

CHUNGHWA TELECOM CO LTD

Form 6-K

August 26, 2010

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1934 Act Registration No. 1-31731

## **SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

### **FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER**

**PURSUANT TO RULE 13a-16 OR 15d-16 OF**

**THE SECURITIES EXCHANGE ACT OF 1934**

**Dated August 26, 2010**

## **Chunghwa Telecom Co., Ltd.**

(Translation of Registrant's Name into English)

21-3 Hsinyi Road Sec. 1,

Taipei, Taiwan, 100 R.O.C.

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(Address of Principal Executive Office)

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

Form 20-F  Form 40-F

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

Yes  No

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

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**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: 2010/08/26

Chunghwa Telecom Co., Ltd.

By: /s/ SHU YEH  
Name: **Shu Yeh**  
Title: **Senior Vice President CFO**

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**Exhibit**

| <b>Exhibit</b> | <b>Description</b>   |
|----------------|--|
| 1              | <u>Press Release to Report Operating Results for the First Half of 2010</u>  |
| 2              | <u>Financial Statements for the Six Months Ended June 30, 2010 and 2009 and Independent Accountants' Review Report (Stand Alone)</u> |
| 3              | <u>Consolidated Financial Statements for the Six Months Ended June 30, 2010 and 2009 and Independent Accountants' Review Report</u>  |
| 4              | <u>GAAP Reconciliations of Consolidated Financial Statements for the Six Months Ended June, 2010 and 2009</u>                        |

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**Exhibit 1**

**Chunghwa Telecom Reports Operating Results for  
the Second Quarter and First Half of 2010**

Taipei, Taiwan, R.O.C. August 26, 2010 - Chunghwa Telecom Co., Ltd. (TAIEX: 2412, NYSE: CHT) ( Chunghwa or the Company ), today reported its operating results for the second quarter and first half of 2010. All figures were presented on a consolidated basis and prepared in accordance with generally accepted accounting principles in the Republic of China ( ROC GAAP ).

Dr. Shyue-Ching Lu, Chairman of Chunghwa Telecom, said, I am pleased to report another quarter of solid results, boosted by the continuing economic recovery and the execution of our marketing initiatives. Despite the mandated National Communications Commission ( NCC ) tariff reduction effective April 1 this year, consolidated revenue increased 3.3% to NT\$49.7 billion during the second quarter of 2010, mainly due to higher handset sales and increased revenue from both mobile value-added services ( VAS ) and Internet services. Our prudent cost management initiatives enabled us to deliver stable operating income, and the income tax reduction from 25% to 17% starting from 2010 resulted in a 12.7% year-over-year rise in net income to NT\$12.9 billion.

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

**Financial Highlights for the Second Quarter of 2010:**

- Total consolidated revenue increased by 3.3% to NT\$49.7 billion
- Mobile communications business revenue increased by 6.5% to NT\$22.1 billion; mobile value added revenue increased by 31.4% to NT\$2.7 billion
- Internet business revenue increased by 7.0% to NT\$6.0 billion
- Domestic fixed communications business revenue decreased by 1.1% to NT\$17.3 billion; broadband access revenue increased by 1.9% to NT\$5.0 billion
- International fixed communications business revenue decreased by 2.3% to NT\$3.7 billion
- Total operating costs and expenses increased by 4.9% to NT\$34.8 billion
- Net income totaled NT\$12.9 billion, representing an increase of 12.7%
- Basic earnings per share (EPS) increased by 12.7% to NT\$1.34

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### **Financial Highlights for the First Half of 2010:**

- Total consolidated revenue increased by 2.2% to NT\$99.3 billion
  
- Mobile communications business revenue increased by 4.2% to NT\$44.3 billion
  
- Internet business revenue increased by 4.5% to NT\$11.9 billion
  
- Domestic fixed communications business revenue decreased by 2.0% to NT\$34.5 billion; broadband access revenue increased by 1.5% to NT\$10.1 billion
  
- International fixed communications business revenue increased by 3.4% to NT\$7.7 billion
  
- Total operating costs and expenses increased by 2.0% to NT\$69.5 billion
  
- Net income totaled NT\$25.0 billion, representing an increase of 12.3%
  
- Basic EPS increased by 12.3% to NT\$2.58

### **Revenue**

Chunghwa's total consolidated revenue for the second quarter of 2010 increased by 3.3% year-over-year to NT\$49.7 billion, of which 34.9% was from its domestic fixed business, 44.5% was from its mobile business, 12.2% was from its Internet business, 7.5% was from its international fixed business and the remainder was from other business segments. The primary reasons for the year-over-year increase were the economic recovery and the Company's marketing efforts.

Domestic fixed line business revenue totaled NT\$17.3 billion, representing a decrease of 1.1% year-over-year. Of this, local revenues decreased by 2.2% year over year to NT\$8.1 billion, mainly due to mobile and Voice over Internet Protocol (VOIP) substitution. The 12.6% decline in domestic long-distance revenues to NT\$1.7 billion was also due to mobile and VOIP substitution, and the interconnection fee adjustment at the end of 2009.

Broadband access revenue, including ADSL and FTTx, increased by 1.9% year over year to NT\$5.0 billion. Although ADSL access revenue decreased as more ADSL subscribers migrated to fiber solutions, the decrease was fully offset by growth in FTTx access revenue. Chunghwa believes that this migration will continue as customers continue to demand increased bandwidth, and that broadband revenue will therefore increase over time.

Mobile revenue increased by 6.5% year over year to NT\$22.1 billion, mainly due to growth in handset sales and mobile VAS revenue related to our smartphone promotion.

Internet revenue increased by 7.0% to NT\$6.0 billion, mainly attributable to Internet services growth, which was driven by the increase in broadband subscribers and the migration of ADSL subscribers to fiber solutions.

International fixed line revenue decreased by 2.3% to NT\$3.7 billion, mainly due to VOIP substitution and market competition that was partially offset by growth in leased line revenue.



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Finally, other revenue increased by 47.9% to NT\$0.5 billion in the second quarter of 2010 compared to the same period of 2009, primarily due to the consolidation of subsidiaries.

For the first half of 2010, total revenue was NT\$99.3 billion, a 2.2% increase from the same period last year. Of this amount, the domestic fixed business 34.8%, the mobile business contributed 44.7%, the internet business 12.0%, the international fixed business 7.7%, and the remainder was from others.

## **Costs and Expenses**

Total operating costs and expenses for the second quarter of 2010 were NT\$34.8 billion, an increase of 4.9% year-over-year, mainly due to the increased cost of handset sales and the performance-based bonus accrual that is related to the net income growth.

Total operating costs and expenses for the first half of 2010 increased 2.0% year over year to NT\$69.5 billion, due to the same reason.

## **Income Tax**

Income tax expenses for the second quarter of 2010 were NT\$1.9 billion, representing a decrease of 44.9% compared to the same period of 2009. This decrease resulted from the government's income tax rate reduction from 25% to 17% this year. Effect of tax rate reduction from 20% to 17% for the first quarter 2010 income tax expenses was fully reflected in the second quarter.

## **EBITDA/Operating income/Net Income**

Operating income for the second quarter of 2010 remained flat year-over-year at NT\$14.9 billion. EBITDA decreased by 2.3% to NT\$23.5 billion, primarily as a result of the mandated NCC tariff reduction and changing cost structure. The Company's EBITDA margin and operating income margin for the second quarter of 2010 were 47.3% and 30.0%, respectively, compared to 50.1% and 31.1%, respectively, for the same period of 2009.

Net income for the second quarter of 2010 increased by 12.7% year-over-year to NT\$12.9 billion, primarily due to revenue growth and the lower income tax rate.

For the first half of 2010, operating income amounted to NT\$29.8 billion, a rise of 2.6% year over year. EBITDA decreased slightly by 0.7% to NT\$47.1 billion. Net income reached NT\$25.0 billion, a 12.3% increase, mainly due to the income tax rate reduction.



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### **Capital Expenditure ( Capex )**

Total capex for the second quarter of 2010 amounted to NT\$5.2 billion, representing a decrease of 7.8% year-over-year. Of the NT\$5.2 billion in capex, 63.1% was spent on the domestic fixed communications business, 23.1% on the mobile communications business, 6.8% on the Internet business, 4.8% on the international fixed communications business and the remainder was used for other purposes.

### **Cash Flow**

Cash flow from operating activities for the second quarter of 2010 was NT\$17.3 billion, a 5.2% decrease compared to the same period of 2009.

As of June 30, 2010, the Company's cash and cash equivalents totaled NT\$92.8 billion, an increase of 11.2% year-over-year, still showing a strong cash position.

### **Businesses Performance Highlights:**

#### **Domestic Fixed/Broadband/HiNet Business**

- n As of the end of June 2010, the Company maintained its leading fixed-line market position, with fixed-line subscribers totaling 12.4 million.
- n Total broadband subscribers amounted to 4.3 million as of June 30, 2010, accounting for 82.2% of market share. Chunghwa continued its efforts to migrate ADSL subscribers to FTTx solutions. By the end of the second quarter of 2010, there were 1.85 million FTTx subscribers, accounting for 42.8% of Chunghwa's total broadband subscriber base. By the end of the second quarter of 2010, the number of ADSL and FTTx subscribers with a service speed greater than 8 Mbps reached 2.2 million, representing 50.9% of total broadband subscribers, compared to 48.8% at the end of the first quarter of 2010.
- n HiNet subscribers totaled 4.07 million at the end of the second quarter of 2010.
- n MOD subscriber number is over 720 thousand up to now.

#### **Mobile Business**

- n As of June 30, 2010, Chunghwa had 9.4 million mobile subscribers, an increase of 4.5% compared to 9.0 million at the end of the first half of 2009.
- n Chunghwa had 5.1 million 3G subscribers at the end of June 2010, accounting for 53.9% of its total subscriber base.
- n Mobile VAS revenue for the first half of 2010 increased 27.6% year-over-year to NT\$5.2 billion; Short Message Service revenue rose 6.9% year-over-year and mobile Internet revenue increased 78% year-over-year.
- n Smartphone subscription accounted for 17% of total handsets offered by the Company during the first half of 2010. Smartphone Average Revenue per User ( ARPU ) was 132% higher than blended ARPU for the same period.



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### **Financial Statements**

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

### **Note Concerning Forward-looking Statements**

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

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

### **About Chunghwa Telecom**

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

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**Exhibit 2**

**Chunghwa Telecom Co., Ltd.  
Financial Statements for the  
Six Months Ended June 30, 2010 and 2009 and  
Independent Auditors Report**

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**INDEPENDENT AUDITORS REPORT**

To The Board of Directors and Stockholders of

Chunghwa Telecom Co., Ltd.

We have audited the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of June 30, 2010 and 2009, and the related statements of income, changes in stockholders' equity and cash flows for the six months ended. 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 did not audit the financial statements of Taiwan International Standard Electronics Co., Ltd., Viettel-CHT Co., Ltd. and equity-accounted investee of SENAO of Senao Networks, Inc. The aggregate carrying values of these equity method investees were NT\$864,047 thousand and NT\$661,122 thousand, respectively, as of June 30, 2010 and 2009 and the equity in earnings (losses) were NT\$100,723 thousand and NT\$(21,400) thousand, respectively, for the six months ended June 30, 2010 and 2009, respectively. The financial statements of Taiwan International Standard Electronics Co., Ltd., Viettel-CHT Co., Ltd. and equity-accounted investee of SENAO of Senao Networks, Inc. as of and for the six months ended June 30, 2010 and 2009, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these equity method investees, is based solely on the reports of the other auditors.

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 misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the financial reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Company as of June 30, 2010 and 2009, and the results of their operations and cash flows for the six months 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.

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As discussed in Note 3 to the financial statements, the Company early adopted the new Statements of Financial Accounting Standards No. 41, Operating Segments ( SFAS No. 41 ) beginning from September 1, 2009.

We have also audited the consolidated financial statements of the Company and its subsidiaries as of and for the six months ended June 30, 2010 and 2009, and have expressed a modified unqualified opinion on those consolidated financial statements.

/s/ DELOITTE & TOUCHE  
**Deloitte & Touche**  
**Taipei, Taiwan**  
**The Republic of China**

August 11, 2010

**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.*

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS****JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)**

|  | 2010               |            | 2009               |            |
|--|--------------------|------------|--------------------|------------|
|  | Amount             | %          | Amount             | %          |
| <b>ASSETS</b>  |                    |            |                    |            |
| <b>CURRENT ASSETS</b>  |                    |            |                    |            |
| Cash and cash equivalents (Notes 2 and 4)  | \$ 87,041,371      | 20         | \$ 78,572,933      | 17         |
| Financial assets at fair value through profit or loss (Notes 2 and 5)  |                    |            | 22,423             |            |
| Available-for-sale financial assets (Notes 2 and 6)  | 5,599,108          | 1          | 16,354,375         | 4          |
| Held-to-maturity financial assets (Notes 2 and 7)  | 1,190,089          |            | 670,541            |            |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,688,665 thousand in 2010 and \$2,853,031 thousand in 2009 (Notes 2 and 8) | 11,191,243         | 3          | 10,300,053         | 2          |
| Receivables from related parties (Note 23)   | 305,995            |            | 217,058            |            |
| Other monetary assets (Notes 2, 9 and 25)  | 2,653,656          | 1          | 3,246,786          | 1          |
| Inventories, net (Notes 2, 3 and 10)   | 866,496            |            | 837,141            |            |
| Deferred income tax assets (Notes 2 and 20)  | 35,636             |            | 74,196             |            |
| Other current assets (Note 11)   | 5,915,568          | 1          | 5,335,560          | 1          |
| <b>Total current assets</b>  | <b>114,799,162</b> | <b>26</b>  | <b>115,631,066</b> | <b>25</b>  |
| <b>LONG-TERM INVESTMENTS</b>   |                    |            |                    |            |
| Investments accounted for using equity method (Notes 2 and 12)   | 10,209,904         | 2          | 8,482,350          | 2          |
| Financial assets carried at cost (Notes 2 and 13)  | 2,294,648          | 1          | 2,236,048          | 1          |
| Held-to-maturity financial assets (Notes 2 and 7)  | 6,948,228          | 2          | 4,536,191          | 1          |
| Other monetary assets (Notes 14 and 24)  | 1,000,000          |            | 1,000,000          |            |
| <b>Total long-term investments</b>   | <b>20,452,780</b>  | <b>5</b>   | <b>16,254,589</b>  | <b>4</b>   |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 23)</b>  |                    |            |                    |            |
| <b>Cost</b>  |                    |            |                    |            |
| Land   | 101,292,062        | 23         | 101,259,764        | 22         |
| Land improvements  | 1,538,691          |            | 1,513,208          |            |
| Buildings  | 65,695,722         | 15         | 62,686,423         | 14         |
| Computer equipment   | 15,408,439         | 3          | 15,434,463         | 3          |
| Telecommunications equipment   | 655,365,545        | 146        | 652,387,793        | 143        |
| Transportation equipment   | 1,972,585          |            | 2,243,028          | 1          |
| Miscellaneous equipment  | 6,985,801          | 2          | 7,159,198          | 2          |
| <b>Total cost</b>  | <b>848,258,845</b> | <b>189</b> | <b>842,683,877</b> | <b>185</b> |
| Revaluation increment on land  | 5,800,909          | 1          | 5,810,342          | 1          |
|  | 854,059,754        | 190        | 848,494,219        | 186        |
| Less: Accumulated depreciation   | 562,610,473        | 125        | 549,671,350        | 121        |
|  | 291,449,281        | 65         | 298,822,869        | 65         |
| Construction in progress and advances related to acquisition of equipment  | 10,991,199         | 2          | 14,212,625         | 3          |
| <b>Property, plant and equipment, net</b>  | <b>302,440,480</b> | <b>67</b>  | <b>313,035,494</b> | <b>68</b>  |

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INTANGIBLE ASSETS (Note 2)

|                                |                  |          |                  |          |
|--------------------------------|------------------|----------|------------------|----------|
| 3G concession                  | 6,363,175        | 1        | 7,111,783        | 2        |
| Others                         | 347,278          |          | 356,524          |          |
| <b>Total intangible assets</b> | <b>6,710,453</b> | <b>1</b> | <b>7,468,307</b> | <b>2</b> |

OTHER ASSETS

|   |                  |          |                  |          |
|---|------------------|----------|------------------|----------|
| Idle assets (Note 2)                        | 878,896          |          | 926,640          |          |
| Refundable deposits                         | 1,389,649        |          | 1,288,994        | 1        |
| Deferred income tax assets (Notes 2 and 20) | 342,824          |          | 1,195,223        |          |
| Others (Note 23)                            | 3,310,929        | 1        | 860,916          |          |
| <b>Total other assets</b>                   | <b>5,922,298</b> | <b>1</b> | <b>4,271,773</b> | <b>1</b> |

|              |                       |            |                       |            |
|--------------|-----------------------|------------|-----------------------|------------|
| <b>TOTAL</b> | <b>\$ 450,325,173</b> | <b>100</b> | <b>\$ 456,661,229</b> | <b>100</b> |
|--------------|-----------------------|------------|-----------------------|------------|

(Continued)



**Table of Contents****CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS****JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)**

|  | 2010        |    | 2009        |    |
|--|-------------|----|-------------|----|
|  | Amount      | %  | Amount      | %  |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                 |             |    |             |    |
| <b>CURRENT LIABILITIES</b>   |             |    |             |    |
| Financial liabilities at fair value through profit or loss (Notes 2 and 5) | \$ 23,656   |    | \$          |    |
| Trade notes and accounts payable   | 5,724,762   | 1  | 5,608,657   | 1  |
| Payables to related parties (Note 23)                                      | 1,536,006   |    | 1,464,771   |    |
| Income tax payable (Notes 2 and 20)  | 4,672,688   | 1  | 6,523,855   | 2  |
| Accrued expenses (Note 16)   | 11,169,742  | 2  | 12,939,389  | 3  |
| Dividends payable (Note 18)  | 39,369,041  | 9  | 37,138,775  | 8  |
| Other current liabilities (Note 17)  | 15,802,629  | 4  | 15,214,391  | 3  |
| Total current liabilities  | 78,298,524  | 17 | 78,889,838  | 17 |
| DEFERRED INCOME  | 2,542,574   | 1  | 2,145,289   | 1  |
| RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)                           | 94,986      |    | 94,986      |    |
| <b>OTHER LIABILITIES</b>   |             |    |             |    |
| Accrued pension liabilities (Notes 2 and 22)                               | 1,240,197   |    | 5,183,644   | 1  |
| Customers deposits   | 5,886,625   | 1  | 6,047,305   | 1  |
| Deferred credit - profit on intercompany transactions (Note 23)            | 1,485,916   | 1  | 1,485,916   | 1  |
| Others   | 396,359     |    | 260,875     |    |
| Total other liabilities  | 9,009,097   | 2  | 12,977,740  | 3  |
| Total liabilities  | 89,945,181  | 20 | 94,107,853  | 21 |
| <b>STOCKHOLDERS EQUITY (Notes 2, 6, 15 and 18)</b>                         |             |    |             |    |
| Common stock - \$10 par value;   |             |    |             |    |
| Authorized: 12,000,000 thousand shares                                     |             |    |             |    |
| Issued: 9,696,808 thousand shares  | 96,968,082  | 21 | 96,968,082  | 21 |
| Capital stock to be issued   |             |    | 9,696,808   | 2  |
| <b>Additional paid-in capital</b>  |             |    |             |    |
| Capital surplus  | 169,496,289 | 38 | 169,496,289 | 37 |
| Donated capital  | 13,170      |    | 13,170      |    |
| Equity in additional paid-in capital reported by equity-method investees   | 6,742       |    | 3           |    |
| Total additional paid-in capital   | 169,516,201 | 38 | 169,509,462 | 37 |
| Retained earnings  |             |    |             |    |
| Legal reserve  | 61,361,255  | 14 | 56,987,241  | 12 |
| Special reserve  | 2,675,894   | 1  | 2,675,894   | 1  |
| Unappropriated earnings  | 24,998,325  | 5  | 22,265,116  | 5  |
| Total retained earnings  | 89,035,474  | 20 | 81,928,251  | 18 |
| Other adjustments  |             |    |             |    |

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|  |                |     |                |     |
|--|----------------|-----|----------------|-----|
| Cumulative translation adjustments       | 12,059         |     | 17,765         |     |
| Unrecognized net loss of pension         | (44,105)       |     | (5)            |     |
| Unrealized loss on financial instruments | (911,165)      |     | (1,379,866)    |     |
| Unrealized revaluation increment         | 5,803,446      | 1   | 5,812,879      | 1   |
| Total other adjustments                  | 4,860,235      | 1   | 4,450,773      | 1   |
| Total stockholders' equity               | 360,379,992    | 80  | 362,553,376    | 79  |
| TOTAL                                    | \$ 450,325,173 | 100 | \$ 456,661,229 | 100 |

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

(With Deloitte & Touche audit report dated August 11, 2010)

(Concluded)

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF INCOME****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)**

|  | 2010                 |           | 2009                 |           |
|--|----------------------|-----------|----------------------|-----------|
|  | Amount               | %         | Amount               | %         |
| NET REVENUES (Note 23)                             | \$ 91,772,655        | 100       | \$ 90,301,418        | 100       |
| OPERATING COSTS (Note 23)                          | 47,499,697           | 52        | 46,704,834           | 52        |
| <b>GROSS PROFIT</b>                                | <b>44,272,958</b>    | <b>48</b> | <b>43,596,584</b>    | <b>48</b> |
| OPERATING EXPENSES (Note 23)                       |                      |           |                      |           |
| Marketing  | 11,965,629           | 13        | 11,987,497           | 13        |
| General and administrative                         | 1,679,541            | 2         | 1,694,373            | 2         |
| Research and development                           | 1,541,309            | 2         | 1,525,698            | 2         |
| Total operating expenses                           | 15,186,479           | 17        | 15,207,568           | 17        |
| <b>INCOME FROM OPERATIONS</b>                      | <b>29,086,479</b>    | <b>31</b> | <b>28,389,016</b>    | <b>31</b> |
| NON-OPERATING INCOME AND GAINS                     |                      |           |                      |           |
| Equity in earnings of equity method investees, net | 356,261              | 1         | 123,119              |           |
| Interest income                                    | 189,850              |           | 324,528              | 1         |
| Foreign exchange gain, net                         | 144,459              |           | 86,098               |           |
| Dividends income                                   | 3,600                |           | 2,498                |           |
| Valuation gain on financial instruments, net       |                      |           | 146,918              |           |
| Others   | 129,567              |           | 285,545              |           |
| Total non-operating income and gains               | 823,737              | 1         | 968,706              | 1         |
| NON-OPERATING EXPENSES AND LOSSES                  |                      |           |                      |           |
| Interest expense                                   | 75,472               |           | 2,775                |           |
| Valuation loss on financial instruments, net       | 34,787               |           |                      |           |
| Loss on disposal of financial instruments, net     | 18,211               |           | 234,095              |           |
| Loss on disposal of property, plant and equipment  | 13,139               |           | 9,138                |           |
| Impairment loss on assets                          |                      |           | 85,349               |           |
| Others   | 14,400               |           | 99,631               |           |
| Total non-operating expenses and losses            | 156,009              |           | 430,988              |           |
| <b>INCOME BEFORE INCOME TAX</b>                    | <b>29,754,207</b>    | <b>32</b> | <b>28,926,734</b>    | <b>32</b> |
| <b>INCOME TAX EXPENSES (Notes 2 and 20)</b>        | <b>4,762,789</b>     | <b>5</b>  | <b>6,665,332</b>     | <b>7</b>  |
| <b>NET INCOME</b>                                  | <b>\$ 24,991,418</b> | <b>27</b> | <b>\$ 22,261,402</b> | <b>25</b> |



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**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF INCOME**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

|                                     | <b>2010</b>                                 |                       | <b>2009</b>                                 |                       |
|-------------------------------------|---|-----------------------|---|-----------------------|
|                                     | <b>Income<br/>Before<br/>Income<br/>Tax</b> | <b>Net<br/>Income</b> | <b>Income<br/>Before<br/>Income<br/>Tax</b> | <b>Net<br/>Income</b> |
| <b>EARNINGS PER SHARE (Note 21)</b> |   |                       |   |                       |
| Basic earnings per share            | \$ 3.07                                     | \$ 2.58               | \$ 2.98                                     | \$ 2.30               |
| Diluted earnings per share          | \$ 3.06                                     | \$ 2.57               | \$ 2.97                                     | \$ 2.29               |

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

(With Deloitte & Touche audit report dated August 11, 2010)

(Concluded)

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## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

## FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009

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

|  | Common Stock          |               | Preferred Stock       |        | Retained Earnings          |                            |               |                 |                         | Other Adjustments                  |                     |   | Total Stockholders' Equity |                                  |
|--|-----------------------|---------------|-----------------------|--------|----------------------------|----------------------------|---------------|-----------------|-------------------------|------------------------------------|---------------------|---|----------------------------|----------------------------------|
|  | Shares<br>(Thousands) | Amount        | Shares<br>(Thousands) | Amount | Capital Stock to Be Issued | Additional Paid-in Capital | Legal Reserve | Special Reserve | Unappropriated Earnings | Cumulative Translation Adjustments | Net Loss of Pension | Unrealized Gain (Loss) on Financial Instruments |                            | Unrealized Revaluation Increment |
| ANCE,<br>JANUARY 1,  | 9,696,808             | \$ 96,968,082 |                       | \$     | \$                         | \$ 169,509,763             | \$ 56,987,241 | \$ 2,675,894    | \$ 43,749,962           | \$ 7,626                           | \$ (43,750)         | \$ (447,129)                                    | \$ 5,803,446               | \$ 375,211,                      |
| ropriation of earnings   |                       |               |                       |        |                            |                            |               |                 |                         |                                    |                     |   |                            |                                  |
| er reserve   |                       |               |                       |        |                            |                            | 4,374,014     |                 | (4,374,014)             |                                    |                     |   |                            |                                  |
| dividends - 1.06 per   |                       |               |                       |        |                            |                            |               |                 | (39,369,041)            |                                    |                     |   |                            | (39,369,                         |
| ncome for six months ended June 30,  |                       |               |                       |        |                            |                            |               |                 | 24,991,418              |                                    |                     |   |                            | 24,991,                          |
| alized loss on financial instruments held by trustees                            |                       |               |                       |        |                            |                            |               |                 |                         |                                    |                     | (45,861)  |                            | (45,                             |
| ments in trusts  |                       |               |                       |        |                            | 6,438                      |               |                 |                         |                                    |                     |   |                            | 6,                               |
| ulative translation adjustment for foreign-currency instruments held by trustees |                       |               |                       |        |                            |                            |               |                 |                         | 4,433                              |                     |   |                            | 4,                               |
| ed benefit on plan assets of trustees  |                       |               |                       |        |                            |                            |               |                 |                         |                                    | (355)               |   |                            | (                                |
| alized loss on financial instruments   |                       |               |                       |        |                            |                            |               |                 |                         |                                    |                     | (418,175)                                       |                            | (418,                            |
| ANCE,<br>E 30, 2010  | 9,696,808             | \$ 96,968,082 |                       | \$     | \$                         | \$ 169,516,201             | \$ 61,361,255 | \$ 2,675,894    | \$ 24,998,325           | \$ 12,059                          | \$ (44,105)         | \$ (911,165)                                    | \$ 5,803,446               | \$ 360,379,                      |

(Continued)







gain

884,603

009 9,696,808 \$ 96,968,082 \$ \$ 9,696,808 \$ 169,509,462 \$ 56,987,241 \$ 2,675,894 \$ 22,265,116 \$ 17,765 \$ (5) \$ (1,379,866) \$ 5,812,879 \$ 36

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

(With Deloitte & Touche audit report dated August 11, 2010)

(Concluded)

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars)**

|   | 2010              | 2009              |
|---|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |                   |                   |
| Net income  | \$ 24,991,418     | \$ 22,261,402     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                   |                   |
| Provision for doubtful accounts   | 188,941           | 263,467           |
| Depreciation and amortization   | 17,081,292        | 18,209,208        |
| Valuation loss on inventory   | 56,294            | 30,370            |
| Valuation loss (gain) on financial instruments, net                               | 34,787            | (146,918)         |
| Amortization of premium of financial assets                                       | 18,075            | 7,617             |
| Loss on disposal of financial instruments, net                                    | 18,211            | 234,095           |
| Loss on disposal of property, plant and equipment, net                            | 13,139            | 9,138             |
| Impairment loss on assets   |                   | 85,349            |
| Equity in earnings of equity method investees, net                                | (356,261)         | (123,119)         |
| Dividends received from equity investees  | 281,516           | 393,115           |
| Deferred income taxes   | 80,663            | 282,477           |
| Changes in operating assets and liabilities:                                      |                   |                   |
| Financial assets held for trading   | 19,943            | 171,783           |
| Trade notes and accounts receivable   | (307,209)         | (368,679)         |
| Receivables from related parties  | 77,223            | 125,958           |
| Other current monetary assets   | (889,357)         | (1,096,489)       |
| Inventories   | 263,732           | (400,060)         |
| Other current assets  | (2,568,245)       | (1,152,902)       |
| Trade notes and accounts payable  | (2,052,643)       | (3,215,674)       |
| Payables to related parties   | (300,670)         | (710,099)         |
| Income tax payable  | 514,702           | 1,090,225         |
| Accrued expenses  | (5,330,318)       | (2,741,213)       |
| Other current liabilities   | 645,279           | 347,131           |
| Deferred income   | 58,810            | 72,992            |
| Accrued pension liabilities   | 32,240            | 19,256            |
| <b>Net cash provided by operating activities</b>                                  | <b>32,571,562</b> | <b>33,648,430</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |                   |                   |
| Acquisition of available-for-sale financial assets                                | (1,765,364)       | (6,010,000)       |
| Proceeds from disposal of available-for-sale financial assets                     | 12,389,853        | 4,490,787         |
| Acquisition of held-to-maturity financial assets                                  | (3,714,635)       | (1,948,505)       |
| Proceeds from disposal of held-to-maturity financial assets                       | 587,500           | 547,693           |
| Acquisition of financial assets carried at cost                                   | (68,600)          |                   |
| Proceeds from disposal of financial assets carried at cost                        |                   | 285,859           |
| Acquisition of investments accounted for using equity method                      |                   | (71,159)          |
| Acquisition of property, plant and equipment                                      | (9,247,910)       | (10,004,743)      |
| Proceeds from disposal of property, plant and equipment                           | 13,609            | 1,095             |
| Increase in intangible assets   | (47,561)          | (55,375)          |
| Increase in other assets  | (2,514,433)       | (148,974)         |

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|                                       |             |              |
|---------------------------------------|-------------|--------------|
| Net cash used in investing activities | (4,367,541) | (12,913,322) |
|---------------------------------------|-------------|--------------|

(Continued)

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars)**

|   | <b>2010</b>          | <b>2009</b>          |
|---|----------------------|----------------------|
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>           |                      |                      |
| Decrease in customers' deposits                       | \$ (30,466)          | \$ (19,012)          |
| Increase (decrease) in other liabilities              | 171,245              | (165,512)            |
| Capital reduction                                     | (9,696,808)          | (19,115,554)         |
| <b>Net cash used in financing activities</b>          | <b>(9,556,029)</b>   | <b>(19,300,078)</b>  |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>      | <b>18,647,992</b>    | <b>1,435,030</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b> | <b>68,393,379</b>    | <b>77,137,903</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>       | <b>\$ 87,041,371</b> | <b>\$ 78,572,933</b> |
| <b>SUPPLEMENTAL INFORMATION</b>                       |                      |                      |
| Interest paid   | \$ 14                | \$ 36                |
| Income tax paid                                       | \$ 4,167,424         | \$ 5,292,630         |
| <b>NON-CASH FINANCING ACTIVITIES</b>                  |                      |                      |
| Dividends payable                                     | \$ 39,369,041        | \$ 37,138,775        |
| <b>CASH AND NON-CASH INVESTING ACTIVITIES</b>         |                      |                      |
| Increase in property, plant and equipment             | \$ 8,409,882         | \$ 9,358,701         |
| Payables to suppliers                                 | 838,028              | 646,042              |
|   | <b>\$ 9,247,910</b>  | <b>\$ 10,004,743</b> |

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**Table of Contents****CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars)**

The acquisition of InfoExplorer Co., Ltd. ( IFE ) was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values on the basis of the final data on May 7, 2009:

|  |                |
|--|----------------|
| Cash and cash equivalents  | \$ 457,990     |
| Receivables  | 13,479         |
| Other current assets   | 14,792         |
| Property, plant, and equipment   | 40,221         |
| Identifiable intangible assets   | 53,001         |
| Refundable deposits  | 2,468          |
| Other assets   | 2,338          |
| Payables   | (83,319)       |
| Income tax payable   | (246)          |
| Other current liabilities  | (153)          |
| <b>Total</b>   | <b>500,571</b> |
| Percentage of ownership  | 49.07%         |
|  | 245,630        |
| Goodwill   | 37,870         |
| Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008) | \$ 283,500     |

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

(With Deloitte & Touche audit report dated August 11, 2010)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

**(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.

As of June 30, 2010 and 2009, the Company had 24,277 and 24,425 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 reasonable estimates and assumptions on allowances for doubtful accounts, valuation allowances on inventories, depreciation of property, plant and equipment, impairment of assets, bonuses paid to employees, remuneration to board of directors and supervisors, pension plans and income tax which are inherently uncertain. Actual results may differ from these estimates. The significant accounting policies are summarized as follows:

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

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

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

***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 are 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. Regular way purchases or sales of financial assets are accounted for using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are 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 the same with 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.

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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.



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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

***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. Incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract are recognized in marketing expenses as incurred.

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.

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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.

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

***Inventories***

Inventories including merchandise and work-in-process are stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale.

***Investments Accounted for Using Equity Method***

Investments in companies in which the Company 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 the Company 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 the Chunghwa's ownership percentages in the investees until they are realized through transactions with third parties.

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 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.

***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.



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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

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

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

***Intangible Assets***

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

The 3G Concession is valid through December 31, 2018. The 3G Concession is 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.

The Company adopted the 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 that do not meet relative criteria shall be expensed as incurred.

When an indication of impairment is identified for intangible assets, 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 defined benefit pension plans, net periodic pension benefit cost is recorded in the statement of income and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs, amortization of pension gains (losses) and curtailment or settlement gains (losses).

The Company recognizes into income, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the corridor. Amounts inside this 10% corridor are amortized over the average remaining service life of active plan participants. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the plans. Differences between the expected and actual returns on plan assets and changes in interest rate, which affect the discount rate used to value projected plan obligations, can have a significant impact on the calculation of pension net gains and losses from year to year.

