Note 5 |
| | | FIRSTENERGY CORP COM USD0.10 | | Available-for-sale financial assets | 2 | 2,723 | | 2,835 | Note 5 |
| | | FIRSTGROUP PLC ORD GBP0.05 | | Available-for-sale financial assets | 11 | 3,792 | | 2,317 | Note 5 |
| | | FLUOR CORP NEW COM | | Available-for-sale financial assets | 2 | 5,289 | | 3,614 | Note 5 |
| | | FRANCE TELECOM SA EUR4 | | Available-for-sale financial assets | 5 | 5,919 | | 4,647 | Note 5 |
| | | FUJI HEAVY INDUSTRIES LTD NPV | | Available-for-sale financial assets | 16 | 2,969 | | 1,393 | Note 5 |
| | | FURUKAWA ELEC LTD ORD | | Available-for-sale financial assets | 22 | 3,544 | | 3,438 | Note 5 |
| | | GAMESTOP CORP-CL A NEW CLASS A COM USD0.001 | | Available-for-sale financial assets | 4 | 6,448 | | 2,762 | Note 5 |
| | | GEMALTO EUR1 | | Available-for-sale financial assets | 3 | 3,622 | | 2,421 | Note 5 |
| | | GENERAL DYNAMICS CORP COM | | Available-for-sale financial assets | 2 | 2,734 | | 3,225 | Note 5 |
| | | GENERAL MILLS INC | | Available-for-sale financial assets | 3 | 5,511 | | 5,969 | Note 5 |
| | | GILEAD SCIENCES INC COM | | Available-for-sale financial assets | 4 | 4,327 | | 6,505 | Note 5 |
| | | GLAXOSMITHKLINE PLC ORD GBP0.25 | | Available-for-sale financial assets | 3 | 2,719 | | 1,864 | Note 5 |
| | | HEINZ H J CO COM | | Available-for-sale financial assets | 4 | 5,532 | | 4,952 | Note 5 |
| | | HITACHI CONSTRUCTION MACHINE NPV | | Available-for-sale financial assets | 3 | 3,741 | | 1,248 | Note 5 |
| | | HOME DEPOT INC COM USD0.05 | | Available-for-sale financial assets | 3 | 2,657 | | 2,617 | Note 5 |
| | | IMPERIAL TOBACCO GROUP PLC ORD GBP0.10 | | Available-for-sale financial assets | 4 | 4,716 | | 3,212 | Note 5 |
| | | INDRA SISTEMAS SA EUR0.20 SER A | | Available-for-sale financial assets | 4 | 3,653 | | 3,049 | Note 5 |
| | | ING GROEP NV CVA EUR0.24 | | Available-for-sale financial assets | 5 | 4,191 | | 1,840 | Note 5 |
| | | INPEX CORP | | Available-for-sale financial assets | | 2,368 | | 2,288 | Note 5 |
| | | INTESA SANPAOLO SPA | | Available-for-sale financial assets | 36 | 6,677 | | 4,224 | Note 5 |
| | | | | | 1 | 4,629 | | 3,952 | Note 5 |

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| INTL BUSINESS MACHINES CORP COM USD0.20 | Available-for-sale financial assets | | | | | |
|---|--|----|-------|-------|--------|--|
| ITOCHU CORP ORD | Available-for-sale financial assets | 11 | 3,518 | 1,775 | Note 5 | |
| ITT CORP | Available-for-sale financial assets | 2 | 5,033 | 3,636 | Note 5 | |
| JAPAN PETROLEUM EXPLORATION SHS | Available-for-sale financial assets | 2 | 3,039 | 2,273 | Note 5 | |
| JFE HOLDINGS INC NPV | Available-for-sale financial assets | 3 | 3,013 | 2,126 | Note 5 | |
| JGC CORPORATION | Available-for-sale financial assets | 5 | 3,260 | 2,382 | Note 5 | |
| JOHNSON & JOHNSON COM USD1 | Available-for-sale financial assets | 3 | 6,336 | 5,926 | Note 5 | |
| JPMORGAN CHASE & CO COM USD1 | Available-for-sale financial assets | 2 | 2,950 | 2,056 | Note 5 | |
| KDDI CORPORATION | Available-for-sale financial assets | | 2,583 | 3,007 | Note 5 | |
| KONAMI CORP JPY50 | Available-for-sale financial assets | 3 | 3,518 | 2,325 | Note 5 | |
| KONINKLIJKE AHOLD NV EUR0.30 | Available-for-sale financial assets | 16 | 7,788 | 6,424 | Note 5 | |
| KONINKLIJKE KPN NV EUR0.24 | Available-for-sale financial assets | 12 | 7,438 | 5,927 | Note 5 | |
| KYUSHU ELECTRIC POWER | Available-for-sale financial assets | 3 | 2,426 | 2,786 | Note 5 | |
| LAWSON INC LAWSON INC | Available-for-sale financial assets | 2 | 2,483 | 2,835 | Note 5 | |
| LVMH MOET HENNESSY LOUIS VUI EUR0.30 | Available-for-sale financial assets | 2 | 6,686 | 4,194 | Note 5 | |

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| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2008 | | | | |
|-----|-------------------|--|-------------------------------|-------------------------------------|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| | | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value | Note |
| | | MAN GROUP PLC ORD USD0.03428571 | | Available-for-sale financial assets | 12 | \$ 4,725 | | \$ 1,351 | Note 5 |
| | | MAPFRE S.A. | | Available-for-sale financial assets | 45 | 7,218 | | 5,042 | Note 5 |
| | | MARUBENI CORPORATION | | Available-for-sale financial assets | 16 | 3,380 | | 1,958 | Note 5 |
| | | MCDONALD S CORP COM USD0.01 | | Available-for-sale financial assets | 3 | 4,207 | | 6,539 | Note 5 |
| | | MERCK KGAA NPV | | Available-for-sale financial assets | 2 | 8,248 | | 5,140 | Note 5 |
| | | MICROSOFT CORP COM USD0.0000125 | | Available-for-sale financial assets | 6 | 5,102 | | 3,513 | Note 5 |
| | | MITSUBISHI CORP ORD | | Available-for-sale financial assets | 3 | 1,946 | | 1,533 | Note 5 |
| | | MITSUBISHI ELECTRIC CORP NPV | | Available-for-sale financial assets | 12 | 3,470 | | 2,413 | Note 5 |
| | | MITSUBISHI MOTORS CORP NPV | | Available-for-sale financial assets | 56 | 3,106 | | 2,488 | Note 5 |
| | | mitsui osk lines ltd npv | | Available-for-sale financial assets | 9 | 3,539 | | 1,777 | Note 5 |
| | | MONSANTO CO NEW COM | | Available-for-sale financial assets | 1 | 5,448 | | 3,352 | Note 5 |
| | | MOODY S CORP COM USD0.01 | | Available-for-sale financial assets | 2 | 2,729 | | 1,376 | Note 5 |
| | | MORRISON W SUPRMKT ORD GBP0.10 | | Available-for-sale financial assets | 25 | 4,899 | | 3,289 | Note 5 |
| | | NATIONAL BANK OF GREECE EUR5.00(REGD) | | Available-for-sale financial assets | 6 | 3,491 | | 3,582 | Note 5 |
| | | NATIONAL-OILWELL VARCO INC COM USD0.01 | | Available-for-sale financial assets | 2 | 3,059 | | 1,585 | Note 5 |
| | | NIKE INC -CL B CLASS B COM NPV | | Available-for-sale financial assets | 3 | 6,496 | | 5,388 | Note 5 |
| | | NIKON CORP | | Available-for-sale financial assets | 4 | 2,636 | | 1,541 | Note 5 |
| | | NINTENDO CO LTD NPV | | Available-for-sale financial assets | | 3,327 | | 2,458 | Note 5 |
| | | NIPPON ELECTRIC GLASS CO LTD | | Available-for-sale financial assets | 6 | 3,830 | | 1,012 | Note 5 |
| | | NIPPON SHEET GLASS CO LTD | | Available-for-sale financial assets | 17 | 2,923 | | 1,802 | Note 5 |
| | | NIPPON YUSEN KABUSHIKI KAISH NPV | | Available-for-sale financial assets | 12 | 3,912 | | 2,382 | Note 5 |
| | | NOKIA OYJ NPV | | Available-for-sale financial assets | 4 | 3,647 | | 2,018 | Note 5 |
| | | NYSE EURONEXT COM STK USD0.01 | | Available-for-sale financial assets | 3 | 6,325 | | 2,347 | Note 5 |
| | | OLD MUTUAL PLC GBP0.10 | | Available-for-sale financial assets | 58 | 5,622 | | 1,528 | Note 5 |
| | | ORIENTAL LAND CO LTD NPV | | Available-for-sale financial assets | 1 | 2,997 | | 3,773 | Note 5 |
| | | PANASONIC CORP | | Available-for-sale financial assets | 5 | 3,406 | | 2,027 | Note 5 |
| | | PEABODY ENERGY CORP COM USD0.01 | | Available-for-sale financial assets | 4 | 2,666 | | 2,761 | Note 5 |
| | | PERNOD-RICARD SA EUR1.55 | | Available-for-sale financial assets | 2 | 6,307 | | 5,399 | Note 5 |
| | | PNC FINL SVCS GROUP IN COM | | Available-for-sale financial assets | 2 | 5,360 | | 3,864 | Note 5 |
| | | PRAXAIR INC COM | | Available-for-sale financial assets | 2 | 4,743 | | 3,550 | Note 5 |
| | | | | | 4 | 5,434 | | 4,503 | Note 5 |