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The curtailments and settlement gains (losses) resulted from Chunghwa's early retirement programs. Curtailment/settlement gains or losses are equal to the changes of underfunded status plus a pro rata portion of the unrecognized prior service cost, unrecognized net gains (losses), and unrecognized transition obligations/assets, before the settlement/curtailment event multiplied by the percentage reduction in projected benefit obligation.

The projected benefit obligation represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels.

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

The carrying amount of accrued pension liability should be the sum of the following amounts when the calculation is positive: (a) projected benefit obligation as of balance sheet date, (b) minus (plus) unamortized actuarial loss (gain), (c) minus unamortized prior service cost, and (d) minus the fair value of plan assets. If the amount determined by above calculation is negative, it is viewed as prepaid pension cost. The prepaid pension cost is measured at the lower of: (a) the amount determined above, and (b) the sum of the following amounts: (i) unamortized actuarial loss, (ii) unamortized prior service cost, and (iii) the present value of refunds from the plan or reductions in future contributions to the plan.

The measurement of benefit obligations and net periodic cost (income) is based on estimates and assumptions approved by the company's management such as compensation, age and seniority, as well as certain assumptions, including estimates of discount rates, expected return on plan assets and rate of compensation increases.

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.

***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.

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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 period. The resulting translation adjustments are recorded as a separate component of stockholders' equity.



**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)*****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.

The hedging items that do not meet the criteria for hedge accounting were classified as financial assets or financial liabilities at fair value through profit or loss.

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

The Company early adopted the Statement of Financial Accounting Standards No. 41 Operating Segments ( SFAS No. 41 ) starting from September 1, 2009. This Statement supersedes the Statement of Financial accounting Standards No. 20 Segment Reporting . For comparative purpose, the segment information for the six months ended June 30, 2009 was presented in accordance with SFAS No. 41.

The Company adopted the newly-revised Statements of Financial Accounting Standards No. 10, Accounting for Inventories, ( SFAS No. 10 ) beginning from January 1, 2009, which requires inventories to be stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. The inventory-related incomes and expenses shall be classified in operating cost.

**4. CASH AND CASH EQUIVALENTS**

|  | <b>June 30</b> |             |
|--|----------------|-------------|
|  | <b>2010</b>    | <b>2009</b> |
| Cash   |                |             |
| Cash on hand   | \$ 84,234      | \$ 89,142   |
| Bank deposits  | 3,787,544      | 9,729,204   |
| Negotiable certificate of deposit, annual yield rate - ranging from 0.37%-0.45% and 0.15%-0.50% for 2010 and 2009, respectively. | 69,600,000     | 48,150,000  |
|  | 73,471,778     | 57,968,346  |
| Cash equivalents   | 9,987,330      | 20,604,587  |

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|   |               |               |
|---|---------------|---------------|
| Commercial paper, annual yield rate - ranging from 0.25%-0.28% and 0.13%-0.15% for 2010 and 2009, respectively. |               |               |
| Treasury bills, annual yield rate - ranging from 0.25%-0.28% for 2010   | 3,582,263     |               |
|   | 13,569,593    | 20,604,587    |
|   | \$ 87,041,371 | \$ 78,572,933 |

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

As of June 30, 2010 and 2009, foreign deposits in bank were as follows:

|   | June 30   |           |
|---|-----------|-----------|
|   | 2010      | 2009      |
| United States of America - New York (US\$1,188 thousand and US\$2,314 thousand for 2010 and 2009, respectively) | \$ 38,374 | \$ 75,936 |

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

|  | June 30   |           |
|--|-----------|-----------|
|  | 2010      | 2009      |
| <b>Derivatives - financial assets</b>      |           |           |
| Currency swap contracts                    | \$        | \$ 22,423 |
| <b>Derivatives - financial liabilities</b> |           |           |
| Currency swap contracts                    | \$ 23,656 | \$        |

Chunghwa entered into investment management agreements with well-known financial institutions (fund managers) to manage its investment portfolios in 2006. The investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. Chunghwa terminated the investment management agreements on April 14, 2009 and asked fund managers to dispose of all the investment portfolios. The fund managers had disposed all investment portfolios before June 23, 2009 and returned the proceeds to Chunghwa.

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

Outstanding currency swap contracts as of June 30, 2010 and 2009 were as follows:

|                         | Currency  | Maturity Period | Contract Amount<br>(In Thousands) |
|-------------------------|-----------|-----------------|-----------------------------------|
| <u>June 30, 2010</u>    |           |                 |                                   |
| Currency swap contracts | US\$/NT\$ | 2010.07         | US\$45,000/NT\$1,426,395          |
| <u>June 30, 2009</u>    |           |                 |                                   |
| Currency swap contracts | US\$/NT\$ | 2009.07         | US\$85,000/NT\$2,788,879          |

Net gain (losses) arising from financial assets and liabilities at fair value through profit or loss for the six months ended June 30, 2010 and 2009 were \$(10,390) thousand (including realized settlement gain of \$19,943 thousand and valuation loss of \$30,333 thousand) and \$43,027 thousand

(including realized settlement loss of \$70,985 thousand and valuation gain of \$114,012 thousand), respectively.

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## CHUNGHWA TELECOM CO., LTD.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009

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

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                                   | June 30      |               |
|-----------------------------------|--------------|---------------|
|                                   | 2010         | 2009          |
| Open-end mutual funds             | \$ 5,525,810 | \$ 16,171,555 |
| Domestic listed stocks            | 73,298       |               |
| Real estate investment trust fund |              | 182,820       |
|                                   | \$ 5,599,108 | \$ 16,354,375 |

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

|                                    | Six Months Ended June 30 |                |
|------------------------------------|--------------------------|----------------|
|                                    | 2010                     | 2009           |
| Balance, beginning of period       | \$ (466,803)             | \$ (2,255,905) |
| Recognized in stockholders' equity | (456,329)                | 771,204        |
| Transferred to profit or loss      | 38,154                   | 113,399        |
| Balance, end of period             | \$ (884,978)             | \$ (1,371,302) |

As a result of the global economic and financial crisis, the Company determined that the impairment losses of available-for-sale financial assets was other-than-temporary in nature, and recorded impairment losses of \$85,349 thousand for the six months ended June 30, 2009.

## 7. HELD-TO-MATURITY FINANCIAL ASSETS

|   | June 30      |              |
|---|--------------|--------------|
|   | 2010         | 2009         |
| Corporate bonds, nominal interest rate ranging from 0.77%-4.75% and 0.80%-4.75% for 2010 and 2009, respectively; effective interest rate ranging from 0.50%-2.95% and 0.80%-2.95% for 2010 and 2009, respectively | \$ 7,639,850 | \$ 4,388,813 |
| Bank debentures, nominal interest rate ranging from 1.87%-2.11% and 1.95%-2.30% for 2010 and 2009, respectively; effective interest rate ranging from 1.14%-2.90% and 1.14%-2.90% for 2010 and 2009, respectively | 498,467      | 796,752      |
| Collateralized loan obligation, nominal and effective interest rate was 2.18% for 2009  |              | 21,167       |
|   | 8,138,317    | 5,206,732    |

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|                       |              |              |
|-----------------------|--------------|--------------|
| Less: Current portion | 1,190,089    | 670,541      |
|                       | \$ 6,948,228 | \$ 4,536,191 |

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## CHUNGHWA TELECOM CO., LTD.

## NOTES TO FINANCIAL STATEMENTS (Continued)

## FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009

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

## 8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

|                                 | Six Months Ended June 30 |              |
|---------------------------------|--------------------------|--------------|
|                                 | 2010                     | 2009         |
| Balance, beginning of period    | \$ 2,774,868             | \$ 2,992,143 |
| Provision for doubtful accounts | 181,291                  | 258,776      |
| Accounts receivable written off | (267,494)                | (397,888)    |
| Balance, end of period          | \$ 2,688,665             | \$ 2,853,031 |

## 9. OTHER CURRENT MONETARY ASSETS

|  | June 30      |              |
|--|--------------|--------------|
|  | 2010         | 2009         |
| Accrued custodial receipts from other carriers | \$ 498,910   | \$ 546,036   |
| Other  | 2,154,746    | 2,700,750    |
|  | \$ 2,653,656 | \$ 3,246,786 |

## 10. INVENTORIES, NET

|                 | June 30    |            |
|-----------------|------------|------------|
|                 | 2010       | 2009       |
| Merchandise     | \$ 501,738 | \$ 361,469 |
| Work in process | 364,758    | 475,672    |
|                 | \$ 866,496 | \$ 837,141 |

The operating costs related to inventories were \$4,130,733 thousand (including the valuation loss on inventories of \$56,294 thousand) and \$2,437,805 thousand (including the valuation loss on inventories of \$30,370 thousand) for the six months ended June 30, 2010 and 2009, respectively.

## 11. OTHER CURRENT ASSETS

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|                  | June 30      |              |
|------------------|--------------|--------------|
|                  | 2010         | 2009         |
| Prepaid expenses | \$ 2,499,809 | \$ 2,405,326 |
| Spare parts      | 2,264,197    | 1,868,913    |
| Prepaid rents    | 909,320      | 883,735      |
| Miscellaneous    | 242,242      | 177,586      |
|                  | \$ 5,915,568 | \$ 5,335,560 |



**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

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

|  | 2010            |                | June 30         |                | 2009            |                |
|--|-----------------|----------------|-----------------|----------------|-----------------|----------------|
|  | Carrying Amount | % of Ownership | Carrying Amount | % of Ownership | Carrying Amount | % of Ownership |
| <b>Listed</b>  |                 |                |                 |                |                 |                |
| Senao International Co., Ltd. ( SENAO )                          | \$ 1,263,026    | 28             | \$ 1,192,470    |                | 29              |                |
| <b>Non-listed</b>  |                 |                |                 |                |                 |                |
| Light Era Development Co., Ltd. ( LED )                          | 2,891,613       | 100            | 2,952,556       |                | 100             |                |
| Chunghwa Investment Co., Ltd. ( CHI )                            | 1,653,215       | 89             | 841,475         |                | 49              |                |
| Chunghwa Telecom Singapore Pte., Ltd. ( CHTS )                   | 1,426,836       | 100            | 782,281         |                | 100             |                |
| Chunghwa System Integration Co., Ltd. ( CHSI )                   | 707,252         | 100            | 712,953         |                | 100             |                |
| Taiwan International Standard Electronics Co., Ltd. ( TISE )     | 508,841         | 40             | 495,158         |                | 40              |                |
| CHIEF Telecom Inc. ( CHIEF )                                     | 486,227         | 69             | 433,045         |                | 69              |                |
| Viettel-CHT Co., Ltd. ( Viettel-CHT )                            | 273,140         | 30             | 88,198          |                | 33              |                |
| InfoExplorer Co., Ltd. ( IFE )                                   | 251,982         | 49             | 279,423         |                | 49              |                |
| Donghua Telecom Co., Ltd. ( DHT )                                | 239,338         | 100            | 224,105         |                | 100             |                |
| Chunghwa International Yellow Pages Co., Ltd. ( CIYP )           | 176,704         | 100            | 152,699         |                | 100             |                |
| Skysoft Co., Ltd. ( SKYSOFT )                                    | 87,234          | 30             | 85,775          |                | 30              |                |
| Chunghwa Telecom Global, Inc. ( CHTG )                           | 75,974          | 100            | 69,024          |                | 100             |                |
| Spring House Entertainment Inc. ( SHE )                          | 64,866          | 56             | 47,986          |                | 56              |                |
| KingWaytek Technology Co., Ltd. ( KWT )                          | 64,834          | 33             | 69,003          |                | 33              |                |
| So-net Entertainment Taiwan Co., Ltd. ( So-net )                 | 26,155          | 30             | 44,929          |                | 30              |                |
| Chunghwa Telecom Japan Co., Ltd. ( CHTJ )                        | 12,667          | 100            | 11,270          |                | 100             |                |
| New Prospect Investments Holdings Ltd. (B.V.I.) ( New Prospect ) |                 | 100            |                 |                | 100             |                |
| Prime Asia Investments Group Ltd. (B.V.I.) ( Prime Asia )        |                 | 100            |                 |                | 100             |                |
|  | 8,946,878       |                | 7,289,880       |                |                 |                |
|  | \$ 10,209,904   |                | \$ 8,482,350    |                |                 |                |

On March 27, 2009, the board of directors of Chunghwa resolved to purchase 48,000 thousand common shares of Senao International Co., Ltd. ( SENAO ) through SENAO 's private placement. However Chunghwa and SENAO did not complete the required procedures within the legal payment period; therefore, Chunghwa and SENAO decided to discontinue the private placement.

Chunghwa invested in Chunghwa Investment Co., Ltd. ( CHI ) in September 2009 for \$758,709 thousand. Chunghwa increased its ownership interest in CHI from 49% to 89%. CHI engages mainly in professional investing in telecommunication business and the telecommunication valued-added services.

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Chunghwa increased its investment in Chunghwa Telecom Singapore Pte., Ltd. ( CHTS ) for \$610,659 thousand in July 2009. CHTS engages mainly in telecommunication wholesale, internet transfer services, international data, long distance call wholesales to carriers and 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. ( STS ) in Singapore in October 2008 in order to maintain the current service. STS will engage in the installation and the operation of ST-2 telecommunications satellite.

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Chunghwa participated in the capital increase of Viettel-CHT in September 2009, by investing \$197,088 thousand cash and its ownership interest of Viettel-CHT was decreased from 33% to 30%. Viettel-CHT engages mainly in IDC services.

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 over 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.

Chunghwa participated in So-net Entertainment Taiwan Co., Ltd.'s capital increase on April 3, 2009, by investing \$60,008 thousand cash, and acquired 30% of its Taiwan shares. So-net Entertainment Taiwan Co., Ltd. engages mainly in online service and sale of computer hardware.

Chunghwa increased its investment on CHTJ by investing \$11,151 thousand cash in January 2009. 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. (B.V.I.) ( New Prospect ) and Prime Asia Investments Group Ltd. (B.V.I.) ( Prime Asia ) in March 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.

Market value of the listed investment accounted for using equity method calculated at its closing prices as of June 30, 2010 and 2009 was 3,703,495 thousand and 2,845,806 thousand, respectively.

The equity in earnings and losses for the six months ended June 30, 2010 and 2009 were based on the audited financial statements.

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

**13. FINANCIAL ASSETS CARRIED AT COST**

|   | June 30            |                   |                    |                   |
|---|--------------------|-------------------|--------------------|-------------------|
|   | 2010               |                   | 2009               |                   |
|   | Carrying<br>Amount | % of<br>Ownership | Carrying<br>Amount | % of<br>Ownership |
| Non-listed  |                    |                   |                    |                   |
| Taipei Financial Center Corp. ( TFC )                             | \$ 1,789,530       | 12                | \$ 1,789,530       | 12                |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. ( IBT II ) | 200,000            | 17                | 200,000            | 17                |
| Global Mobile Corp. ( GMC )                                       | 127,018            | 11                | 127,018            | 11                |
| iD Branding Ventures ( iDBV )                                     | 75,000             | 8                 | 75,000             | 8                 |
| Innovation Works Development Fund, L.P. ( IWDF )                  | 38,035             | 13                |                    |                   |
| RPTI Intergroup International Ltd.( RPTI )                        | 34,500             | 10                | 34,500             | 12                |
| CQi Energy Infocom Inc. ( CQi )                                   | 20,000             | 18                |                    |                   |

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|   |              |   |              |   |
|---|--------------|---|--------------|---|
| Innovation Works Limited ( IW )           | 10,565       | 2 |              |   |
| Essence Technology Solution, Inc. ( ETS ) |              | 9 | 10,000       | 9 |
|   | \$ 2,294,648 |   | \$ 2,236,048 |   |

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

Chunghwa invested in IWDF for \$38,035 thousand in June 2010. IWDF invests mainly in start-up companies of E-commerce, mobile internet and cloud computing, etc.

Chunghwa invested in CQi for \$20,000 thousand in June 2010. CQi engages mainly in intelligent energy network management services.

Chunghwa invested in IW for \$10,565 thousand in June 2010. IW invests mainly in start-up companies and mentors such companies in the E-commerce, mobile internet and cloud computing fields, etc.

RPTI completed a capital reduction to offset its deficits and as a result the number of shares held by Chunghwa was reduced from 9,234 thousand shares to 4,765 thousand shares in August, 2009. Subsequent to this capital reduction, RPTI raised additional capital through cash contributions. Chunghwa did not participate in the RPTI's capital increase plan; therefore, Chunghwa's ownership of RPTI decreased to 10%.

After evaluating the financial assets carried at cost, Chunghwa determined the investment in ETS was impaired and recognized an impairment loss of NT\$10,000 thousand in 2009.

Chunghwa participated in TFC's capital increase in October 2008 and prepaid \$285,859 thousand. However, TFC was not expected to be able to collect enough amount of capital increase within a specific period; therefore TFC's board of directors held a meeting on April 10, 2009 and resolved to withdraw its capital increase plan from Securities and Futures Bureau of Financial Supervisory Commission, Executive Yuan (FSC). TFC returned the prepayment to Chunghwa on May 8, 2009.

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

**14. OTHER MONETARY ASSETS - NONCURRENT**

|             | June 30      |              |
|-------------|--------------|--------------|
|             | 2010         | 2009         |
| 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 were used to finance various telecommunications infrastructure projects.

**15. PROPERTY, PLANT AND EQUIPMENT**

|  | June 30 |      |
|--|---------|------|
|  | 2010    | 2009 |

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|                               |                |                |
|-------------------------------|----------------|----------------|
| Cost                          |                |                |
| Land                          | \$ 101,292,062 | \$ 101,259,764 |
| Land improvements             | 1,538,691      | 1,513,208      |
| Buildings                     | 65,695,722     | 62,686,423     |
| Computer equipment            | 15,408,439     | 15,434,463     |
| Telecommunications equipment  | 655,365,545    | 652,387,793    |
| Transportation equipment      | 1,972,585      | 2,243,028      |
| Miscellaneous equipment       | 6,985,801      | 7,159,198      |
| Total cost                    | 848,258,845    | 842,683,877    |
| Revaluation increment on land | 5,800,909      | 5,810,342      |
|                               | 854,059,754    | 848,494,219    |

(Continued)

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

|   | 2010           | June 30<br>2009 |
|---|----------------|-----------------|
| Accumulated depreciation  |                |                 |
| Land improvements   | \$ 978,932     | \$ 923,853      |
| Buildings   | 17,860,557     | 16,805,966      |
| Computer equipment  | 11,939,517     | 11,742,232      |
| Telecommunications equipment  | 524,159,918    | 512,046,657     |
| Transportation equipment  | 1,739,103      | 2,056,290       |
| Miscellaneous equipment   | 5,932,446      | 6,096,352       |
|   | 562,610,473    | 549,671,350     |
| Construction in progress and advances related to acquisition of equipment | 10,991,199     | 14,212,625      |
| Property, plant and equipment, net  | \$ 302,440,480 | \$ 313,035,494  |

(Concluded)

Pursuant to the related regulations, Chunghwa revalued its land owned as of April 30, 2000 based on the publicly announced values 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 stockholder's equity - other adjustments of \$5,774,892 thousand.

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went 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 stockholder's equity - other adjustments. As of June 30, 2010, the unrealized revaluation increment was decreased to \$5,803,446 thousand by disposal of revaluation assets.

Depreciation on property, plant and equipment for the six months ended June 30, 2010 and 2009 was \$16,500,893 thousand and \$17,678,816 thousand, respectively. No interest expense was capitalized for the six months ended June 30, 2010 and 2009.

**16. ACCRUED EXPENSES**

|  | 2010          | June 30<br>2009 |
|--|---------------|-----------------|
| Accrued salary and compensation  | \$ 4,109,125  | \$ 7,150,199    |
| Accrued employees' bonuses and remuneration to directors and supervisors | 2,822,183     | 2,322,659       |
| Accrued franchise fees   | 1,139,941     | 1,137,051       |
| Other accrued expenses   | 3,098,493     | 2,329,480       |
|  | \$ 11,169,742 | \$ 12,939,389   |





**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)****17. OTHER CURRENT LIABILITIES**

|                                       | June 30              |                      |
|---------------------------------------|----------------------|----------------------|
|                                       | 2010                 | 2009                 |
| Advances from subscribers             | \$ 6,638,287         | \$ 5,399,428         |
| Amounts collected in trust for others | 2,294,417            | 2,268,896            |
| Payables to equipment suppliers       | 1,520,387            | 1,247,747            |
| Payables to contractors               | 1,472,126            | 2,012,710            |
| Refundable customers deposits         | 1,067,024            | 1,012,910            |
| Miscellaneous                         | 2,810,388            | 3,272,700            |
|                                       | <b>\$ 15,802,629</b> | <b>\$ 15,214,391</b> |

**18. STOCKHOLDERS EQUITY**

Under Chunghwa's Articles of Incorporation, Chunghwa's authorized capital is \$120,000,000,000 which is divided into 12,000,000,000 common shares (at \$10 par value per share), among which 9,696,808,181 shares are issued and outstanding as of June 30, 2010.

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. In accordance with the Articles of Incorporation of Chunghwa, the preferred shares would be redeemed by Chunghwa three years from the date of issuance at their par value. These preferred shares expired on April 4, 2009 and were redeemed on April 6, 2009.

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 June 30, 2010, the outstanding ADSs were 962,735 thousand common shares, which equaled approximately 96,274 thousand units and represented 9.93 % 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.

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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 NT\$0.10 per share, such cash dividend shall be distributed in the form of common shares.

Chunghwa operates in a capital-intensive and technology-intensive industry and 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 six months ended June 30, 2010 and 2009, 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 significantly different from the amounts proposed by the board of directors, the difference is charged to the earnings of the year making the initial estimate. Otherwise, the difference between initial accrual amounts and the amounts resolved in the shareholders' meeting is charged to the earnings of the following year as a result of change of 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 2009 and 2008 earnings of Chunghwa have been approved by the stockholders on June 18, 2010 and June 19, 2009 as follows:

|                 | Appropriation of Earnings |              | Dividend Per Share |      |
|-----------------|---------------------------|--------------|--------------------|------|
|                 | 2009                      | 2008         | 2009               | 2008 |
| Legal reserve   | \$ 4,374,014              | \$ 4,127,675 | \$                 | \$   |
| Special reserve |                           | 475          |                    |      |

|                |            |            |      |      |
|----------------|------------|------------|------|------|
| Cash dividends | 39,369,041 | 37,138,775 | 4.06 | 3.83 |
|----------------|------------|------------|------|------|

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**NOTES TO FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders' meeting on June 18, 2010, were \$1,800,929 thousand and \$41,211 thousand paid by cash, respectively. There was no difference between the initial accrual amounts and the amounts resolved in stockholders' meeting of the aforementioned bonuses to employees and the remuneration to directors and supervisors.

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders' meeting on June 19, 2009, were \$1,629,915 thousand and \$38,807 thousand paid by cash, respectively. The aforementioned approved amounts of the bonus to employees and the remuneration to directors and supervisors were different from the accrual amounts of \$1,723,921 thousand and \$40,886 thousand, respectively, reflected in the statement of income for the year ended December 31, 2008. The differences of \$94,006 thousand and \$2,079 thousand, respectively, were treated as change in estimates and were adjusted against earnings for the six months ended June 30, 2009.

Information on the appropriation of Chunghwa's 2009 earnings, employees bonuses and remuneration to directors and supervisors resolved by the board of directors and approved by the stockholders is available at the Market Observation Post System website.

The stockholders, at the stockholders' meeting held on June 18, 2010, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in the amount of \$19,393,616 thousand in order to improve the financial condition of Chunghwa and better utilize its excess funds. The stockholders further authorized the board of directors of Chunghwa to designate the record date of capital reduction after the capital reduction plan is effectively registered with FSC.

The stockholders, at a meeting held on June 19, 2009, resolved to transfer capital surplus in the amount of \$9,696,808 thousand to common capital stock. The abovementioned 2009 capital increase proposal was effectively registered with FSC. The board of directors authorized the chairman of directors to decide the ex-dividend date of the aforementioned proposal and the chairman decided the ex-dividend date as August 9, 2009.

The stockholders, at the stockholders' meeting held on June 19, 2009, 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 abovementioned 2009 capital reduction proposal was effectively approved by FSC. The board of directors of Chunghwa further authorized the chairman of board of directors of Chunghwa to designate the record date of capital reduction as of October 26, 2009. Subsequently, common capital stock was reduced by \$9,696,808 thousand and the stock transfer date of capital reduction was January 28, 2010. The amount due to stockholders for capital reduction was paid in February 2010.

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 abovementioned 2008 capital increase proposal was effectively registered with FSC. 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 FSC. Chunghwa designated December 30, 2008 as the record date and March 9, 2009 as the stock transfer date of capital reduction. Subsequently, common capital stock was reduced by \$19,115,554 thousand and a liability for the same amount of cash to be distributed to stockholders was recorded. Such cash payment to stockholders was made in March 2009.



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

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

|                      | Six Months Ended June 30, 2010 |                       |               |
|----------------------|--------------------------------|-----------------------|---------------|
|                      | Operating<br>Costs             | Operating<br>Expenses | Total         |
| Compensation expense |                                |                       |               |
| Salaries             | \$ 6,056,874                   | \$ 4,198,957          | \$ 10,255,831 |
| Insurance            | 495,741                        | 344,126               | 839,867       |
| Pension              | 836,712                        | 557,955               | 1,394,667     |
| Other compensation   | 4,647,825                      | 3,213,702             | 7,861,527     |
|                      | \$ 12,037,152                  | \$ 8,314,740          | \$ 20,351,892 |
| Depreciation expense | \$ 15,663,186                  | \$ 837,707            | \$ 16,500,893 |
| Amortization expense | \$ 503,300                     | \$ 77,099             | \$ 580,399    |

|                      | Six Months Ended June 30, 2009 |                       |               |
|----------------------|--------------------------------|-----------------------|---------------|
|                      | Operating<br>Costs             | Operating<br>Expenses | Total         |
| Compensation expense |                                |                       |               |
| Salaries             | \$ 6,075,780                   | \$ 4,137,113          | \$ 10,212,893 |
| Insurance            | 423,519                        | 291,536               | 715,055       |
| Pension              | 805,479                        | 570,654               | 1,376,133     |
| Other compensation   | 3,993,505                      | 2,742,003             | 6,735,508     |
|                      | \$ 11,298,283                  | \$ 7,741,306          | \$ 19,039,589 |
| Depreciation expense | \$ 16,733,371                  | \$ 945,445            | \$ 17,678,816 |
| Amortization expense | \$ 454,444                     | \$ 75,512             | \$ 529,956    |

**20. INCOME TAX**

- a. A reconciliation between income tax expense computed by applying the statutory income tax rate to income before income tax and income tax payable is as follows:

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|  | <b>Six Months Ended June 30</b> |                     |
|--|---------------------------------|---------------------|
|  | <b>2010</b>                     | <b>2009</b>         |
| Income tax expense computed at statutory income tax rate | \$ 5,058,215                    | \$ 7,231,674        |
| Add (deduct) tax effects of:                             |                                 |                     |
| Permanent differences                                    | (66,648)                        | (96,567)            |
| Temporary differences                                    | (18,836)                        | 19,312              |
| 10% undistributed earnings tax                           | 1,286                           | 6,441               |
| Investment tax credits                                   | (289,949)                       | (632,810)           |
| <b>Income tax payable</b>                                | <b>\$ 4,684,068</b>             | <b>\$ 6,528,050</b> |



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b. Income tax expense consists of the following:

|                                       | <b>Six Months Ended June 30</b> |                     |
|---------------------------------------|---------------------------------|---------------------|
|                                       | <b>2010</b>                     | <b>2009</b>         |
| Income tax payable                    | \$ 4,684,068                    | \$ 6,528,050        |
| Income tax - separated                | 3,688                           | 49,128              |
| Income tax - deferred                 | 80,663                          | 282,477             |
| Adjustments of prior years income tax | (5,630)                         | (194,323)           |
|                                       | <b>\$ 4,762,789</b>             | <b>\$ 6,665,332</b> |

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces the income tax rate of profit-seeking enterprises from 20% to 17%, effective January 1, 2010. After the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, the Company recalculated its deferred income tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as an income tax expense or benefit.

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

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

|   | <b>June 30</b> |                |
|---|----------------|----------------|
|   | <b>2010</b>    | <b>2009</b>    |
| Current   |                |                |
| Provision for doubtful accounts                     | \$ 290,142     | \$ 377,136     |
| Unrealized accrued expense                          | 56,167         | 48,783         |
| Unrealized foreign exchange loss                    | (36,839)       | 29,426         |
| Valuation loss (gain) on financial instruments, net | (1,890)        | (23,034)       |
| Other   | 18,198         | 19,021         |
|   | <b>325,778</b> | <b>451,332</b> |
| Valuation allowance                                 | (290,142)      | (377,136)      |

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|   |            |              |
|---|------------|--------------|
| Net deferred income tax assets - current    | \$ 35,636  | \$ 74,196    |
| Noncurrent                                  |            |              |
| Accrued pension cost                        | \$ 291,222 | \$ 1,131,060 |
| Impairment loss                             | 51,602     | 64,163       |
| Net deferred income tax assets - noncurrent | \$ 342,824 | \$ 1,195,223 |

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

|  | June 30       |               |
|--|---------------|---------------|
|  | 2010          | 2009          |
| Balance of Imputation Credit Account (ICA) | \$ 11,589,546 | \$ 12,629,060 |

The actual creditable ratios distribution of Chunghwa s of 2009 and 2008 for earnings were 26.48% and 30.61%, respectively.

e. Undistributed earnings information

As of June 30, 2010 and 2009, 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 have been examined by the ROC tax authorities.

**21. EARNINGS PER SHARE**

EPS was calculated as follows:

|   | Amount (Numerator)             |               | Weighted-<br>average<br>Number of<br>Common Shares<br>Outstanding<br>(Denominator) | Earnings Per Share<br>(Dollars) |               |
|---|--------------------------------|---------------|--|---------------------------------|---------------|
|   | Income<br>Before<br>Income Tax | Net Income    |  | Income<br>Before<br>Income Tax  | Net<br>Income |
| <b>Six months ended June 30, 2010</b>   |                                |               |  |                                 |               |
| Basic EPS   |                                |               |  |                                 |               |
| Income attributable to stockholders   | \$ 29,754,207                  | \$ 24,991,418 | 9,696,808  | \$ 3.07                         | \$ 2.58       |
| Effect of dilutive potential common stock   |                                |               |  |                                 |               |
| SENAO s stock options   | (3,866)                        | (3,866)       |  |                                 |               |
| Employee bonus  |                                |               | 35,947   |                                 |               |
| Diluted EPS   |                                |               |  |                                 |               |
| Income attributable to stockholders (including effect of dilutive potential common stock) | \$ 29,750,341                  | \$ 24,987,552 | 9,732,755  | \$ 3.06                         | \$ 2.57       |
| <b>Six months ended June 30, 2009</b>   |                                |               |  |                                 |               |

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Basic EPS

|                                     |               |               |           |         |         |
|-------------------------------------|---------------|---------------|-----------|---------|---------|
| Income attributable to stockholders | \$ 28,926,734 | \$ 22,261,402 | 9,696,808 | \$ 2.98 | \$ 2.30 |
|-------------------------------------|---------------|---------------|-----------|---------|---------|

Effect of dilutive potential common stock

|                       |         |         |  |  |  |
|-----------------------|---------|---------|--|--|--|
| SENAO's stock options | (1,038) | (1,038) |  |  |  |
|-----------------------|---------|---------|--|--|--|

|                |  |  |        |  |  |
|----------------|--|--|--------|--|--|
| Employee bonus |  |  | 33,294 |  |  |
|----------------|--|--|--------|--|--|

Diluted EPS

|   |               |               |           |         |         |
|---|---------------|---------------|-----------|---------|---------|
| Income attributable to stockholders (including effect of dilutive potential common stock) | \$ 28,925,696 | \$ 22,260,364 | 9,730,102 | \$ 2.97 | \$ 2.29 |
|---|---------------|---------------|-----------|---------|---------|

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

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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. 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 shares have a dilutive effect for the six months ended June 30, 2010 and 2009. 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 six months ended June 30, 2010 and 2009 was due to the effect of potential common stock related to stock options granted by SENA0.

The weighted-average number of outstanding shares for EPS calculation has been retroactively adjusted for capital reduction. The retroactive adjustments caused the basic EPS before income tax and after income tax for the six months ended June 30, 2009 to increase from NT\$2.71 to NT\$2.98 and to increase from NT\$2.09 to NT\$2.30, respectively, and the diluted EPS before income tax and after income tax for the six months ended June 30, 2009, to increase from NT\$2.70 to NT\$2.97 and to increase from NT\$2.08 to NT\$2.29, respectively.

**22. PENSION PLAN**

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

The pension plan under the Labor Pension Act of ROC (the LPA) is effective beginning July 1, 2005 and this pension mechanism is considered as a defined contribution plan. Based on the LPA, 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.

The balance of Chunghwa's plan assets subject to defined benefit plan were \$11,746,275 thousand and \$5,440,162 thousand as of June 30, 2010 and 2009, respectively.

Pension costs of Chunghwa were \$1,431,803 thousand (\$1,372,432 thousand subject to defined benefit plan and \$59,371 thousand subject to defined contribution plan) and \$1,412,661 thousand (\$1,366,125 thousand subject to defined benefit plan and \$46,536 thousand subject to defined contribution plan) for the six months ended June 30, 2010 and 2009, respectively.