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| | | | | | |
|---|--|----|-------|-------|--------|
| QUALCOMM INC COM USD0.0001 | Available-for-sale financial assets | | | | |
| RAYTHEON CO COM COM USD0.01 | Available-for-sale financial assets | 2 | 5,187 | 4,025 | Note 5 |
| RECKITT BENCKISER GROUP PLC | Available-for-sale financial assets | 3 | 3,953 | 3,333 | Note 5 |
| ROCKWELL COLLINS COM | Available-for-sale financial assets | 3 | 5,571 | 3,846 | Note 5 |
| ROYAL DUTCH SHELL PLC-A SHS A SHS EUR0.07 | Available-for-sale financial assets | 6 | 6,910 | 4,892 | Note 5 |
| RWE AG NEU NPV | Available-for-sale financial assets | 2 | 8,759 | 5,849 | Note 5 |
| SANOFI-AVENTIS EUR2 | Available-for-sale financial assets | 3 | 6,368 | 6,068 | Note 5 |
| SAP AG-COMMON ORD NPV | Available-for-sale financial assets | 4 | 7,066 | 4,619 | Note 5 |
| SCOT + STHN ENERGY ORD GBP0.50 | Available-for-sale financial assets | 5 | 3,972 | 2,741 | Note 5 |
| SHIONOGI & CO LTD | Available-for-sale financial assets | 6 | 3,971 | 5,015 | Note 5 |
| SHISEIDO CO LTD ORD | Available-for-sale financial assets | 4 | 2,909 | 2,659 | Note 5 |
| SIEMENS AG-REG NPV(REGD) | Available-for-sale financial assets | 2 | 6,716 | 4,388 | Note 5 |
| STANDARD CHARTERED PLC ORD USD0.50 | Available-for-sale financial assets | 5 | 5,195 | 2,247 | Note 5 |
| STANDARD LIFE PLC ORD GBP0.10 | Available-for-sale financial assets | 31 | 4,619 | 3,019 | Note 5 |

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| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2008 | | | | |
|-----|-------------------|--|-------------------------------|-------------------------------------|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| | | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value | Note |
| | | STATE STR CORP COM | | Available-for-sale financial assets | 3 | \$ 6,413 | | \$ 3,318 | Note 5 |
| | | SUZUKI MOTOR CORP NPV | | Available-for-sale financial assets | 5 | 3,587 | | 2,147 | Note 5 |
| | | T&D HOLDINGS INC | | Available-for-sale financial assets | 2 | 3,491 | | 2,695 | Note 5 |
| | | TAKEDA PHARMACEUTICAL NPV SHS | | Available-for-sale financial assets | 2 | 3,179 | | 3,211 | Note 5 |
| | | TECHNIP NPV NPV | | Available-for-sale financial assets | 4 | 4,147 | | 4,246 | Note 5 |
| | | TELEFONICA SA EUR1 | | Available-for-sale financial assets | 8 | 6,798 | | 5,517 | Note 5 |
| | | TERUMO CORPORATION | | Available-for-sale financial assets | 3 | 3,389 | | 3,949 | Note 5 |
| | | THALES SA THALES SA | | Available-for-sale financial assets | 3 | 4,094 | | 4,381 | Note 5 |
| | | THERMO FISHER SCIENTIFIC INC COM USD1 | | Available-for-sale financial assets | 3 | 5,681 | | 3,666 | Note 5 |
| | | TOKIO MARINE HOLDINGS INC | | Available-for-sale financial assets | 3 | 3,570 | | 2,819 | Note 5 |
| | | TOTAL SA EUR2.5 | | Available-for-sale financial assets | 3 | 7,504 | | 4,988 | Note 5 |
| | | TOYO SUISAN KAISHA LTD | | Available-for-sale financial assets | 5 | 3,535 | | 4,698 | Note 5 |
| | | TULLOW OIL PLC ORD GBP0.10 | | Available-for-sale financial assets | 8 | 3,052 | | 2,540 | Note 5 |
| | | UNILEVER NV-CVA CVA EUR0.16 | | Available-for-sale financial assets | 5 | 5,623 | | 4,196 | Note 5 |
| | | UNION PACIFIC CORP COM USD2.50 | | Available-for-sale financial assets | 3 | 5,720 | | 4,712 | Note 5 |
| | | UNITED UTILITIES GROUP PLC ORD GBP5 | | Available-for-sale financial assets | 7 | 3,482 | | 2,231 | Note 5 |
| | | VALLOUREC (USIN A T EUR4 (POST SUBDIVISION)) | | Available-for-sale financial assets | 1 | 3,602 | | 3,974 | Note 5 |
| | | VERIZON COMMUNICATIONS COM | | Available-for-sale financial assets | 3 | 2,715 | | 3,471 | Note 5 |
| | | VINCI EUR2.50 (POST SUBDIVISION) | | Available-for-sale financial assets | 4 | 6,867 | | 5,212 | Note 5 |
| | | VIVENDI SA EUR5.50 | | Available-for-sale financial assets | 5 | 6,884 | | 5,642 | Note 5 |
| | | VODAFONE GROUP PLC ORD USD0.11428571 | | Available-for-sale financial assets | 70 | 7,366 | | 4,646 | Note 5 |
| | | VOESTALPINE AG NPV | | Available-for-sale financial assets | 5 | 9,909 | | 3,428 | Note 5 |
| | | WACKER CHEMIE AG NPV(BR) | | Available-for-sale financial assets | 2 | 7,246 | | 7,898 | Note 5 |
| | | WAL-MART STORES INC COM USD0.10 | | Available-for-sale financial assets | 3 | 5,431 | | 5,342 | Note 5 |
| | | WELLS FARGO & CO COM USD1 2/3 | | Available-for-sale financial assets | 5 | 5,482 | | 4,688 | Note 5 |
| | | WISCONSIN ENERGY CORP COM | | Available-for-sale financial assets | 2 | 2,658 | | 2,813 | Note 5 |
| | | WYETH COM USD0.333 | | Available-for-sale financial assets | 2 | 2,702 | | 2,779 | Note 5 |
| | | XSTRATA PLC ORD USD0.50 | | Available-for-sale financial assets | 2 | 2,684 | | 563 | Note 5 |
| | | | | | 3 | 5,868 | | 3,048 | Note 5 |

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| | | | | | |
|--|--|---------|-----------|-----------|--------|
| XTO ENERGY INC COM USD0.01 | Available-for-sale financial assets | | | | |
| <u>REITS</u> | | | | | |
| Fubon No. 1 Fund | Available-for-sale financial assets | 10,000 | 100,000 | 97,000 | Note 5 |
| Cathay No. 2 REIT | Available-for-sale financial assets | 2,288 | 22,880 | 20,226 | Note 5 |
| Gallop No. 1 REIT | Available-for-sale financial assets | 10,000 | 100,000 | 77,000 | Note 5 |
| <u>Beneficiary certificates (mutual fund)</u> | | | | | |
| Polaris /P-shares Taiwan Dividend + ETF | Available-for-sale financial assets | 600 | 15,000 | 8,094 | Note 4 |
| SINOPIA ALT-GL BD M/N 600\$ I GBL BD MKT NEUTR 600 USD I | Available-for-sale financial assets | | 623,332 | 655,389 | Note 4 |
| PCA Well Pool Fund | Available-for-sale financial assets | 117,079 | 1,500,000 | 1,515,101 | Note 4 |
| Yuan Ta Wan Tai Bond Fund | Available-for-sale financial assets | 104,520 | 1,500,000 | 1,508,096 | Note 4 |
| Polaris De-Li Fund | Available-for-sale financial assets | 97,388 | 1,500,000 | 1,515,220 | Note 4 |
| MFS Meridian Emerging Markets Debt Fund | Available-for-sale financial assets | 336 | 208,578 | 206,457 | Note 4 |
| Fidelity US High Yield Fund | Available-for-sale financial assets | 535 | 206,588 | 136,427 | Note 4 |

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| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2008 | | Market Value or Net Asset Value | Note |
|-----|-------------------|---|-------------------------------|-------------------------------------|-----------------------------------|-------------------------|---------------------------------|--------|
| | | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | | |
| | | MFS Meridian Funds-Strategic Income Fund | | Available-for-sale financial assets | 316 | \$ 132,592 | \$ 115,946 | Note 4 |
| | | Fidelity Fds Intl Bond | | Available-for-sale financial assets | 14,644 | 565,387 | 520,653 | Note 4 |
| | | Credit Suisse BF (Lux) Euro Bond Fund | | Available-for-sale financial assets | 4 | 55,632 | 67,248 | Note 4 |
| | | Fidelity European High Yield Fund | | Available-for-sale financial assets | 324 | 126,425 | 83,835 | Note 4 |
| | | Parvest Europe Convertible Bond Fond | | Available-for-sale financial assets | 78 | 443,097 | 330,346 | Note 4 |
| | | JPMorgan Funds-Global Convertibles Fund (EUR) | | Available-for-sale financial assets | 868 | 491,450 | 370,542 | Note 4 |
| | | Parvest Euro Bond | | Available-for-sale financial assets | 39 | 287,400 | 293,022 | Note 4 |
| | | Fuh-Hwa Aegis Fund | | Available-for-sale financial assets | 17,813 | 234,684 | 188,543 | Note 4 |
| | | AGI Global Quantitative Balanced Fund | | Available-for-sale financial assets | 22,968 | 267,269 | 239,098 | Note 4 |
| | | Capital Asset Manager Income | | Available-for-sale financial assets | 11,285 | 200,000 | 146,911 | Note 4 |
| | | Fuh Hwa Life Goal Fund | | Available-for-sale financial assets | 6,832 | 100,000 | 83,267 | Note 4 |
| | | Fuh Hwa Asia Pacific Balanced | | Available-for-sale financial assets | 7,764 | 100,000 | 65,295 | Note 4 |
| | | Asia-Pacific Mega - Trend Fund | | Available-for-sale financial assets | 13,059 | 175,000 | 111,001 | Note 4 |
| | | AIG Flagship Global Balanced Fund of Funds | | Available-for-sale financial assets | 25,679 | 350,000 | 272,970 | Note 4 |
| | | Franklin Templeton Global Bond Fund of Funds | | Available-for-sale financial assets | 18,089 | 200,000 | 193,452 | Note 4 |
| | | Cathay Global Aggressive Fund of Funds | | Available-for-sale financial assets | 14,692 | 200,000 | 127,231 | Note 4 |
| | | Polaris Global Emerging Market Funds | | Available-for-sale financial assets | 9,791 | 150,000 | 75,490 | Note 4 |
| | | HSBC Global Fund of Bond Funds | | Available-for-sale financial assets | 22,838 | 250,000 | 240,729 | Note 4 |
| | | Fubon Taiwan Selected Fund | | Available-for-sale financial assets | 100,000 | 618,404 | 602,000 | Note 4 |
| | | HSBC Taiwan Balanced Strategy Fund | | Available-for-sale financial assets | 100,000 | 797,811 | 745,000 | Note 4 |
| | | Cathay Chung Hwa No. 1 Fund | | Available-for-sale financial assets | 100,000 | 717,909 | 585,000 | Note 4 |
| | | Fuh Hwa Power Fund III | | Available-for-sale financial assets | 100,000 | 726,771 | 725,000 | Note 4 |
| | | JPM (Taiwan) JF Balanced Fund | | Available-for-sale financial assets | 2,462 | 50,000 | 38,508 | Note 4 |
| | | MFS Meridian Funds-Global Equity Fund (A1 class) | | Available-for-sale financial assets | 253 | 262,293 | 175,235 | Note 4 |
| | | Fidelity Fds International | | Available-for-sale financial assets | 128 | 163,960 | 94,857 | Note 4 |
| | | Fidelity Fds America | | Available-for-sale financial assets | 937 | 163,960 | 98,248 | Note 4 |
| | | JPMorgan Funds-Global Dynamic Fund (B) | | Available-for-sale financial assets | 303 | 165,640 | 99,714 | Note 4 |
| | | MFS Meridian Funds-Research International Fund (A1 share) | | Available-for-sale financial assets | 173 | 131,920 | 79,545 | Note 4 |
| | | Fidelity Fds Emerging Markets | | Available-for-sale financial assets | 144 | 122,175 | 50,085 | Note 4 |

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| | | | | | |
|---|-------------------------------------|-------|---------|---------|--------|
| Credit Suisse Equity Fund (Lux) Global Resources | Available-for-sale financial assets | 13 | 162,990 | 72,557 | Note 4 |
| Fidelity Euro Balanced Fund | Available-for-sale financial assets | 879 | 560,819 | 411,064 | Note 4 |
| Fidelity Fds World | Available-for-sale financial assets | 295 | 171,568 | 95,383 | Note 4 |
| Fidelity Fds Euro Blue Chip | Available-for-sale financial assets | 259 | 233,544 | 135,862 | Note 4 |
| MFS Meridian Funds - European Equity Fund (A1 share) | Available-for-sale financial assets | 171 | 178,920 | 106,083 | Note 4 |
| Henderson Horizon Fund - Pan European Equity Fund | Available-for-sale financial assets | 230 | 180,886 | 123,499 | Note 4 |
| JPM (Taiwan) Global Balanced Fund | Available-for-sale financial assets | 9,071 | 125,000 | 112,642 | Note 4 |
| Enterprise Debt Securitization Cathay United Bank CLO 96-1 | Held-to-maturity financial assets | | 41,360 | 41,360 | Note 7 |
| <u>Bonds</u> | | | | | |
| Mega Securities Corp. 1st Unsecured Corporate Bonds in 2007 | Held-to-maturity financial assets | | 150,000 | 150,000 | Note 7 |

(Continued)

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| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2008 | | | | |
|-----|-------------------|---|-------------------------------|-----------------------------------|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| | | | | | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value | Note |
| | | KGI Securities 1st Unsecured Corporate Bonds 2007-B Issue | | Held-to-maturity financial assets | | \$ 100,000 | | \$ 100,000 | Note 7 |
| | | Mega Financial Holding 1st Unsecured Corporate Bond 2007-B Issue | | Held-to-maturity financial assets | | 200,000 | | 200,000 | Note 7 |
| | | Mega Securities Corp. 1st Unsecured Corporate Bond 2008 - A issue | | Held-to-maturity financial assets | | 300,000 | | 300,000 | Note 7 |
| | | Formosa Petrochemical Corp. | | Held-to-maturity financial assets | | 99,841 | | 99,841 | Note 7 |
| | | Taiwan Power Company 3rd Boards in 2008 | | Held-to-maturity financial assets | | 149,914 | | 149,914 | Note 7 |
| | | GreTai Company 1st Unsecured Corporate Bonds-A issue in 2008 | | Held-to-maturity financial assets | | 100,000 | | 100,000 | Note 7 |
| | | China Development Industrial B | | Held-to-maturity financial assets | | 198,309 | | 198,309 | Note 7 |
| | | Fubon Financial Holding Company 2005 1st Unsecured Debenture | | Held-to-maturity financial assets | | 99,171 | | 99,171 | Note 7 |
| | | Formosa Petrochemical Corporation 3rd Unsecured Corporate Bonds Issue in 2008. | | Held-to-maturity financial assets | | 49,916 | | 49,916 | Note 7 |
| | | Cathay United Bank 9St Financial Debentures-03 Issue in 2004 | | Held-to-maturity financial assets | | 199,832 | | 199,832 | Note 7 |
| | | Chang Hwa Bank 1st Subordinate Financial Debentures-B Issue in 2002 | | Held-to-maturity financial assets | | 170,445 | | 170,445 | Note 7 |
| | | Chang Hwa Bank 1st Subordinate Financial Debentures-B Issue in 2002 | | Held-to-maturity financial assets | | 70,183 | | 70,183 | Note 7 |
| | | Hua Nan Commercial Bank the Tenth Subordinate Financial Debentures Issue in 2003 | | Held-to-maturity financial assets | | 200,243 | | 200,243 | Note 7 |
| | | Hua Nan Commercial Bank 2nd of the two Subordinate Financial Debentures Issue in 2004 | | Held-to-maturity financial assets | | 99,886 | | 99,886 | Note 7 |
| | | China Development Industrial Bank 2nd Financial Debentures issue in 2006 | | Held-to-maturity financial assets | | 198,107 | | 198,107 | Note 7 |
| | | Taiwan Power Company 5th Boards in 2008 | | Held-to-maturity financial assets | | 273,673 | | 273,673 | Note 7 |
| | | Yuanta Unsecured Corporate Bond 2008 - A Issue | | Held-to-maturity financial assets | | 100,064 | | 100,064 | Note 7 |
| | | Formosa Petrochemical Corporation 4th Unsecured Corporate Bonds Issue in 2006 | | Held-to-maturity financial assets | | 301,261 | | 301,261 | Note 7 |
| | | NAN YA Company 2nd Unsecured Corporate | | Held-to-maturity financial assets | | 409,739 | | 409,739 | Note 7 |

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| | | | | | | | | | |
|---|-------------------------------------|--|---------------------------|--|---------|--------------------|-----|---------|--------|
| | | Bonds Issue in 2008 | | | | | | | |
| | | Taiwan Power Company 3rd Boards in 2006 | | Held-to-maturity financial assets | 201,551 | | | 201,551 | Note 7 |
| | | China Steel Corporation 2nd Unsecured Corporate Bonds-A Issue in 2008 | | Held-to-maturity financial assets | 100,042 | | | 100,042 | Note 7 |
| 1 | Senao International Co., Ltd. | Senao Networks, Inc. | Equity-method investee | Investments accounted for using equity method | 15,152 | 264,271 | 45 | 264,271 | Note 1 |
| | | N.T.U. Innovation Incubation Corporation | | Financial assets carried at cost | 1,200 | 12,000 | 9 | 12,600 | Note 2 |
| 2 | CHIEF Telecom Inc. | Unigate Telecom Inc. | Subsidiary | Investments accounted for using equity method | 200 | 1,964 | 100 | 1,964 | Note 1 |
| | | CHIEF Telecom (Hong Kong) Limited | Subsidiary | Investments accounted for using equity method | 400 | (Note 10) 1,208 | 100 | 1,208 | Note 1 |
| | | Chief International Corp. | Subsidiary | Investments accounted for using equity method | 200 | (Note 10) 6,624 | 100 | 6,624 | Note 1 |
| | | | | | | (Note 10) | | | |

(Continued)

| | | | | | | | | | December 31, 2008 | | |
|-----|--------------------------|---|-------------------------------|---|-----------------------------------|-------------------------|-------------------------|---------------------------------|-------------------|---------|---------|
| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value | Note | | |
| | | | | | | | | | | | |
| | | eASPNet Inc. | | Financial assets carried at cost | 1,000 | \$ | 2 | \$ | Note 2 | | |
| | | 3 Link Information Service Co., Ltd. | | Financial assets carried at cost | 374 | | 10 | | Note 2 | 6,200 | |
| 3 | Chunghwa System | Concord Technology Corp. | Subsidiary | Investments accounted for using equity method | 500 | | 100 | | Note 1 | 13,147 | |
| | | Integration Co., Ltd. | | | | US\$ | (401) | | | US\$ | (401) |
| | | | | | | | (Note 10) | | | | |
| | | Cathy Global Aggressive Fund of Fund | | Available-for-sale financial assets | 1,233 | | 15,000 | | Note 4 | 10,682 | |
| | | Cathy Global Infrastructure Fund | | Available-for-sale financial assets | 1,418 | | 15,000 | | Note 4 | 10,312 | |
| 4 | Concord Technology Corp. | Glory Network System Service (Shanghai) Co., Ltd. | Subsidiary | Investments accounted for using equity method | 500 | | 100 | | Note 1 | 13,142 | |
| | | | | | | US\$ | (401) | | | US\$ | (401) |
| | | | | | | | (Note 10) | | | | |
| 12 | Chunghwa Telecom | ST-2 Satellite Ventures Pte., Ltd. | Equity-method investee | Investments accounted for using equity method | 4,375 | | 38 | | Note 1 | 108,212 | |
| | | Singapore Pte., Ltd. | | | | SG\$ | (4,736) | | | SG\$ | (4,736) |

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

Note 2: The net asset values of investees were based on unaudit financial statements.

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

Note 4: The net asset values of beneficiary certification (mutual fund) were base on the net asset values on December 31, 2008.

Note 5: Market value was based on the closing price of December 31, 2008.