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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:

| <b>Company</b>   | <b>Relationship</b>  |
|--|--|
| Senao International Co., Ltd. ( SENAO )                          | Subsidiary   |
| Light Era Development Co., Ltd. ( LED )                          | Subsidiary   |
| Chunghwa Telecom Singapore Pte., Ltd. ( CHTS )                   | Subsidiary   |
| CHIEF Telecom, Inc. ( CHIEF )                                    | Subsidiary   |
| InfoExplorer Co., Ltd. ( IFE )                                   | Subsidiary   |
| Chunghwa Telecom Japan Co., Ltd. ( CHTJ )                        | Subsidiary   |
| Chunghwa International Yellow Pages Co., Ltd. ( CIYP )           | Subsidiary   |
| Chunghwa System Integration Co., Ltd. ( CHSI )                   | Subsidiary   |
| Spring House Entertainment Inc. ( SHE )                          | Subsidiary   |
| Chunghwa Telecom Global, Inc. ( CHTG )                           | Subsidiary   |
| Donghua Telecom Co., Ltd. ( DHT )                                | Subsidiary   |
| New Prospect Investments Holdings Ltd. (B.V.I.) ( New Prospect ) | Subsidiary   |
| Prime Asia Investments Group Ltd. (B.V.I.) ( Prime Asia )        | Subsidiary   |
| Chunghwa Investment Co., Ltd. ( CHI )                            | Equity-method investee before Chunghwa obtained control over CHI on September 9, 2009                              |
| Chunghwa Investment Holding Co., Ltd. ( CIHC )                   | Subsidiary of CHI, which was equity-method investee before Chunghwa obtained control over CHI on September 9, 2009 |
| Chunghwa Precision Test Tech. Co., Ltd. ( CHPT )                 | Subsidiary of CHI, which was equity-method investee before Chunghwa obtained control over CHI on September 9, 2009 |
| Unigate Telecom Inc. ( Unigate )                                 | 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  |
| Senao International (Samoa) Holding Ltd. (SIS)                   | Subsidiary of SENAO  |

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|  |                                 |
|--|---------------------------------|
| Senao International HK Limited (SIHK)                        | Subsidiary of SENAO             |
| CHI One Investment Co., Ltd. ( COI )                         | Subsidiary of CHI               |
| Yao Yong Real Property Co., Ltd. ( YYRP )                    | Subsidiary of LED               |
| InfoExplorer International Co., Ltd. ( IESA )                | Subsidiary of IFE               |
| InfoExplorer (Hong Kong) Co., Ltd. ( IEHK )                  | Subsidiary of IFE               |
| Taiwan International Standard Electronics Co., Ltd. ( TISE ) | Equity-method investee          |
| So-net Entertainment Taiwan Co., Ltd. ( So-net )             | Equity-method investee          |
| Skysoft Co., Ltd. ( SKYSOFT )                                | Equity-method investee          |
| Senao Networks, Inc. ( SNI )                                 | Equity-method investee of SENAO |
| ST-2 Satellite Ventures Pte., Ltd. ( STS )                   | Equity-method investee of CHTS  |



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

|   | 2010         |     | June 30      |     | 2009   |   |
|---|--------------|-----|--------------|-----|--------|---|
|   | Amount       | %   | Amount       | %   | Amount | % |
| 1) Receivables  |              |     |              |     |        |   |
| Trade notes and accounts receivable                         |              |     |              |     |        |   |
| SENAO   | \$ 228,078   | 75  | \$ 121,635   | 56  |        |   |
| CHIEF   | 23,075       | 7   | 21,388       | 10  |        |   |
| CHTG  | 17,296       | 6   | 13,987       | 6   |        |   |
| CIYP  | 10,244       | 3   | 30,306       | 14  |        |   |
| CHSI  | 2,706        | 1   | 14,800       | 7   |        |   |
| Others  | 24,596       | 8   | 14,942       | 7   |        |   |
|   | \$ 305,995   | 100 | \$ 217,058   | 100 |        |   |
| 2) Payables   |              |     |              |     |        |   |
| Trade notes payable, accounts payable, and accrued expenses |              |     |              |     |        |   |
| SENAO   | \$ 633,902   | 41  | \$ 520,969   | 36  |        |   |
| TISE  | 321,543      | 21  | 349,389      | 24  |        |   |
| CHSI  | 162,390      | 11  | 205,965      | 14  |        |   |
| CHTG  | 45,319       | 3   | 25,173       | 2   |        |   |
| CHIEF   | 40,324       | 3   | 50,215       | 4   |        |   |
| DHT   | 36,901       | 2   | 36,285       | 2   |        |   |
| SHE   | 17,569       | 1   | 12,212       | 1   |        |   |
| Others  | 27,709       | 2   | 13,040       |     |        |   |
|   | 1,285,657    | 84  | 1,213,248    | 83  |        |   |
| Payables to constructors                                    |              |     |              |     |        |   |
| CHSI  | 2,157        |     | 1,358        |     |        |   |
| TISE  | 1,560        |     | 15,412       | 1   |        |   |
|   | 3,717        |     | 16,770       | 1   |        |   |
| Amounts collected in trust for others                       |              |     |              |     |        |   |
| SENAO   | 234,915      | 15  | 224,382      | 16  |        |   |
| Others  | 11,717       | 1   | 10,371       |     |        |   |
|   | 246,632      | 16  | 234,753      | 16  |        |   |
|   | \$ 1,536,006 | 100 | \$ 1,464,771 | 100 |        |   |

|             | Six Months Ended June 30 |   |            |   |
|-------------|--------------------------|---|------------|---|
|             | 2010                     |   | 2009       |   |
|             | Amount                   | % | Amount     | % |
| 3) Revenues |                          |   |            |   |
| SENAO       | \$ 956,329               | 1 | \$ 347,971 |   |
| So-net      | 155,523                  |   | 24,608     |   |
| CHIEF       | 124,162                  |   | 111,274    |   |
| CHTG        | 28,448                   |   | 25,128     |   |
| SKYSOFT     | 18,777                   |   | 17,086     |   |
| CHSI        | 15,148                   |   | 7,925      |   |
| LED         | 10,427                   |   | 2,214      |   |
| Others      | 19,900                   |   | 20,192     |   |
|             | \$ 1,328,714             | 1 | \$ 556,398 |   |

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

|   | Six Months Ended June 30 |   | 2009         |   |
|---|--------------------------|---|--------------|---|
|   | 2010                     | % | Amount       | % |
| 4) Operating costs and expenses                 |                          |   |              |   |
| SENAO   | \$ 2,376,748             | 4 | \$ 2,566,458 | 4 |
| TISE  | 461,035                  | 1 | 232,188      | 1 |
| CHSI  | 293,915                  | 1 | 169,862      |   |
| CHIEF   | 145,567                  |   | 150,251      |   |
| CHTG  | 62,793                   |   | 24,183       |   |
| IFE   | 27,196                   |   | 100          |   |
| SHE   | 26,102                   |   | 32,456       |   |
| CIYP  | 15,309                   |   | 25,844       |   |
| DHT   | 14,886                   |   | 6,276        |   |
| CHTS  | 11,726                   |   | 1,083        |   |
| CHTJ  | 7,788                    |   | 771          |   |
| Others  | 8,025                    |   | 3,656        |   |
|   | \$ 3,451,090             | 6 | \$ 3,213,128 | 5 |
| 5) Acquisition of property, plant and equipment |                          |   |              |   |
| CHSI  | \$ 174,478               | 2 | \$ 187,788   | 2 |
| DHT   | 25,465                   |   |              |   |
| TISE  | 19,879                   |   | 214,625      | 2 |
| CHTG  | 16,470                   |   | 21,770       |   |
| Others  | 6,057                    |   | 268          |   |
|   | \$ 242,349               | 2 | \$ 424,451   | 4 |

Chunghwa has entered into a contract with ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. This lease term is 15 years and the total contract value is approximately \$6,000,000 thousand (SGD260,723 thousand). The Company has prepaid \$1,995,294 thousand which was classified as other assets-others. As of June 30, 2010, the ST-2 satellite is still under construction.

The Company has leased property to LED since April 2010. The leased term is 15 years and the rent is charged monthly.

Chunghwa sold the land with a carrying value of \$936,016 thousand to Light Era Development Co., Ltd. ( LED ) at the price of \$2,421,932 thousand in 2008. However, since the gain on disposal of land amounting to \$1,485,916 thousand is unrealized, the gain was recognized as deferred credit - profit on intercompany 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 - others. The unrealized loss is not recognized in earnings until it is sold to the third party and realized in the future.

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

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)****24. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

As of June 30, 2010, in addition to those disclosed in other notes, Chunghwa's remaining commitments under non-cancellable contracts with various parties were as follows:

- a. Acquisition of land and buildings of \$119,565 thousand.
- b. Acquisition of telecommunications equipment of \$17,409,406 thousand.
- c. Contracts to print billing, envelopes and telephone directories of \$93,976 thousand.
- d. Chunghwa also has non-cancellable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Future lease payments were as follows:

| Year  | Amount     |
|---|------------|
| 2010 (from July 1, 2010 to December 31, 2010) | \$ 955,898 |
| 2011  | 1,538,525  |
| 2012  | 1,145,633  |
| 2013  | 749,906    |
| 2014 and thereafter                           | 857,860    |

- e. 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.
- f. A portion of the land used by Chunghwa during the period July 1, 1996 to December 31, 2004 was co-owned by Chunghwa and Taiwan Post Co., Ltd. (the former Chunghwa Post Co., Ltd. directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to Chunghwa to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of Chunghwa's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. Chunghwa stated that both parties have the right

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to use co-management land without consideration. Chunghwa Post Co., Ltd. can not request payment for land compensation. Furthermore, 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 filed an appeal at the Taiwan Taipei District Court. On March 30, 2009, the Taiwan Taipei District Court rendered its judgment that Chunghwa only need to pay \$16,870 thousand along with interest calculated at 5% per annum from July 23, 2005 and 4% of the court fees as the court judgment compensation. However, Chunghwa Post Co., Ltd. did not accept the judgment and filed an appeal at Taiwan High Court. Chunghwa also filed an appeal at the Taiwan High Court within the statutory period. On April 7, 2010, the Taiwan High Court rendered its judgment, ruling that we need to pay \$23,284 thousand as compensation in addition to the \$16,870 thousand from the Taiwan Taipei District Court judgment, along with interest calculated at 5% per annum from July 23, 2005 to the payment date and 12.5% of Chunghwa Post Co., Ltd. s court fees from its original suit and subsequent appeal as compensation. Chunghwa has filed an appeal at the Supreme Court of the Republic of China within the statutory period.

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)****25. FAIR VALUES OF FINANCIAL INSTRUMENTS**

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

|  | 2010            |               | June 30         |               | 2009            |            |
|--|-----------------|---------------|-----------------|---------------|-----------------|------------|
|  | Carrying Amount | Fair Value    | Carrying Amount | Fair Value    | Carrying Amount | Fair Value |
| <b>Assets</b>  |                 |               |                 |               |                 |            |
| Cash and cash equivalents  | \$ 87,041,371   | \$ 87,041,371 | \$ 78,572,933   | \$ 78,572,933 |                 |            |
| Financial assets at fair value through profit or loss                          |                 |               | 22,423          | 22,423        |                 |            |
| Available-for-sale financial assets  | 5,599,108       | 5,599,108     | 16,354,375      | 16,354,375    |                 |            |
| Held-to-maturity financial assets - current                                    | 1,190,089       | 1,190,089     | 670,541         | 670,541       |                 |            |
| Trade notes and accounts receivable, net                                       | 11,191,243      | 11,191,243    | 10,300,053      | 10,300,053    |                 |            |
| Receivables from related parties   | 305,995         | 305,995       | 217,058         | 217,058       |                 |            |
| Other current monetary assets  | 2,653,656       | 2,653,656     | 3,246,786       | 3,246,786     |                 |            |
| Financial assets carried at cost   | 2,294,648       |               | 2,236,048       |               |                 |            |
| Held-to-maturity financial assets - noncurrent                                 | 6,948,228       | 6,948,228     | 4,536,191       | 4,536,191     |                 |            |
| Other noncurrent monetary assets   | 1,000,000       | 1,000,000     | 1,000,000       | 1,000,000     |                 |            |
| Refundable deposits  | 1,389,649       | 1,389,649     | 1,288,994       | 1,288,994     |                 |            |
| <b>Liabilities</b>   |                 |               |                 |               |                 |            |
| Financial liabilities at fair value through profit or loss                     | 23,656          | 23,656        |                 |               |                 |            |
| Trade notes and accounts payable   | 5,724,762       | 5,724,762     | 5,608,657       | 5,608,657     |                 |            |
| Payables to related parties  | 1,536,006       | 1,536,006     | 1,464,771       | 1,464,771     |                 |            |
| Accrued expenses   | 11,169,742      | 11,169,742    | 12,939,389      | 12,939,389    |                 |            |
| Dividends Payable  | 39,369,041      | 39,369,041    | 37,138,775      | 37,138,775    |                 |            |
| Amounts collected in trust for others (included in other current liabilities ) | 2,294,417       | 2,294,417     | 2,268,896       | 2,268,896     |                 |            |
| Payables to constructors (included in other current liabilities )              | 1,472,126       | 1,472,126     | 2,012,710       | 2,012,710     |                 |            |
| Payables to equipment suppliers (included in other current liabilities )       | 1,520,387       | 1,520,387     | 1,247,747       | 1,247,747     |                 |            |
| Refundable customers deposits (included in other current liabilities )         | 1,067,024       | 1,067,024     | 1,012,910       | 1,012,910     |                 |            |
| Customers deposits   | 5,886,625       | 5,886,625     | 6,047,305       | 6,047,305     |                 |            |

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.

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- 2) If the financial instruments 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) Financial assets carried at cost are investments in nonlisted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.



**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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

|   | Amount Based on<br>Quoted Market Price<br>June 30 |            | Amount Determined<br>Using Valuation<br>Techniques<br>June 30 |           |
|---|---|------------|---|-----------|
|   | 2010  | 2009       | 2010  | 2009      |
| <b>Assets</b>   |   |            |   |           |
| Financial assets at fair value through profit or loss                             | \$  | \$         | \$  | \$ 22,423 |
| Available-for-sale financial assets   | 5,599,108   | 16,354,375 |   |           |
| Hedging derivative financial assets (classified as other current monetary assets) |   |            |   | 17,374    |
| <b>Liabilities</b>  |   |            |   |           |
| Financial liabilities at fair value through profit or loss                        |   |            | 23,656  |           |

- d. Information about financial risks

1) Market risk

The foreign exchange rate fluctuations would result in Chunghwa's foreign-currency-dominated assets and liabilities, outstanding currency swap contracts exposed to rate 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 is 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 and corporations. 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 risk is 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 is anticipated.

4) Cash flow interest rate risk

Chunghwa 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, Chunghwa 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.

**Table of Contents****CHUNGHWA TELECOM CO., LTD.****NOTES TO FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

## e. Fair value hedge

Chunghwa entered into currency swap contracts to hedge the fluctuation in exchange rates of beneficiary certificate denominated in foreign currency. No transaction met the criteria for hedge accounting for the six months ended June 30, 2010. The transaction was assessed as highly effective for the six months ended June 30, 2009.

Outstanding currency swap contracts for hedge as of June 30, 2009 were as follows:

|                         | Currency  | Maturity Period | Contract Amount<br>(In Thousands) |
|-------------------------|-----------|-----------------|-----------------------------------|
| Currency swap contracts | US\$/NT\$ | 2009.07         | US\$30,000/NT\$984,471            |

As of June 30, 2009, the currency swap contracts measured at fair value result in hedging derivative financial assets of \$17,374 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 and CHI, which was as follows:

## 1) Holding period and contract amounts

SENA0 entered into a forward exchange contract for the six months ended June 30, 2010 and 2009 to reduce the exposure to foreign currency risk.

Outstanding forward exchange contracts as of June 30, 2010 and 2009 were as follows:

|                      | Currency  | Maturity Period | Contract Amount<br>(In Thousands) |
|----------------------|-----------|-----------------|-----------------------------------|
| <u>June 30, 2010</u> |           |                 |                                   |
| Buy                  | NT\$/US\$ | 2010.07         | NT\$ 76,956                       |
| <u>June 30, 2009</u> |           |                 |                                   |
| Buy                  | NT\$/US\$ | 2009.07         | NT\$ 183,773                      |

Outstanding index future contracts of CHI on June 30, 2010 were as follows:

| Maturity Period | Units | Contract Amount |
|-----------------|-------|-----------------|
|-----------------|-------|-----------------|

|               |         |    | (In<br>Thousands) |
|---------------|---------|----|-------------------|
| TAIEX futures | 2010.07 | 12 | NT\$ 17,198       |

2) Market risk

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

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

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

3) Credit risk

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

4) Liquidation risk

SENA and CHI have sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidation risk is low.

**26. ADDITIONAL DISCLOSURES**

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

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

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- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 6.
- i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 7.
- j. Financial transactions: Please see Notes 5 and 25.
- k. Investment in Mainland China: Please see Table 8.

### **27. SEGMENT FINANCIAL INFORMATION**

Segment information: Please see Table 9.

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## CHUNGHWA TELECOM CO., LTD.

## FINANCINGS PROVIDED

SIX MONTHS ENDED JUNE 30, 2010

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| Financing No. | Company                               | Counter-party                      | Financial Statement Account | Maximum Balance for the Year | Interest Ending Rate (Note 5) | Type of Financing (Note 2) | Transaction Amount (Note 6) | Reason for Short-term Financing | Allowance for Bad Debt | Collateral Value | Financing Limit for Each Company (Note 3) | Financing Company s Amount Limit (Note 4) |
|---------------|---------------------------------------|------------------------------------|-----------------------------|------------------------------|-------------------------------|----------------------------|-----------------------------|---------------------------------|------------------------|------------------|---|---|
|               |                                       |                                    |                             |                              |                               |                            |                             |                                 |                        |                  |   |   |
| 9             | Chunghwa Telecom Singapore Pte., Ltd. | ST-2 Satellite Ventures Pte., Ltd. | Other receivables           | \$ 543,303<br>(SGD 23,913)   | \$ 6.38%                      | a                          | (Note 6)                    |                                 | \$                     | \$               | \$ 1,426,836<br>(SGD 62,063)              | \$ 1,426,836<br>(SGD 62,063)              |

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

a. 0 for the Company.

b. Subsidiaries are numbered from 1 .

Note 2: Reasons for financing are as follows:

a. Business relationship.

b. For short-term financing.

Note 3: The upper limit of loans lending to any other party is no more than 100% of the net value of the latest financial statements of the lender.

Note 4: The upper limit of loans lending to all other parties is no more than 100% of the net value of the latest financial statements of the lender.

Note 5: It equals to the prime rate of Singapore plus 1%

Note 6: Chunghwa Telecom Singapore Pte., Ltd. signed the joint venture contract with SingTelSat Pte., Ltd. to establish ST-2 Satellite Ventures Pte., Ltd. which mainly engages in the installation and the operation of ST-2 telecommunications satellite. The amount was collected on April 1, 2010.

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## CHUNGHWA TELECOM CO., LTD.

## ENDORSEMENTS/GUARANTEES PROVIDED

SIX MONTHS ENDED JUNE 30, 2010

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| No. | Endorsement/Guarantee Provider   | Guaranteed Party<br>Name              | Limits on<br>Endorsement/<br>Guarantee<br>Amount<br>Provided to<br>Each<br>Guaranteed<br>Party | Maximum<br>Balance<br>for the<br>Year | Ending<br>Balance | Amount of<br>Endorsement/<br>Guarantee<br>Collateralized<br>by<br>Properties | Ratio of<br>Accumulated<br>Endorsement/<br>Guarantee to<br>Net Equity<br>per Latest<br>Financial<br>Statements | Maximum<br>Endorsement/<br>Guarantee<br>Amount<br>Allowable<br>(Note 3) |                                       |
|-----|----------------------------------|---------------------------------------|--|---------------------------------------|-------------------|--|--|---|---------------------------------------|
|     |                                  |                                       |  |                                       |                   |  |  |   | Nature of<br>Relationship<br>(Note 2) |
| 25  | Yao Yong Real Property Co., Ltd. | Light Era<br>Development<br>Co., Ltd. | d  | \$ 3,756,752                          | \$ 3,360,000      | \$ 3,360,000   | \$ 3,360,000   | 0.9%  | \$ 3,756,752                          |

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

a. 0 for the Company.

b. Subsidiaries are numbered from 1 .

Note 2: Relationships between the endorsement/guarantee provider and the guaranteed party:

a. Trading partner.

b. Majority owned subsidiary.

c. The Company and subsidiary owns over 50% ownership of the investee company.

d. A subsidiary jointly owned by the Company and the Company s directly-owned subsidiary.

e. Guaranteed by the Company according to the construction contract.



f. An investee company. The guarantees were provided based on the Company's proportionate share in the investee company.

Note 3: The maximum amount of endorsement or guarantee amounts is up to 200% of the asset value of the latest financial statements of Yao Yong Real Property Co., Ltd.

**Table of Contents****TABLE 3****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****JUNE 30, 2010****(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                   | June 30, 2010                     |                         |                         | Market Value or Net Asset Value | Note   |
|-----|----------------------------|---|-------------------------------|---|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|     |                            |   |                               |   | Shares (Thousands/Thousand Units) | Carrying Value (Note 6) | Percentage of Ownership |                                 |        |
| 0   | Chunghwa Telecom Co., Ltd. | <u>Stocks</u>                                       |                               |   |                                   |                         |                         |                                 |        |
|     |                            | Senao International Co., Ltd.                       | Subsidiary                    | Investments accounted for using equity method | 71,773                            | \$ 1,263,026            | 28                      | \$ 3,703,495                    | Note 5 |
|     |                            | Light Era Development Co., Ltd.                     | Subsidiary                    | Investments accounted for using equity method | 300,000                           | 2,891,613               | 100                     | 2,891,970                       | Note 1 |
|     |                            | Chunghwa Investment Co., Ltd.                       | Subsidiary                    | Investments accounted for using equity method | 178,000                           | 1,653,215               | 89                      | 1,726,651                       | Note 1 |
|     |                            | Chunghwa Telecom Singapore Pte., Ltd.               | Subsidiary                    | Investments accounted for using equity method | 61,869                            | 1,426,836               | 100                     | 1,426,836                       | Note 1 |
|     |                            | Chunghwa System Integration Co., Ltd.               | Subsidiary                    | Investments accounted for using equity method | 60,000                            | 707,252                 | 100                     | 631,003                         | Note 1 |
|     |                            | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee        | Investments accounted for using equity method | 1,760                             | 508,841                 | 40                      | 693,957                         | Note 1 |
|     |                            | CHIEF Telecom Inc.                                  | Subsidiary                    | Investments accounted for using equity method | 37,942                            | 486,227                 | 69                      | 433,964                         | Note 1 |
|     |                            | Viettel-CHT Co., Ltd.                               | Equity-method investee        | Investments accounted for using equity method |                                   | 273,140                 | 30                      | 273,140                         | Note 1 |
|     |                            | InfoExplorer Co., Ltd.                              | Subsidiary                    | Investments accounted for using equity method | 22,498                            | 251,982                 | 49                      | 204,343                         | Note 1 |
|     |                            | Donghwa Telecom Co., Ltd.                           | Subsidiary                    | Investments accounted for using equity method | 51,590                            | 239,338                 | 100                     | 239,338                         | Note 1 |
|     |                            | Chunghwa International Yellow Pages Co., Ltd.       | Subsidiary                    | Investments accounted for using equity method | 15,000                            | 176,704                 | 100                     | 176,704                         | Note 1 |
|     |                            | Skysoft Co., Ltd.                                   | Equity-method investee        | Investments accounted for using equity method | 4,438                             | 87,234                  | 30                      | 47,867                          | Note 1 |
|     |                            | Chunghwa Telecom Global, Inc.                       | Subsidiary                    | Investments accounted for using equity method | 6,000                             | 75,974                  | 100                     | 99,201                          | Note 1 |
|     |                            | Spring House Entertainment Inc.                     | Subsidiary                    | Investments accounted for using equity method | 5,996                             | 64,866                  | 56                      | 49,297                          | Note 1 |

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|   |                        |   |         |                 |     |                 |        |
|---|------------------------|---|---------|-----------------|-----|-----------------|--------|
| KingWaytek Technology Co., Ltd.                 | Equity-method investee | Investments accounted for using equity method | 1,703   | 64,834          | 33  | 16,617          | Note 1 |
| So-net Entertainment Taiwan Co., Ltd.           | Equity-method investee | Investments accounted for using equity method | 3,429   | 26,155          | 30  | 8,300           | Note 1 |
| Chunghwa Telecom Japan Co., Ltd.                | Subsidiary             | Investments accounted for using equity method | 1       | 12,667          | 100 | 16,877          | 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 |
| Taipei Financial Center Corp.                   |                        | Financial assets carried at cost              | 172,927 | 1,789,530       | 12  | 1,373,643       | Note 2 |

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| No. | Held Company Name | Marketable Securities<br>Type<br>and Name                             | Relationship<br>with the<br>Company | Financial Statement<br>Account         | June 30, 2010                               |                               |                               | Market<br>Value or<br>Net Asset<br>Value | Note   |
|-----|-------------------|---|-------------------------------------|--|---|-------------------------------|-------------------------------|--|--------|
|     |                   |   |                                     |  | Shares<br>(Thousands/<br>Thousand<br>Units) | Carrying<br>Value<br>(Note 6) | Percentage<br>of<br>Ownership |  |        |
|     |                   | Industrial Bank of Taiwan<br>II Venture Capital Co.,<br>Ltd. (IBT II) |                                     | Financial assets carried at<br>cost    | 20,000                                      | 200,000                       | 17                            | 219,168                                  | Note 2 |
|     |                   | Global Mobile Corp.   |                                     | Financial assets carried at<br>cost    | 12,696                                      | 127,018                       | 11                            | 96,208                                   | Note 2 |
|     |                   | iD Branding Ventures  |                                     | Financial assets carried at<br>cost    | 7,500                                       | 75,000                        | 8                             | 72,928                                   | Note 2 |
|     |                   | Innovation Works<br>Development Fund, L.P.                            |                                     | Financial assets carried at<br>cost    |   | 38,035                        | 13                            | 38,035                                   | Note 2 |
|     |                   | RPTI Intergroup<br>International Ltd.                                 |                                     | Financial assets carried at<br>cost    | 4,765                                       | 34,500                        | 10                            | 34,532                                   | Note 2 |
|     |                   | CQi Energy Infocom Inc.   |                                     | Financial assets carried at<br>cost    | 2,000                                       | 20,000                        | 18                            | 4,220                                    | Note 2 |
|     |                   | Innovation Works<br>Limited   |                                     | Financial assets carried at<br>cost    | 333   | 10,565                        | 2                             | 10,565                                   | Note 2 |
|     |                   | Essence Technology<br>Solution, Inc.                                  |                                     | Financial assets carried at<br>cost    | 2,000                                       |                               | 9                             | 1,078                                    | Note 2 |
|     |                   | <u>Beneficiary certificates<br/>(mutual fund)</u>                     |                                     |  |   |                               |                               |  |        |
|     |                   | JPM (Taiwan) Global<br>Balanced Fund                                  |                                     | Available-for-sale financial<br>assets | 14,161                                      | \$ 200,000                    |                               | \$ 205,126                               | Note 4 |
|     |                   | JPM (Taiwan) JF<br>Balanced Fund                                      |                                     | Available-for-sale financial<br>assets | 2,462                                       | 50,000                        |                               | 47,618                                   | Note 4 |
|     |                   | Fuh-Hwa Aegis Fund  |                                     | Available-for-sale financial<br>assets | 14,000                                      | 184,452                       |                               | 162,387                                  | Note 4 |
|     |                   | AGI Global Quantitative<br>Balanced Fund                              |                                     | Available-for-sale financial<br>assets | 10,000                                      | 116,365                       |                               | 106,900                                  | Note 4 |
|     |                   | Capital Value Balance<br>Fund   |                                     | Available-for-sale financial<br>assets | 8,000                                       | 141,776                       |                               | 135,486                                  | Note 4 |
|     |                   | Fuh Hwa Life Goal Fund  |                                     | Available-for-sale financial<br>assets | 6,000                                       | 90,037                        |                               | 91,033                                   | Note 4 |
|     |                   | Fuh Hwa Asia Pacific<br>Balanced                                      |                                     | Available-for-sale financial<br>assets | 7,764                                       | 100,000                       |                               | 81,910                                   | Note 4 |
|     |                   | Capital Asia-Pacific Mega<br>- Trend Fund                             |                                     | Available-for-sale financial<br>assets | 15,074                                      | 200,000                       |                               | 193,544                                  | Note 4 |
|     |                   | PCA Asia Pac<br>Infrastructure Fund                                   |                                     | Available-for-sale financial<br>assets | 3,061                                       | 30,000                        |                               | 29,534                                   | Note 4 |
|     |                   | PineBridge Flagship Glb<br>Bal Fund of Funds                          |                                     | Available-for-sale financial<br>assets | 25,679                                      | 350,000                       |                               | 337,424                                  | Note 4 |
|     |                   | Franklin Templeton<br>Global Bond Fund of<br>Funds                    |                                     | Available-for-sale financial<br>assets | 17,984                                      | 208,018                       |                               | 228,680                                  | Note 4 |
|     |                   | Cathay Global Aggressive<br>Fund of Funds                             |                                     | Available-for-sale financial<br>assets | 15,570                                      | 210,000                       |                               | 182,477                                  | Note 4 |
|     |                   | Polaris Global Emerging<br>Market Funds                               |                                     | Available-for-sale financial<br>assets | 13,603                                      | 200,000                       |                               | 179,555                                  | Note 4 |
|     |                   | HSBC Global Bonds<br>Funds  |                                     | Available-for-sale financial<br>assets | 22,838                                      | 250,000                       |                               | 266,471                                  | Note 4 |
|     |                   | Fuh Hwa Global Fixed<br>Income FOFs Fund                              |                                     | Available-for-sale financial<br>assets | 15,594                                      | 190,000                       |                               | 194,145                                  | Note 4 |
|     |                   | PCA Asia Pacific<br>REITs-A   |                                     | Available-for-sale financial<br>assets | 7,849                                       | 50,000                        |                               | 50,235                                   | Note 4 |
|     |                   | HSBC GIF Gbl<br>Emerging Markets Bd A<br>Inc                          |                                     | Available-for-sale financial<br>assets | 273   | 155,112                       |                               | 163,084                                  | Note 4 |
|     |                   | Templeton Global Bond<br>A Acc \$                                     |                                     | Available-for-sale financial<br>assets | 289   | 210,001                       |                               | 216,995                                  | Note 4 |
|     |                   | PIMCO Global<br>Investment Grade Credit -<br>Ins H Acc                |                                     | Available-for-sale financial<br>assets | 398   | 161,575                       |                               | 170,009                                  | Note 4 |

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|   |                                     |     |         |         |        |
|---|-------------------------------------|-----|---------|---------|--------|
| MFS Meridian Funds - Global Equity Fund (A1 Class)          | Available-for-sale financial assets | 253 | 262,293 | 200,928 | Note 4 |
| Fidelity Fds International                                  | Available-for-sale financial assets | 128 | 163,960 | 111,671 | Note 4 |
| Fidelity Fds America  | Available-for-sale financial assets | 937 | 163,960 | 123,204 | Note 4 |
| JPMorgan Funds - Global Dynamic Fund (B)                    | Available-for-sale financial assets | 303 | 165,640 | 114,762 | Note 4 |
| MFS Meridian Funds - Research International Fund (A1 share) | Available-for-sale financial assets | 173 | 131,920 | 88,175  | Note 4 |
| Fidelity Fds Emerging Markets                               | Available-for-sale financial assets | 137 | 116,066 | 76,071  | Note 4 |
| Credit Suisse Equity Fund (Lux) Global Resources            | Available-for-sale financial assets | 10  | 130,402 | 76,343  | Note 4 |
| Schroder ISF - BRIC Fund - A1 Acc                           | Available-for-sale financial assets | 31  | 197,071 | 176,575 | Note 4 |
| Parvest Europe Convertible Bond Fund                        | Available-for-sale financial assets | 71  | 398,787 | 326,243 | Note 4 |
| JPMorgan Funds - Global Convertibles Fund (EUR)             | Available-for-sale financial assets | 868 | 491,450 | 394,630 | Note 4 |
| Schroder ISF Euro Corp. Bond A                              | Available-for-sale financial assets | 260 | 190,098 | 159,223 | Note 4 |
| Fidelity Euro Balanced Fund                                 | Available-for-sale financial assets | 328 | 209,085 | 151,100 | Note 4 |
| Fidelity Fds World  | Available-for-sale financial assets | 180 | 105,061 | 64,689  | Note 4 |
| Fidelity Fds Euro Blue Chip                                 | Available-for-sale financial assets | 101 | 91,117  | 51,596  | Note 4 |
| MFS Meridian Funds - European Equity Fund (A1 share)        | Available-for-sale financial assets | 112 | 117,711 | 76,544  | Note 4 |

(Continued)

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| No. | Held Company Name | Marketable Securities Type and Name  | Relationship with the Company | Financial Statement Account         | June 30, 2010           |                         |                         | Market Value or Net Asset Value | Note   |
|-----|-------------------|--|-------------------------------|-------------------------------------|-------------------------|-------------------------|-------------------------|---------------------------------|--------|
|     |                   |  |                               |                                     | Shares (Thousand/Units) | Carrying Value (Note 6) | Percentage of Ownership |                                 |        |
|     |                   | Henderson Horizon Fund - Pan European Equity Fund  |                               | Available-for-sale financial assets | 230                     | 180,886                 |                         | 135,599                         | Note 4 |
|     |                   | Polaris TW Top 50 Tracker  |                               | Available-for-sale financial assets | 2,880                   | 150,365                 |                         | 142,704                         | Note 5 |
|     |                   | Polaris/P-Shares Taiwan Div Plus ETF   |                               | Available-for-sale financial assets | 600                     | 15,000                  |                         | 13,140                          | Note 5 |
|     |                   | <u>Stocks</u>  |                               |                                     |                         |                         |                         |                                 |        |
|     |                   | China Steel Corporation  |                               | Available-for-sale financial assets | 926                     | \$ 28,374               |                         | \$ 27,595                       | Note 5 |
|     |                   | Taiwan Semiconductor Manufacturing Co., Ltd.   |                               | Available-for-sale financial assets | 456                     | 28,357                  |                         | 27,634                          | Note 5 |
|     |                   | President Chain Store Corp.  |                               | Available-for-sale financial assets | 190                     | 14,373                  |                         | 18,069                          | Note 5 |
|     |                   | <u>Bonds</u>   |                               |                                     |                         |                         |                         |                                 |        |
|     |                   | NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2009                     |                               | Held-to-maturity financial assets   |                         | 199,579                 |                         | 199,579                         | Note 7 |
|     |                   | Taiwan Power Company 4 <sup>th</sup> Secured Corporate Bond-B Issue in 2009                |                               | Held-to-maturity financial assets   |                         | 348,544                 |                         | 348,544                         | Note 7 |
|     |                   | NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2009                     |                               | Held-to-maturity financial assets   |                         | 50,481                  |                         | 50,481                          | Note 7 |
|     |                   | NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2009                     |                               | Held-to-maturity financial assets   |                         | 200,849                 |                         | 200,849                         | Note 7 |
|     |                   | FCFC 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2009                               |                               | Held-to-maturity financial assets   |                         | 252,471                 |                         | 252,471                         | Note 7 |
|     |                   | Taiwan Power Company 1 <sup>st</sup> Secured Corporate Bond-A Issue in 2009                |                               | Held-to-maturity financial assets   |                         | 201,742                 |                         | 201,742                         | Note 7 |
|     |                   | Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issued in 2009 |                               | Held-to-maturity financial assets   |                         | 203,675                 |                         | 203,675                         | Note 7 |
|     |                   | Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured Corporate Bonds - A Issue in 2008  |                               | Held-to-maturity financial assets   |                         | 103,411                 |                         | 103,411                         | Note 7 |
|     |                   | China Steel Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008            |                               | Held-to-maturity financial assets   |                         | 103,194                 |                         | 103,194                         | Note 7 |
|     |                   | Formosa Petrochemical Corporation 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008  |                               | Held-to-maturity financial assets   |                         | 207,829                 |                         | 207,829                         | Note 7 |
|     |                   | Formosa Petrochemical Corporation 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008  |                               | Held-to-maturity financial assets   |                         | 413,071                 |                         | 413,071                         | Note 7 |
|     |                   | Taiwan Power Co. 5 <sup>th</sup> secured Bond-B Issue in 2008                              |                               | Held-to-maturity financial assets   |                         | 208,928                 |                         | 208,928                         | Note 7 |
|     |                   | Mega Securities Co., Ltd. 1 <sup>st</sup> Unsecured Corporate Bond Issue in 2009           |                               | Held-to-maturity financial assets   |                         | 300,000                 |                         | 300,000                         | Note 7 |