Note 6: Showing at their original carrying amounts without the adjustments of fair values, except for held-to-maturity financial assets.

Note 7: The net asset values of investees were based on amortized cost.

Note 8: Chunghwa prepaid \$283,500 thousand cash of this long-term investment in December 2008, and acquire 49% ownership.

Note 9: Chunghwa prepaid \$283,859 thousand cash of this long-term investment in October 2008.

Note 10: The amount was eliminated upon consolidation.

(Continued)

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TABLE 2**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Shares (Thousands/Thousand Units) | Disposal | | Gain (Loss) on Disposal | Ending Shares (Thousands/Thousand Units) |
|--|--|---------------|------------------------|----------------------------|-----------------|----------------------------|--------------|-----------------------------------|-----------|-------------------------|-------------------------|--|
| | | | | (Thousands/Thousand Units) | Amount (Note 1) | (Thousands/Thousand Units) | Amount | | Amount | Carrying Value (Note 1) | | |
| ht Era velopment Co., . | Investment accounted for using equity method | | Subsidiary | | \$ | 300,000 | \$ 3,000,000 | | \$ | \$ | \$ | 300,000 |
| ngghwa Telecom , Ltd | Investment accounted for using equity method | | Subsidiary | 4,590 | 15,408 | 47,000 | 189,833 | | | | | 51,500 |
| ngghwa gapore Pte. Ltd. | Investment accounted for using equity method | | Subsidiary | | | 34,869 | 779,280 | | | | | 34,869 |
| ustrial Bank of wan II Venture ital Co., Ltd. | Financial assets carried at cost | | | | | 20,000 | 200,000 | | | | | 20,000 |
| mens ecommunication tems | Financial assets carried at cost | | | 75 | 5,250 | | | 75 | 314,055 | 5,250 | 308,805 | |
| ga Financial ding Co., Ltd. eficiary ificates (mutual d) | Available-for-sale financial assets | | | 5,800 | 119,781 | | | 5,800 | 126,499 | 119,781 | 6,718 | |
| A Well Pool d | Available-for-sale financial assets | | | | | 117,079 | 1,500,000 | | | | | 117,079 |
| Securities Bond d | Available-for-sale financial assets | | | | | 75,393 | 1,000,000 | 75,393 | 1,011,120 | 1,000,000 | 11,120 | |
| an Ta Wan Tai nd Fund | Available-for-sale financial assets | | | | | 104,520 | 1,500,000 | | | | | 104,520 |
| ga Diamond nd Fund | Available-for-sale financial assets | | | | | 85,334 | 1,000,000 | 85,334 | 1,009,677 | 1,000,000 | 9,677 | |
| aris De-Li Fund | Available-for-sale financial assets | | | | | 97,388 | 1,500,000 | | | | | 97,388 |
| aris Global Reits d | Available-for-sale financial assets | | | 16,018 | 200,000 | | | 16,018 | 120,846 | 200,000 | (79,154) | |
| Morgan Global ance Fund | Available-for-sale financial assets | | | | | 9,071 | 125,000 | | | | | 9,071 |
| IT Strategy anced Fund | Available-for-sale financial assets | | | 47,979 | 559,554 | | | 47,979 | 522,195 | 559,554 | (37,359) | |
| ital Stable Value d | Available-for-sale financial assets | | | 7,867 | 100,000 | | | 7,867 | 78,526 | 100,000 | (21,474) | |
| IT Fortune anced Fund | Available-for-sale financial assets | | | 6,097 | 100,000 | | | 6,097 | 80,581 | 100,000 | (19,419) | |

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| | | | | | | | | | | |
|--------------------|-------------------------------------|--------|---------|--------|---------|--------|---------|---------|----------|--------|
| Pac Trend Fund | Available-for-sale financial assets | 4,400 | 100,000 | | | 4,400 | 79,673 | 100,000 | (20,327) | |
| G Global | Available-for-sale financial assets | 8,569 | 100,000 | | | 8,569 | 69,471 | 100,000 | (30,529) | |
| G Flagship | Available-for-sale financial assets | 22,878 | 350,000 | | | 22,878 | 273,078 | 350,000 | (76,922) | |
| Global Growth Fund | Available-for-sale financial assets | | | | | | | | | |
| ie ING CHTG | Available-for-sale financial assets | 8,104 | 100,000 | | | 8,104 | 73,373 | 100,000 | (26,627) | |
| BC Global Fund | Available-for-sale financial assets | | | 22,838 | 250,000 | | | | | 22,838 |
| Bond Funds | Available-for-sale financial assets | | | | | | | | | |
| Sun Mortgage | Available-for-sale financial assets | 20,305 | 200,000 | | | 20,305 | 193,565 | 200,000 | (6,435) | |
| Linked Securities | Available-for-sale financial assets | | | | | | | | | |
| d | | | | | | | | | | |
| -Hwa Homerun | Available-for-sale financial assets | 9,977 | 100,000 | | | 9,977 | 103,868 | 100,000 | 3,868 | |
| d | Available-for-sale financial assets | | | | | | | | | |
| -Hwa Income | Available-for-sale financial assets | 9,872 | 100,000 | | | 9,872 | 102,960 | 100,000 | 2,960 | |
| d | Available-for-sale financial assets | | | | | | | | | |
| S Meridian | Available-for-sale financial assets | 858 | 532,846 | | | 522 | 323,523 | 324,268 | (745) | 3 |
| Emerging Markets | Available-for-sale financial assets | | | | | | | | | |
| ot Fund | Available-for-sale financial assets | | | | | | | | | |
| D Special Bond | Available-for-sale financial assets | 25 | 353,540 | | | 25 | 344,621 | 353,540 | (8,919) | |
| d | Available-for-sale financial assets | | | | | | | | | |
| elity US High | Available-for-sale financial assets | 995 | 389,718 | 74 | 23,458 | 534 | 137,104 | 206,588 | (69,484) | 5 |
| ld Fund | Available-for-sale financial assets | | | | | | | | | |
| Morgan Lux | Available-for-sale financial assets | 21 | 199,638 | | | 21 | 136,476 | 199,638 | (63,162) | |
| ds-Emerging | Available-for-sale financial assets | | | | | | | | | |
| rkets Bond Fund | Available-for-sale financial assets | | | | | | | | | |
| M Diversity - | Available-for-sale financial assets | 10 | 262,293 | | | 10 | 234,297 | 262,293 | (27,996) | |
| D Open | Available-for-sale financial assets | | | | | | | | | |
| mal Fixed | Available-for-sale financial assets | 7 | 264,095 | | | 7 | 247,956 | 264,095 | (16,139) | |
| ome Holdings | Available-for-sale financial assets | | | | | | | | | |
| 7. | Available-for-sale financial assets | | | | | | | | | |
| elity European | Available-for-sale financial assets | 1,402 | 549,027 | 93 | 34,968 | 1,171 | 369,484 | 457,570 | (88,086) | 3 |
| h Yield Fund | Available-for-sale financial assets | | | | | | | | | |

(Continued)

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| ny e | Marketable Securities Type and Name | Financial Statement Account | Counter- party | Nature of Relationship | Beginning Balance | | Acquisition | | Shares (Thousands/ Thousand Units) | Disposal | | Gain (Loss) on Disposal | Ending Shares (Thousand Units) |
|---------|--|--|-------------------|---------------------------|--------------------|--------------------|--------------------|--------|---|--------------------|------------|----------------------------------|---|
| | | | | | Thousand Units) | Amount (Note 1) | Thousand Units) | Amount | | Amount (Note 1) | Amount | | |
| | Parvest Europe Convertible Bond Fond | Available-for-sale financial assets | | | 102 | \$ 577,813 | | \$ | 24 | \$ 117,044 | \$ 134,716 | \$ (17,672) | 7 |
| | <u>Bonds</u> | | | | | | | | | | | | |
| | Mega Securities Corp. 1st Unsecured Corporate | Held-to-maturity financial assets | | | | | | | 300,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | China Delequent Industrial B | Held-to-maturity financial assets | | | | | | | 200,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Taiwan Power Company 3rdA Boards in 2008 | Held-to-maturity financial assets | | | | | | | 150,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Yuantu Unsecured Corporate Bond in 2008 | Held-to-maturity financial assets | | | | | | | 100,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Cathay United Bank 9St Financial Debentures-03 Issue in 2004 | Held-to-maturity financial assets | | | | | | | 200,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Chang Hwa Bank 1st Subordinate Financial Debentures-B Issue in 2002 | Held-to-maturity financial assets | | | | | | | 170,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Hua Nan Commercial Bank 2nd of the Tenth Subordinate Financial Debentures Issue in 2003 | Held-to-maturity financial assets | | | | | | | 200,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Hua Nan Commercial Bank 2nd of the two Subordinate Financial Debentures Issue in 2004 | Held-to-maturity financial assets | | | | | | | 100,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | China Development Industrial Bank 5th Financial Debentures issue in 2006 | Held-to-maturity financial assets | | | | | | | 200,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Taiwan Power Company 5th Boards in 2008 | Held-to-maturity financial assets | | | | | | | 270,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |
| | Yuanta Unsecured Corporate Bond 2007 - A Issue | Held-to-maturity financial assets | | | | | | | 100,000 | | | | |
| | | | | | | | | | (Note 5) | | | | |

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| | | | | | | | | | |
|--|-------------------------------------|--------|---------|--------|---------|---------|-----|--|----------|
| Formosa Petrochemical Corporation 4th Unsecured Corporate Bonds Issue in 2006 | Held-to-maturity financial assets | | 300,000 | | | | | | |
| | | | | | | | | | (Note 5) |
| NAN YA Company 2nd Unsecured Corporate Bonds Issue in 2008 | Held-to-maturity financial assets | | 400,000 | | | | | | |
| | | | | | | | | | (Note 5) |
| Taiwan Power Company 3rd Boards in 2006 | Held-to-maturity financial assets | | 200,000 | | | | | | |
| | | | | | | | | | (Note 5) |
| China Steel Corporation 2nd Unsecured Corporate Bonds-A Issue in 2008 | Held-to-maturity financial assets | | 100,000 | | | | | | |
| | | | | | | | | | (Note 5) |
| Fubon Financial Holding Company 2005 1st Unsecured Debenture | Held-to-maturity financial assets | | 100,000 | | | | | | |
| | | | | | | | | | (Note 5) |
| Formosa Petrochemical | Held-to-maturity financial assets | | 100,000 | | | | | | |
| | | | | | | | | | (Note 5) |
| Beneficiary certificates (mutual fund) | | | | | | | | | |
| Taishin Lucky Fund | Available-for-sale financial assets | 23,894 | 250,000 | 23,894 | 250,843 | 250,000 | 843 | | |
| UPAMC James Bond Fund | Available-for-sale financial assets | 18,451 | 290,000 | 18,451 | 290,381 | 290,000 | 381 | | |
| IBT Ta Chong Bond Fund | Available-for-sale financial assets | 18,846 | 250,000 | 18,846 | 250,355 | 250,000 | 355 | | |
| HSBC NTD Money Management Fund 2 | Available-for-sale financial assets | 17,473 | 250,000 | 17,473 | 250,320 | 250,000 | 320 | | |
| Prudential Financial Bond Fund | Available-for-sale financial assets | 6,702 | 100,000 | 6,702 | 100,266 | 100,000 | 266 | | |
| IBT 1699 Bond Fund | Available-for-sale financial assets | 11,805 | 150,000 | 11,805 | 150,635 | 150,000 | 635 | | |
| Mega Diamond Bond Fund | Available-for-sale financial assets | 12,727 | 150,000 | 12,727 | 150,541 | 150,000 | 541 | | |

(Continued)

| No. | Company Name | Marketable Securities Type and Name | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | Acquisition | | Disposal | | Ending Balance | | | | |
|-----|---------------------------------------|--|--|---------------|------------------------------|-------------------|-------------|-------------|----------|----------|----------------|----------|-------|------|---------|
| | | | | | | Shares | Shares | Shares | Carrying | Shares | Amount | | | | |
| | | | | | | (Thousands/ | (Thousands/ | (Thousands/ | Value | (Loss) | (Thousands/ | Amount | | | |
| | | | | | | Thousand | Thousand | Thousand | (Note on | Thousand | Thousand | (Note 1) | | | |
| | | | | | | Units) | Units) | Units) | (Note on | Units) | Units) | (Note 1) | | | |
| 12 | Chunghwa Telecom Singapore Pte., Ltd. | Stock ST-2 Satellite Ventures Pte., Ltd. | Investment accounted for using equity method | | Equity method investee | \$ | 4,735 | \$ | 106,432 | \$ | \$ | \$ | 4,735 | \$ | 108,212 |
| | | | | | | | | SG\$ | (4,735) | | | | | SG\$ | (4,736) |

(Note 6)

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

Note 2: The amount was less equity in losses of equity \$23,566 thousand.

Note 3: The ending balance includes \$6,598 thousand and \$9,698 thousand which are investment income recognized under equity method and cumulative adjustment, respectively.

Note 4: The ending balance includes \$5,454 thousand and \$17,335 thousand which are investment loss recognized under equity method and cumulative adjustment, respectively.

Note 5: Stated at its nominal amounts.

Note 6: The ending balance included equity in earnings accounted for using equity method of \$27 thousand and cumulative adjustment of \$1,753 thousand.

Note 7: The amount was eliminated upon consolidation.

TABLE 3**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars)**

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

TABLE 4**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****DISPOSAL OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2008**

(Amounts in Thousands of New Taiwan Dollars)

| Company Name | Property | Date of Disposal | Date of Obtained | Carrying Amount | Transaction Amount | Receipt Condition | Disposed Gain (Loss) | Parties Involved | Relation with the Corporation | Purpose | Reference for Price Settlement | Other Limitation |
|----------------------------|----------|------------------|------------------------------|-----------------|--------------------|-------------------|----------------------|---------------------------------|-------------------------------|--------------------|---|------------------|
| Chunghwa Telecom Co., Ltd. | Land | 2008.6.25 | Acquired during April 2000 | \$ 704,890 | \$ 1,820,880 | \$ 1,820,880 | \$ 1,115,990 | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | | | (Notes 1 and 3) | | | | | |
| | | 2008.10.17 | Acquired during January 2001 | 63,498 | 191,600 | 191,600 | 128,102 | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | | | (Notes 1 and 3) | | | | | |
| | | 2008.12.23 | Acquired during April 2000 | 85,563 | 242,853 | 230,639 | 157,290 | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | | | (Notes 1 and 3) | | | | | |
| | | 2008.12.23 | Acquired during May 2000 | 74,572 | 158,431 | 158,431 | 83,859 | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | (Notes 1 and 3) | | | | | | | |
| | | 2008.12.23 | Acquired during July 2008 | 7,493 | 8,168 | 8,168 | 675 | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | | (Notes 1 and 3) | | | | | | |
| | | 2008.12.25 | Acquired during October 1997 | 378,927 | 207,030 | 196,678 | (171,897) | Light Era Development Co., Ltd. | Subsidiary | Revitalized assets | According to appraisal report: Negotiated price | |
| | | | | | | (Notes 2 and 3) | | | | | | |

Note 1: Since it is unrealized, the unrealized gain is treated as deferred credits gain on inter-company transactions.

Note 2: Since it is unrealized, the unrealized loss is included in other assets other.

Note 3: The amount was eliminated upon consolidation.

TABLE 5**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| No. | Company Name | Related Party | Nature of Relationship | Purchase/Sale | Transaction Details | | | | Abnormal Transaction | | Notes/Accounts Payable or Receivable Ending | |
|-----|---|-------------------------------|------------------------|-----------------|---------------------|------------|---------------|-----------------|----------------------|------------------|---|--|
| | | | | | Amount | % to Total | Payment Terms | Units Price | Payment Terms | Balance (Note 1) | % to Total | |
| 0 | Chunghwa Telecom Co., Ltd. | Senao International Co., Ltd. | Subsidiary | Sales | \$ 1,634,017 | 1 | 30 days | (Note 2) | (Note 2) | \$ 178,658 | 2 | |
| | | | | | (Notes 3 and 9) | | | | (Note 9) | | | |
| | | Purchase | 6,667,907 | 5 | 30-90 days | (Note 2) | (Note 2) | (606,720) | (5) | | | |
| | | | (Notes 4 and 9) | | | | | (Note 9) | | | | |
| | | CHIEF Telecom Inc. | Subsidiary | Sales | 208,227 | | 30 days | (Note 2) | (Note 2) | 20,277 | | |
| | | | | | (Notes 6 and 9) | | | | (Note 9) | | | |
| | | | Purchase | 207,345 | | 30-45 days | (Note 2) | (Note 2) | (34,215) | | | |
| | | | | | (Note 9) | | | | (Note 9) | | | |
| | | Chunghwa Telecom Global, Inc. | Subsidiary | Sales | 140,416 | | 30-90 days | | | 18,618 | | |
| | | | | | (Note 9) | | | | (Note 9) | | | |
| | Chunghwa System Integration Co., Ltd. | Subsidiary | Purchase | 401,740 | | 30-90 days | | | (628,485) | (5) | | |
| | | | | (Notes 5 and 9) | | | | (Notes 7 and 9) | | | | |
| | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee | Purchase | 538,389 | | 30 days | | | (492,883) | (4) | | |
| | ELTA Technology Co., Ltd. | (Note 8) | Purchase | 189,774 | | 30 days | | | | | | |
| 1 | Senao International Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 6,670,564 | 30 | 30-90 days | (Note 2) | (Note 2) | 606,720 | 46 | |
| | | | | | (Notes 4 and 9) | | | | (Note 9) | | | |
| | | | | Purchase | 1,591,876 | 8 | 30 days | (Note 2) | (Note 2) | (178,658) | (14) | |
| | | | | (Notes 3 and 9) | | | | (Note 9) | | | | |
| 2 | CHIEF Telecom Inc. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 207,345 | 22 | 30-45 days | (Note 2) | (Note 2) | 34,215 | 27 | |
| | | | | | (Note 9) | | | | (Note 9) | | | |
| | | | Purchase | 204,397 | 25 | 30 days | (Note 2) | (Note 2) | (20,277) | (9) | | |

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| | | | | | (Notes 6 and 9) | | | (Note 9) | |
|---|---------------------------------------|----------------------------|----------------|----------|-----------------|----|------------|-----------------|------|
| 3 | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | Sales | 1,859,106 | 94 | 30-90 days | 681,987 | 95 |
| | | | | | (Notes 5 and 9) | | | (Notes 7 and 9) | |
| 5 | Chunghwa Telecom Global, Inc. | Chunghwa Telecom Co., Ltd. | Parent company | Purchase | 140,416 | 59 | 30-90 days | (18,618) | (66) |
| | | | | | (Note 9) | | | (Note 9) | |

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

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

(Continued)

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

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

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

Note 6: The difference was because CHIEF classified the amount within property, plant and equipment and operating expenses.

Note 7: The difference was because Chunghwa classified as payables to contractors.

Note 8: The investment accounted for using equity method was sold all shares in July 2008.

Note 9: The amount was eliminated upon consolidation.

(Continued)

TABLE 6**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars)**

| No. | Company Name | Related Party | Nature of Relationship | Ending Balance | Turnover Rate (Note 1) | Overdue Action Amounts Taken | Amounts | |
|-----|---------------------------------------|-------------------------------|------------------------|------------------------|---------------------------|---------------------------------|-------------------------------|-------------------------|
| | | | | | | | Received in Subsequent Period | Allowance for Bad Debts |
| 0 | Chunghwa Telecom Co., Ltd. | Senao International Co., Ltd. | Subsidiary | \$ 178,878 (Note 2) | 9.73 | \$ | \$ 144,936 | \$ |
| 1 | Senao International Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | 851,011 (Note 2) | 11.54 | | 748,328 | |
| 3 | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd. | Parent company | 681,987 (Note 2) | 3.70 | | 614,050 | |

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

Note 2: The amount was eliminated upon consolidation.