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|  |                                   |         |         |        |
|--|-----------------------------------|---------|---------|--------|
| Yuanta Securities Finance Co. Ltd. 1 <sup>st</sup> Unsecured Corporate Bonds-B Issue in 2007               | Held-to-maturity financial assets | 404,616 | 404,616 | Note 7 |
| Taiwan Power Co. 5 <sup>th</sup> secured Bond - A Issue in 2008  | Held-to-maturity financial assets | 305,508 | 305,508 | Note 7 |
| China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds-AB issue in 2005 | Held-to-maturity financial assets | 200,633 | 200,633 | Note 7 |
| KGI Securities Co., Ltd. 1 <sup>st</sup> Unsecured Corporate Bonds-B Issue in 2007                         | Held-to-maturity financial assets | 100,000 | 100,000 | Note 7 |
| Mega Financial Holding Co., Ltd. 1 <sup>st</sup> Unsecured Corporate Bonds-B Issued in 2007                | Held-to-maturity financial assets | 200,000 | 200,000 | Note 7 |

(Continued)

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| No. | Held Company Name | Marketable Securities<br>Type<br>and Name   | Relationship<br>with the<br>Company | Financial Statement<br>Account    | June 30, 2010                               |                               |                               | Market<br>Value or<br>Net Asset<br>Value | Note   |
|-----|-------------------|---|-------------------------------------|-----------------------------------|---|-------------------------------|-------------------------------|--|--------|
|     |                   |   |                                     |                                   | Shares<br>(Thousands/<br>Thousand<br>Units) | Carrying<br>Value<br>(Note 6) | Percentage<br>of<br>Ownership |  |        |
|     |                   | Mega Financial Holding Co., Ltd. 2 <sup>nd</sup> Unsecured Corporate Bonds-A Issued in 2007                 |                                     | Held-to-maturity financial assets |   | 300,000                       |                               | 300,000                                  | Note 7 |
|     |                   | Formosa Petrochemical Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008                   |                                     | Held-to-maturity financial assets |   | 99,905                        |                               | 99,905                                   | Note 7 |
|     |                   | Taiwan Power Company 5 <sup>th</sup> Secured Bond-A Issue in 2008   |                                     | Held-to-maturity financial assets |   | 149,966                       |                               | 149,966                                  | Note 7 |
|     |                   | Yuanta FHC 1St Unsecured Corporate Bonds-A Issue in 2008  |                                     | Held-to-maturity financial assets |   | \$ 100,000                    |                               | \$ 100,000                               | Note 7 |
|     |                   | Formosa Petrochemical Corporation 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008                   |                                     | Held-to-maturity financial assets |   | 49,943                        |                               | 49,943                                   | Note 7 |
|     |                   | Taiwan Power Company 6 <sup>th</sup> Secured Corporate Bond-A Issue in 2008                                 |                                     | Held-to-maturity financial assets |   | 271,749                       |                               | 271,749                                  | Note 7 |
|     |                   | Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2006                   |                                     | Held-to-maturity financial assets |   | 300,438                       |                               | 300,438                                  | Note 7 |
|     |                   | NAN YA Company 2nd Unsecured Corporate Bonds Issue in 2008  |                                     | Held-to-maturity financial assets |   | 406,475                       |                               | 406,475                                  | Note 7 |
|     |                   | Taiwan Power Company 3 <sup>rd</sup> Unsecured Bond-A Issue in 2006   |                                     | Held-to-maturity financial assets |   | 200,747                       |                               | 200,747                                  | Note 7 |
|     |                   | Taiwan Power Co. 1 <sup>st</sup> Unsecured Bond-B Issue in 2001   |                                     | Held-to-maturity financial assets |   | 90,041                        |                               | 90,041                                   | Note 7 |
|     |                   | Formosa Petrochemical Corporation 5 <sup>th</sup> Unsecured Corporate Bond Issue in 2006                    |                                     | Held-to-maturity financial assets |   | 200,992                       |                               | 200,992                                  | Note 7 |
|     |                   | NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008                                      |                                     | Held-to-maturity financial assets |   | 203,934                       |                               | 203,934                                  | Note 7 |
|     |                   | China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2006     |                                     | Held-to-maturity financial assets |   | 201,567                       |                               | 201,567                                  | Note 7 |
|     |                   | China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds - A Issue in 2008 |                                     | Held-to-maturity financial assets |   | 103,150                       |                               | 103,150                                  | Note 7 |
|     |                   | Taiwan Power Co. 4 <sup>th</sup> secured Bond-B Issue in 2008   |                                     | Held-to-maturity financial assets |   | 51,640                        |                               | 51,640                                   | Note 7 |
|     |                   | Formosa Petrochemical Corporation 2 <sup>nd</sup> Unsecured Corporate                                       |                                     | Held-to-maturity financial assets |   | 102,515                       |                               | 102,515                                  | Note 7 |



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|   |                                   |         |         |        |
|---|-----------------------------------|---------|---------|--------|
| Bonds Issue in 2008   |                                   |         |         |        |
| Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issued in 2008              | Held-to-maturity financial assets | 201,021 | 201,021 | Note 7 |
| NAN YA Company 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2008                                  | Held-to-maturity financial assets | 99,905  | 99,905  | Note 7 |
| MLPC 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008  | Held-to-maturity financial assets | 199,741 | 199,741 | Note 7 |
| China Steel Corporation 2 <sup>nd</sup> Unsecured Corporate Bonds - A Issue in 2008                     | Held-to-maturity financial assets | 100,023 | 100,023 | Note 7 |
| China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2006 | Held-to-maturity financial assets | 201,567 | 201,567 | Note 7 |
| Chinatrust Commercial Bank 2 <sup>nd</sup> Unsecured Subordinate Financial Debentures Issue in 2003     | Held-to-maturity financial assets | 199,404 | 199,404 | Note 7 |

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| June 30, 2010 |                                       |  |                               |   |                                   |                         |                         |                                 |        |
|---------------|---------------------------------------|--|-------------------------------|---|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| 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   |
|               |                                       | China Development Industrial Bank 2 <sup>nd</sup> Financial Debentures Issue in 2006 |                               | Held-to-maturity financial assets             |                                   | 199,052                 |                         | 199,052                         | Note 7 |
|               |                                       | Taipei Fubon Bank 1 <sup>st</sup> Financial Debentures - BA Issue in 2005            |                               | Held-to-maturity financial assets             |                                   | 100,011                 |                         | 100,011                         | Note 7 |
| 1             | Senao International Co., Ltd.         | <u>Stocks</u>  |                               |   |                                   |                         |                         |                                 |        |
|               |                                       | Senao Networks, Inc.   | Equity-method investee        | Investments accounted for using equity method | 15,295                            | \$ 288,051              | 41                      | \$ 288,051                      | Note 1 |
|               |                                       | Senao International (Samoa) Holding Ltd.   | Subsidiary                    | Investments accounted for using equity method |                                   |                         | 100                     |                                 | Note 8 |
|               |                                       | N.T.U. Innovation Incubation Corporation   |                               | Financial assets carried at cost              | 1,200                             | 12,000                  | 9                       | 13,412                          | Note 2 |
|               |                                       | <u>Beneficiary certificates (mutual fund)</u>  |                               |   |                                   |                         |                         |                                 |        |
|               |                                       | Prudential Financial Bond Fund   |                               | Available-for-sale financial assets           | 3,304                             | 50,000                  |                         | 50,060                          | Note 4 |
|               |                                       | IBT Bond Fund  |                               | Available-for-sale financial assets           | 3,691                             | 50,000                  |                         | 50,086                          | Note 4 |
|               |                                       | Fuh Hwa Global Short-term Income Fund  |                               | Available-for-sale financial assets           | 4,850                             | 50,000                  |                         | 50,822                          | Note 4 |
|               |                                       | Fuh Hwa Strategic High Income Fund   |                               | Available-for-sale financial assets           | 5,000                             | 50,000                  |                         | 52,200                          | Note 4 |
| 2             | CHIEF Telecom Inc.                    | <u>Stocks</u>  |                               |   |                                   |                         |                         |                                 |        |
|               |                                       | Unigate Telecom Inc.   | Subsidiary                    | Investments accounted for using equity method | 200                               | 2,013                   | 100                     | 2,013                           | Note 1 |
|               |                                       | CHIEF Telecom (Hong Kong) Limited  | Subsidiary                    | Investments accounted for using equity method | 400                               | 991                     | 100                     | 991                             | Note 1 |
|               |                                       | Chief International Corp.  | Subsidiary                    | Investments accounted for using equity method | 200                               | 8,066                   | 100                     | 8,066                           | 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                      | 6,691                           | Note 2 |
| 3             | Chunghwa System Integration Co., Ltd. | <u>Stocks</u>  |                               |   |                                   |                         |                         |                                 |        |
|               |                                       | Concord Technology Co., Ltd.   | Subsidiary                    | Investments accounted for using equity method | 700                               | 4,912                   | 100                     | 4,912                           | Note 1 |
| 8             | Light Era Development Co., Ltd.       | <u>Stocks</u>  | Subsidiary                    | Investments accounted for using equity method | 83,290                            | 2,805,298               | 100                     | 1,871,302                       | Note 1 |
|               |                                       | Yao Yong Real Property Co., Ltd.   |                               |   |                                   |                         |                         |                                 |        |
| 9             | Chunghwa Telecom Singapore Pte., Ltd. | <u>Stocks</u>  |                               |   |                                   |                         |                         |                                 |        |
|               |                                       | ST-2 Satellite Ventures Pte., Ltd.   | Equity-method investee        | Investments accounted for using equity method | 18,102                            | 410,268                 | 38                      | 410,268                         | Note 1 |

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|    |   |                        |   | (SGD 17,846) |         |     |         |  | (SGD 17,846) |
|----|---|------------------------|---|--------------|---------|-----|---------|--|--------------|
| 11 | InfoExplorer Co., Ltd.                            | <u>Stocks</u>          |   |              |         |     |         |  |              |
|    | InfoExplorer International Co., Ltd.              | Subsidiary             | Investments accounted for using equity method |              |         | 100 |         |  | Note 11      |
| 18 | Concord Technology Co., Ltd.                      | <u>Stocks</u>          |   |              |         |     |         |  |              |
|    | Glory Network System Service (Shanghai) Co., Ltd. | Subsidiary             | Investments accounted for using equity method | 700          | 4,908   | 100 | 4,908   |  | Note 1       |
| 14 | Chunghwa Investment Co., Ltd.                     | <u>Stocks</u>          |   |              |         |     |         |  |              |
|    | Chunghwa Precision Test Tech. Co., Ltd.           | Subsidiary             | Investments accounted for using equity method | 10,317       | 116,654 | 54  | 116,654 |  | Note 1       |
|    | Chunghwa Investment Holding Co., Ltd.             | Subsidiary             | Investments accounted for using equity method | 1,043        | 24,055  | 100 | 24,055  |  | Note 1       |
|    | Tatung Technology Inc.                            | Equity-method investee | Investments accounted for using equity method | 5,000        | 17,037  | 28  | 17,037  |  | Note 1       |

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| No. | Held Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account                   | June 30, 2010                     |                         |                         | Market Value or Net Asset Value | Note    |
|-----|-------------------|-------------------------------------|-------------------------------|---|-----------------------------------|-------------------------|-------------------------|---------------------------------|---------|
|     |                   |                                     |                               |   | Shares (Thousands/Thousand Units) | Carrying Value (Note 6) | Percentage of Ownership |                                 |         |
|     |                   | PandaMonium Company Ltd.            | Equity-method investee        | Investments accounted for using equity method | 602                               | \$                      | 43                      | \$                              | Note 1  |
|     |                   | CHIEF Telecom Inc.                  | Subsidiary                    | Investments accounted for using equity method | 2,000                             | 22,525                  | 4                       | 22,899                          | Note 1  |
|     |                   | Senao International Co., Ltd.       | Subsidiary                    | Investments accounted for using equity method | 618                               | 31,564                  |                         | 31,889                          | Note 5  |
|     |                   | iD Branding Ventures                |                               | Financial assets carried at cost              | 2,500                             | 25,000                  | 3                       | 24,309                          | Note 2  |
|     |                   | Giga Solar Materials Corporation    |                               | Financial assets carried at cost              | 511                               | 56,871                  | 2                       | 243,718                         | Note 10 |
|     |                   | UniDisplay Inc.                     |                               | Financial assets carried at cost              | 4,000                             | 46,000                  | 3                       | 57,241                          | Note 2  |
|     |                   | A2peak Power Co. Ltd.               |                               | Financial assets carried at cost              | 1,100                             | 27,500                  | 3                       | 14,073                          | Note 2  |
|     |                   | Digimax Inc.                        |                               | Financial assets carried at cost              | 2,000                             | 36,000                  | 4                       | 15,812                          | Note 2  |
|     |                   | ChipSip Technology Co., Ltd.        |                               | Financial assets carried at cost              | 905                               | 25,011                  | 3                       | 25,443                          | Note 10 |
|     |                   | Lextar Electronics Corp.            |                               | Financial assets carried at cost              | 275                               | 13,753                  |                         | 16,925                          | Note 10 |
|     |                   | CoaTronics Inc.                     |                               | Financial assets carried at cost              | 1,200                             | 12,000                  | 9                       | 11,512                          | Note 2  |
|     |                   | Crystal Media Inc.                  |                               | Financial assets carried at cost              | 1,000                             | 15,000                  | 5                       | 6,104                           | Note 2  |
|     |                   | Win Semiconductors Corp.            |                               | Financial assets carried at cost              | 370                               | 10,555                  |                         | 9,816                           | Note 10 |
|     |                   | Huga Optotech Inc.                  |                               | Financial assets carried at cost              | 335                               | 10,477                  |                         | 10,077                          | Note 10 |
|     |                   | OptiVision Technology Inc.          |                               | Financial assets carried at cost              | 325                               | 10,188                  |                         | 10,355                          | Note 10 |
|     |                   | Daxon Technology Corporation        |                               | Financial assets carried at cost              | 281                               | 9,593                   |                         | 9,644                           | Note 10 |
|     |                   | Tatung Fine Chemicals Co.           |                               | Financial assets carried at cost              | 98                                | 8,023                   |                         | 8,455                           | Note 10 |
|     |                   | Edison Opto Corporation             |                               | Financial assets carried at cost              | 50                                | 7,925                   |                         | 7,052                           | Note 10 |
|     |                   | Taimide Technology, Ltd.            |                               | Financial assets carried at cost              | 600                               | 7,200                   | 1                       | 6,126                           | Note 2  |
|     |                   | Champion Microelectronic Corp.      |                               | Financial assets carried at cost              | 118                               | 6,125                   |                         | 6,765                           | Note 10 |
|     |                   | DelSolar Co., Ltd.                  |                               | Financial assets carried at cost              | 127                               | 6,084                   |                         | 6,464                           | Note 10 |
|     |                   | Subtron Technology Co., Ltd.        |                               | Financial assets carried at cost              | 376                               | 4,937                   |                         | 5,328                           | Note 10 |
|     |                   | J Touch Corporation                 |                               | Financial assets carried at cost              | 74                                | 3,640                   |                         | 6,443                           | Note 10 |
|     |                   | Taidoc Technology Corporation       |                               | Financial assets carried at cost              | 26                                | 3,468                   |                         | 2,367                           | Note 10 |
|     |                   | Cando Corporation                   |                               | Financial assets carried at cost              | 163                               | 3,120                   |                         | 3,471                           | Note 10 |
|     |                   | eMemory Technology Inc.             |                               | Financial assets carried at cost              | 31                                | 2,733                   |                         | 2,556                           | Note 10 |
|     |                   | SuperAlloy Industrial Co., Ltd.     |                               | Financial assets carried at cost              | 176                               | 2,214                   |                         | 2,098                           | Note 10 |
|     |                   | XinTec Inc.                         |                               | Financial assets carried at cost              | 24                                | 1,076                   |                         | 1,671                           | Note 10 |
|     |                   | Formosa Plastics Corporation        |                               | Available-for-sale financial assets           | 76                                | 4,582                   |                         | 5,148                           | Note 5  |
|     |                   |                                     |                               |   | 250                               | 9,265                   |                         | 9,025                           | Note 5  |

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|   |                                     |     |       |       |        |
|---|-------------------------------------|-----|-------|-------|--------|
| Fubon Financial Holding Co., Ltd.       | Available-for-sale financial assets |     |       |       |        |
| Cathay Financial Holding Co., Ltd.      | Available-for-sale financial assets | 151 | 8,669 | 7,231 | Note 5 |
| LARGAN Precision Co., Ltd.              | Available-for-sale financial assets |     | 76    | 103   | Note 5 |
| Dynapack International Technology Corp. | Available-for-sale financial assets | 26  | 2,519 | 2,326 | Note 5 |
| Taiwan Hon Chuan Enterprise Co., Ltd.   | Available-for-sale financial assets | 25  | 1,326 | 1,478 | Note 5 |
| Asia Cement Corporation                 | Available-for-sale financial assets | 140 | 4,627 | 3,976 | Note 5 |
| SINTEK Photronic Corp.                  | Available-for-sale financial assets | 100 | 2,518 | 2,095 | Note 5 |
| Anpec Electronics Corporation           | Available-for-sale financial assets | 146 | 6,055 | 5,083 | Note 5 |
| Gemtek Technology Co., Ltd.             | Available-for-sale financial assets | 70  | 3,970 | 3,143 | Note 5 |
| Wei Chuan Foods Corp.                   | Available-for-sale financial assets | 203 | 8,913 | 7,765 | Note 5 |
| China Steel Corporation                 | Available-for-sale financial assets | 241 | 7,293 | 7,191 | Note 5 |
| I-Chiun Precision Industry Co., Ltd.    | Available-for-sale financial assets | 150 | 7,320 | 6,345 | Note 5 |
| Cyber Power Systems, Inc.               | Available-for-sale financial assets | 69  | 5,169 | 5,147 | Note 5 |
| Coxon Precise Industrial Co., Ltd.      | Available-for-sale financial assets | 75  | 6,615 | 4,732 | Note 5 |
| Altek Corp.                             | Available-for-sale financial assets | 35  | 1,923 | 1,463 | Note 5 |
| Advanced Power Electronics Corp.        | Available-for-sale financial assets | 40  | 1,398 | 1,316 | Note 5 |
| UPC Tech. Corp.                         | Available-for-sale financial assets | 50  | 910   | 860   | Note 5 |

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|     |                   | June 30, 2010                                   |                                     |  |                                   |   |        |                               |
|-----|-------------------|---|-------------------------------------|--|-----------------------------------|---|--------|-------------------------------|
| No. | Held Company Name | Marketable Securities<br>Type<br>and Name       | Relationship<br>with the<br>Company | Financial Statement<br>Account         | Shares                            | Market<br>Value<br>or<br>Net Asset<br>Value | Note   |                               |
|     |                   |   |                                     |  | (Thousands/<br>Thousand<br>Units) |   |        | Carrying<br>Value<br>(Note 6) |
|     |                   | ACES Electronics Co.,<br>Ltd.                   |                                     | Available-for-sale financial<br>assets | 2                                 | \$ 210                                      | \$ 187 | Note 5                        |
|     |                   | Taiwan Semiconductor<br>Manufacturing Co., Ltd. |                                     | Available-for-sale financial<br>assets | 30                                | 1,826                                       | 1,818  | Note 5                        |
|     |                   | Feng Hsin Iron & Steel<br>Co., Ltd.             |                                     | Available-for-sale financial<br>assets | 30                                | 1,542                                       | 1,278  | Note 5                        |
|     |                   | Swancor. Ind. Co., Ltd.                         |                                     | Available-for-sale financial<br>assets | 55                                | 3,158                                       | 3,213  | Note 5                        |
|     |                   | Everlight Electronics Co.,<br>Ltd.              |                                     | Available-for-sale financial<br>assets | 80                                | 8,542                                       | 6,624  | Note 5                        |
|     |                   | Cyberlink Co.                                   |                                     | Available-for-sale financial<br>assets | 10                                | 1,395                                       | 1,339  | Note 5                        |
|     |                   | Optotech Corporation                            |                                     | Available-for-sale financial<br>assets | 100                               | 2,269                                       | 2,235  | Note 5                        |
|     |                   | Solar Applied Materials<br>Technology Corp.     |                                     | Available-for-sale financial<br>assets | 51                                | 3,929                                       | 3,613  | Note 5                        |
|     |                   | Apex Biotechnology Corp.                        |                                     | Available-for-sale financial<br>assets | 86                                | 4,713                                       | 5,284  | Note 5                        |
|     |                   | ITE Tech. Inc.                                  |                                     | Available-for-sale financial<br>assets | 75                                | 4,714                                       | 3,750  | Note 5                        |
|     |                   | Yuanta Financial Holdings                       |                                     | Available-for-sale financial<br>assets | 350                               | 7,647                                       | 6,072  | Note 5                        |
|     |                   | Via Technologies, Inc.                          |                                     | Available-for-sale financial<br>assets | 147                               | 4,935                                       | 3,707  | Note 5                        |
|     |                   | Tang Eng Iron Works Co.,<br>Ltd.                |                                     | Available-for-sale financial<br>assets | 145                               | 4,347                                       | 4,205  | Note 5                        |
|     |                   | Sino-American Silicon<br>Products Inc.          |                                     | Available-for-sale financial<br>assets | 131                               | 9,870                                       | 9,064  | Note 5                        |
|     |                   | Lite-On Semiconductor<br>Corp.                  |                                     | Available-for-sale financial<br>assets | 310                               | 6,926                                       | 5,596  | Note 5                        |
|     |                   | Taiwan Semiconductor<br>Co., Ltd.               |                                     | Available-for-sale financial<br>assets | 383                               | 10,329                                      | 9,135  | Note 5                        |
|     |                   | Pan Jit International Inc.                      |                                     | Available-for-sale financial<br>assets | 235                               | 5,835                                       | 6,756  | Note 5                        |
|     |                   | Ability Enterprise Co.,<br>Ltd.                 |                                     | Available-for-sale financial<br>assets | 150                               | 8,940                                       | 7,185  | Note 5                        |
|     |                   | Sunrex Technology<br>Corporation                |                                     | Available-for-sale financial<br>assets | 225                               | 7,834                                       | 7,076  | Note 5                        |
|     |                   | ADATA Technology Co.,<br>Ltd.                   |                                     | Available-for-sale financial<br>assets | 50                                | 3,801                                       | 3,170  | Note 5                        |
|     |                   | Delta Electronics, Inc.                         |                                     | Available-for-sale financial<br>assets | 10                                | 925   | 1,035  | Note 5                        |
|     |                   | Visual Photonics Epitaxy<br>Co., Ltd.           |                                     | Available-for-sale financial<br>assets | 60                                | 4,726                                       | 4,524  | Note 5                        |
|     |                   | Ene Technology Inc.                             |                                     | Available-for-sale financial<br>assets | 60                                | 3,878                                       | 2,766  | Note 5                        |
|     |                   | ALi Corporation                                 |                                     | Available-for-sale financial<br>assets | 140                               | 8,128                                       | 7,112  | Note 5                        |
|     |                   | Ho Tung Chemical Corp.                          |                                     | Available-for-sale financial<br>assets | 205                               | 3,490                                       | 3,188  | Note 5                        |
|     |                   | Realtek Semiconductor<br>Corp.                  |                                     | Available-for-sale financial<br>assets | 105                               | 9,103                                       | 7,466  | Note 5                        |
|     |                   | Global Unichip Corp.                            |                                     | Available-for-sale financial<br>assets | 50                                | 6,432                                       | 5,850  | Note 5                        |
|     |                   | Far Eastern Department<br>Stores Ltd.           |                                     | Available-for-sale financial<br>assets | 200                               | 5,416                                       | 5,290  | Note 5                        |
|     |                   | Yang Ming Marine<br>Transport Corp.             |                                     | Available-for-sale financial<br>assets | 510                               | 6,237                                       | 8,389  | Note 5                        |

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|   |                                     |     |       |       |        |
|---|-------------------------------------|-----|-------|-------|--------|
| Sandmartin International Holdings Limited | Available-for-sale financial assets | 75  | 776   | 639   | Note 5 |
| Green Energy Technology Inc.              | Available-for-sale financial assets | 10  | 731   | 639   | Note 5 |
| Transtouch Technology Inc.                | Available-for-sale financial assets | 20  | 720   | 792   | Note 5 |
| Integrated Memory Logic Limited           | Available-for-sale financial assets | 30  | 4,551 | 4,380 | Note 5 |
| KD Holding Corporation                    | Available-for-sale financial assets | 7   | 581   | 641   | Note 5 |
| Join Well Technology Co., Ltd.            | Available-for-sale financial assets | 190 | 7,701 | 6,232 | Note 5 |
| EPISTAR corporation                       | Available-for-sale financial assets | 35  | 3,080 | 2,940 | Note 5 |
| China Airlines Ltd.                       | Available-for-sale financial assets | 325 | 5,182 | 5,363 | Note 5 |
| Formosa Petrochemical Corp                | Available-for-sale financial assets | 15  | 1,159 | 1,169 | Note 5 |
| Acme Electronics Corporation              | Available-for-sale financial assets | 35  | 2,249 | 2,275 | Note 5 |
| JuTeng International Holdings Limited     | Available-for-sale financial assets | 195 | 8,175 | 4,661 | Note 5 |
| Tingyi (Cayman Islands) Holding Corp.     | Available-for-sale financial assets | 20  | 814   | 782   | Note 5 |
| Neo-Neno Holdings Limited.                | Available-for-sale financial assets | 300 | 3,960 | 3,450 | Note 5 |
| Lite-On Technology Corp.                  | Available-for-sale financial assets | 10  | 247   | 357   | Note 5 |
| Orise Technology Co., Ltd.                | Available-for-sale financial assets | 15  | 604   | 707   | Note 5 |
| Hon Hai Precision Ind. Co., Ltd.          | Available-for-sale financial assets | 3   | 324   | 342   | Note 5 |
| Uni-president Enterprises Corp.           | Available-for-sale financial assets | 30  | 1,098 | 1,068 | Note 5 |
| Taiwan Glass Ind. Corp.                   | Available-for-sale financial assets | 20  | 587   | 592   | Note 5 |

(Continued)

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| No. | Held Company Name | Marketable Securities<br>Type<br>and Name  | Relationship<br>with the<br>Company | Financial Statement<br>Account                           | June 30, 2010                               |                               |                               | Market<br>Value or<br>Net Asset<br>Value | Note   |
|-----|-------------------|--|-------------------------------------|--|---|-------------------------------|-------------------------------|--|--------|
|     |                   |  |                                     |  | Shares<br>(Thousands/<br>Thousand<br>Units) | Carrying<br>Value<br>(Note 6) | Percentage<br>of<br>Ownership |  |        |
|     |                   | <u>Beneficiary certificates<br/>(mutual)</u>   |                                     |  |   |                               |                               |  |        |
|     |                   | PowerShares QQQ  |                                     | Available-for-sale financial<br>assets                   | 4   | \$ 5,021                      |                               | \$ 4,808                                 | Note 5 |
|     |                   | Polaris Taiwan Top50<br>Tracker  |                                     | Available-for-sale financial<br>assets                   | 40  | 2,289                         |                               | 1,982                                    | Note 5 |
|     |                   | FSITC Bound Fund   |                                     | Available-for-sale financial<br>assets                   | 117   | 19,904                        |                               | 19,964                                   | Note 4 |
|     |                   | Jih Sun Bond Fund  |                                     | Available-for-sale financial<br>assets                   | 1,068                                       | 15,042                        |                               | 15,099                                   | Note 4 |
|     |                   | Fuh Hwa You-Li Fund  |                                     | Available-for-sale financial<br>assets                   | 786   | 10,102                        |                               | 10,142                                   | Note 4 |
|     |                   | Manulife Asia Pacific<br>Bond Fund   |                                     | Available-for-sale financial<br>assets                   | 2,000                                       | 20,000                        |                               | 20,400                                   | Note 4 |
|     |                   | Cathay Bond Fund   |                                     | Available-for-sale financial<br>assets                   | 2,612                                       | 31,018                        |                               | 31,262                                   | Note 4 |
|     |                   | Mega Diamond Bond<br>Fund  |                                     | Available-for-sale financial<br>assets                   | 9,207                                       | 110,000                       |                               | 110,037                                  | Note 4 |
|     |                   | Cathy Mandarin Fund  |                                     | Available-for-sale financial<br>assets                   | 1,019                                       | 10,000                        |                               | 9,387                                    | Note 4 |
|     |                   | Fuh Hwa Global Fixed<br>Income Fund of Funds   |                                     | Available-for-sale financial<br>assets                   | 1,899                                       | 20,757                        |                               | 23,646                                   | Note 4 |
|     |                   | Cathy Man AHL Futures<br>Trust Fund of Funds   |                                     | Available-for-sale financial<br>assets                   | 2,474                                       | 25,000                        |                               | 23,549                                   | Note 4 |
|     |                   | Jih Sun Golden Brands<br>Fund of Funds   |                                     | Available-for-sale financial<br>assets                   | 1,000                                       | 10,000                        |                               | 10,000                                   | Note 4 |
|     |                   | <u>Bonds</u>   |                                     |  |   |                               |                               |  |        |
|     |                   | Hua Nan Financial<br>Holdings Company 1st<br>Unsecured Subordinate<br>Corporate Bonds Issue in<br>2006 |                                     | Available-for-sale financial<br>assets                   |   | 51,080                        |                               | 51,295                                   | Note 5 |
|     |                   | AU Optronics<br>Corporation 1st Secured<br>Corporate Bonds Issue in<br>2008                            |                                     | Available-for-sale financial<br>assets                   |   | 51,188                        |                               | 51,504                                   | Note 5 |
|     |                   | <u>Convertible bonds</u>   |                                     |  |   |                               |                               |  |        |
|     |                   | Everlight Electronics<br>Co., Ltd. 3rd Convertible<br>Bonds  |                                     | Financial assets at fair value<br>through profit or loss | 40  | 4,351                         |                               | 4,252                                    | Note 5 |
|     |                   | Epistar Corporation Ltd.<br>3rd Convertible Bond   |                                     | Financial assets at fair value<br>through profit or loss | 35  | 3,732                         |                               | 3,647                                    | Note 5 |
|     |                   | Evergreen Marine Corp.<br>(Taiwan) Ltd. 3rd<br>Unsecured Convertible<br>Bond                           |                                     | Financial assets at fair value<br>through profit or loss | 60  | 6,412                         |                               | 6,654                                    | Note 5 |
|     |                   | Asia Optical s Second<br>Domestic Unsecured<br>Convertible Bond  |                                     | Financial assets at fair value<br>through profit or loss | 49  | 4,900                         |                               | 5,537                                    | Note 5 |
|     |                   | King Slide works Co.,<br>Ltd. 2nd convertible<br>bond  |                                     | Financial assets at fair value<br>through profit or loss | 50  | 5,000                         |                               | 5,225                                    | Note 5 |
|     |                   | Everlight Electronics<br>Co., Ltd. 4th Convertible<br>Bonds  |                                     | Financial assets at fair value<br>through profit or loss | 50  | 5,000                         |                               | 5,225                                    | Note 5 |

(Continued)





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| No. | Held Company Name                        | Marketable Securities Type and Name  | Relationship with the Company | Financial Statement Account                           | June 30, 2010                     |                         |                         | Market Value or Net Asset Value | Note    |
|-----|--|--|-------------------------------|---|-----------------------------------|-------------------------|-------------------------|---------------------------------|---------|
|     |  |  |                               |   | Shares (Thousands/Thousand Units) | Carrying Value (Note 6) | Percentage of Ownership |                                 |         |
|     |  | Synnex Technology International Corporation 1st Unsecured Convertible Bond Issue in 2008 |                               | Financial assets at fair value through profit or loss | 9                                 | 1,002                   |                         | 1,022                           | Note 5  |
|     |  | Jintex Corp. 2nd Domestic Secured Convertible Bonds                                      |                               | Financial assets at fair value through profit or loss | 10                                | 1,000                   |                         | 1,365                           | Note 5  |
|     |  | Ability Enterprise Co., Ltd. 1st Unsecured Convertible Bonds                             |                               | Financial assets at fair value through profit or loss | 40                                | 4,008                   |                         | 4,120                           | Note 5  |
|     |  | TUL the Third Security Convertible Bond  |                               | Financial assets at fair value through profit or loss | 15                                | 1,500                   |                         | 1,521                           | Note 5  |
|     |  | Etron Technology, Inc. 1st in 2010 Unsecured Convertible Bond                            |                               | Financial assets at fair value through profit or loss | 10                                | 1,005                   |                         | 1,072                           | Note 5  |
| 22  | Senao International (Samoa) Holding Ltd. | <u>Stocks</u>  |                               |   |                                   |                         |                         |                                 |         |
|     |  | Senao International HK Limited   | Subsidiary                    | Investment accounted for using equity method          |                                   |                         | 100                     |                                 | Note 9  |
| 24  | Chunghwa Investment Holding Co., Ltd.    | <u>Stocks</u>  |                               |   |                                   |                         |                         |                                 |         |
|     |  | CHI One Investment Co., Limited  | Subsidiary                    | Investment accounted for using equity method          | 3,500                             | \$ 13,209               | 100                     | \$ 13,209                       | Note 1  |
|     |  |  |                               |   |                                   | (US\$ 410)              |                         | (US\$ 410)                      |         |
| 26  | CHI One Investment Co., Limited          | <u>Stocks</u>  |                               |   |                                   |                         |                         |                                 |         |
|     |  | Xiamen Sertec Business Technology Co., Ltd.  | Equity-method investee        | Investment accounted for using equity method          |                                   | 12,620                  | 49                      | 12,620                          | Note 1  |
|     |  |  |                               |   |                                   | (US\$ 393)              |                         | (US\$ 393)                      |         |
| 27  | InfoExplorer International Co., Ltd.     | <u>Stocks</u>  |                               |   |                                   |                         |                         |                                 |         |
|     |  | InfoExplorer (Hong Kong) Co., Limited  | Subsidiary                    | Investment accounted for using equity method          |                                   |                         | 100                     |                                 | Note 12 |

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

Note 2: The net asset values of investees were based on unaudited 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, but not on operating stage, yet. Chunghwa has 100% ownership right in an amount of US\$1 in each holding company.