TABLE 7**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****FOR THE YEAR ENDED DECEMBER 31, 2008****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| No. | Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2008 | | | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1 and 2) | Note |
|-----|----------------------------|---|----------------------|--|----------------------------|-------------------|---------------------------------|-----------------------------|----------------|-----------------------------------|--|------------------------|
| | | | | | December 31, 2008 | December 31, 2007 | Shares (Thousands) | Percentage of Ownership (%) | Carrying Value | | | |
| 0 | Chunghwa Telecom Co., Ltd. | Senao International Co., Ltd. | Sindian City, Taipei | Selling and maintaining mobile phones and its peripheral products | \$ 1,065,813 | \$ 1,065,813 | 71,773 | 29 | \$ 1,331,443 | \$ 1,089,382 | \$ 308,439 | Subsidiary |
| | | Light Era Development Co., Ltd. | Taipei | Housing, office building development, rent and sale services | 3,000,000 | | 300,000 | 100 | 2,976,434 | (22,984) | (23,566) | Subsidiary |
| | | Chunghwa Investment Co., Ltd. | Taipei | Investment | 980,000 | 980,000 | 98,000 | 49 | 829,716 | (151,323) | (75,280) | Equity-method investee |
| | | Chunghwa Telecom Singapore Pte., Ltd. | Singapore | Telecommunication wholesale, internet transfer services international data and long distance call wholesales to carriers | 779,280 | | 34,869 | 100 | 791,161 | (5,454) | (5,454) | Subsidiary |
| | | Chunghwa System Integration Co., Ltd. | Taipei | Providing communication and information aggregative services | 838,506 | 838,506 | 60,000 | 100 | 747,104 | 40,780 | (41,091) | Subsidiary |
| | | Taiwan International Standard Electronics Co., Ltd. | Taipei | Manufacturing, selling, designing, and maintaining of telecommunications systems and equipment | 164,000 | 164,000 | 1,760 | 40 | 593,441 | 184,824 | 79,363 | Equity-method investee |
| | | CHIEF Telecom Inc. | Taipei | Internet communication and internet data center (IDC) service | 482,165 | 482,165 | 37,942 | 69 | 427,848 | 2,591 | 3,707 | Subsidiary |
| | | Donghwa Telecom Co., Ltd. | Hong Kong | International telecommunications IP fictitious internet and internet transfer services | 201,263 | 11,430 | 51,590 | 100 | 221,537 | 6,598 | 6,598 | Subsidiary |
| | | Chunghwa Yellow Pages Co., Ltd. | Taipei | Yellow pages sales and advertisement services | 150,000 | 150,000 | 15,000 | 100 | 110,545 | 80,016 | 79,289 | Subsidiary |
| | | Viettel-CHT Co., Ltd. | Vietnam | IDC services | 91,239 | | 3,000 | 33 | 95,836 | 9,570 | 3,190 | Equity- |

(Continued)

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| No. | Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2008 | | Percentage of Ownership (%) | Carrying Value | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1 and 2) | Note |
|-----|---------------------------------------|---|-----------|---|----------------------------|-------------------|---------------------------------|-----|-----------------------------|----------------|-----------------------------------|--|------|
| | | | | | December 31, 2008 | December 31, 2007 | Shares (Thousands) | | | | | | |
| 3 | Chunghwa System Integrated Co., Ltd. | Concord Technology Corp. | Brunei | Providing advanced business solutions to telecommunications | \$ 16,179 | \$ 6,489 | 500 | 100 | \$ 13,147 | \$ (3,982) | \$ (3,982) | Subsidiary | |
| | | | | | US\$ (500) | US\$ (200) | | | US\$ (401) | US\$ ((126)) | US\$ (126) | | |
| | | | | | | | | | (Note 4) | | (Notes 1 and 4) | | |
| 4 | Concord Technology Corp. | Glory Network System Service (Shanghai) Co., Ltd. | Shanghai | Providing advanced business solutions to telecommunications | 16,179 | 6,489 | 500 | 100 | 13,142 | (3,980) | (3,980) | Subsidiary | |
| | | | | | US\$ (500) | US\$ (200) | | | US\$ (401) | US\$ ((126)) | US\$ (126) | | |
| | | | | | | | | | (Note 4) | | (Notes 1 and 4) | | |
| 12 | Chunghwa Telecom Singapore Pte., Ltd. | ST-2 Satellite Ventures Ptd., Ltd. | Singapore | Operation of ST-2 telecommunication satellite | 108,212 | | 4,735 | 38 | 108,212 | 70 | | Equity-method investee | |
| | | | | | SG\$ (4,736) | | | | SG\$ (4,736) | SG\$ (3) | SG\$ (1) | | |
| | | | | | | | | | | | (Notes 1 and 4) | | |

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

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

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

Note 4: The amount was eliminated upon consolidation.

Note 5: The transactions happened after Chunghwa has control over SHE on January 17, 2008 were eliminated upon consolidation. (Concluded)

(Concluded)

TABLE 8**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****INVESTMENT IN MAINLAND CHINA****FOR THE YEAR ENDED DECEMBER 31, 2008**

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

| Investee | Main Businesses and Products | Total Amount of Paid-in Capital | Investment Type | Accumulated | Investment | Accumulated | % Ownership of | Investment | Gain (Loss) | Accumulated |
|---|---|---------------------------------------|--------------------|---|-------------------------|---|----------------|--------------|-------------|----------------------|
| | | | | Outflow of Investment from Taiwan as of January 1, 2008 | Flows Outflow Inflow | Outflow of Investment from Taiwan as of December 31, 2008 | | | | December 31, 2008 |
| Glory Network System Service (Shanghai) Co., Ltd. | Providing advanced business solutions to telecommunications | \$ 16,179 | Note 1 | \$ 6,489 | \$ 9,690 | \$ 16,179 | 100% | \$ (3,980) | \$ 13,142 | \$ |
| | | US\$ (500) | | US\$ (200) | US\$ (300) | US\$ (500) | | US\$ ((126)) | US\$ (401) | |

Accumulated Investment in

| Mainland China as of | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment Stipulated by Investment Commission, MOEA |
|-------------------------|---|---|
| December 31, 2008 | | |
| \$ 16,179 | \$ 16,179 | \$ 388,708 |
| US\$ (500) | US\$ (500) | (Note 3) |

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

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

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

Note 4: The amount was eliminated upon consolidation.

TABLE 9**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS****FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007****(Amounts in Thousands of New Taiwan Dollars)**

| | No. (Note 1) | Company Name | Related Party | Nature of Relationship (Note 2) | Transaction Details | | % to Total Sales or Assets (Note 4) |
|------|-----------------|-------------------------------|---|---------------------------------------|--------------------------------------|--------------------|--|
| | | | | | Financial Statement Account | Amount (Note 5) | |
| 2008 | 0 | Chunghwa Telecom Co., Ltd. | CHIEF Telecom Inc. | 1 | Accounts receivable | \$ 20,906 | |
| | | | | | Accounts payable | 34,215 | |
| | | | | | Payment of receipts under custody | 1,095 | |
| | | | | | Revenues | 208,227 | |
| | | | | | Operating costs and expenses | 207,345 | |
| | | | Unigate Telecom Inc. | 1 | Revenues | 1,124 | |
| | | | Chunghwa International Yellow Pages Co., Ltd. | 1 | Accounts receivable | 38,688 | |
| | | | | | Prepaid expenses | 94 | |
| | | | | | Accounts payable | 35,198 | |
| | | | | | Payment of receipts under custody | 61,273 | |
| | | | | | Revenues | 23,499 | |
| | | | | | Operating costs and expenses | 50,679 | |
| | | | | | Office supplies | 989 | |
| | | | | | Work in process | 436 | |
| | | | Senao International Co., Ltd. | 1 | Accounts receivable | 178,878 | |
| | | | | | Accounts payable | 606,990 | |
| | | | | | Payment of receipts under custody | 244,291 | |
| | | | | | Revenues | 1,634,017 | 1 |
| | | | | | Operating costs and expenses | 6,667,907 | 3 |
| | | | | | Office supplies | 574 | |
| | | | | | Work in process | 238 | |
| | | | | | Property, plant and equipment | 1,701 | |
| | | | Chunghwa System Integration Co., Ltd. | 1 | Accounts receivable | 40,741 | |
| | | | | | Prepaid expenses | 515 | |
| | | | | | Accounts payable | 628,485 | |
| | | | | | Payables to contractors | 53,502 | |
| | | | | | Revenues | 32,865 | |
| | | | | | Other income | 884 | |
| | | | | | | 401,740 | |

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| | | |
|--|-------------------------------|-----------|
| | Operating costs and expenses | |
| | Office supplies | 2,538 |
| | Work in process | 5,168 |
| | Materials in transit | 3,723 |
| | Temporary receipts | 4,152 |
| | Property, plant and equipment | 1,388,118 |
| | Intangible assets | 52,127 |

(Continued)

| No. (Note 1) | Company Name | Related Party | Nature of Relationship (Note 2) | Transaction Details | | % to Total Sales or Assets (Note 4) |
|-----------------|----------------------------------|--|---------------------------------------|--------------------------------------|--|--|
| | | | | Financial Statement Account | Amount (Note 5) Payment Terms (Note 3) | |
| | | Chunghwa Telecom Global, Inc. | 1 | Accounts receivable | \$ 18,618 | |
| | | | | Accounts payable | 14,867 | |
| | | | | Revenues | 140,416 | |
| | | | | Other income | 446 | |
| | | | | Operating costs and expenses | 41,122 | |
| | | | | Property, plant and equipment | 56,740 | |
| | | Donghwa Telecom Co., Ltd. | 1 | Accounts receivable | 9,155 | |
| | | | | Accounts payable | 17,063 | |
| | | | | Revenues | 2,670 | |
| | | | | Operating costs and expenses | 8,599 | |
| | | Spring House Entertainment Inc. | 1 | Accounts receivable | 10,863 | |
| | | | | Accounts payable | 14,782 | |
| | | | | Payment of receipts under custody | 2,794 | |
| | | | | Operating costs and expenses | 51,836 | |
| | | Light Era Development Co., Ltd. | 1 | Accounts receivable | 22,566 | |
| | | | | Accounts payable | 1,904 | |
| | | | | Payment of receipts under custody | 346 | |
| | | | | Revenues | 4,662 | |
| | | | | Deferred credit | 1,485,916 | |
| | | | | Deferred debit | 171,897 | |
| 1 | Senao International Co., Ltd. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 851,011 | |
| | | | | Prepaid expenses | 231 | |
| | | | | Accounts payable | 178,658 | |
| | | | | Revenues | 6,670,564 | 3 |
| | | | | Other income | 76 | |
| | | | | Operating costs and expenses | 1,633,759 | 1 |
| | | | | Other expenses | 297 | |
| | | Chunghwa International Yellow Pages Co., Ltd. | 3 | Accounts payable | 930 | |
| | | | | Other income | 3 | |
| | | | | Operating costs and expenses | 4,458 | |
| | | Chunghwa System Integration Co., Ltd. | 3 | Operating costs and expenses | 650 | |
| 2 | CHIEF Telecom Inc. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 35,310 | |
| | | | | Accounts payable | 20,277 | |
| | | | | Unearned receipts | 629 | |
| | | | | Revenues | 207,345 | |
| | | | | Operating costs and expenses | 204,894 | |
| | | | | | 3,333 | |

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| | | | |
|---|---|-------------------------------|-------|
| | | Property, plant and equipment | |
| Unigate Telecom Inc. | 3 | Accounts payable | 1,437 |
| | | Revenues | 34 |
| | | Operating costs | 6,366 |
| Chunghwa System Integration Co., Ltd. | 3 | Operating costs and expenses | 34 |
| | | Property, plant and equipment | 1,343 |
| Chunghwa International Yellow Pages Co., Ltd. | 3 | Accounts payable | 61 |
| | | Operating costs and expenses | 91 |

(Continued)

| No. (Note 1) | Company Name | Related Party | Nature of Relationship (Note 2) | Transaction Details | | | |
|-----------------|---|---|---------------------------------------|--------------------------------------|--------------------|------------------------------|--|
| | | | | Financial Statement Account | Amount (Note 5) | Payment Terms (Note 3) | % to Total Sales or Assets (Note 4) |
| | | Chief International Corp. | 3 | Accounts receivable | \$ 52 | | |
| | | | | Prepaid expenses | 588 | | |
| | | | | Accounts payable | 5,076 | | |
| | | | | Unearned receipts | 96 | | |
| | | | | Revenues | 6,274 | | |
| | | | | Operating costs and expenses | 36,319 | | |
| 3 | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 681,987 | | |
| | | | | Accounts payable | 40,741 | | |
| | | | | Revenues | 1,858,081 | | 1 |
| | | | | Operating costs and expenses | 33,749 | | |
| | | Senao International Co., Ltd. | 3 | Revenues | 650 | | |
| | | Spring House Entertainment Inc. | 3 | Accounts receivable | 28 | | |
| | | | | Revenues | 128 | | |
| | | Chunghwa International Yellow Pages Co., Ltd. | 3 | Revenues | 4,461 | | |
| | | Light Era Development Co., Ltd. | 3 | Revenues | 552 | | |
| | | CHIEF Telecom Inc. | 3 | Revenues | 1,377 | | |
| 5 | Chunghwa Telecom Global, Inc. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 14,867 | | |
| | | | | Accounts payable | 18,618 | | |
| | | | | Revenues | 97,862 | | |
| | | | | Operating costs and expenses | 140,862 | | |
| 6 | Spring House Entertainment Inc. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 17,576 | | |
| | | | | Accounts payable | 10,863 | | |
| | | | | Revenues | 51,836 | | |
| | | Chunghwa System Integration Co., Ltd. | 3 | Accounts payable | 28 | | |
| | | | | Property, plant and equipment | 128 | | |
| 7 | Unigate Telecom Inc. | Chunghwa Telecom Co., Ltd. | 2 | Operating costs and expenses | 1,124 | | |
| | | CHIEF Telecom Inc. | 3 | Accounts receivable | 1,437 | | |
| | | | | Revenues | 6,366 | | |
| | | | | Operating expenses | 34 | | |
| 8 | Chunghwa International Yellow Pages Co., Ltd. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 28,655 | | |
| | | | | Receivable of receipts under custody | 61,273 | | |
| | | | | Receivable of payment under custody | 4,347 | | |

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| | | | | |
|--|-------------------------------|-----------------------------------|---------------------|-------|
| | | Prepaid expenses | 2,196 | |
| | | Accounts payable | 4,613 | |
| | | Payment of receipts under custody | 27,294 | |
| | | Unrealized receipts | 6,781 | |
| | | Revenues | 52,198 | |
| | | Operating costs and expenses | 23,499 | |
| | Senao International Co., Ltd. | 3 | Accounts receivable | 930 |
| | | | Revenues | 4,458 |
| | | | Other expenses | 3 |

(Continued)

| No. (Note 1) | Company Name | Related Party | Nature of Relationship (Note 2) | Transaction Details | | | |
|-----------------|------------------------------------|---|---------------------------------------|--------------------------------------|--------------------|------------------------------|--|
| | | | | Financial Statement Account | Amount (Note 5) | Payment Terms (Note 3) | % to Total Sales or Assets (Note 4) |
| | | CHIEF Telecom Inc. | 3 | Accounts receivable | \$ 61 | | |
| | | | | Revenues | 91 | | |
| | | Chunghwa System Integration Co., Ltd. | 3 | Property, plant and equipment | 3,229 | | |
| | | | | Intangible assets | 461 | | |
| | | | | Operating costs and expenses | 771 | | |
| | | Light Era Development Co., Ltd. | 3 | Revenues | 20 | | |
| 9 | Donghwa Telecom Co., Ltd. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 17,063 | | |
| | | | | Accounts payable | 9,155 | | |
| | | | | Revenues | 8,599 | | |
| | | | | Operating costs and expenses | 2,670 | | |
| 10 | Light Era Development Co., Ltd. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 1,828 | | |
| | | | | Prepaid expenses | 422 | | |
| | | | | Accounts payable | 22,566 | | |
| | | | | Operating costs and expenses | 3,070 | | |
| | | | | Inventory | 1,573,954 | | |
| | | | | Leased assets | 83,859 | | |
| | | | | Property, plant and equipment | 1,592 | | |
| | | Chunghwa International Yellow Pages Co., Ltd. | 3 | Operating costs and expenses | 20 | | |
| | | Chunghwa System Integration Co., Ltd. | 3 | Property, plant and equipment | 186 | | |
| | | | | Intangible assets | 312 | | |
| | | | | Operating costs and expenses | 54 | | |
| 11 | Chief International Corp. | CHIEF Telecom Inc. | 3 | Accounts receivable | 5,076 | | |
| | | | | Prepaid expenses | 96 | | |
| | | | | Accounts payable | 52 | | |
| | | | | Unearned receipts | 588 | | |
| | | | | Revenues | 36,319 | | |
| | | | | Operating costs and expenses | 6,274 | | |
| 2007 | 0 | Chunghwa Telecom Co., Ltd. | 1 | Accounts receivable | 17,612 | | |
| | | | | Accounts payable | 8,599 | | |
| | | | | Payment of receipts under custody | 156 | | |
| | | | | Revenues | 189,083 | | |
| | | | | Other income | 38 | | |
| | | | | Operating costs and expenses | 89,694 | | |
| | | Chunghwa International Yellow Pages Co., Ltd. | 1 | Accounts receivable | 16,909 | | |

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| | |
|------------------------------|--------|
| Accounts payable | 8,039 |
| Revenues | 26,152 |
| Other income | 1,776 |
| Operating costs and expenses | 15,512 |
| Office supplies | 141 |

(Continued)

| No. (Note 1) | Company Name | Related Party | Nature of Relationship (Note 2) | Transaction Details | | | |
|-----------------|----------------------------------|--|---------------------------------------|--------------------------------------|--------------------|------------------------------|--|
| | | | | Financial Statement Account | Amount (Note 5) | Payment Terms (Note 3) | % to Total Sales or Assets (Note 4) |
| | | Senao International Co., Ltd. | 1 | Accounts receivable | \$ 156,861 | | |
| | | | | Accounts payable | 584,198 | | |
| | | | | Payment of receipts under custody | 398,019 | | |
| | | | | Revenues | 1,107,649 | | 1 |
| | | | | Operating costs and expenses | 4,658,811 | | 2 |
| | | | | Inventory | 329 | | |
| | | | | Office supplies | 378 | | |
| | | | | Property, plant and equipment | 1,044 | | |
| | | Chunghwa System Integration Co., Ltd. | 1 | Accounts payable | 344,032 | | |
| | | | | Revenues | 17,950 | | |
| | | | | Other income | 5,514 | | |
| | | | | Operating costs and expenses | 455,307 | | |
| | | | | Inventory | 190,890 | | |
| | | | | Property, plant and equipment | 568,367 | | |
| | | | | Intangible assets | 16,325 | | |
| | | Chunghwa Telecom Global, Inc. | 1 | Accounts receivable | 17,345 | | |
| | | | | Accounts payable | 9,520 | | |
| | | | | Payment of receipts under custody | 4,410 | | |
| | | | | Revenues | 91,217 | | |
| | | | | Other income | 95 | | |
| | | | | Operating costs and expenses | 65,641 | | |
| | | | | Property, plant and equipment | 43,393 | | |
| | | Donghwa Telecom Co., Ltd. | 1 | Accounts payable | 9,113 | | |
| | | | | Operating costs and expenses | 23,524 | | |
| 1 | Senao International Co., Ltd. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 982,217 | | |
| | | | | Accounts payable | 156,861 | | |
| | | | | Revenues | 4,660,540 | | 2 |
| | | | | Other income | 22 | | |
| | | | | Operating costs and expenses | 1,107,649 | | 1 |
| 2 | CHIEF Telecom Inc. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 6,459 | | |
| | | | | Prepaid expenses | 2,296 | | |
| | | | | Accounts payable | 17,326 | | |
| | | | | Unearned receipts | 286 | | |
| | | | | Revenues | 89,694 | | |
| | | | | Operating costs and expenses | 189,121 | | |
| | | Unigate Telecom Inc. | 3 | Revenues | 34 | | |
| | | | | Operating costs | 4,717 | | |