Note 4: The net asset values of beneficiary certificates (mutual fund) were based on the net asset values on June 30, 2010.

Note 5: Market value was based on the closing price of June 30, 2010.

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

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

Note 8: Senao International (Samoa) Holding Ltd. (SIS) was established by Senao in 2009. No capital is injected in SIS yet by June 30, 2010.

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- Note 9: Senao International HK Limited (SIHK) was established by SIS in 2009. No capital is injected in SIHK yet by June 30, 2010.
- Note 10: Market value of emerging stock was based on the average trading price on June 30, 2010.
- Note 11: InfoExplorer International Co., Ltd. (IESA) was established by IFE in 2010. No-capital is injected in IESA yet by June 30, 2010.
- Note 12: InfoExplorer (Hong Kong) Co., Limited (IEHK) was established by IESA in 2010. No-capital is injected in IEHK by June 30, 2010.

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TABLE 4

**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****SIX MONTHS ENDED JUNE 30, 2010**

(Amounts in Thousands of New Taiwan Dollars)

| Marketable Securities Type and Name  | Financial Statement Account         | Counter-party | Nature of Relationship | Beginning Balance          |                 | Acquisition                |           | Disposal                          |              |                         | Gain (Loss) on Disposal | Ending Shares (Thousands of Units) |
|--|-------------------------------------|---------------|------------------------|----------------------------|-----------------|----------------------------|-----------|-----------------------------------|--------------|-------------------------|-------------------------|------------------------------------|
|  |                                     |               |                        | (Thousands/Thousand Units) | Amount (Note 1) | (Thousands/Thousand Units) | Amount    | Shares (Thousands/Thousand Units) | Amount       | Carrying Value (Note 1) |                         |                                    |
| <b>Beneficiary certificates (mutual fund)</b>  |                                     |               |                        |                            |                 |                            |           |                                   |              |                         |                         |                                    |
| PCA Well Pool Fund   | Available-for-sale financial assets |               |                        | 194,181                    | \$ 2,500,000    |                            | \$        | 194,181                           | \$ 2,521,514 | \$ 2,500,000            | \$ 21,514               |                                    |
| Yuanta Wan Tai Bond Fund   | Available-for-sale financial assets |               |                        | 173,683                    | 2,500,000       | 103,616                    | 1,500,000 | 277,299                           | 4,013,901    | 4,000,000               | 13,901                  |                                    |
| Mega Diamond Bond Fund   | Available-for-sale financial assets |               |                        | 126,106                    | 1,500,000       |                            |           | 126,106                           | 1,504,977    | 1,500,000               | 4,977                   |                                    |
| Polaris De-Li Fund   | Available-for-sale financial assets |               |                        | 129,654                    | 2,008,787       |                            |           | 129,654                           | 2,022,219    | 2,008,787               | 13,432                  |                                    |
| Fuh-Hwa Bond Fund  | Available-for-sale financial assets |               |                        | 108,849                    | 1,500,000       |                            |           | 108,849                           | 1,504,158    | 1,500,000               | 4,158                   |                                    |
| Fidelity US High Yield Fund  | Available-for-sale financial assets |               |                        | 535                        | 206,588         |                            |           | 535                               | 192,038      | 206,588                 | (14,550)                |                                    |
| <b>Bonds</b>   |                                     |               |                        |                            |                 |                            |           |                                   |              |                         |                         |                                    |
| China Development Financial Holding Corporation Unsecured Corporate Bonds-AB issue in 2005 | Held-to-maturity financial assets   |               |                        |                            |                 |                            | 200,000   |                                   |              |                         |                         |                                    |
|  |                                     |               |                        |                            |                 |                            | (Note 3)  |                                   |              |                         |                         |                                    |
| Taiwan Power Co. 5th secured Bond-A issue in 2008  | Held-to-maturity financial assets   |               |                        |                            |                 |                            | 300,000   |                                   |              |                         |                         |                                    |
|  |                                     |               |                        |                            |                 |                            | (Note 3)  |                                   |              |                         |                         |                                    |
| Yuanta Securities Finance Co. Ltd. 1ND Unsecured Corporate Bonds-B issue in 2007           | Held-to-maturity financial assets   |               |                        |                            |                 |                            | 400,000   |                                   |              |                         |                         |                                    |
|  |                                     |               |                        |                            |                 |                            | (Note 3)  |                                   |              |                         |                         |                                    |

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|   |                                   |         |          |
|---|-----------------------------------|---------|----------|
| Mega Securities Co., Ltd. 1st Unsecured Corporate Bond issue in 2009          | Held-to-maturity financial assets | 300,000 | (Note 3) |
| Taiwan Power Co. 5th secured Bond-B issue in 2008                             | Held-to-maturity financial assets | 200,000 | (Note 3) |
| Formosa Petrochemical Corporation 2nd Unsecured Corporate Bonds issue in 2008 | Held-to-maturity financial assets | 400,000 | (Note 3) |
| China Steel Corporation 1st Unsecured Corporate Bonds issue in 2008           | Held-to-maturity financial assets | 100,000 | (Note 3) |

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| Company Name                    | Marketable Securities Type and Name                         | Financial Statement Account                  | Counter-party | Nature of Relationship | Beginning Balance Shares (Thousands/Thousand Units) | Amount (Note 1) | Acquisition Shares (Thousands/Thousand Units) | Amount   | Disposal Shares (Thousands/Thousand Units) | Amount | Carrying Value (Note on Disposal) | Gain/Loss | Ending Balance Shares (Thousands/Thousand Units) | Amount (Note 1) |
|---------------------------------|---|--|---------------|------------------------|---|-----------------|---|----------|--|--------|-----------------------------------|-----------|--|-----------------|
|                                 | Chinese Petroleum Corporation                               | Held-to-maturity financial assets            |               |                        |   |                 |   | 100,000  |  |        |                                   |           |  | 100,000         |
|                                 | 1st Unsecured Corporate Bonds - A issue in 2008             |  |               |                        |   |                 |   | (Note 3) |  |        |                                   |           |  | (Note 3)        |
|                                 | Formosa Petrochemical Corporation                           | Held-to-maturity financial assets            |               |                        |   |                 |   | 200,000  |  |        |                                   |           |  | 200,000         |
|                                 | 4th Unsecured Corporate Bonds issue in 2008                 |  |               |                        |   |                 |   | (Note 3) |  |        |                                   |           |  | (Note 3)        |
|                                 | NAN YA Company 2nd Unsecured Corporate Bonds Issue in 2009  | Held-to-maturity financial assets            |               |                        |   |                 |   | 250,000  |  |        |                                   |           |  | 250,000         |
|                                 |   |  |               |                        |   |                 |   | (Note 3) |  |        |                                   |           |  | (Note 3)        |
|                                 | NAN YA Company 3rd Unsecured Corporate Bonds issue in 2009  | Held-to-maturity financial assets            |               |                        |   |                 |   | 200,000  |  |        |                                   |           |  | 200,000         |
|                                 |   |  |               |                        |   |                 |   | (Note 3) |  |        |                                   |           |  | (Note 3)        |
|                                 | Formosa Petrochemical Corporation                           | Held-to-maturity financial assets            |               |                        |   |                 |   | 200,000  |  |        |                                   |           |  | 200,000         |
|                                 | 3rd Unsecured Corporate Bonds issue in 2008                 |  |               |                        |   |                 |   | (Note 3) |  |        |                                   |           |  | (Note 3)        |
|                                 | Taiwan Power Co. 1st Secured Corporate Bond-A issue in 2009 | Held-to-maturity financial assets            |               |                        |   |                 |   | 200,000  |  |        |                                   |           |  | 200,000         |
|                                 |   |  |               |                        |   |                 |   | (Note 3) |  |        |                                   |           |  | (Note 3)        |
|                                 | FCFC 1st Unsecured Corporate Bonds issue in 2009            | Held-to-maturity financial assets            |               |                        |   | \$              | \$  | 250,000  |  | \$     | \$                                | \$        |  | \$ 250,000      |
|                                 |   |  |               |                        |   |                 |   | (Note 3) |  |        |                                   |           |  | (Note 3)        |
|                                 | Taiwan Power Co. 4th Secured Corporate Bond-B issue in 2009 | Held-to-maturity financial assets            |               |                        |   |                 |   | 350,000  |  |        |                                   |           |  | 350,000         |
|                                 |   |  |               |                        |   |                 |   | (Note 3) |  |        |                                   |           |  | (Note 3)        |
| Light Era Development Co., Ltd. | <u>Stocks</u>   |  |               |                        |   |                 |   |          |  |        |                                   |           |  |                 |
|                                 | Yao Yong Real Property Co., Ltd.                            | Investment accounted for using equity method |               | Subsidiary             |   |                 |   | 83,290   | 2,793,667                                  |        |                                   |           | 83,290   | 2,800,000       |
|                                 |   |  |               |                        |   |                 |   |          |  |        |                                   |           |  | (Note 3)        |

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

Note 2: The ending balance includes investment gain (loss) recognized under equity method.

Note 3: Stated as it is nominal amounts.

(Concluded)

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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

SIX MONTHS ENDED JUNE 30, 2010

(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 |            |
|-----|---------------------------------------|---|------------------------|---------------|---------------------|------------|---------------|----------------------|---------------|--------------------------------------|------------|
|     |                                       |   |                        |               | Amount              | % to Total | Payment Terms | Units Price          | Payment Terms | Ending Balance (Note 1)              | % to Total |
| 0   | Chunghwa Telecom Co., Ltd.            | Senao International Co., Ltd.                       | Subsidiary             | Sales         | \$ 956,329          | 1          | 30 days       | (Note 2)             | (Note 2)      | \$ 228,078                           | 2          |
|     |                                       |   |                        |               | (Note 4)            |            |               |                      |               | (Note 5)                             |            |
|     |                                       |   |                        | Purchase      | 2,376,748           | 4          | 30-90 days    | (Note 2)             | (Note 2)      | (630,988)                            | (9)        |
|     |                                       |   |                        |               | (Note 3)            |            |               |                      |               | (Note 6)                             |            |
|     |                                       | Chunghwa System Integration Co., Ltd.               | Subsidiary             | Purchase      | 293,915             |            | 30 days       |                      |               | (162,390)                            | (2)        |
|     |                                       |   |                        |               | (Note 8)            |            |               |                      |               | (Note 7)                             |            |
|     |                                       | CHIEF Telecom Inc.                                  | Subsidiary             | Sales         | 124,162             |            | 30 days       | (Note 2)             | (Note 2)      | 22,807                               |            |
|     |                                       |   |                        | Purchase      | 145,567             |            | 60 days       | (Note 2)             | (Note 2)      | (40,205)                             | (1)        |
|     |                                       | So-net Entertainment Taiwan Co., Ltd.               | Equity-method investee | Sales         | 155,523             |            | 60 days       |                      |               | 892                                  |            |
|     |                                       | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee | Purchase      | 461,035             | 1          | 30-90 days    |                      |               | (321,543)                            | 4          |
| 1   | Senao International Co., Ltd.         | Chunghwa Telecom Co., Ltd.                          | Parent company         | Sales         | 2,366,115           | 24         | 30-90 days    | (Note 2)             | (Note 2)      | 619,795                              | 54         |
|     |                                       |   |                        |               | (Note 3)            |            |               |                      |               | (Note 6)                             |            |
|     |                                       |   |                        | Purchase      | 934,619             | 12         | 30 days       | (Note 2)             | (Note 2)      | (148,145)                            | (18)       |
|     |                                       |   |                        |               | (Note 4)            |            |               |                      |               | (Note 5)                             |            |
| 3   | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd.                          | Parent company         | Sales         | 487,448             | 84         | 30 days       |                      |               | 164,547                              | 81         |
|     |                                       |   |                        |               | (Note 8)            |            |               |                      |               | (Note 7)                             |            |
| 2   | CHIEF Telecom Inc.                    | Chunghwa Telecom Co., Ltd.                          | Parent company         | Sales         | 145,567             | 28         | 60 days       | (Note 2)             | (Note 2)      | 40,205                               | 30         |
|     |                                       |   |                        | Purchase      | 124,162             | 27         | 30 days       | (Note 2)             | (Note 2)      | (22,807)                             | (29)       |



- Note 1: Excluding payment and receipts collected in trust for others.
- Note 2: Transaction terms were determined in accordance with mutual agreements.
- Note 3: The difference was because Senao International Co., Ltd. classified the amount as nonoperating income and other current liabilities.
- Note 4: The difference was because Senao International Co., Ltd. classified the amount as operating expenses.
- Note 5: The difference was because Senao International Co., Ltd. classified the amount as other payables.
- Note 6: The difference was because Senao International Co., Ltd. classified the amount as other receivables.
- Note 7: The difference was because Chunghwa classified the amount as payables to contractors.
- Note 8: The difference was because Chunghwa classified the amount as property, plant and equipment, inventories, spare parts and other assets.

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TABLE 6

**CHUNGHWA TELECOM CO., LTD.****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****JUNE 30, 2010****(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             | \$ 228,078     | 7.81          | \$              |              | \$ 228,078                            | \$                      |
| 1   | Senao International Co., Ltd.         | Chunghwa Telecom Co., Ltd.    | Parent company         | 865,903        | 7.73          |                 |              | 1,972                                 |                         |
| 3   | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd.    | Parent company         | 164,547        | 3.07          |                 |              | 8,978                                 |                         |

Note: Payments and receipts collected in trust for others are excluded from the accounts receivable for calculating the turnover rate.

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TABLE 7

## CHUNGHWA TELECOM CO., LTD.

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

SIX MONTHS ENDED JUNE 30, 2010

(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 June 30, 2010 |                             |                | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1 and 2) | Note                   |
|-----|----------------------------|---|----------------------|--|----------------------------|-------------------|-----------------------------|-----------------------------|----------------|-----------------------------------|--|------------------------|
|     |                            |   |                      |  | June 30, 2010              | December 31, 2009 | 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                      | 28                          | \$ 1,263,026   | \$ 619,140                        | \$ 175,160                             | Subsidiary             |
|     |                            | Light Era Development Co., Ltd.                     | Taipei               | Housing, office building development, rent and sale services   | 3,000,000                  | 3,000,000         | 300,000                     | 100                         | 2,891,613      | (35,138)                          | (35,064)                               | Subsidiary             |
|     |                            | Chunghwa Investment Co., Ltd.                       | Taipei               | Telecommunications, telecommunications value-added services and other related professional investment                    | 1,738,709                  | 1,738,709         | 178,000                     | 89                          | 1,653,215      | 58,391                            | 50,874                                 | Subsidiary             |
|     |                            | Chunghwa Telecom Singapore Pte., Ltd.               | Singapore            | Telecommunication wholesale, internet transfer services international data and long distance call wholesales to carriers | 1,389,939                  | 1,389,939         | 61,869                      | 100                         | 1,426,836      | 8,795                             | 8,795                                  | Subsidiary             |
|     |                            | Chunghwa System Integration Co., Ltd.               | Taipei               | Providing communication and information aggregative services   | 838,506                    | 838,506           | 60,000                      | 100                         | 707,252        | 6,043                             | 767                                    | 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                          | 508,841        | 145,029                           | 81,031                                 | Equity-method investee |
|     |                            | CHIEF Telecom Inc.                                  | Taipei               | Internet communication and internet data center ( IDC ) service  | 482,165                    | 482,165           | 37,942                      | 69                          | 486,227        | 53,700                            | 38,551                                 | Subsidiary             |
|     |                            | Viettel-CHT Co., Ltd.                               | Vietnam              | IDC services   | 288,327                    | 288,327           |                             | 30                          | 273,140        | 37,711                            | 11,319                                 | Equity-method investee |
|     |                            | InfoExplorer Co., Ltd.                              | Banqiao City, Taipei | IT solution provider, IT application consultation, system  | 283,500                    | 283,500           | 22,498                      | 49                          | 251,982        | (43,352)                          | (22,240)                               | Subsidiary             |

|                           |           |   |         |         |        |     |         |       |       |            |
|---------------------------|-----------|---|---------|---------|--------|-----|---------|-------|-------|------------|
| Donghwa Telecom Co., Ltd. | Hong Kong | integration and package solution<br>International telecommunications<br>IP fictitious internet and internet transfer services | 201,263 | 201,263 | 51,590 | 100 | 239,338 | 8,536 | 8,536 | Subsidiary |
|---------------------------|-----------|---|---------|---------|--------|-----|---------|-------|-------|------------|

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| No. | Investor Company              | Investee Company                                | Location               | Main Businesses and Products   | Original Investment Amount |                   | Balance as of June 30, 2010 |                          |                | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1 and 2) | Note                   |
|-----|-------------------------------|---|------------------------|--|----------------------------|-------------------|-----------------------------|--------------------------|----------------|-----------------------------------|--|------------------------|
|     |                               |   |                        |  | June 30, 2010              | December 31, 2009 | Shares (Thousands)          | Ownership Percentage (%) | Carrying Value |                                   |  |                        |
|     |                               | Chunghwa International Yellow Pages Co., Ltd.   | Taipei                 | Yellow pages sales and advertisement services  | 150,000                    | 150,000           | 15,000                      | 100                      | 176,704        | 24,505                            | 24,505                                 | Subsidiary             |
|     |                               | Skysoft Co., Ltd.                               | Taipei                 | Providing of music on-line, software, electronic information, and advertisement services   | 67,025                     | 67,025            | 4,438                       | 30                       | 87,234         | 6,219                             | 1,866                                  | Equity-method investee |
|     |                               | Chunghwa Telecom Global, Inc.                   | United States          | International data and internet services and long distance call wholesales to carriers   | 70,429                     | 70,429            | 6,000                       | 100                      | 75,974         | 15,134                            | 11,692                                 | Subsidiary             |
|     |                               | Spring House Entertainment Inc.                 | Taipei                 | Network services, producing digital entertainment contents and broadband visual sound terrace development  | 62,209                     | 62,209            | 5,996                       | 56                       | 64,866         | 13,366                            | 7,770                                  | Subsidiary             |
|     |                               | KingWaytek Technology Co., Ltd.                 | Taipei                 | Publishing books, data processing and software services  | 71,770                     | 71,770            | 1,703                       | 33                       | 64,834         | (4,695)                           | (4,346)                                | Equity-method investee |
|     |                               | So-net Entertainment Taiwan                     | Taipei                 | Online service and sale of computer hardware   | 60,008                     | 60,008            | 3,429                       | 30                       | 26,155         | (15,884)                          | (4,765)                                | Equity-method investee |
|     |                               | Chunghwa Telecom Japan Co., Ltd.                | Japan                  | Telecom business, information process and information provide service, development and sale of software and consulting services in telecommunication | 17,291                     | 17,291            | 1                           | 100                      | 12,667         | 6,020                             | 1,810                                  | Subsidiary             |
|     |                               | New Prospect Investments Holdings Ltd. (B.V.I.) | British Virgin Islands | Investment   | (Note 3)                   | (Note 3)          |                             | 100                      | (Note 3)       |                                   | (Note 3)                               | Subsidiary             |
|     |                               | Prime Asia Investments Group Ltd. (B.V.I.)      | British Virgin Islands | Investment   | (Note 3)                   | (Note 3)          |                             | 100                      | (Note 3)       |                                   | (Note 3)                               | Subsidiary             |
| 1   | Senao International Co., Ltd. | Senao Networks, Inc.                            | Linkou Hsiang, Taipei  | Telecommunication facilities manufactures and sales  | 206,190                    | 206,190           | 15,295                      | 41                       | 288,051        | 73,806                            | 29,196                                 | Equity-method investee |
|     |                               | Senao International (Samoa) Holding Ltd.        | Samoa Islands          | International investment   |                            |                   |                             | 100                      | (Note 4)       |                                   | (Note 4)                               | Subsidiary             |

(Continued)



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| Investor Company                      | Investee Company                                  | Location             | Main Businesses and Products  | Original Investment Amount |                   | Balance as of June 30, 2010 |               |                | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1 and 2) | No                      |
|---------------------------------------|---|----------------------|---|----------------------------|-------------------|-----------------------------|---------------|----------------|-----------------------------------|--|-------------------------|
|                                       |   |                      |   | June 30, 2010              | December 31, 2009 | Shares (Thousands)          | Ownership (%) | Carrying Value |                                   |  |                         |
| CHIEF Telecom Inc.                    | Unigate Telecom Inc.                              | Taipei               | Telecommunication and internet service.   | \$ 2,000                   | \$ 2,000          | 200                         | 100           | \$ 2,013       | \$ 16                             | \$ 16                                  | Subsidiary              |
|                                       | CHIEF Telecom (Hong Kong) Limited                 | Hong Kong            | Network communication and engine room hiring  | 1,678                      | 1,678             | 400                         | 100           | 991            | (2)                               | (2)                                    | Subsidiary              |
|                                       | Chief International Corp.                         | Samoa Islands        | Network communication and engine room hiring  | (HK\$ 400)                 | (HK\$ 400)        | 200                         | 100           | (HK\$ 240)     | ((HK\$ 1))                        | ((HK\$ 1))                             | Subsidiary              |
|                                       |   |                      |   | (US\$ 200)                 | (US\$ 200)        |                             |               | (US\$ 251)     | (US\$ 13)                         | (US\$ 13)                              |                         |
| Chunghwa System Integrated Co., Ltd.  | Concord Technology Co., Ltd                       | Brunei               | Providing advanced business solutions to telecommunications   | 22,530                     | 16,179            | 700                         | 100           | 4,912          | (2,253)                           | (2,253)                                | Subsidiary              |
|                                       |   |                      |   | (US\$ 700)                 | (US\$ 500)        |                             |               | (US\$ 153)     | ((US\$ 71))                       | ((US\$ 71))                            |                         |
| Light Era Development Co., Ltd.       | Yao Yong Real Property co., Ltd.                  | Taipei               | Real estate leasing business  | 2,793,667                  |                   | 83,290                      | 100           | 2,805,298      | 17,044                            | 11,631                                 | Subsidiary              |
| Chunghwa Telecom Singapore Pte., Ltd. | ST-2 Satellite Ventures Pte., Ltd.                | Singapore            | Operation of ST-2 telecommunication satellite   | 409,061                    | 409,061           | 18,102                      | 38            | 410,268        | (1,964)                           | (751)                                  | Equity-related investee |
|                                       |   |                      |   | (SGD 18,102)               | (SGD 18,102)      |                             |               | (SGD 17,846)   | ((SGD 86))                        | ((SGD 33))                             |                         |
| InfoExplorer Co., Ltd.                | InfoExplorer International Co., Ltd.              | Samoa Islands        | International investment  |                            |                   |                             | 100           |                |                                   |  | Subsidiary              |
|                                       |   |                      |   |                            |                   |                             |               | (Note 6)       |                                   | (Note 6)                               |                         |
| Chunghwa Investment Co., Ltd.         | Chunghwa Precision Test Tech. Co., Ltd.           | Tao Yuan             | Semiconductor testing components and printed circuit board industry production and marketing of electronic products | 91,875                     | 91,875            | 10,317                      | 54            | 116,654        | 13,201                            | 7,094                                  | Subsidiary              |
|                                       | Chunghwa Investment Holding Co., Ltd.             | Brunei               | General investment  | 34,483                     | 20,000            | 1,043                       | 100           | 24,055         | (1,124)                           | (1,124)                                | Subsidiary              |
|                                       |   |                      |   | (US\$ 1,043)               | (US\$ 589)        |                             |               | (US\$ 748)     | ((US\$ 35))                       | ((US\$ 35))                            |                         |
|                                       | Tatung Technology Inc.                            | Taipei               | The product of SET TOP BOX  | 50,000                     | 50,000            | 5,000                       | 28            | 17,037         | (70,655)                          | (19,108)                               | Equity-related investee |
|                                       | Panda Monium Company Ltd.                         | Cayman               | The production of animation   | 20,000                     | 20,000            | 602                         | 43            |                |                                   |  | Equity-related investee |
|                                       |   |                      |   | (US\$ 602)                 | (US\$ 602)        |                             |               |                |                                   |  |                         |
|                                       | CHIEF Telecom Inc.                                | Taipei               | Telecommunication and internet service  | 20,000                     | 20,000            | 2,000                       | 4             | 22,525         | 53,700                            | 1,965                                  | Subsidiary              |
|                                       | Senao International Co., Ltd.                     | Sindian City, Taipei | Selling and maintaining mobile phones and its peripheral products   | 30,188                     |                   | 618                         | 0.23          | 31,564         | 619,140                           | 1,375                                  | Subsidiary              |
| Concord Technology Co., Ltd           | Glory Network System Service (Shanghai) Co., Ltd. | Shanghai             | Providing advanced business solutions to telecommunications   | 22,530                     | 16,179            | 700                         | 100           | 4,908          | (2,253)                           | (2,253)                                | Subsidiary              |
|                                       |   |                      |   | (US\$ 700)                 | (US\$ 500)        |                             |               | (US\$ 153)     | ((US\$ 71))                       | ((US\$ 71))                            |                         |
| Senao International (Samoa)           | Senao International HK Limited.                   | Hong Kong            | International investment  |                            |                   |                             | 100           |                |                                   |  | Subsidiary              |

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| olding Ltd.                            |                                 |           |                    |            |       |     | (Note 5)   |             |             | (Note 5) | Subsidi |
|--|---------------------------------|-----------|--------------------|------------|-------|-----|------------|-------------|-------------|----------|---------|
| Chungghwa Investment Holding Co., Ltd. | CHI One Investment Co., Limited | Hong Kong | General investment | 14,483     | 3,500 | 100 | 13,209     | (1,072)     | (1,072)     |          |         |
|  |                                 |           |                    | (US\$ 450) |       |     | (US\$ 410) | ((US\$ 34)) | ((US\$ 34)) |          |         |



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| No. | Investor Company                     | Investee Company                            | Location  | Main Businesses and Products                     | Original Investment Amount |                   | Balance as of June 30, 2010 |                          |                      | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1 and 2) | Note                   |
|-----|--------------------------------------|---|-----------|--|----------------------------|-------------------|-----------------------------|--------------------------|----------------------|-----------------------------------|--|------------------------|
|     |                                      |   |           |  | June 30, 2010              | December 31, 2009 | Shares (Thousands)          | Ownership Percentage (%) | Carrying Value       |                                   |  |                        |
| 26  | CHI One Investment Co., Limited      | Xiamen Sertec Business Technology Co., Ltd. | Xiamen    | Customer services and platform rental activities | 13,863<br>(US\$ 431)       |                   | 49                          |                          | 12,620<br>(US\$ 393) | (2,123)<br>((US\$ 67))            | (1,040)<br>((US\$ 33))                 | Equity-method investee |
| 27  | InfoExplorer International Co., Ltd. | InfoExplorer (Hong Kong) Co., Limited       | Hong Kong | International investment                         |                            |                   | 100                         |                          |                      | (Note 7)                          | (Note 7)                               | Subsidiary             |

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 of differences between the investment cost and net value and elimination of 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, but not on operating stage. Chungghwa has 100% ownership right in an amount of US\$1 in each holding company.

Note 4: Senao International (Samoa) Holding Ltd. (SIS) was established by Senao International Co., Ltd. in 2009. No capital is injected in SIS yet by June 30, 2010.

Note 5: Senao International Co., Ltd. established Senao International HK Limited (SIHK) by the subsidiary, SIS in 2009. No capital is injected in SIHK yet by June 30, 2010.

Note 6: InfoExplorer International Co., Ltd. (IESA) was established by IFE in 2010. No-capital is injected in IESA yet by June 30, 2010.

Note 7: InfoExplorer (Hong Kong) Co., Limited (IEHK) was established by IESA in 2010. No-capital is injected in IEHK yet by June 30, 2010.

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TABLE 8

**CHUNGHWA TELECOM CO., LTD.**  
**INVESTMENT IN MAINLAND CHINA**  
**SIX MONTHS ENDED JUNE 30, 2010**

(Amounts in Thousands of New Taiwan Dollars, in Thousands of U.S. Dollars)

| Investee  | Main Businesses and Products                                | Total Amount of Paid-in Capital | Investment Type | Accumulated Outflow of Investment |                                 | Investment Flows       | Accumulated Outflow of Investment |        | % Ownership of Direct or Indirect Investment | Investment Gain (Loss) (Note 2) | Accumulated Inward Remittance of Earnings |                                 |
|---|---|---------------------------------|-----------------|-----------------------------------|---------------------------------|------------------------|-----------------------------------|--------|--|---------------------------------|---|---------------------------------|
|   |   |                                 |                 | from Taiwan as of January 1, 2010 | from Taiwan as of June 30, 2010 |                        | Outflow                           | Inflow |  |                                 | from Taiwan as of June 30, 2010           | from Taiwan as of June 30, 2010 |
| Glory Network System Service (Shanghai) Co., Ltd. | Providing advanced business solutions to telecommunications | \$ 22,530<br>(US\$ 700)         | Note 1          | \$ 16,179<br>(US\$ 500)           | \$ 6,351<br>(US\$ 200)          | \$ 6,351<br>(US\$ 200) | \$ 22,530<br>(US\$ 700)           | 100%   | \$ (2,253)<br>(US\$ 71)                      | \$ 4,908<br>(US\$ 153)          | \$  |                                 |
| Xiamen Sertec Business Technology Co., Ltd.       | Customer Services and platform rental activities            | 28,282<br>(US\$ 880)            | Note 1          |                                   |                                 | 13,863<br>(US\$ 431)   | 13,863<br>(US\$ 431)              | 49%    | (1,040)<br>(US\$ 33)                         | 12,620<br>(US\$ 393)            |   |                                 |

| Accumulated Investment in Mainland China as of | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment Stipulated by Investment Commission, MOEA |
|--|--|---|
| June 30, 2010                                  |  |   |
| \$ 22,530                                      | \$ 48,169  | \$ 378,602  |
| (US\$ 700)                                     | (US\$ 1,500)   | (Note 3)  |
| 13,863   | 79,882   | 1,224,285   |
| (US\$ 431)                                     | (US\$ 2,500)   | (Note 4)  |

Note 1: Chungghwa System Integration Co., Ltd. and Chungghwa Investment Co., Ltd. indirectly owns this investee through an investment company registered in a third region.

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

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

Note 4: The amount was calculated based on the net assets value of Chungghwa Investment Co., Ltd.

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TABLE 9

## CHUNGHWA TELECOM CO., LTD.

## SEGMENT INFORMATION

## SIX MONTHS ENDED JUNE 30, 2010 AND 2009

(Amount in Thousands of New Taiwan Dollars)

|                                  | Domestic Fixed<br>Communications<br>Business | Mobile<br>Communications<br>Business | Internet<br>Business | International<br>Fixed<br>Communications<br>Business | Others         | Adjustment     | Total          |
|----------------------------------|--|--------------------------------------|----------------------|--|----------------|----------------|----------------|
| <u>Six months ended</u>          |  |                                      |                      |  |                |                |                |
| <u>June 30, 2010</u>             |  |                                      |                      |  |                |                |                |
| Revenues from external customers | \$ 34,622,057                                | \$ 37,951,198                        | \$ 11,479,325        | \$ 7,615,617   | \$ 104,458     | \$             | \$ 91,772,655  |
| Intersegment revenues (Note 2)   | \$ 6,912,479                                 | \$ 981,947                           | \$ 453,020           | \$ 703,484   | \$ 341         | \$ (9,051,271) | \$             |
| Segment income before tax        | \$ 9,183,574                                 | \$ 14,897,239                        | \$ 4,927,700         | \$ 1,441,941   | \$ (696,247)   | \$             | \$ 29,754,207  |
| Total assets                     | \$ 230,477,555                               | \$ 58,162,645                        | \$ 15,788,304        | \$ 20,259,179  | \$ 125,637,490 | \$             | \$ 450,325,173 |
| <u>Six months ended</u>          |  |                                      |                      |  |                |                |                |
| <u>June 30, 2009</u>             |  |                                      |                      |  |                |                |                |
| Revenues from external customers | \$ 35,297,579                                | \$ 36,420,936                        | \$ 11,018,879        | \$ 7,458,955   | \$ 105,069     | \$             | \$ 90,301,418  |
| Intersegment revenues (Note 2)   | \$ 6,646,132                                 | \$ 928,531                           | \$ 339,553           | \$ 680,027   | \$ 256         | \$ (8,594,499) | \$             |
| Segment income before tax        | \$ 8,838,900                                 | \$ 15,283,790                        | \$ 4,440,829         | \$ 1,091,178   | \$ (727,963)   | \$             | \$ 28,926,734  |
| Total assets                     | \$ 238,442,514                               | \$ 60,458,056                        | \$ 16,097,587        | \$ 17,843,095  | \$ 123,819,977 | \$             | \$ 456,661,229 |

Note 1: The Company organizes its reporting segments based on types of organizational business. The five reporting segments are segregated as below: Domestic fixed communications business, mobile communications business, internet business, international fixed communications business and others.

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Domestic fixed communications business - the provision of local telephone services, domestic long distance telephone services, broadband access, and related services;

Mobile communications business - the provision of mobile services, sales of mobile handsets and data cards, and related services;

Internet business - the provision of HiNet services and related services;

International fixed communications business - the provision of international long distance telephone services and related services;

Others - the provision of non-Telecom Services, and the corporate related items not allocated to reportable segments.

Note 2: Represents intersegment revenues from goods and services.

Note 3: Beginning from September 1, 2009, the Company redefined its financial reporting operating segments into five operating segments: (a) domestic fixed communications business, (b) mobile communications business, (c) internet business, (d) international fixed communications business and (e) others. Prior to September 1, 2009, Chunghwa Telecom had seven operating segments: (a) local operations, (b) domestic long distance operations, (c) international long distance operations, (d) cellular service operations, (e) internet and data operations, (f) cellular phone sales and (g) all others. The redefinition of the company's operating segments is expected to facilitate the management's ability to assess the performance of each operating segment by conforming the company's operating segments to the international trends of other telecommunications companies in general. The Company also early adopted the Statement of Financial Accounting Standards No. 41 Operating Segments (SFAS No. 41) starting from September 1, 2009. For the comparative purpose, the segments information for the six months ended June 30, 2009 was presented in accordance with SFAS No. 41.

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**Exhibit 3**

**Chunghwa Telecom Co., Ltd. and Subsidiaries**  
**Consolidated Financial Statements for the**  
**Six Months Ended June 30, 2010 and 2009 and**  
**Independent Auditors Report**

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**INDEPENDENT AUDITORS REPORT**

To the Board of Directors and Stockholders of

Chunghwa Telecom Co., Ltd.

We have audited the accompanying consolidated balance sheets of Chunghwa Telecom Co., Ltd. and subsidiaries ( the Company ) as of June 30, 2010 and 2009, and the related consolidated statements of income, changes in stockholders equity and cash flows for the six months ended. These consolidated financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Taiwan International Standard Electronics Co., Ltd., Viettel-CHT Co., Ltd. and Senao Networks, Inc. The aggregate carrying values of these equity method investees were NT\$1,070,032 thousand and NT\$852,721 thousand, respectively, as of June 30, 2010 and 2009 and the equity in earnings (losses) were NT\$121,546 thousand and NT\$(7,471) thousand, respectively, for the six months ended June 30, 2010 and 2009, respectively. The financial statements of Taiwan International Standard Electronics Co., Ltd., Viettel-CHT Co., Ltd. and Senao Networks, Inc. as of and for the six months ended June 30, 2010 and 2009, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for these equity method investees, is based solely on the reports of the other auditors.

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 standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the financial reports of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, such consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the consolidated financial position of the Company as of June 30, 2010 and 2009, and the results of their operations and their cash flows for the six months ended June 30, 2010 and 2009, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

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As discussed in Note 3 to the consolidated financial statements, the Company early adopted the new Statements of Financial Accounting Standards No. 41, Operating Segments ( SFAS No. 41 ) beginning from September 1, 2009.

/s/ DELOITTE & TOUCHE  
**Deloitte & Touche**  
**Taipei, Taiwan**  
**The Republic of China**

August 11, 2010

**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.*

**Table of Contents****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****JUNE 30, 2010 AND 2009****(In Thousands of New Taiwan Dollars, Except Par Value Data)**

|  | 2010          |     | 2009          |     |
|--|---------------|-----|---------------|-----|
|  | Amount        | %   | Amount        | %   |
| <b>ASSETS</b>  |               |     |               |     |
| <b>CURRENT ASSETS</b>  |               |     |               |     |
| Cash and cash equivalents (Notes 2 and 4)  | \$ 92,779,286 | 20  | \$ 83,422,659 | 18  |
| Financial assets at fair value through profit or loss (Notes 2 and 5)  | 40,169        |     | 22,454        |     |
| Available-for-sale financial assets (Notes 2 and 6)  | 6,434,268     | 1   | 16,377,979    | 4   |
| Held-to-maturity financial assets (Notes 2 and 7)  | 1,190,089     |     | 670,541       |     |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,715,117 thousand in 2010 and \$2,901,489 thousand in 2009 (Notes 2 and 8) | 12,261,827    | 3   | 10,969,179    | 2   |
| Receivables from related parties (Note 28)   | 28,447        |     | 113,429       |     |
| Other current monetary assets (Notes 9 and 31)   | 2,728,765     | 1   | 2,974,798     | 1   |
| Inventories, net (Notes 2, 3, 10 and 21)   | 3,628,034     | 1   | 3,229,670     | 1   |
| Deferred income tax assets (Notes 2 and 25)  | 73,416        |     | 101,554       |     |
| Restricted assets (Notes 21, 29 and 30)  | 179,746       |     | 101,843       |     |
| Other current assets (Notes 11, 21 and 28)   | 6,532,047     | 1   | 5,783,318     | 1   |
| Total current assets   | 125,876,094   | 27  | 123,767,424   | 27  |
| <b>LONG-TERM INVESTMENTS</b>   |               |     |               |     |
| Investments accounted for using equity method (Notes 2 and 12)   | 1,688,180     |     | 2,303,693     | 1   |
| Financial assets carried at cost (Notes 2 and 13)  | 2,647,091     | 1   | 2,251,498     |     |
| Held-to-maturity financial assets (Notes 2 and 7)  | 6,948,228     | 2   | 4,536,191     | 1   |
| Other monetary assets (Notes 14 and 30)  | 1,000,000     |     | 1,000,000     |     |
| Total long-term investments  | 12,283,499    | 3   | 10,091,382    | 2   |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15, 28, 29 and 30)</b>  |               |     |               |     |
| <b>Cost</b>  |               |     |               |     |
| Land   | 103,719,102   | 23  | 101,474,866   | 22  |
| Land improvements  | 1,538,691     |     | 1,513,208     |     |
| Buildings  | 67,431,298    | 15  | 63,157,815    | 14  |
| Computer equipment   | 16,027,525    | 3   | 15,823,342    | 3   |
| Telecommunications equipment   | 656,803,063   | 143 | 653,783,918   | 142 |
| Transportation equipment   | 1,973,764     |     | 2,244,208     |     |
| Miscellaneous equipment  | 7,161,270     | 2   | 7,283,620     | 2   |
| Total cost   | 854,654,713   | 186 | 845,280,977   | 183 |
| Revaluation increment on land  | 5,800,909     | 2   | 5,810,342     | 1   |
|  | 860,455,622   | 188 | 851,091,319   | 184 |
| Less: Accumulated depreciation   | 563,925,063   | 123 | 550,588,704   | 119 |
|  | 296,530,559   | 65  | 300,502,615   | 65  |
| Construction in progress and advances related to acquisition of equipment  | 10,981,125    | 2   | 14,181,979    | 3   |
| Property, plant and equipment, net   | 307,511,684   | 67  | 314,684,594   | 68  |



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|   |                       |            |                       |            |
|---|-----------------------|------------|-----------------------|------------|
| <b>INTANGIBLE ASSETS (Note 2)</b>           |                       |            |                       |            |
| 3G concession                               | 6,363,175             | 2          | 7,111,783             | 2          |
| Goodwill                                    | 283,054               |            | 264,128               |            |
| Others                                      | 509,726               |            | 524,652               |            |
| <b>Total intangible assets</b>              | <b>7,155,955</b>      | <b>2</b>   | <b>7,900,563</b>      | <b>2</b>   |
| <b>OTHER ASSETS</b>                         |                       |            |                       |            |
| Leased assets                               | 416,941               |            | 642,655               |            |
| Idle assets (Note 2)                        | 908,652               |            | 985,728               |            |
| Refundable deposits                         | 1,475,313             |            | 1,336,669             | 1          |
| Deferred income tax assets (Notes 2 and 25) | 430,685               |            | 1,254,441             |            |
| Restricted assets (Note 29)                 | 32,039                |            | 29,104                |            |
| Others (Note 28)                            | 3,280,459             | 1          | 820,105               |            |
| <b>Total other assets</b>                   | <b>6,544,089</b>      | <b>1</b>   | <b>5,068,702</b>      | <b>1</b>   |
| <b>TOTAL</b>                                | <b>\$ 459,371,321</b> | <b>100</b> | <b>\$ 461,512,665</b> | <b>100</b> |

(Continued)

**Table of Contents****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS****JUNE 30, 2010 AND 2009****(In Thousands of New Taiwan Dollars, Except Par Value Data)**

|  | 2010              |           | 2009              |           |
|--|-------------------|-----------|-------------------|-----------|
|  | Amount            | %         | Amount            | %         |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                 |                   |           |                   |           |
| <b>CURRENT LIABILITIES</b>   |                   |           |                   |           |
| Short-term loans (Note 16)   | \$ 3,433,687      | 1         | \$ 256,000        |           |
| Short-term bills payable (Note 17)   | 59,946            |           |                   |           |
| Financial liabilities at fair value through profit or loss (Notes 2 and 5) | 23,656            |           | 501               |           |
| Trade notes and accounts payable (Note 21)                                 | 6,851,912         | 1         | 7,106,260         | 2         |
| Payables to related parties (Note 28)                                      | 338,956           |           | 371,468           |           |
| Income tax payable (Notes 2 and 25)  | 4,808,885         | 1         | 6,683,388         | 1         |
| Accrued expenses (Note 18)   | 12,029,043        | 3         | 13,570,531        | 3         |
| Dividends payable (Note 22)  | 39,369,041        | 8         | 37,138,775        | 8         |
| Current portion of long-term loans (Note 20)                               | 108,839           |           | 104,668           |           |
| Other current liabilities (Notes 19, 21 and 28)                            | 17,905,314        | 4         | 16,605,341        | 4         |
| <b>Total current liabilities</b>   | <b>84,929,279</b> | <b>18</b> | <b>81,836,932</b> | <b>18</b> |
| <b>NONCURRENT LIABILITIES</b>  |                   |           |                   |           |
| Long-term loans (Note 20)  | 164,717           |           | 270,043           |           |
| Deferred income (Note 2)   | 2,542,574         | 1         | 2,145,289         | 1         |
| <b>Total noncurrent liabilities</b>  | <b>2,707,291</b>  | <b>1</b>  | <b>2,415,332</b>  | <b>1</b>  |
| RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)                           | 94,986            |           | 94,986            |           |
| <b>OTHER LIABILITIES</b>   |                   |           |                   |           |
| Accrued pension liabilities (Notes 2 and 27)                               | 1,248,556         |           | 5,192,642         | 1         |
| Customers deposits   | 5,914,124         | 2         | 6,054,883         | 1         |
| Others   | 488,365           |           | 269,607           |           |
| <b>Total other liabilities</b>   | <b>7,651,045</b>  | <b>2</b>  | <b>11,517,132</b> | <b>2</b>  |
| <b>Total liabilities</b>   | <b>95,382,601</b> | <b>21</b> | <b>95,864,382</b> | <b>21</b> |
| <b>EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT</b>                   |                   |           |                   |           |
| (Notes 2, 6, 15 and 22)  |                   |           |                   |           |
| Common stock - \$10 par value;   |                   |           |                   |           |
| Authorized: 12,000,000 thousand shares                                     |                   |           |                   |           |
| Issued: 9,696,808 thousand shares  | 96,968,082        | 21        | 96,968,082        | 21        |
| Capital stock to be issued   |                   |           | 9,696,808         | 2         |
| <b>Additional paid-in capital</b>  |                   |           |                   |           |
| Capital surplus  | 169,496,289       | 37        | 169,496,289       | 36        |
| Donated capital  | 13,170            |           | 13,170            |           |
| Equity in additional paid-in capital reported by equity-method investees   | 6,742             |           | 3                 |           |

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|   |                |     |                |     |
|---|----------------|-----|----------------|-----|
| Total additional paid-in capital                        | 169,516,201    | 37  | 169,509,462    | 36  |
| Retained earnings                                       |                |     |                |     |
| Legal reserve   | 61,361,255     | 13  | 56,987,241     | 12  |
| Special reserve   | 2,675,894      | 1   | 2,675,894      | 1   |
| Unappropriated earnings                                 | 24,998,325     | 5   | 22,265,116     | 5   |
| Total retained earnings                                 | 89,035,474     | 19  | 81,928,251     | 18  |
| Other adjustments                                       |                |     |                |     |
| Cumulative translation adjustments                      | 12,059         |     | 17,765         |     |
| Unrecognized net loss of pension                        | (44,105)       |     | (5)            |     |
| Unrealized loss on financial instruments                | (911,165)      |     | (1,379,866)    |     |
| Unrealized revaluation increment                        | 5,803,446      | 1   | 5,812,879      | 1   |
| Total other adjustments                                 | 4,860,235      | 1   | 4,450,773      | 1   |
| Total equity attributable to stockholders of the parent | 360,379,992    | 78  | 362,553,376    | 78  |
| MINORITY INTERESTS IN SUBSIDIARIES                      | 3,608,728      | 1   | 3,094,907      | 1   |
| Total stockholders' equity                              | 363,988,720    | 79  | 365,648,283    | 79  |
| TOTAL   | \$ 459,371,321 | 100 | \$ 461,512,665 | 100 |

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

(With Deloitte & Touche audit report dated August 11, 2010)

**Table of Contents****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(In Thousands of New Taiwan Dollars, Except Earnings Per Share Data)**

|  | 2010              |           | 2009              |           |
|--|-------------------|-----------|-------------------|-----------|
|  | Amount            | %         | Amount            | %         |
| NET REVENUES (Note 28)                                 | \$ 99,279,077     | 100       | \$ 97,178,944     | 100       |
| OPERATING COSTS (Note 28)                              | 55,137,795        | 56        | 54,269,907        | 56        |
| <b>GROSS PROFIT</b>                                    | <b>44,141,282</b> | <b>44</b> | <b>42,909,037</b> | <b>44</b> |
| OPERATING EXPENSES (Note 28)                           |                   |           |                   |           |
| Marketing  | 10,753,718        | 11        | 10,403,837        | 11        |
| General and administrative                             | 2,035,993         | 2         | 1,933,644         | 2         |
| Research and development                               | 1,564,428         | 1         | 1,525,614         | 1         |
| Total operating expenses                               | 14,354,139        | 14        | 13,863,095        | 14        |
| <b>INCOME FROM OPERATIONS</b>                          | <b>29,787,143</b> | <b>30</b> | <b>29,045,942</b> | <b>30</b> |
| NON-OPERATING INCOME AND GAINS (Note 28)               |                   |           |                   |           |
| Interest income  | 206,251           |           | 335,261           | 1         |
| Foreign exchange gain, net                             | 146,122           |           | 87,663            |           |
| Equity in earnings of equity method investees, net     | 93,402            |           |                   |           |
| Gain on disposal of financial instruments, net         | 64,992            |           |                   |           |
| Dividends income                                       | 6,331             |           | 2,872             |           |
| Valuation gain on financial instruments, net           |                   |           | 146,448           |           |
| Others   | 208,990           | 1         | 333,851           |           |
| Total non-operating income and gains                   | 726,088           | 1         | 906,095           | 1         |
| NON-OPERATING EXPENSES AND LOSSES                      |                   |           |                   |           |
| Interest expense                                       | 89,494            |           | 8,837             |           |
| Valuation loss on financial instruments, net           | 35,972            |           |                   |           |
| Loss on disposal of property, plant and equipment, net | 13,127            |           | 9,291             |           |
| Loss on disposal of financial instruments, net         |                   |           | 234,095           | 1         |
| Impairment loss on assets                              |                   |           | 88,900            |           |
| Equity in losses of equity method investees, net       |                   |           | 21,632            |           |
| Others   | 25,546            |           | 107,029           |           |
| Total non-operating expenses and losses                | 164,139           |           | 469,784           | 1         |
| <b>INCOME BEFORE INCOME TAX</b>                        | <b>30,349,092</b> | <b>31</b> | <b>29,482,253</b> | <b>30</b> |
| INCOME TAX EXPENSES (Notes 2 and 25)                   | 4,906,185         | 5         | 6,849,491         | 7         |

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|                         |               |    |               |    |
|-------------------------|---------------|----|---------------|----|
| CONSOLIDATED NET INCOME | \$ 25,442,907 | 26 | \$ 22,632,762 | 23 |
|-------------------------|---------------|----|---------------|----|

(Continued)

**Table of Contents****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(In Thousands of New Taiwan Dollars, Except Earnings Per Share Data)**

|                                     | 2010                    |                        | 2009                    |                        |
|-------------------------------------|-------------------------|------------------------|-------------------------|------------------------|
|                                     | Amount                  | %                      | Amount                  | %                      |
| <b>ATTRIBUTED TO</b>                |                         |                        |                         |                        |
| Stockholders of the parent          | \$ 24,991,418           | 25                     | \$ 22,261,402           | 23                     |
| Minority interests                  | 451,489                 | 1                      | 371,360                 |                        |
|                                     | \$ 25,442,907           | 26                     | \$ 22,632,762           | 23                     |
| <br>                                |                         |                        |                         |                        |
|                                     | 2010                    |                        | 2009                    |                        |
|                                     | Before<br>Income<br>Tax | After<br>Income<br>Tax | Before<br>Income<br>Tax | After<br>Income<br>Tax |
| <b>EARNINGS PER SHARE (Note 26)</b> |                         |                        |                         |                        |
| Basic earnings per share            | \$ 3.07                 | \$ 2.58                | \$ 2.98                 | \$ 2.30                |
| Diluted earnings per share          | \$ 3.06                 | \$ 2.57                | \$ 2.97                 | \$ 2.29                |

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

(With Deloitte &amp; Touche audit report dated August 11, 2010)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**  
(In Thousands of New Taiwan Dollars)

|   | Common Stock       |               | Preferred Stock    |        | Retained Earnings          |                            |               |                 | Other Adjustments        |                                    |                                  | Minority Interests in Subsidiaries | Stock        |                                      |                                  |
|---|--------------------|---------------|--------------------|--------|----------------------------|----------------------------|---------------|-----------------|--------------------------|------------------------------------|----------------------------------|------------------------------------|--------------|--------------------------------------|----------------------------------|
|   | Shares (Thousands) | Amount        | Shares (Thousands) | Amount | Capital Stock to be Issued | Additional Paid-in Capital | Legal Reserve | Special Reserve | Un-appropriated Earnings | Cumulative Translation Adjustments | Unrecognized Net Loss of Pension |                                    |              | Gain (Loss) on Financial Instruments | Unrealized Revaluation Increment |
| Balance at January 1, 2009                        | 9,696,808          | \$ 96,968,082 |                    | \$     | \$                         | \$ 169,509,763             | \$ 56,987,241 | \$ 2,675,894    | \$ 43,749,962            | \$ 7,626                           | \$ (43,750)                      | \$ (447,129)                       | \$ 5,803,446 | \$ 3,752,479                         | \$ 3,752,479                     |
| Issuance of shares                                |                    |               |                    |        |                            |                            | 4,374,014     |                 | (4,374,014)              |                                    |                                  |                                    |              |                                      |                                  |
| Share repurchases                                 |                    |               |                    |        |                            |                            |               |                 | (39,369,041)             |                                    |                                  |                                    |              |                                      |                                  |
| Net income  |                    |               |                    |        |                            |                            |               |                 |                          |                                    |                                  |                                    |              |                                      |                                  |
| Net loss  |                    |               |                    |        |                            |                            |               |                 |                          |                                    |                                  |                                    |              |                                      |                                  |
| Net loss attributable to noncontrolling interests |                    |               |                    |        |                            |                            |               |                 |                          |                                    |                                  |                                    |              |                                      | (451,489)                        |
| Share-based compensation                          |                    |               |                    |        |                            |                            |               |                 |                          |                                    |                                  |                                    |              |                                      | (591,683)                        |
| Share-based compensation held                     |                    |               |                    |        |                            |                            |               |                 |                          |                                    |                                  |                                    |              |                                      | (4,462)                          |
| Share-based compensation in                       |                    |               |                    |        |                            |                            |               |                 |                          |                                    |                                  |                                    |              |                                      | 6,438                            |
| Share-based compensation for currency held        |                    |               |                    |        |                            |                            |               |                 |                          |                                    |                                  |                                    |              |                                      | 4,433                            |
| Share-based compensation                          |                    |               |                    |        |                            |                            |               |                 |                          |                                    |                                  |                                    |              |                                      | 949                              |
| Share-based compensation                          |                    |               |                    |        |                            |                            |               |                 |                          |                                    |                                  |                                    |              |                                      | (355)                            |
| Share-based compensation                          |                    |               |                    |        |                            |                            |               |                 |                          |                                    |                                  |                                    |              |                                      | (44)                             |
| Share-based compensation                          |                    |               |                    |        |                            |                            |               |                 |                          |                                    |                                  |                                    |              |                                      | (464,036)                        |
| Balance at June 30, 2010                          | 9,696,808          | \$ 96,968,082 |                    | \$     | \$                         | \$ 169,516,201             | \$ 61,361,255 | \$ 2,675,894    | \$ 24,998,325            | \$ 12,059                          | \$ (44,105)                      | \$ (911,165)                       | \$ 5,803,446 | \$ 3,608,728                         | \$ 3,608,728                     |





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|           |               |               |           |                |                |               |               |               |           |                |                |              |              |       |
|-----------|---------------|---------------|-----------|----------------|----------------|---------------|---------------|---------------|-----------|----------------|----------------|--------------|--------------|-------|
| 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 | \$ 37        |       |
|           |               |               |           |                |                |               |               |               |           |                | (308)          |              |              |       |
|           |               |               |           | 4,127,675      | (4,127,675)    |               |               |               |           |                |                |              |              |       |
|           |               |               |           |                |                |               |               |               |           |                |                |              | (37)         |       |
|           |               |               |           |                |                |               |               |               |           |                |                |              |              |       |
|           |               |               | 9,696,808 | (9,696,808)    |                |               |               |               |           |                |                |              |              |       |
|           |               |               |           |                |                |               | 22,261,402    |               |           |                |                | 371,360      | 22           |       |
|           |               |               |           |                |                |               |               |               |           |                |                | (416,270)    |              |       |
|           |               |               |           |                |                |               |               |               |           |                | 5,163          |              |              |       |
|           |               |               |           |                |                |               | (6,110)       |               |           |                |                |              |              |       |
|           |               |               |           |                |                |               |               |               |           |                |                |              |              |       |
|           |               |               |           |                |                |               |               |               | (11,709)  |                |                | 2,063        |              |       |
|           |               |               |           |                |                |               |               |               |           | 79             |                | 304          |              |       |
|           |               |               |           |                |                |               |               |               |           |                | 887,213        |              |              |       |
| 2009      | 9,696,808     | \$ 96,968,082 | \$        | \$ 9,696,808   | \$ 169,509,462 | \$ 56,987,241 | \$ 2,675,894  | \$ 22,265,116 | \$ 17,765 | \$ (5)         | \$ (1,379,866) | \$ 5,812,879 | \$ 3,094,907 | \$ 36 |

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

(With Deloitte & Touche audit report dated August 11, 2010)

**Table of Contents****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(In Thousands of New Taiwan Dollars)**

|  | 2010              | 2009              |
|--|-------------------|-------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                   |                   |
| Consolidated net income  | \$ 25,442,907     | \$ 22,632,762     |
| Adjustments to reconcile net income to net cash provided by operating activities:          |                   |                   |
| Provision for doubtful accounts  | 192,488           | 266,567           |
| Depreciation and amortization  | 17,289,111        | 18,372,080        |
| Amortization of premium of financial assets  | 18,075            | 7,617             |
| Valuation loss on inventory  | 61,272            |                   |
| Valuation loss (gain) on financial instruments, net  | 35,972            | (146,448)         |
| Loss (gain) on disposal of financial instruments, net                                      | (64,992)          | 234,095           |
| Loss on disposal of property, plant and equipment, net                                     | 13,127            | 9,291             |
| Equity in losses (earnings) of equity method investees, net                                | (93,402)          | 21,632            |
| Dividends received from equity investees   | 5,273             | 76,435            |
| Impairment loss on assets  |                   | 88,900            |
| Deferred income taxes  | 85,473            | 305,855           |
| Changes in operating assets and liabilities:   |                   |                   |
| Decrease (increase) in:  |                   |                   |
| Financial assets held for trading  | 19,306            | 171,783           |
| Trade notes and accounts receivable  | (496,397)         | (373,526)         |
| Receivables from related parties   | 32,704            | (631,104)         |
| Other monetary assets  | (590,501)         | (1,086,316)       |
| Inventories  | 359,390           | (45,940)          |
| Other current assets   | (2,838,189)       | (861,325)         |
| Increase (decrease) in:  |                   |                   |
| Trade notes and accounts payable   | (2,703,620)       | (3,733,239)       |
| Payables to related parties  | 75,100            | 434,161           |
| Income tax payable   | 497,329           | 992,799           |
| Accrued expenses   | (5,408,502)       | (2,923,882)       |
| Other current liabilities  | 920,715           | 347,256           |
| Deferred income  | 57,690            | 72,992            |
| Accrued pension liabilities  | 31,232            | 17,407            |
| <b>Net cash provided by operating activities</b>   | <b>32,941,561</b> | <b>34,249,852</b> |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                   |                   |
| Acquisition of designated financial assets at fair value through profit or loss            | (9,217)           |                   |
| Proceeds from disposal of designated financial assets at fair value through profit or loss | 2,306             |                   |
| Acquisition of available-for-sale financial assets   | (2,233,927)       | (6,010,000)       |
| Proceeds from disposal of available-for-sale financial assets                              | 12,841,269        | 4,490,787         |
| Acquisition of held-to-maturity financial assets   | (3,714,635)       | (1,948,505)       |
| Proceeds from disposal of held-to-maturity financial assets                                | 587,500           | 547,693           |
| Acquisition of financial assets carried at cost  | (179,284)         |                   |
| Proceeds from disposal of financial assets carried at cost                                 | 134,864           | 285,859           |

(Continued)



**Table of Contents****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(In Thousands of New Taiwan Dollars)**

|   | <b>2010</b>          | <b>2009</b>          |
|---|----------------------|----------------------|
| Acquisition of investments accounted for using equity method          | \$ (13,863)          | \$ (362,637)         |
| Acquisition of property, plant and equipment                          | (9,320,533)          | (10,296,388)         |
| Proceeds from disposal of property, plant and equipment               | 73,038               | 1,136                |
| Increase in intangible assets   | (49,822)             | (56,204)             |
| Increase in restricted assets   | (10,748)             | (40,202)             |
| Increase in other assets  | (1,909,754)          | (247,562)            |
| <b>Net cash used in investing activities</b>                          | <b>(3,802,806)</b>   | <b>(13,636,023)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                           |                      |                      |
| Increase (decrease) in short-term loans                               | 2,670,686            | (2,000)              |
| Increase in short-term bills payable                                  | 59,946               |                      |
| Repayment of long-term loans  | (65,022)             | (63,129)             |
| Increase in long-term loans   |                      | 400,000              |
| Decrease in customers deposits  | (69,502)             | (34,125)             |
| Increase (decrease) in other liabilities                              | 197,433              | (161,910)            |
| Capital reduction   | (9,696,808)          | (19,115,554)         |
| Proceeds from exercise of employee stock option granted by subsidiary | 69,945               | 45,636               |
| Acquisition of additional interests in subsidiary                     | (30,188)             |                      |
| <b>Net cash used in financing activities</b>                          | <b>(6,863,510)</b>   | <b>(18,931,082)</b>  |
| <b>EFFECT OF EXCHANGE RATE CHANGES</b>                                | <b>8,532</b>         | <b>(6,243)</b>       |
| <b>EFFECT OF CHANGE ON CONSOLIDATED SUBSIDIARIES</b>                  | <b>(2,763,981)</b>   | <b>457,990</b>       |
| <b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>                      | <b>19,519,796</b>    | <b>2,134,494</b>     |
| <b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>                 | <b>73,259,490</b>    | <b>81,288,165</b>    |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>                       | <b>\$ 92,779,286</b> | <b>\$ 83,422,659</b> |
| <b>SUPPLEMENTAL INFORMATION</b>                                       |                      |                      |
| Interest paid (excluding capitalized interest expense)                | \$ 17,640            | \$ 5,688             |
| Income tax paid   | \$ 4,314,655         | \$ 5,539,321         |
| <b>NON-CASH FINANCING ACTIVITIES</b>                                  |                      |                      |
| Dividends payable   | \$ 39,369,041        | \$ 37,138,775        |

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|                                    |           |            |
|------------------------------------|-----------|------------|
| Current portion of long-term loans | \$ 54,435 | \$ 104,668 |
|------------------------------------|-----------|------------|

CASH AND NON-CASH INVESTING ACTIVITIES

|   |              |               |
|---|--------------|---------------|
| Increase in property, plant and equipment | \$ 8,467,303 | \$ 9,424,425  |
| Payables to equipment suppliers           | 853,527      | 900,824       |
| Prepayments for equipment                 | (297)        | (28,861)      |
|   | \$ 9,320,533 | \$ 10,296,388 |

(Continued)

Table of Contents**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(In Thousands of New Taiwan Dollars)**

The acquisition of Yao Yong Real Property Co., Ltd. ( YYRP ) by Light Era Development Co., Ltd. (LED) was made on March 1, 2010. The following table presents the allocation of acquisition costs of YYRP to assets acquired and liabilities assumed based on their fair values on the basis of the final data obtained on April 12, 2010:

|  |              |
|--|--------------|
| Cash and cash equivalents                | \$ 29,686    |
| Other monetary assets                    | 13,439       |
| Deferred income tax assets               | 5,603        |
| Property, plant, and equipment           | 2,781,547    |
| Customers deposits                       | (34,857)     |
| Accrued expenses                         | (1,312)      |
| Other current liabilities                | (1,311)      |
| Total                                    | 2,792,795    |
| Percentage of ownership                  | 100%         |
|  | 2,792,795    |
| Goodwill                                 | 872          |
| Acquisition costs of acquired subsidiary | \$ 2,793,667 |

The acquisition of InfoExplorer Co., Ltd. ( IFE ) was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values on the basis of the final data on May 7, 2009:

|                                |            |
|--------------------------------|------------|
| Cash and cash equivalents      | \$ 457,990 |
| Receivables                    | 13,479     |
| Other current assets           | 14,792     |
| Property, plant, and equipment | 40,221     |
| Identifiable intangible assets | 53,001     |
| Refundable deposits            | 2,468      |
| Other assets                   | 2,338      |
| Payables                       | (83,319)   |
| Income tax payable             | (246)      |
| Other current liabilities      | (153)      |
| Total                          | 500,571    |
| Percentage of ownership        | 49.07%     |
|                                | 245,630    |
| Goodwill                       | 37,870     |

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|  |            |
|--|------------|
| Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008) | \$ 283,500 |
|--|------------|

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

(With Deloitte & Touche audit report dated August 11, 2010)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**  
**(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 substantial control in SENAO by obtaining half of the seats of the board of directors of SENAO on April 12, 2007. On March 27, 2009, the board of directors of Chunghwa resolved to purchase 48,000 thousand common shares of SENAO through SENAO s private placement. However, Chunghwa and SENAO did not complete the required procedures within the legal payment period; therefore, Chunghwa and SENAO decided to discontinue the private placement.

Senao International (Samoa) Holding Ltd. (SIS) was established by SENAO in 2009. SIS will engage mainly in international investment activities; however, no capital is injected in SIS and SIS is not on operation stage yet by June 30, 2010.

Senao International HK Limited (SIHK) was established by SIS in 2009. SIHK will engage mainly in international investment activities; however, no capital is injected in SIHK and SIHK is not on operation stage yet by June 30, 2010.

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



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

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. On August 20, 2009, the stockholders of CHIEF (HK) resolved to dissolve CHIEF (HK). CHIEF (HK) has received the authorization from the local government to enter into liquidation. The liquidation is still in progress as of the date of the audit report.

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

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. On March 20, 2009, the stockholders of CHSI resolved to dissolve GNSS (Shanghai). On July 23, 2009, the board of directors of CHSI revoked the original resolution of dissolution.

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.

Donghua 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.

Yao Yong Real Property Co., Ltd. ( YYRP ) was incorporated in 2002. YYRP engages mainly in real estate management and leasing business. LED acquired 100% ownership interest of Yao Yong Real Property on March 1, 2010.

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.

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Chunghwa established Chunghwa Telecom Japan Co., Ltd. ( CHTJ ) 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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

InfoExplorer Co., Ltd. ( IFE ) was incorporated in 2008. IFE engages mainly in information system planning and maintenance, software development, and information technology consultation services. Chunghwa acquired 49% shares of IFE on January 5, 2009 and has control over IFE by obtaining half of seats of the board of directors of IFE on January 20, 2009.

InfoExplorer International Co., Ltd. (IESA) was established by IFE in 2010. IESA will engage mainly in international investment activities; however, no capital is injected in IESA and IESA is not on operation stage yet by June 30, 2010.

InfoExplorer (Hong Kong) Co., Limited (IEHK) was established by IESA in 2010. IESA will engage mainly in international investment activities; however, no capital is injected in IEHK and IEHK is not on operation stage yet by June 30, 2010.

Chunghwa Investment Co., Ltd. ( CHI ) was established in 2002. CHI engages mainly in professional investing in telecommunication business, and telecommunication valued-added services. Chunghwa acquired additional 40% of the shares of CHI on September 9, 2009 for \$758,709 thousand. Chunghwa increased its ownership interest in CHI from 49% to 89% and became the parent company of CHI. As a result of additional acquisition of CHI, the accounts of CHI and its subsidiaries are included in the consolidated financial statements starting from September 9, 2009.

Chunghwa Precision Test Tech. Co., Ltd. ( CHPT ) was established in 2005 as the subsidiary of CHI. CHPT engages mainly in production and marketing in semiconductor testers and printed circuit board.

Chunghwa Investment Holding Co., Ltd. ( CIHC ) was established by CHI in 2004. CIHC engages mainly in general investment activities.

CHI One Investment Co., Ltd. (COI) was established by CHI in 2009. COI engages mainly in investment activities.

Chunghwa has established New Prospect Investments Holdings Ltd. ( New Prospect ) and Prime Asia Investments Group Ltd. ( Prime Asia ) in March 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 by the end of June 30, 2010.

As of June 30, 2010 and 2009, the Company had 27,608 and 27,248 employees, respectively.

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**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**  
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of June 30, 2010:

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

***Principle of Consolidation***

The Company accounts for business combinations in accordance with the requirements of the Statement of Financial Accounting Standards No. 25, Business Combinations.

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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

The consolidated financial statements for the six months ended June 30, 2010 include the accounts of Chunghwa, SENA0, SIS, SIHK, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, YYRP, CHTS, CHTJ, IFE, IESA, IEHK, CHI, CHPT, CIHC, COI, New Prospect and Prime Asia. The consolidated financial statements for the six months ended June 30, 2009 include the accounts of Chunghwa, SENA0, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, CHTS, CHTJ, IFE, New Prospect and Prime Asia.

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

***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 the balance sheet date. Current liabilities are obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

LED engages mainly in development of property for rent and sale. The assets and liabilities of LED related to property development within its operating cycle, which is over one year, are classified as current items. Assets and liabilities related to property development over its operating cycle are classified as noncurrent items.

***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 are 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. Regular way purchases or sales of financial assets are accounted for using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are 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.



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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

***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 the same with 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. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

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.



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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. Incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract are recognized in marketing expenses as incurred.

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 including merchandise and work-in-process are stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. The calculation of the cost of inventory is derived using the weighted-average method.

Inventories of LED are stated at the lower of cost or net realizable 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 collectability 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 completed.

***Investments Accounted for Using Equity Method***

Investments in companies in which the Company 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.

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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.

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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. 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 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 - 10 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 is recorded as non-operating gains or losses in the period of sale or disposal.

***Intangible Assets***

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

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The 3G Concession is valid through December 31, 2018. The 3G Concession fee is 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.

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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 that do not meet relative criteria shall be expensed as incurred.

When an indication of impairment is identified for intangible assets other than goodwill, 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.

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 below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

***Idle Assets***

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

***Pension Costs***

For defined benefit pension plans, net periodic pension benefit cost is recorded in the consolidated statement of income and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs, amortization of pension gains (losses) and curtailment or settlement gains (losses).

The Company recognizes into income, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the corridor. Amounts inside this 10% corridor are amortized over the average remaining service life of active plan participants. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the plans. Differences between the expected and actual returns on plan assets and changes in interest rate, which affect the discount rate used to value projected plan obligations, can have a significant impact on the calculation of pension net gains and losses from year to year.