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| | | | | | | |
|---|--|-------------------------------|---|---------------------------------|-----------|---|
| 3 | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 344,032 | |
| | | | | Revenues | 1,230,889 | 1 |
| | | | | Operating costs and expenses | 23,464 | |
| 5 | Unigate Telecom Inc. | CHIEF Telecom Inc. | 3 | Revenues | 4,717 | |
| | | | | Operating expenses | 34 | |

(Continued)

| No. (Note 1) | Company Name | Related Party | Nature of Relationship (Note 2) | Transaction Details | | | |
|-----------------|--|-------------------------------|---------------------------------------|---------------------------------|--------------------|------------------------------|--|
| | | | | Financial Statement Account | Amount (Note 5) | Payment Terms (Note 3) | % to Total Sales or Assets (Note 4) |
| 6 | Chunghwa International Yellow Pages Co., Ltd. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | \$ 6,911 | | |
| | | | | Prepaid expenses | 1,128 | | |
| | | | | Accounts payable | 16,909 | | |
| | | | | Revenues | 15,653 | | |
| | | | | Operating costs and expenses | 27,780 | | |
| | | | | Machinery and equipment | 148 | | |
| 7 | Chunghwa Telecom Global, Inc. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 13,930 | | |
| | | | | Accounts payable | 17,345 | | |
| | | | | Revenues | 109,034 | | |
| | | | | Operating costs and expenses | 91,312 | | |
| 8 | Donghwa Telecom Co., Ltd. | Chunghwa Telecom Co., Ltd. | 2 | Accounts receivable | 9,113 | | |
| | | | | Revenues | 23,524 | | |

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

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

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

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

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

Note 4: For assets and liabilities, amount is shown as a percentage to consolidated total assets as of December 31, 2008, while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the year ended December 31, 2008.

Note 5: The amount was eliminated upon consolidation.

(Concluded)

TABLE 10**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****INDUSTRY FINANCIAL INFORMATION****FOR THE YEARS ENDED DECEMBER 31, 2008 AND 2007**

(Amount in Thousands of New Taiwan Dollars)

| Year ended December 31, 2008 | Local Telephone Service | Domestic Long Distance Call Service | International Long Distance Call Service | Cellular Service | Internet and Data Service (Note 6) | Cellular Phone | All Other | Adjustment | Total |
|--|-------------------------------|--|---|---------------------|--|-------------------|---------------|-----------------|----------------|
| Service revenues from external customers | \$ 34,551,161 | \$ 8,480,347 | \$ 14,050,749 | \$ 72,289,844 | \$ 50,049,866 | \$ 16,340,458 | \$ 5,907,096 | | \$ 201,669,521 |
| Intersegment service revenues (Note 2) | 4,695,344 | 1,975,325 | 416 | 6,015,809 | 18,005,487 | 761,688 | 36,065 | (31,490,134) | |
| Total service revenues | \$ 39,246,505 | \$ 10,455,672 | \$ 14,051,165 | \$ 78,305,653 | \$ 68,055,353 | \$ 17,102,146 | \$ 5,943,161 | \$ (31,490,134) | \$ 201,669,521 |
| Segment income before income tax (Note 3) | \$ (5,778,471) | \$ 5,663,495 | \$ 2,989,407 | \$ 38,750,435 | \$ 24,296,411 | \$ (5,340,427) | \$ 1,587,908 | | \$ 62,168,758 |
| Interest income | | | | | | | | | 1,916,263 |
| Equity in net gain of unconsolidated companies | | | | | | | | | 63,648 |
| Other income | | | | | | | | | 1,396,222 |
| Interest expense | | | | | | | | | (4,256) |
| General expense (Note 4) | | | | | | | | | (3,543,057) |
| Other expense | | | | | | | | | (2,313,658) |
| Income before tax | | | | | | | | | \$ 59,683,920 |
| Reportable assets (Note 5) | \$ 134,287,650 | \$ 5,027,735 | \$ 8,542,728 | \$ 57,146,629 | \$ 101,057,849 | \$ 5,357,124 | \$ 44,930,599 | | \$ 356,350,314 |
| Investment in unconsolidated companies and | | | | | | | | | 2,337,190 |

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| | | | | | | | |
|---------------------------------|---------------|------------|--------------|---------------|---------------|--------------|----------------|
| funds | | | | | | | |
| Other assets | | | | | | | 104,902,785 |
| Total assets | | | | | | | \$ 463,590,289 |
| | | | | | | | |
| Depreciation expenses | \$ 14,954,380 | \$ 520,592 | \$ 331,540 | \$ 7,868,868 | \$ 12,482,438 | \$ 57,139 | \$ 886,378 |
| | | | | | | | |
| Expenditures for segment assets | | | | | | | |
| | \$ 5,296,493 | \$ 395,674 | \$ 5,161,562 | \$ 16,725,804 | \$ 44,862 | \$ 2,494,527 | |

(Continued)

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| Year ended December 31, 2007 | Local Telephone Service | Domestic Long Distance Call Service | International Long Distance Call Service | Cellular Service | Internet and Data Service (Note 6) | Cellular Phone | All Other | Adjustment | Total |
|--|-------------------------------|--|---|----------------------|--|----------------------|---------------------|------------------------|-----------------------|
| Service revenues from external customers | \$ 35,746,903 | \$ 9,095,006 | \$ 14,254,250 | \$ 73,644,445 | \$ 49,231,437 | \$ 13,169,035 | \$ 2,249,807 | | \$ 197,390,883 |
| Intersegment service revenues (Note 2) | 5,327,041 | 2,283,439 | 4,111 | 5,704,140 | 14,684,045 | 211,719 | 37,728 | (28,252,223) | |
| Total service revenues | \$ 41,073,944 | \$ 11,378,445 | \$ 14,258,361 | \$ 79,348,585 | \$ 63,915,482 | \$ 13,380,754 | \$ 2,287,535 | \$ (28,252,223) | \$ 197,390,883 |
| Segment income before income tax (Note 3) | \$ (4,478,702) | \$ 6,384,066 | \$ 2,812,347 | \$ 39,877,444 | \$ 21,458,380 | \$ (1,627,101) | \$ 340,811 | | \$ 64,767,245 |
| Interest income | | | | | | | | | 1,453,184 |
| Equity in net gain of unconsolidated companies | | | | | | | | | 140,804 |
| Other income | | | | | | | | | 856,457 |
| Interest expense | | | | | | | | | (15,043) |
| General expense (Note 4) | | | | | | | | | (4,393,198) |
| Other expense | | | | | | | | | (1,008,002) |
| Income before tax | | | | | | | | | \$ 61,801,447 |
| Reportable assets (Note 5) | \$ 147,536,713 | \$ 5,178,581 | \$ 8,967,815 | \$ 64,564,912 | \$ 92,448,384 | \$ 4,464,506 | \$ 36,312,631 | | \$ 359,473,542 |
| Investment in unconsolidated companies and funds | | | | | | | | | 2,018,348 |
| Other assets | | | | | | | | | 108,134,227 |
| Total assets | | | | | | | | | \$ 469,626,117 |
| Depreciation expenses | \$ 15,782,763 | \$ 608,196 | \$ 424,049 | \$ 8,140,130 | \$ 13,271,820 | \$ 56,227 | \$ 533,107 | | |
| Expenditures for segment assets | \$ 4,795,419 | | \$ 323,275 | \$ 5,340,474 | \$ 14,072,999 | \$ 39,228 | \$ 496,644 | | |

- Note 1: The major business segments operated by the Company are local telephone service, domestic long distance call service, international long distance call service, cellular service, Internet and data service, cellular phone and other service.
- Note 2: Inter-division revenues from goods and services.
- Note 3: Represents revenues minus costs and operating expenses. Operating expenses include costs and expenses directly pertaining to an industry segment, i.e., excluding general and interest expense.
- Note 4: Represents general expense that cannot be allocated to each division.
- Note 5: Represents tangible assets used by the industry segment, excluding:
- a. Assets maintained for general corporate purposes.
 - b. Advances or loans to another industry segment.
 - c. Long-term investments accounted for using equity method.
- Note 6: Service revenues of internet and data service and electronic rent are included.
- Note 7: In order to strengthen the internal management, Chunghwa allocated some of its costs of non-regulated services directly to other segments instead of using internal transfer pricing starting from 2008. Segment assets were adjusted accordingly to conform with the change. The effect of the change of measurement method caused intersegment service revenues of Local Telephone Service operations and All Other operations to decrease by \$8,705,817 thousand and \$4,392,728 thousand, respectively. There was no impact on the intersegment service of DLD operations, ILD operations Cellular Service operations, Internet and Data operation and Cellular Phone operations due to the change of measurement method. The effect of the change of measurement method caused segment income before income tax of Local operations and All Other operations to decrease by \$748,937 thousand and \$481,641 thousand, respectively and that of ,DLD operations, ILD operations, Cellular Service operations and Internet and Data operation operations to increase by \$165,212 thousand, \$136,901 thousand, \$576,385 thousand and \$352,080 thousand, respectively. There was no impact on segment income before income tax of Cellular Phone operations due to the change of measurement method. The effect of the change of measurement method caused segment assets of Local Telephone Service operations and All Other operations to decrease by \$7,582,799 thousand and \$3,640,950 thousand, respectively and that of DLD operations, ILD operations, Cellular Service operations and Internet and Data operation operations to increase by \$295,718 thousand, \$727,872 thousand, \$5,226,502 thousand and \$4,973,657 thousand, respectively. There was no impact on segment assets of Cellular Phone operations due to the change of measurement method. The disclosure of 2007 was changed to conform with the segment disclosure of 2008.

(Concluded)