The curtailments and settlement gains (losses) resulted from Chunghwa's early retirement programs. Curtailment/settlement gains or losses are equal to the changes of underfunded status plus a pro rata portion of the unrecognized prior service cost, unrecognized net gains (losses), and unrecognized transition obligations/assets, before the settlement/curtailment event multiplied by the percentage reduction in projected benefit obligation.

The projected benefit obligation represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels.

The carrying amount of accrued pension liability should be the sum of the following amounts when the calculation is positive: (a) projected benefit obligation as of balance sheet date, (b) minus (plus) unamortized actuarial loss (gain), (c) minus unamortized prior service cost, and (d) minus the fair value of plan assets. If the amount determined by above calculation is negative, it is viewed as prepaid pension cost. The prepaid pension cost is measured at the lower of: (a) the amount determined above, and (b) the sum of the following amounts: (i) unamortized actuarial loss, (ii) unamortized prior service cost, and (iii) the present value of refunds from the plan or reductions in future contributions to the plan.

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The measurement of benefit obligations and net periodic cost (income) is based on estimates and assumptions approved by the company's management such as compensation, age and seniority, as well as certain assumptions, including estimates of discount rates, expected return on plan assets and rate of compensation increases.

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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.

***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 period-end; stockholders' equity - historical rates, income and expenses - average rates during the period. The resulting translation

adjustments are recorded as a separate component of stockholders' equity.



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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.

The hedging items that do not meet the criteria for hedge accounting were classified as financial assets or financial liabilities at fair value through profit or loss.

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

The Company early adopted the Statement of Financial Accounting Standards No. 41 Operating Segments (SFAS No. 41) starting from September 1, 2009. This Statement supersedes the Statement of Financial Accounting Standards No. 20 Segment Reporting. For comparative purpose, the segment information for the six months ended June 30, 2009 was presented in accordance with SFAS No. 41.

The Company adopted the newly-revised Statements of Financial Accounting Standards No. 10, Accounting for Inventories, (SFAS No. 10) beginning from January 1, 2009, which requires inventories to be stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. The inventory-related incomes and expenses shall be classified in operating cost.

**4. CASH AND CASH EQUIVALENTS**

|   | <b>June 30</b> |             |
|---|----------------|-------------|
|   | <b>2010</b>    | <b>2009</b> |
| Cash  |                |             |
| Cash on hand  | \$ 146,938     | \$ 495,086  |
| Bank deposits   | 8,591,310      | 11,915,400  |
| Negotiable certificate of deposit, annual yield rate - ranging from 0.37%-0.85% and 0.15%-2.84% for 2010 and 2009, respectively | 69,600,761     | 49,570,484  |
|   | 78,339,009     | 61,980,970  |
| Cash equivalents  | 10,858,014     | 21,441,689  |

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|  |               |               |
|--|---------------|---------------|
| Commercial paper, annual yield rate - ranging from 0.25%-0.33% and 0.13%-0.20% for 2010 and 2009, respectively |               |               |
| Treasury bills, annual yield rate - ranging from 0.25%-0.28%   | 3,582,263     |               |
|  | 14,440,277    | 21,441,689    |
|  | \$ 92,779,286 | \$ 83,422,659 |

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

|  | <b>June 30</b> |             |
|--|----------------|-------------|
|  | <b>2010</b>    | <b>2009</b> |
| Derivatives - financial assets                                   |                |             |
| Forward exchange contracts                                       | \$ 498         | \$ 31       |
| Index future contracts   | 31             |             |
| Currency swap contracts  |                | 22,423      |
|  | 529            | 22,454      |
| Designated financial assets at fair value through profit or loss |                |             |
| Convertible bonds  | 39,640         |             |
|  | \$ 40,169      | \$ 22,454   |
| Derivatives - financial liabilities                              |                |             |
| Currency swap contracts  | \$ 23,656      | \$          |
| Forward exchange contracts                                       |                | 501         |
|  | \$ 23,656      | \$ 501      |

Chunghwa entered into investment management agreements with well-known financial institutions (fund managers) to manage its investment portfolios in 2006. The investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. Chunghwa terminated the investment management agreements on March 2, 2009 and asked fund managers to dispose of all the investment portfolios. The fund managers had disposed all investment portfolios before June 23, 2009 and returned the proceeds to Chunghwa.

The Company entered into currency swap contracts, 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, these derivatives do not meet the criteria for hedge accounting and were classified as financial assets or financial liabilities held for trading.

Outstanding currency swap contracts and forward exchange contracts as of June 30, 2010 and 2009 were as follows:

|                                  | <b>Currency</b> | <b>Maturity Period</b> | <b>Contract Amount<br/>(In Thousands)</b> |
|----------------------------------|-----------------|------------------------|---|
| <b>June 30, 2010</b>             |                 |                        |   |
| Currency swap contracts          | US\$/NT\$       | 2010.07                | US\$45,000/NT\$1,426,395                  |
| Forward exchange contracts - buy | NT\$/US\$       | 2010.07                | NT\$76,956                                |

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June 30, 2009

|                                  |           |         |                           |
|----------------------------------|-----------|---------|---------------------------|
| Currency swap contracts          | US\$/NT\$ | 2009.07 | US\$85,000/NT\$ 2,788,879 |
| Forward exchange contracts - buy | NT\$/US\$ | 2009.07 | NT\$183,773               |

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Outstanding index future contracts on June 30, 2010 were as follows:

|               | Maturity Period | Units | Contract<br>Amount<br>(In<br>Thousands) |
|---------------|-----------------|-------|---|
| TAIEX futures | 2010.07         | 12    | NT\$ 17,198                             |

The Company did not have any outstanding index future contracts on June 30, 2009.

As of June 30, 2010, the deposits paid for outstanding index future contracts were \$924 thousand.

The convertible bonds owned by CHI are hybrid financial instruments that are measured and designated as fair value through profit or loss.

Net gain (loss) arising from financial assets and liabilities at fair value through profit or loss for the six months ended June 30, 2010 and 2009 were \$(6,212) thousand (including realized settlement gain of \$25,306 thousand and valuation loss of \$(31,518) thousand) and \$44,016 thousand (including realized settlement loss of \$(69,996) thousand and valuation gain of \$114,012 thousand), respectively.

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

|                                   | June 30      |               |
|-----------------------------------|--------------|---------------|
|                                   | 2010         | 2009          |
| Open-end mutual funds             | \$ 6,009,788 | \$ 16,195,159 |
| Domestic listed stocks            | 321,681      |               |
| Corporate bonds                   | 102,799      |               |
| Real estate investment trust fund |              | 182,820       |
|                                   | \$ 6,434,268 | \$ 16,377,979 |

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

|                                    | Six Months Ended June 30 |                |
|------------------------------------|--------------------------|----------------|
|                                    | 2010                     | 2009           |
| Balance, beginning of period       | \$ (447,129)             | \$ (2,264,932) |
| Recognized in stockholders' equity | (502,191)                | 773,814        |
| Transferred to profit or loss      | 38,155                   | 113,399        |

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|                        |              |                |
|------------------------|--------------|----------------|
| Balance, end of period | \$ (911,165) | \$ (1,377,719) |
|------------------------|--------------|----------------|

As a result of the global economic and financial crisis, Chunghwa determined that the impairment losses of available-for-sale financial assets was other-than-temporary in nature, and recorded impairment losses of \$85,349 thousand for the six months ended June 30, 2009.

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

|   | June 30      |              |
|---|--------------|--------------|
|   | 2010         | 2009         |
| Corporate bonds, nominal interest rate ranging from 0.77%-4.75% and 0.80%-4.75% for 2010 and 2009, respectively; effective interest rate ranging from 0.50%-2.95% and 0.80%-2.95% for 2010 and 2009, respectively | \$ 7,639,850 | \$ 4,388,813 |
| Bank debentures, nominal interest rate ranging from 1.87%-2.11% and 1.95%-2.30% for 2010 and 2009, respectively; effective interest rate ranging from 1.14%-2.90% and 1.14%-2.90% for 2010 and 2009, respectively | 498,467      | 796,752      |
| Collateralized loan obligation, nominal and effective interest rate were both 2.18% for 2010 and 2009   |              | 21,167       |
|   | 8,138,317    | 5,206,732    |
| Less: Current portion   | 1,190,089    | 670,541      |
|   | \$ 6,948,228 | \$ 4,536,191 |

**8. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

|                                 | Six Months Ended June 30 |              |
|---------------------------------|--------------------------|--------------|
|                                 | 2010                     | 2009         |
| Balance, beginning of period    | \$ 2,798,679             | \$ 3,050,691 |
| Provision for doubtful accounts | 184,357                  | 261,964      |
| Accounts receivable written off | (267,919)                | (411,166)    |
| Balance, end of period          | \$ 2,715,117             | \$ 2,901,489 |

**9. OTHER MONETARY ASSETS - CURRENT**

|  | June 30      |              |
|--|--------------|--------------|
|  | 2010         | 2009         |
| Accrued custodial receipts from other carriers | \$ 498,910   | \$ 546,036   |
| Other  | 2,229,855    | 2,428,762    |
|  | \$ 2,728,765 | \$ 2,974,798 |

**10. INVENTORIES, NET**

|                             | <b>June 30</b> |              |
|-----------------------------|----------------|--------------|
|                             | <b>2010</b>    | <b>2009</b>  |
| Merchandise                 | \$ 1,907,431   | \$ 1,628,004 |
| Work in process             | 367,233        | 514,046      |
|                             | 2,274,664      | 2,142,050    |
| Land held under development | 803,620        | 706,177      |
| Land held for development   | 469,874        | 337,738      |
| Prepayment for construction | 79,876         | 43,705       |
|                             | \$ 3,628,034   | \$ 3,229,670 |



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The operating costs related to inventories were \$12,370,431 thousand (including valuation loss on inventories of \$61,272 thousand) and \$10,165,458 thousand for the six months ended June 30, 2010 and 2009, respectively.

Land held under development on June 30, 2010 was for Guang-Diang, Wan-Xi and Li-Shui (B) projects. Wan-Xi Project is expected to be completed in 2011. Guang-Diang and Li-Shui (B) projects are expected to be completed in 2012. Land held under development on June 30, 2009 was for Wan-Xi project.

**11. OTHER CURRENT ASSETS**

|                  | June 30             |                     |
|------------------|---------------------|---------------------|
|                  | 2010                | 2009                |
| Prepaid expenses | \$ 2,683,586        | \$ 2,486,753        |
| Spare parts      | 2,264,197           | 1,868,913           |
| Prepaid rents    | 909,830             | 884,389             |
| Miscellaneous    | 674,434             | 543,263             |
|                  | <b>\$ 6,532,047</b> | <b>\$ 5,783,318</b> |

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

|  | June 30             |                   |                     |                   |
|--|---------------------|-------------------|---------------------|-------------------|
|  | 2010                |                   | 2009                |                   |
|  | Carrying<br>Amount  | % of<br>Ownership | Carrying<br>Amount  | % of<br>Ownership |
| Non-listed   |                     |                   |                     |                   |
| Taiwan International Standard Electronics Co., Ltd. ( TISE ) | \$ 508,841          | 40                | \$ 495,158          | 40                |
| ST-2 Satellite Ventures Pte., Ltd. ( STS )                   | 410,268             | 38                | 409,790             | 38                |
| Senao Networks, Inc. ( SNI )                                 | 288,051             | 41                | 269,365             | 42                |
| Viettel-CHT Co., Ltd. ( Viettel-CHT )                        | 273,140             | 30                | 88,198              | 33                |
| Skysoft Co., Ltd. ( SKYSOFT )                                | 87,234              | 30                | 85,775              | 30                |
| KingWaytek Technology Co., Ltd. ( KWT )                      | 64,834              | 33                | 69,003              | 33                |
| So-net Entertainment Taiwan Co., Ltd. ( So-net )             | 26,155              | 30                | 44,929              | 30                |
| Tatung Technology Inc.                                       | 17,037              | 28                |                     |                   |
| Xiamen Sertec Business Technology Co., Ltd. ( Sertec )       | 12,620              | 49                |                     |                   |
| Chunghwa Investment Co., Ltd. ( CHI )                        |                     |                   | 841,475             | 49                |
| PandaMonium Company Ltd.                                     |                     | 43                |                     |                   |
|  | <b>\$ 1,688,180</b> |                   | <b>\$ 2,303,693</b> |                   |

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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. ( STS ) in Singapore in October 2008 in order to maintain the current service. By June 30, 2010, Chunghwa has invested \$409,061 thousand. STS will engage in the installation and the operation of ST-2 telecommunications satellite.

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Chunghwa participated in the capital increase of Viettel-CHT in September 2009, by investing \$197,088 thousand cash and its ownership interest of Viettel-CHT was decreased from 33% to 30%. Viettel-CHT engages mainly in IDC services.

Chunghwa participated in So-net Entertainment Taiwan Co., Ltd.'s capital increase on April 3, 2009, by investing \$60,008 thousand cash, and acquired 30% of its shares. So-net Entertainment Taiwan Co., Ltd. engages mainly in online service and sale of computer hardware.

Tatung Technology Inc. and PandaMonium Company Ltd. are the subsidiaries of Chunghwa Investment Co., Ltd. They engage mainly in selling the product of SET TOP BOX and making animations, respectively.

COI established Xiamen Serotec Business Technology Co., Ltd. ( Serotec ) with Xiamen Information Investment Co., Ltd. in 2010, by investing 13,863 thousand cash and held 49% of Serotec shares. Serotec engages mainly in customer services and platform rental activities.

The equity in earnings and losses for the six months ended June 30, 2010 and 2009 were based on the audited financial statements.

**13. FINANCIAL ASSETS CARRIED AT COST**

|   | June 30         |                | June 30         |                |
|---|-----------------|----------------|-----------------|----------------|
|   | 2010            | 2009           | 2010            | 2009           |
|   | Carrying Amount | % of Ownership | Carrying Amount | % of Ownership |
| Non-listed  |                 |                |                 |                |
| Taipei Financial Center Corp. ( TFC )                             | \$ 1,789,530    | 12             | \$ 1,789,530    | 12             |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. ( IBT II ) | 200,000         | 17             | 200,000         | 17             |
| Global Mobile Corp. ( GMC )                                       | 127,018         | 11             | 127,018         | 11             |
| iD Branding Ventures ( iDBV )                                     | 99,504          | 11             | 75,000          | 8              |
| Giga Solar Materials Corp.  | 56,807          | 2              |                 |                |
| UniDisplay Inc.   | 46,000          | 3              |                 |                |
| Innovation Works Development Fund, L.P. ( IWDF )                  | 38,035          | 13             |                 |                |
| RPTI Intergroup International Ltd. ( RPTI )                       | 34,500          | 10             | 34,500          | 12             |
| A2peak Power Co., Ltd.  | 27,500          | 3              |                 |                |
| Digimax Inc. ( DIG )  | 23,935          | 4              |                 |                |
| ChipSip Technology Co., Ltd.                                      | 22,750          | 3              |                 |                |
| CQi Energy Infocom Inc. ( CQi )                                   | 20,000          | 18             |                 |                |
| Lextar Electronics Corp.  | 13,753          |                |                 |                |
| N.T.U Innovation Incubation Corporation                           | 12,000          | 9              | 12,000          | 9              |
| CoaTronics Inc.   | 12,000          | 9              |                 |                |
| Crystal Media Inc.  | 11,642          | 5              |                 |                |
| Innovation Works Limited ( IW )                                   | 10,565          | 2              |                 |                |
| Win Semiconductors Corp.  | 10,555          |                |                 |                |
| Huga Optotech Inc.  | 10,477          |                |                 |                |
| Optivision Technology Inc.  | 10,188          |                |                 |                |

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|                              |       |   |
|------------------------------|-------|---|
| Daxon Technology Corporation | 9,593 |   |
| Tatung Fine Chemicals Co.    | 8,023 |   |
| Edison Opto Corporation      | 7,925 |   |
| Taimide Technology Ltd.      | 7,200 | 1 |

(Continued)

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|   | June 30      |           | 2009         |           |
|---|--------------|-----------|--------------|-----------|
|   | 2010         | % of      | 2009         | % of      |
|   | Carrying     | Ownership | Carrying     | Ownership |
|   | Amount       |           | Amount       |           |
| Champion Microelectronic Corp.            | \$ 6,125     |           | \$           |           |
| DelSolar Co., Ltd.                        | 6,096        |           |              |           |
| Subtron Technology Co., Ltd.              | 4,947        |           |              |           |
| J Touch Corporation                       | 4,161        |           |              |           |
| Taidoc Technology Corporation             | 3,498        |           |              |           |
| 3 Link Information Service Co., Ltd.      | 3,450        | 10        | 3,450        | 10        |
| Cando Corporation                         | 3,289        |           |              |           |
| eMemory Technology Inc.                   | 2,733        |           |              |           |
| SuperAlloy Industrial Co., Ltd.           | 2,214        |           |              |           |
| XinTec Inc.                               | 1,078        |           |              |           |
| Essence Technology Solution, Inc. ( ETS ) |              | 9         | 10,000       | 9         |
| eASPNet Inc.                              |              | 2         |              | 2         |
|   | \$ 2,647,091 |           | \$ 2,251,498 |           |

(Concluded)

Chunghwa invested in IWDF for \$38,035 thousand in June 2010. IWDF invests mainly in start-up companies of E-commerce, mobile internet and cloud computing, etc.

Chunghwa invested in CQi for \$20,000 thousand in June 2010. CQi engages mainly in intelligent energy network management services.

Chunghwa invested in IW for \$10,565 thousand in June 2010. IW invests mainly in start-up companies and mentors such companies in the E-commerce, mobile internet and cloud computing fields, etc.

RPTI completed a capital reduction to offset its deficits and as a result the number of shares held by Chunghwa was reduced from 9,234 thousand shares to 4,765 thousand shares in August, 2009. Subsequent to this capital reduction, RPTI raised additional capital through cash contributions. Chunghwa did not participate in the RPTI's capital increase plan; therefore, Chunghwa's ownership of RPTI decreased to 10%.

After evaluating the financial assets carried at cost, CHI determined the investment in DIG was impaired and recognized an impairment loss of NT\$10,289 thousand for the year ended December 31, 2009.

After evaluating the financial assets carried at cost, Chunghwa determined the investment in ETS was impaired and recognized an impairment loss of NT\$10,000 thousand for the year ended December 31, 2009.

Chunghwa participated in TFC's capital increase in October 2008 and prepaid \$285,859 thousand. However, TFC was not expected to be able to collect enough amount of capital increase within a specific period; therefore TFC's board of directors held a meeting on April 10, 2009 and resolved to withdraw its capital increase plan from Financial Supervisory Commission, Executive Yuan ( FSC ). TFC returned the prepayment to

Chunghwa on May 8, 2009.

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.

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|             | June 30      |              |
|-------------|--------------|--------------|
|             | 2010         | 2009         |
| 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 funds was used to finance various telecommunications infrastructure projects.

**15. PROPERTY, PLANT AND EQUIPMENT**

|                               | June 30            |                    |
|-------------------------------|--------------------|--------------------|
|                               | 2010               | 2009               |
| Cost                          |                    |                    |
| Land                          | \$ 103,719,102     | \$ 101,474,866     |
| Land improvements             | 1,538,691          | 1,513,208          |
| Buildings                     | 67,431,298         | 63,157,815         |
| Computer equipment            | 16,027,525         | 15,823,342         |
| Telecommunications equipment  | 656,803,063        | 653,783,918        |
| Transportation equipment      | 1,973,764          | 2,244,208          |
| Miscellaneous equipment       | 7,161,270          | 7,283,620          |
| <b>Total cost</b>             | <b>854,654,713</b> | <b>845,280,977</b> |
| Revaluation increment on land | 5,800,909          | 5,810,342          |
|                               | <b>860,455,622</b> | <b>851,091,319</b> |
| Accumulated depreciation      |                    |                    |
| Land improvements             | 978,932            | 923,853            |
| Buildings                     | 18,017,192         | 16,879,207         |
| Computer equipment            | 12,339,433         | 12,017,316         |
| Telecommunications equipment  | 524,825,747        | 512,567,243        |
| Transportation equipment      | 1,740,283          | 2,057,372          |
| Miscellaneous equipment       | 6,023,476          | 6,143,713          |
|                               | <b>563,925,063</b> | <b>550,588,704</b> |

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|   |                       |                       |
|---|-----------------------|-----------------------|
| Construction in progress and advances related to acquisition of equipment | 10,981,125            | 14,181,979            |
| <b>Property, plant and equipment, net</b>                                 | <b>\$ 307,511,684</b> | <b>\$ 314,684,594</b> |

Pursuant to the related regulations, Chunghwa revalued its land owned as of April 30, 2000 based on the publicly announced values 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 June 30, 2010, the unrealized revaluation increment was decreased to \$5,803,446 thousand by disposal of revaluation assets.



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Depreciation on property, plant and equipment for the six months ended June 30, 2010 and 2009 was \$16,637,014 thousand and \$17,782,402 thousand, respectively. No interest was capitalized for the six months ended June 30, 2010. The capitalized interest expense for the six months ended June 30, 2009 amounted to \$193 thousand, and the capitalized rates were 1.238%-1.604%.

**16. SHORT-TERM LOANS**

|  | <b>June 30</b>      |                   |
|--|---------------------|-------------------|
|  | <b>2010</b>         | <b>2009</b>       |
| Secured loan - annual rate - 0.81%-0.84%   | \$ 3,238,000        | \$                |
| Unsecured loans - annual rate -1.10%-1.29% and 1.20%-1.30% for 2010 and 2009, respectively | 195,687             | 256,000           |
|  | <b>\$ 3,433,687</b> | <b>\$ 256,000</b> |

**17. SHORT-TERM BILLS PAYABLE**

|  | <b>June 30, 2010</b> |
|--|----------------------|
| Commercial paper - annual rate 0.64%-0.70% | \$ 59,946            |

**18. ACCRUED EXPENSES**

|  | <b>June 30</b>       |                      |
|--|----------------------|----------------------|
|  | <b>2010</b>          | <b>2009</b>          |
| Accrued salary and compensation  | \$ 4,548,819         | \$ 7,440,198         |
| Accrued employees' bonuses and remuneration to directors and supervisors | 3,021,691            | 2,509,910            |
| Accrued franchise fees   | 1,139,941            | 1,137,051            |
| Other accrued expenses   | 3,318,592            | 2,483,372            |
|  | <b>\$ 12,029,043</b> | <b>\$ 13,570,531</b> |

**19. OTHER CURRENT LIABILITIES****June 30**

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|                                       | <b>2010</b>          | <b>2009</b>          |
|---------------------------------------|----------------------|----------------------|
| Advances from subscribers             | \$ 7,391,094         | \$ 5,773,165         |
| Amounts collected in trust for others | 2,400,587            | 2,343,607            |
| Payables to equipment suppliers       | 1,520,787            | 1,269,180            |
| Payables to contractors               | 1,472,126            | 2,012,710            |
| Refundable customers deposits         | 1,067,024            | 1,012,910            |
| Miscellaneous                         | 4,053,696            | 4,193,769            |
|                                       | <b>\$ 17,905,314</b> | <b>\$ 16,605,341</b> |

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

|   | June 30    |            |
|---|------------|------------|
|   | 2010       | 2009       |
| Unsecured loans - annual rate 2.01%-2.04% and 2.01%-2.17% for 2010 and 2009, respectively | \$ 259,542 | \$ 360,011 |
| Secured loans - annual rate-1.37% and 1.00% for 2010 and 2009, respectively               | 14,014     | 14,700     |
|   | 273,556    | 374,711    |
| Less: Current portion of long-term loans  | 108,839    | 104,668    |
|   | \$ 164,717 | \$ 270,043 |

CHIEF obtained an unsecured loan from Bank of Taiwan in January 2009. Interest and principal amount are payable monthly from January 2009 and due in January 2013.

SHE applied to the Industrial Development Bureau, Ministry of Economic Affairs and obtained a secured loan from Taiwan Business Bank. Interest is paid monthly and the principal is paid every three month from January 2009 and due in April 2013. The loan is repaid early in April 2010.

CHPT obtained a secured loan from the E. Sun Commercial Bank in December 2006. Interest and the principal are payable monthly from January 2007 and due December 2009. CHPT obtained another loan from the E. Sun Commercial Bank in February 2009. Interest and the principal are paid monthly from March 2009 and due in February 2013.

**21. 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:

|  | June 30, 2010      |                  |              |
|--|--------------------|------------------|--------------|
|  | Within<br>One Year | Over<br>One Year | Total        |
| <u>Assets</u>  |                    |                  |              |
| Inventories  | \$                 | \$ 1,353,370     | \$ 1,353,370 |
| Deferred expenses (classified as other current assets) |                    | 141,220          | 141,220      |
| Restricted assets                                      |                    | 129,911          | 129,911      |
|  | \$                 | \$ 1,624,501     | \$ 1,624,501 |

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Liabilities

|  |          |            |            |
|--|----------|------------|------------|
| Trade notes and accounts payable   | \$ 1,247 | \$         | \$ 1,247   |
| Advance from land and building (classified as other current liabilities) |          | 431,028    | 431,028    |
|  | \$ 1,247 | \$ 431,028 | \$ 432,275 |

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|  | June 30, 2009          |               |              |
|--|------------------------|---------------|--------------|
|  | With in<br>One<br>Year | Over One Year | Total        |
| <b>Assets</b>  |                        |               |              |
| Inventories  | \$                     | \$ 1,087,620  | \$ 1,087,620 |
| Deferred expenses (classified as other current assets)                   |                        | 91,580        | 91,580       |
| Restricted assets  |                        | 76,501        | 76,501       |
|  | \$                     | \$ 1,255,701  | \$ 1,255,701 |
| <b>Liabilities</b>   |                        |               |              |
| Advance from land and building (classified as other current liabilities) | \$                     | \$ 247,480    | \$ 247,480   |

**22. STOCKHOLDERS EQUITY**

Under Chunghwa's Articles of Incorporation, Chunghwa's authorized capital is \$120,000,000,000 which is divided into 12,000,000,000 common shares (at \$10 par value per share), among which 9,696,808,181 shares are issued and outstanding as of June 30, 2010.

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. In accordance with the Articles of Incorporation of Chunghwa, the preferred shares would be redeemed by Chunghwa three years from the date of issuance at their par value. These preferred shares expired on April 4, 2009 and were redeemed on April 6, 2009.

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 June 30, 2010, the outstanding ADSs were 962,735 thousand common shares, which equaled approximately 96,274 thousand units and represented 9.93% 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.

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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 six months ended June 30, 2010 and 2009, the accrual amounts for bonuses to employees and remuneration to directors and supervisors were accrued on past experiences 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 significantly different from the amounts proposed by the board of directors, the difference is charged to the earnings of the year making the initial estimate. Otherwise, the difference between initial accrual amounts and the amounts resolved in the stockholders' meeting is charged to the earnings of the following year as a result of change of 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 2009 and 2008 earnings of Chunghwa have been approved by the stockholders on June 18, 2010 and June 19, 2009 as follows:

|                 | Appropriation of Earnings |              | Dividend Per Share |      |
|-----------------|---------------------------|--------------|--------------------|------|
|                 | 2009                      | 2008         | 2009               | 2008 |
| Legal reserve   | \$ 4,374,014              | \$ 4,127,675 | \$                 | \$   |
| Special reserve |                           | 475          |                    |      |

|                |            |            |      |      |
|----------------|------------|------------|------|------|
| Cash dividends | 39,369,041 | 37,138,775 | 4.06 | 3.83 |
|----------------|------------|------------|------|------|



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The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders' meeting on June 18, 2010, were \$1,800,929 thousand and \$41,211 thousand paid by cash, respectively. There was no difference between the initial accrual amounts and the amounts resolved in stockholders' meeting of the aforementioned bonuses to employees and the remuneration to directors and supervisors.

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders' meeting on June 19, 2009, were \$1,629,915 thousand and \$38,807 thousand paid by cash, respectively. The aforementioned approved amounts of the bonus to employees and the remuneration to directors and supervisors were different from the accrual amounts of \$1,723,921 thousand and \$40,886 thousand, respectively, reflected in the statement of income for the year ended December 31, 2008. The differences of \$94,006 thousand and \$2,079 thousand, respectively, were treated as change in estimates and were adjusted against earnings for the six months ended June 30, 2009.

Information on the appropriation of Chunghwa's 2009 earnings, employees bonuses and remuneration to directors and supervisors resolved by the board of directors and approved by the stockholders is available at the Market Observation Post System website.

The stockholders, at the stockholders' meeting held on June 18, 2010, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in the amount of \$19,393,616 thousand in order to improve the financial condition of Chunghwa and better utilize its excess funds. The stockholders further authorized the board of directors of Chunghwa to designate the record date of capital reduction after the capital reduction plan is effectively registered with FSC.

The stockholders, at a meeting held on June 19, 2009, resolved to transfer capital surplus in the amount of \$9,696,808 thousand to common capital stock. The abovementioned 2009 capital increase proposal was effectively registered with FSC. The board of directors authorized the chairman of directors to decide the ex-dividend date of the aforementioned proposal and the chairman decided the ex-dividend date as August 9, 2009.

The stockholders, at the stockholders' meeting held on June 19, 2009, 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 abovementioned 2009 capital reduction proposal was effectively approved by FSC. The board of directors of Chunghwa further authorized the chairman of board of directors of Chunghwa to designate the record date of capital reduction as of October 26, 2009. Subsequently, common capital stock was reduced by NT\$9,696,808 thousand and the stock transfer date of capital reduction was January 28, 2010. The amount due to stockholders for capital reduction was paid in February 2010.

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 abovementioned 2008 capital increase proposal was effectively registered with FSC. 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 FSC. Chunghwa designated December 30, 2008 as the record date and March 9, 2009 as the stock transfer date of capital reduction. Subsequently, common capital stock was reduced by \$19,115,554 thousand and a liability for the same amount of cash to be distributed to stockholders was recorded. Such cash payment to stockholders was made in March 2009.



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**23. SENAO STOCK-BASED COMPENSATION PLANS**

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

| Effective Date | Grant Date | Stock Options<br>Units<br>(Thousand) | Exercise Price                      |
|----------------|------------|--------------------------------------|-------------------------------------|
| 2003.09.03     | 2003.10.17 | 3,981                                | \$ 14.7<br>(Original price \$ 20.2) |
| 2003.09.03     | 2004.03.04 | 385                                  | 17.6<br>(Original price \$ 23.9)    |
| 2004.12.01     | 2004.12.28 | 6,500                                | 10.0<br>(Original price \$ 11.6)    |
| 2004.12.01     | 2005.11.28 | 1,500                                | 14.4<br>(Original price \$ 18.3)    |
| 2005.09.30     | 2006.05.05 | 10,000                               | 13.3<br>(Original price \$ 16.9)    |
| 2007.10.16     | 2007.10.31 | 6,181                                | 42.6<br>(Original price \$ 44.2)    |
|                |            | <b>28,547</b>                        |                                     |

Each option is eligible to subscribe for one common share when exercisable. Under the terms of the Plans, the options are granted at an exercise price equal to the closing price of the SENAO s common shares listed on the TSE on the higher of closing price or par value. The SENAO 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 dividends (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 SENAO s outstanding stock options for the six months ended June 30, 2010 and 2009 were as follows:

|  | Stock Options Outstanding |                |            |                |
|--|---------------------------|----------------|------------|----------------|
|  | 2010                      |                |            | 2009           |
|  | Number of                 | Weighted       | Number of  | Weighted       |
|  | Options                   | Average        | Options    | Average        |
|  | (Thousand)                | Exercise Price | (Thousand) | Exercise Price |
|  |                           | (NT\$)         |            | (NT\$)         |
| Options outstanding, beginning of period | 9,323                     | \$ 30.92       | 13,818     | \$ 26.34       |
| Options exercised                        | (3,179)                   | 22.00          | (3,452)    | 12.57          |
| Options expired                          | (82)                      | 33.76          | (191)      | 24.46          |
| Options outstanding, end of period       | 6,062                     | 35.56          | 10,175     | 30.41          |
| Options exercisable, end of period       | 3,238                     |                | 1,938      |                |

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As of June 30, 2010, information about SENAO's outstanding and exercisable options was as follows:

| Range of Exercise Price<br>(NT\$) | Options Outstanding             |   |   | Options Exercisable             |   |
|-----------------------------------|---------------------------------|---|---|---------------------------------|---|
|                                   | Number of Options<br>(Thousand) | Weighted-average Remaining Contractual Life (Years) | Weighted Average Exercise Price<br>(NT\$) | Number of Options<br>(Thousand) | Weighted Average Exercise Price<br>(NT\$) |
| \$ 10.0-\$13.3                    | 1,393                           | 1.82  | \$ 13.26                                  | 1,393                           | \$ 13.26                                  |
| \$ 14.4                           | 64                              | 1.42  | 14.40                                     | 64                              | 14.40                                     |
| \$ 42.6                           | 4,605                           | 3.42  | 42.60                                     | 1,781                           | 42.60                                     |

As of June 30, 2009, information about SENAO's outstanding and exercisable options was as follows:

| Range of Exercise Price<br>(NT\$) | Options Outstanding             |   |   | Options Exercisable             |   |
|-----------------------------------|---------------------------------|---|---|---------------------------------|---|
|                                   | Number of Options<br>(Thousand) | Weighted-average Remaining Contractual Life (Years) | Weighted Average Exercise Price<br>(NT\$) | Number of Options<br>(Thousand) | Weighted Average Exercise Price<br>(NT\$) |
| \$ 10.0-\$13.3                    | 3,727                           | 2.71  | \$ 12.99                                  | 1,762                           | \$ 12.65                                  |
| \$ 14.4-\$17.6                    | 487                             | 2.16  | 14.44                                     | 176                             | 14.50                                     |
| \$ 42.6                           | 5,961                           | 4.42  | 42.60                                     |                                 |   |

No compensation cost of SENAO's options was recognized under the intrinsic value method for the six months ended June 30, 2010 and 2009. 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 six months ended June 30, 2010 would have been as follows:

|                         | October 31,<br>2007 | May 5,<br>2006 | November 28,<br>2005 | December 28,<br>2004 | March 4,<br>2004 |
|-------------------------|---------------------|----------------|----------------------|----------------------|------------------|
| Expected dividend yield | 1.49%               |                |                      |                      |                  |
| Risk free interest rate | 2.00%               | 1.75%          | 2.00%                | 1.88%                | 1.88%            |
| Expected life           | 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 |
|---------------------------------------|----------|---------|---------|---------|----------|

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|                      | <b>Six Months Ended June 30, 2010</b> |                               |               |
|----------------------|---------------------------------------|-------------------------------|---------------|
|                      | <b>Operating<br/>Costs</b>            | <b>Operating<br/>Expenses</b> | <b>Total</b>  |
| Compensation expense |                                       |                               |               |
| Salaries             | \$ 6,317,576                          | \$ 5,114,628                  | \$ 11,432,204 |
| Insurance            | 517,070                               | 403,466                       | 920,536       |
| Pension              | 850,060                               | 597,371                       | 1,447,431     |
| Other compensation   | 4,679,483                             | 3,266,769                     | 7,946,252     |
|                      | \$ 12,364,189                         | \$ 9,382,234                  | \$ 21,746,423 |
| Depreciation expense | \$ 15,759,829                         | \$ 877,185                    | \$ 16,637,014 |
| Amortization expense | \$ 527,549                            | \$ 115,493                    | \$ 643,042    |

|                      | <b>Six Months Ended June 30, 2009</b> |                               |               |
|----------------------|---------------------------------------|-------------------------------|---------------|
|                      | <b>Operating<br/>Costs</b>            | <b>Operating<br/>Expenses</b> | <b>Total</b>  |
| Compensation expense |                                       |                               |               |
| Salaries             | \$ 6,266,498                          | \$ 4,885,090                  | \$ 11,151,588 |
| Insurance            | 439,203                               | 343,322                       | 782,525       |
| Pension              | 816,646                               | 603,729                       | 1,420,375     |
| Other compensation   | 4,023,648                             | 2,788,481                     | 6,812,129     |
|                      | \$ 11,545,995                         | \$ 8,620,622                  | \$ 20,166,617 |
| Depreciation expense | \$ 16,804,893                         | \$ 977,509                    | \$ 17,782,402 |
| Amortization expense | \$ 470,744                            | \$ 111,261                    | \$ 582,005    |

**25. INCOME TAX**

a. Income tax expense consisted of the following:

**Six Months Ended June 30**

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|                                       | 2010                | 2009                |
|---------------------------------------|---------------------|---------------------|
| Income tax payable                    | \$ 4,819,213        | \$ 6,688,966        |
| Income tax - separated                | 3,688               | 49,486              |
| Income tax - deferred                 | 85,473              | 305,855             |
| Adjustments of prior years income tax | (2,189)             | (194,816)           |
| <b>Income tax</b>                     | <b>\$ 4,906,185</b> | <b>\$ 6,849,491</b> |

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduced the income tax rate of profit-seeking enterprises from 20% to 17% , effective January 1, 2010. The Company recalculated its deferred income tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as an income tax expense or benefit.

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.



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

|   | June 30    |              |
|---|------------|--------------|
|   | 2010       | 2009         |
| <b><u>Current</u></b>                             |            |              |
| Provision for doubtful accounts                   | \$ 291,792 | \$ 384,661   |
| Unrealized accrued expense                        | 56,167     | 48,783       |
| Estimated warranty liabilities                    | 17,422     | 12,875       |
| Valuation loss on inventory                       | 14,667     | 21,598       |
| Investment tax credit                             | 2,144      |              |
| Loss carryforward                                 | 835        |              |
| Unrealized foreign exchange loss (gain)           | (36,894)   | 29,509       |
| Valuation gain on financial instruments, net      | (1,890)    | (22,940)     |
| Other   | 20,365     | 2,413        |
|   | 364,608    | 476,899      |
| Valuation allowance                               | (291,192)  | (375,345)    |
| Net deferred income tax assets - current          | \$ 73,416  | \$ 101,554   |
| <b><u>Noncurrent</u></b>                          |            |              |
| Deferred income tax assets                        |            |              |
| Accrued pension cost                              | \$ 288,606 | \$ 1,128,496 |
| Loss carryforward                                 | 95,239     | 113,756      |
| Impairment loss                                   | 52,289     | 68,399       |
| Investment tax credit                             | 15,180     |              |
| Loss on disposal of property, plant and equipment |            | 1,283        |
| Other   | 12,906     | 5,590        |
|   | 464,220    | 1,317,524    |
| Valuation allowance                               | (33,535)   | (63,083)     |
| Net deferred income tax assets - noncurrent       | \$ 430,685 | \$ 1,254,441 |

As of June 30, 2010, details for investment tax credit of CHI and CHPT are as follows:

Remaining      Remaining

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| Law/Statue                       | Items                                  | Creditable Amount | Expiry Year |
|----------------------------------|--|-------------------|-------------|
| Statute for Upgrading Industries | Pioneer Industry Investment Tax Credit | \$ 7,164          | 2011        |
| Statute for Upgrading Industries | Personnel training expenditures        | \$ 432            | 2011        |
|                                  | Personnel training expenditures        | 3,772             | 2012        |
|                                  | Personnel training expenditures        | 3,288             | 2013        |
|                                  | Purchase of machinery and equipment    | 889               | 2011        |
|                                  | Purchase of machinery and equipment    | 1,580             | 2012        |
|                                  | Purchase of machinery and equipment    | 199               | 2013        |
|                                  |  | \$ 10,160         |             |

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As of June 30, 2010, loss carryforward of CHIEF, Unigate, SHE, LED, YYRP and CHPT are as follows:

| Company | Total<br>Amounts | Unused<br>Amounts | Expiry<br>Year |
|---------|------------------|-------------------|----------------|
| CHIEF   | \$ 19,218        | \$ 9,360          | 2013           |
|         | 15,251           | 15,251            | 2014           |
|         | 17,267           | 17,267            | 2015           |
|         | 14,943           | 14,943            | 2016           |
|         | 8,558            | 8,558             | 2017           |
|         | 1,409            | 1,409             | 2018           |
| Unigate | 13               | 13                | 2017           |
|         | 6                | 6                 | 2018           |
| SHE     | 784              | 429               | 2017           |
| LED     | 5,426            | 5,426             | 2018           |
|         | 7,571            | 7,571             | 2019           |
|         | 7,052            | 7,052             | 2020           |
| YYRP    | 9,026            | 835               | 2019           |
| IFE     | 7,954            | 7,954             | 2020           |
|         | \$ 114,478       | \$ 96,074         |                |

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

|   | June 30       |               |
|---|---------------|---------------|
|   | 2010          | 2009          |
| Balance of Imputation Credit Account ( ICA ) Chunghwa | \$ 11,589,546 | \$ 12,629,060 |

The actual creditable ratios distribution of Chunghwa s of 2009 and 2008 for earnings were 26.48% and 30.61%, respectively.

d. 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. SENAO s income tax returns have been examined by tax authorities through 2006. CHSI s income tax returns have been examined by tax authorities through 2007. The following subsidiaries income tax returns have been examined by tax authorities through 2008: CHIEF, Unigate, SHE, LED, YYRP, CIYP, IFE, CHI and CHPT.



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**26. EARNINGS PER SHARE**

EPS was calculated as follows:

|   | Amount (Numerator)             |               | Weighted-<br>average                                      | Earnings Per Share<br>(Dollars) |            |
|---|--------------------------------|---------------|---|---------------------------------|------------|
|   | Income<br>Before<br>Income Tax | Net Income    | Number of<br>Common Shares<br>(Thousand)<br>(Denominator) | Income<br>Before<br>Income Tax  | Net Income |
| <b><u>Six months ended June 30, 2010</u></b>  |                                |               |   |                                 |            |
| Basic EPS   |                                |               |   |                                 |            |
| Income attributable to stockholders of the parent   | \$ 29,754,207                  | \$ 24,991,418 | 9,696,808   | \$ 3.07                         | \$ 2.58    |
| Effect of dilutive potential common stock   |                                |               |   |                                 |            |
| SENAO's stock options   | (3,866)                        | (3,866)       |   |                                 |            |
| Employee bonus  |                                |               | 35,947  |                                 |            |
| Diluted EPS   |                                |               |   |                                 |            |
| Income attributable to stockholders of the parent (including effect of dilutive potential common stock) | \$ 29,750,341                  | \$ 24,987,552 | 9,732,755   | \$ 3.06                         | \$ 2.57    |
| <b><u>Six months ended June 30, 2009</u></b>  |                                |               |   |                                 |            |
| Basic EPS   |                                |               |   |                                 |            |
| Income attributable to stockholders of the parent   | \$ 28,926,734                  | \$ 22,261,402 | 9,696,808   | \$ 2.98                         | \$ 2.30    |
| Effect of dilutive potential common stock   |                                |               |   |                                 |            |
| SENAO's stock options   | (1,038)                        | (1,038)       |   |                                 |            |
| Employee bonus  |                                |               | 33,294  |                                 |            |
| Diluted EPS   |                                |               |   |                                 |            |
| Income attributable to stockholders of the parent (including effect of dilutive potential common stock) | \$ 28,925,696                  | \$ 22,260,364 | 9,730,102   | \$ 2.97                         | \$ 2.29    |

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. According to the Interpretation 97-169

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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 shares have a dilutive effect for the six months ended June 30, 2010 and 2009. 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 six months ended June 30, 2010 and 2009 was due to the effect of potential common stock related to stock options granted by SENAO.

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The weighted-average number of outstanding shares for EPS calculation has been retroactively adjusted for capital reduction. The retroactive adjustments caused the basic EPS before income tax and after income tax for the six months ended June 30, 2009 to increase from NT\$2.71 to NT\$2.98 and to increase from NT\$2.09 to NT\$2.30, respectively, and the diluted EPS before income tax and after income tax for the six months ended June 30, 2009, to increase from NT\$2.70 to NT\$2.97 and to increase from NT\$2.08 to NT\$2.29, respectively.

**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 is requested to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization.

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

The Company's pension plan is considered as a defined benefit plan under the Labor Standards Law that provide benefits based on an employee's length of service and average six-month salary prior to retirement at retirement. Chunghwa, SENAO, CHIEF and SHE contribute an amount no more than 15% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the names of the Committees in the Bank of Taiwan.

Pension costs of the Company were \$1,483,120 thousand (\$1,375,829 thousand subject to defined benefit plan and \$107,291 thousand subject to defined contribution plan) and \$1,456,883 thousand (\$1,368,420 thousand subject to defined benefit plan and \$88,463 thousand subject to defined contribution plan) for the six months ended June 30, 2010 and 2009, respectively.

**28. TRANSACTIONS WITH RELATED PARTIES**

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

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

| Company  | Relationship  |
|--|---|
| Chungghwa Precision Test Tech. Co., Ltd. ( CHPT )            | Subsidiary of CHI ,which was equity-method investee before Chungghwa obtained control over CHI on September 9, 2009 |
| Taiwan International Standard Electronics Co., Ltd. ( TISE ) | Equity-method investee  |
| Skysoft Co., Ltd. ( SKYSOFT )                                | Equity-method investee  |
| So-net Entertainment Taiwan Co., Ltd ( So-net )              | Equity-method investee  |
| 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                   |
| Institute for Information Industry ( III )                   | Equity- method investor of InfoExplorer   |
| e-To You International Inc. ( ETY )                          | Chairman of ETY is the vice chairman of InfoExplorer  |
| ST-2 Satellite Ventures Pte., Ltd. ( STS )                   | Equity-method investee of CHTS  |

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

|   | 2010       |     | June 30<br>2009 |     |
|---|------------|-----|-----------------|-----|
|   | Amount     | %   | Amount          | %   |
| 1) Receivables  |            |     |                 |     |
| Trade notes and accounts receivable                         |            |     |                 |     |
| III   | \$ 27,555  | 97  | \$ 109,432      | 96  |
| Others  | 892        | 3   | 3,997           | 4   |
|   | \$ 28,447  | 100 | \$ 113,429      | 100 |
| 2) Prepaid expenses (including in other current assets)     |            |     |                 |     |
| III   | \$ 666     | 1   | \$              |     |
| 3) Payables   |            |     |                 |     |
| Trade notes payable, accounts payable, and accrued expenses |            |     |                 |     |
| TISE  | \$ 321,543 | 95  | \$ 349,389      | 94  |
| Others  | 15,853     | 5   | 6,667           | 2   |
|   | 337,396    | 100 | 356,056         | 96  |



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|   |  |            |        |                |
|---|--|------------|--------|----------------|
| Payables to contractors   |  |            |        |                |
| TISE  |  | 1,560      | 15,412 | 4              |
|   |  | \$ 338,956 | 100    | \$ 371,468 100 |
| 4) Advances from customers (including in other current liabilities) |  |            |        |                |
| SNI   |  | \$ 2,736   | \$     |                |

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|   | Six Months Ended June 30 |        | 2009       |   |
|---|--------------------------|--------|------------|---|
|   | 2010                     | %      | Amount     | % |
| Amount  |                          | Amount |            |   |
| 5) Revenues                                     |                          |        |            |   |
| So-net  | \$ 155,589               |        | \$ 24,608  |   |
| III   | 20,507                   |        | 91,373     |   |
| SKYSOFT   | 18,777                   |        | 17,086     |   |
| Others  | 8,333                    |        | 7,624      |   |
|   | \$ 203,206               |        | \$ 140,691 |   |
| 6) Operating costs and expenses                 |                          |        |            |   |
| TISE  | \$ 461,035               |        | \$ 232,188 |   |
| Others  | 24,628                   |        | 17,433     |   |
|   | \$ 485,663               |        | \$ 249,621 |   |
| 7) Non-operating income and gains               |                          |        |            |   |
| SNI   | \$ 13,926                | 2      | \$ 13,286  | 1 |
| Others  | 1,847                    |        | 71         |   |
|   | \$ 15,773                | 2      | \$ 13,357  | 1 |
| 8) Acquisition of property, plant and equipment |                          |        |            |   |
| TISE  | \$ 19,879                |        | \$ 214,625 | 2 |
| III   |                          |        | 18,972     |   |
|   | \$ 19,879                |        | \$ 233,597 | 2 |

Chunghwa has entered into a contract with ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. This lease term is 15 years and the total contract value is approximately \$6,000,000 thousand (SGD 260,723 thousand). The Company has prepaid \$1,995,294 thousand which was classified as other assets-others. As of June 30, 2010, the ST-2 satellite is still under construction.

SENAO rents out part of its plant to SNI, and the rent is collected monthly. The foregoing transactions with related parties were conducted as arm's length transactions, except for the transactions with SNI, STEF, III and ETY which were determined in accordance with mutual agreements.



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**29. PLEDGED ASSETS**

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

|                                    | June 30    |           |
|------------------------------------|------------|-----------|
|                                    | 2010       | 2009      |
| Property, plant and equipment, net | \$ 637,432 | \$        |
| Restricted assets                  | 81,874     | 54,446    |
|                                    | \$ 719,306 | \$ 54,446 |

**30. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

As of June 30, 2010, in addition to those disclosed in other notes, the Company's remaining commitments under non-cancellable contracts with various parties were as follows:

- a. Acquisition of land and buildings of \$119,565 thousand.
- b. Acquisition of telecommunications equipment of \$18,178,235 thousand.
- c. Unused letters of credit of \$300,000 thousand.
- d. Contracts to print billing, envelopes and selling gifts of \$93,976 thousand.
- e. LED has already contracted to advance sale of land and buildings for \$2,593,356 thousand, and collected \$431,028 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:

|                                   | <b>June 30, 2010</b> |
|-----------------------------------|----------------------|
| Restricted assets - bank deposits | \$ 129,911           |
| Land held under development       | 706,172              |
|                                   | \$ 836,083           |

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

| <b>Year</b>                                   | <b>Rental Amount</b> |
|---|----------------------|
| 2010 (from July 1, 2010 to December 31, 2010) | \$ 1,042,971         |
| 2011  | 1,537,233            |
| 2012  | 1,177,549            |
| 2013  | 836,085              |
| 2014 and thereafter                           | 870,020              |

- 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 Taiwan Post Co., Ltd. (the former Chunghwa Post Co., Ltd. directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to Chunghwa to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of Chunghwa's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. 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. Furthermore, 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 filed an appeal at the Taiwan Taipei District Court. On March 30, 2009, the Taiwan Taipei District Court rendered its judgment that Chunghwa only need to pay \$16,870 thousand along with interest calculated at 5% per annum from July 23, 2005 and 4% of the court fees as the court judgment compensation. However, Chunghwa Post Co., Ltd. did not accept the judgment and filed an appeal at Taiwan High Court. Chunghwa also filed an appeal at the Taiwan High Court within the statutory period. On April 7, 2010, the Taiwan High Court rendered its judgment, ruling that we need to pay \$23,284 thousand as compensation in addition to the \$16,870 thousand from the Taiwan Taipei District Court judgment, along with interest calculated at 5% per annum from July 23, 2005 to the payment date and 12.5% of Chunghwa Post Co., Ltd.'s court fees from its original suit and subsequent appeal as compensation. Chunghwa has filed an appeal at the Supreme Court of the Republic of China within the statutory period.

**Table of Contents****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)****31. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

|  | 2010               |               | June 30<br>2009    |               |
|--|--------------------|---------------|--------------------|---------------|
|  | Carrying<br>Amount | Fair<br>Value | Carrying<br>Amount | Fair<br>Value |
| <b>Assets</b>  |                    |               |                    |               |
| Cash and cash equivalents  | \$ 92,779,286      | \$ 92,779,286 | \$ 83,422,659      | \$ 83,422,659 |
| Financial assets at fair value through profit or loss                          | 40,169             | 40,169        | 22,454             | 22,454        |
| Available-for-sale financial assets  | 6,434,268          | 6,434,268     | 16,377,979         | 16,377,979    |
| Held-to-maturity financial assets - current                                    | 1,190,089          | 1,190,089     | 670,541            | 670,541       |
| Trade notes and accounts receivable, net                                       | 12,261,827         | 12,261,827    | 10,969,179         | 10,969,179    |
| Receivables from related parties   | 28,447             | 28,447        | 113,429            | 113,429       |
| Other current monetary assets  | 2,728,765          | 2,728,765     | 2,974,798          | 2,974,798     |
| Restricted assets - current  | 179,746            | 179,746       | 101,843            | 101,843       |
| Financial assets carried at cost   | 2,647,091          |               | 2,251,498          |               |
| Held-to-maturity financial assets - noncurrent                                 | 6,948,228          | 6,948,228     | 4,536,191          | 4,536,191     |
| Other noncurrent monetary assets   | 1,000,000          | 1,000,000     | 1,000,000          | 1,000,000     |
| Refundable deposits  | 1,475,313          | 1,475,313     | 1,336,669          | 1,336,669     |
| Restricted assets - noncurrent   | 32,039             | 32,039        | 29,104             | 29,104        |
| <b>Liabilities</b>   |                    |               |                    |               |
| Short-term loans   | 3,433,687          | 3,433,687     | 256,000            | 256,000       |
| Short-term bills payable   | 59,946             | 59,946        |                    |               |
| Financial liabilities at fair value through profit or loss                     | 23,656             | 23,656        | 501                | 501           |
| Trade notes and accounts payable   | 6,851,912          | 6,851,912     | 7,106,260          | 7,106,260     |
| Payables to related parties  | 338,956            | 338,956       | 371,468            | 371,468       |
| Accrued expenses   | 12,029,043         | 12,029,043    | 13,570,531         | 13,570,531    |
| Dividends payable  | 39,369,041         | 39,369,041    | 37,138,775         | 37,138,775    |
| Amounts collected in trust for others (included in other current liabilities ) | 2,400,587          | 2,400,587     | 2,343,607          | 2,343,607     |
| Payables to equipment suppliers (included in other current liabilities )       | 1,520,787          | 1,520,787     | 1,269,180          | 1,269,180     |
| Payables to contractors (included in other current liabilities )               | 1,472,126          | 1,472,126     | 2,012,710          | 2,012,710     |
| Refundable customers deposits (included in other current liabilities )         | 1,067,024          | 1,067,024     | 1,012,910          | 1,012,910     |
| Current portion of long-term loans   | 108,839            | 108,839       | 104,668            | 104,668       |
| Long-term loans  | 164,717            | 164,717       | 270,043            | 270,043       |
| Customers deposits   | 5,914,124          | 5,914,124     | 6,054,883          | 6,054,883     |

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 instruments have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market price of the other financial instruments are not readily available, valuation techniques are used incorporating estimates and assumptions that are consistent with prevailing market conditions.
- 3) Financial assets carried at cost are investments in nonlisted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.



**Table of Contents****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

- 4) The fair value of long-term loans (including current portion) is discounted based on projected cash flow which 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 |            | Amount Determined |           |
|---|-----------------|------------|-------------------|-----------|
|   | 2010            | 2009       | 2010              | 2009      |
| <b>Assets</b>   |                 |            |                   |           |
| Financial assets at fair value through profit or loss                             | \$ 39,671       | \$         | \$ 498            | \$ 22,454 |
| Available-for-sale financial assets   | 6,331,469       | 16,377,979 | 102,799           |           |
| Hedging derivative financial assets (classified as other current monetary assets) |                 |            |                   | 17,374    |
| <b>Liabilities</b>  |                 |            |                   |           |
| Financial liabilities at fair value through profit or loss                        |                 |            | 23,656            | 501       |

## 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, outstanding currency swap contracts, 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, open-end mutual funds and corporate bonds. 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 is 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 and corporations. 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 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 risk is 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 is anticipated.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**

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

## 4) Cash flow interest rate risk

Chunghwa 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, Chunghwa 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

The Company entered into forward exchange contracts to hedge the fluctuation in exchange rates of beneficiary certificate denominated in foreign currency, which is fair value hedge. No transaction met the criteria for hedge accounting for the six months ended June 30, 2010. The transaction was assessed as highly effective for the six months ended June 30, 2009.

Outstanding currency swap contracts for hedge as of June 30, 2009 were as follows:

|                         | Currency  | Maturity Period | Contract Amount<br>(In Thousands) |
|-------------------------|-----------|-----------------|-----------------------------------|
| Currency swap contracts | US\$/NT\$ | 2009.07         | US\$ 30,000/NT\$984,471           |

As of June 30, 2009, the currency swap contracts measured at fair value result in hedging derivative financial assets of \$17,374 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. Financings provided: Please see Table 1.
- b. Endorsement/guarantee provided: Please see Table 2.
- c. Marketable securities held: Please see Table 3.
- 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 4.

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- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: None.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 5.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 6.
- i. Names, locations, and other information of investees on which the Company exercises significant influence: Please see Table 7.

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**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**  
**(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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. THE FINANCIAL INFORMATION OF OPERATING SEGMENTS**

Segment information: Please see Table 10.

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TABLE 1

## CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## FINANCINGS PROVIDED

SIX MONTHS ENDED JUNE 30, 2010

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

| No. | Financing Company                     | Counter-party                      | Financial Statement Account | Maximum Balance for the Year | Ending Balance | Interest Rate (Note 5) | Type of Financing (Note 2) | Transaction Amount (Note 6) | Reason for Financing | Allowance for Short-term Bad Debt Item Value | Collateral | Financing Limit for Each Company (Note 3) | Financing Company's Amount Limit (Note 4) |
|-----|---------------------------------------|------------------------------------|-----------------------------|------------------------------|----------------|------------------------|----------------------------|-----------------------------|----------------------|--|------------|---|---|
|     |                                       |                                    |                             |                              |                |                        |                            |                             |                      |  |            |   |   |
|     | Chunghwa Telecom Singapore Pte., Ltd. | ST-2 Satellite Ventures Pte., Ltd. | Other receivables           | \$ 543,303                   | \$             | 6.38%                  | a                          | (Note 6)                    |                      | \$   | \$         | \$ 1,426,836                              | \$ 1,426,836                              |
|     |                                       |                                    |                             | (SGD 23,913)                 |                |                        |                            |                             |                      |  |            | (SGD 62,063)                              | (SGD 62,063)                              |

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

a. 0 for the Company.

b. Subsidiaries are numbered from 1 .

Note 2: Reasons for financing are as follows:

a. Business relationship.

b. For short-term financing.

Note 3: The upper limit of loans lending to any other party is no more than 100% of the net value of the latest financial statements of the lender.

Note 4: The upper limit of loans lending to all other parties is no more than 100% of the net value of the latest financial statements of the lender.

Note 5: It equals to the prime rate of Singapore plus 1%.

Note 6: Chunghwa Telecom Singapore Pte., Ltd. signed the joint venture contract with SingTelSat Pte., Ltd. to establish ST-2 Satellite Ventures Pte., Ltd. which mainly engages in the installation and the operation of ST-2 telecommunications satellite. The amount was collected on April 1, 2010.



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TABLE 2

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****ENDORSEMENTS/GUARANTEES PROVIDED****SIX MONTHS ENDED JUNE 30, 2010****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| No. | Endorsement/<br>Guarantee<br>Provider | Guaranteed Party<br>Name              | Guaranteed Party<br>Nature of<br>Relationship<br>(Note 2) | Limits on<br>Endorsement/<br>Guarantee<br>Amount<br>Provided to<br>Each<br>Guaranteed<br>Party |              | Maximum<br>Balance<br>for the<br>Year | Ending<br>Balance | Amount of<br>Endorsement/<br>Guarantee<br>Collateralized<br>by<br>Properties | Ratio of<br>Accumulated<br>Endorsement/<br>Guarantee to<br>Net Equity<br>per Latest<br>Financial<br>Statements | Maximum<br>Endorsement/<br>Guarantee<br>Amount<br>Allowable<br>(Note 3) |
|-----|---------------------------------------|---------------------------------------|---|--|--------------|---------------------------------------|-------------------|--|--|---|
|     |                                       |                                       |   |  |              |                                       |                   |  |  |   |
| 25  | Yao Yong Real Property<br>Co., Ltd.   | Light Era<br>Development<br>Co., Ltd. | d   | \$ 3,756,752   | \$ 3,360,000 | \$ 3,360,000                          | \$ 3,360,000      | 0.9%   | \$ 3,756,752   |   |

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

a. 0 for the Company.

b. Subsidiaries are numbered from 1 .

Note 2: Relationships between the endorsement/guarantee provider and the guaranteed party:

a. Trading partner.

b. Majority owned subsidiary.

c. The Company and subsidiary owns over 50% ownership of the investee company.

d. A subsidiary jointly owned by the Company and the Company s directly-owned subsidiary.

e. Guaranteed by the Company according to the construction contract.



f. An investee company. The guarantees were provided based on the Company's proportionate share in the investee company.

Note 3: The maximum amount of endorsement or guarantee amounts is up to 200% of the asset value of the latest financial statements of Yao Yong Real Property Co., Ltd.

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TABLE 3

## CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

JUNE 30, 2010

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

| Company Name               | Marketable Securities Type and Name                 | Relationship with the Company | Financial Statement Account                   | June 30, 2010                      |                         |                         |                              |
|----------------------------|---|-------------------------------|---|------------------------------------|-------------------------|-------------------------|------------------------------|
|                            |   |                               |   | Shares (Thousands/ Thousand Units) | Carrying Value (Note 6) | Percentage of Ownership | Market Value Net Asset Value |
| Chunghwa Telecom Co., Ltd. | <u>Stocks</u>                                       |                               |   |                                    |                         |                         |                              |
|                            | Senao International Co., Ltd.                       | Subsidiary                    | Investments accounted for using equity method | 71,773                             | \$ 1,263,026            | 28                      | \$ 3,703,49                  |
|                            |   |                               |   |                                    | (Note 13)               |                         |                              |
|                            | Light Era Development Co., Ltd.                     | Subsidiary                    | Investments accounted for using equity method | 300,000                            | 2,891,613               | 100                     | 2,891,97                     |
|                            |   |                               |   |                                    | (Note 13)               |                         |                              |
|                            | Chunghwa Investment Co., Ltd.                       | Subsidiary                    | Investments accounted for using equity method | 178,000                            | 1,653,215               | 89                      | 1,726,65                     |
|                            |   |                               |   |                                    | (Note 13)               |                         |                              |
|                            | Chunghwa Telecom Singapore Pte., Ltd.               | Subsidiary                    | Investments accounted for using equity method | 61,869                             | 1,426,836               | 100                     | 1,426,83                     |
|                            |   |                               |   |                                    | (Note 13)               |                         |                              |
|                            | Chunghwa System Integration Co., Ltd.               | Subsidiary                    | Investments accounted for using equity method | 60,000                             | 707,252                 | 100                     | 631,00                       |
|                            |   |                               |   |                                    | (Note 13)               |                         |                              |
|                            | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee        | Investments accounted for using equity method | 1,760                              | 508,841                 | 40                      | 693,95                       |
|                            | CHIEF Telecom Inc.                                  | Subsidiary                    | Investments accounted for using equity method | 37,942                             | 486,227                 | 69                      | 433,96                       |
|                            |   |                               |   |                                    | (Note 13)               |                         |                              |
|                            | Viettel-CHT Co., Ltd.                               | Equity-method investee        | Investments accounted for using equity method |                                    | 273,140                 | 30                      | 273,14                       |
|                            | InfoExplorer Co., Ltd.                              | Subsidiary                    | Investments accounted for using equity method | 22,498                             | 251,982                 | 49                      | 204,34                       |
|                            |   |                               |   |                                    | (Note 13)               |                         |                              |
|                            | Donghua Telecom Co., Ltd.                           | Subsidiary                    | Investments accounted for using equity method | 51,590                             | 239,338                 | 100                     | 239,33                       |
|                            |   |                               |   |                                    | (Note 13)               |                         |                              |
|                            | Chunghwa International Yellow Pages Co., Ltd.       | Subsidiary                    | Investments accounted for using equity method | 15,000                             | 176,704                 | 100                     | 176,70                       |
|                            |   |                               |   |                                    | (Note 13)               |                         |                              |
|                            | Skysoft Co., Ltd.                                   | Equity-method investee        | Investments accounted for using equity method | 4,438                              | 87,234                  | 30                      | 47,86                        |
|                            | Chunghwa Telecom Global, Inc.                       | Subsidiary                    |   | 6,000                              | 75,974                  | 100                     | 99,20                        |

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|   |                        |   |         |                 |     |               |
|---|------------------------|---|---------|-----------------|-----|---------------|
|   |                        | Investments accounted for using equity method |         | (Note 13)       |     |               |
| Spring House Entertainment Inc.                 | Subsidiary             | Investments accounted for using equity method | 5,996   | 64,866          | 56  | 49,29         |
|   |                        |   |         | (Note 13)       |     |               |
| KingWaytek Technology Co., Ltd.                 | Equity-method investee | Investments accounted for using equity method | 1,703   | 64,834          | 33  | 16,61         |
| So-net Entertainment Taiwan Co., Ltd.           | Equity-method investee | Investments accounted for using equity method | 3,429   | 26,155          | 30  | 8,30          |
| Chunghwa Telecom Japan Co., Ltd.                | Subsidiary             | Investments accounted for using equity method | 1       | 12,667          | 100 | 16,87         |
|   |                        |   |         | (Note 13)       |     |               |
| New Prospect Investments Holdings Ltd. (B.V.I.) | Subsidiary             | Investments accounted for using equity method |         |                 | 100 |               |
|   |                        |   |         | (US\$ 1 dollar) |     | (US\$ 1 dolla |
|   |                        |   |         | (Note 13)       |     |               |
| Prime Asia Investments Group Ltd. (B.V.I.)      | Subsidiary             | Investments accounted for using equity method |         |                 | 100 |               |
|   |                        |   |         | (US\$ 1 dollar) |     | (US\$ 1 dolla |
|   |                        |   |         | (Note 13)       |     |               |
| Taipei Financial Center Corp.                   |                        | Financial assets carried at cost              | 172,927 | 1,789,530       | 12  | 1,373,64      |

(Continued)

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| Company Name  | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account         | June 30, 2010                      |                         | Percentage of Ownership | Market Value |
|---|-------------------------------------|-------------------------------|-------------------------------------|------------------------------------|-------------------------|-------------------------|--------------|
|   |                                     |                               |                                     | Shares (Thousands/ Thousand Units) | Carrying Value (Note 6) |                         |              |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II) |                                     |                               | Financial assets carried at cost    | 20,000                             | \$ 200,000              | 17                      | \$ 219,      |
| Global Mobile Corp.   |                                     |                               | Financial assets carried at cost    | 12,696                             | 127,018                 | 11                      | 96,          |
| iD Branding Ventures  |                                     |                               | Financial assets carried at cost    | 7,500                              | 75,000                  | 8                       | 72,          |
| Innovation Works Development Fund, L.P.                         |                                     |                               | Financial assets carried at cost    |                                    | 38,035                  | 13                      | 38,          |
| RPTI Intergroup International Ltd.                              |                                     |                               | Financial assets carried at cost    | 4,765                              | 34,500                  | 10                      | 34,          |
| CQi Energy Infocom Inc.   |                                     |                               | Financial assets carried at cost    | 2,000                              | 20,000                  | 18                      | 4,           |
| Innovation Works Limited  |                                     |                               | Financial assets carried at cost    | 333                                | 10,565                  | 2                       | 10,          |
| Essence Technology Solution, Inc.                               |                                     |                               | Financial assets carried at cost    | 2,000                              |                         | 9                       | 1,           |
| <b>Beneficiary certificates (mutual fund)</b>                   |                                     |                               |                                     |                                    |                         |                         |              |
| JPM (Taiwan) Global Balanced Fund                               |                                     |                               | Available-for-sale financial assets | 14,161                             | 200,000                 |                         | 205,         |
| JPM (Taiwan) JF Balanced Fund                                   |                                     |                               | Available-for-sale financial assets | 2,462                              | 50,000                  |                         | 47,          |
| Fuh-Hwa Aegis Fund  |                                     |                               | Available-for-sale financial assets | 14,000                             | 184,452                 |                         | 162,         |
| AGI Global Quantitative Balanced Fund                           |                                     |                               | Available-for-sale financial assets | 10,000                             | 116,365                 |                         | 106,         |
| Capital Value Balance Fund                                      |                                     |                               | Available-for-sale financial assets | 8,000                              | 141,776                 |                         | 135,         |
| Fuh Hwa Life Goal Fund  |                                     |                               | Available-for-sale financial assets | 6,000                              | 90,037                  |                         | 91,          |
| Fuh Hwa Asia Pacific Balanced                                   |                                     |                               | Available-for-sale financial assets | 7,764                              | 100,000                 |                         | 81,          |
| Capital Asia-Pacific Mega Trend Fund                            |                                     |                               | Available-for-sale financial assets | 15,074                             | 200,000                 |                         | 193,         |
| PCA Asia Pac Infrastructure Fund                                |                                     |                               | Available-for-sale financial assets | 3,061                              | 30,000                  |                         | 29,          |
| PineBridge Flagship Glb Bal Fund of Funds                       |                                     |                               | Available-for-sale financial assets | 25,679                             | 350,000                 |                         | 337,         |
| Franklin Templeton Global Bond Fund of Funds                    |                                     |                               | Available-for-sale financial assets | 17,984                             | 208,018                 |                         | 228,         |
| Cathay Global Aggressive Fund of Funds                          |                                     |                               | Available-for-sale financial assets | 15,570                             | 210,000                 |                         | 182,         |
| Polaris Global Emerging Market Funds                            |                                     |                               | Available-for-sale financial assets | 13,603                             | 200,000                 |                         | 179,         |
| HSBC Global Bonds Funds   |                                     |                               | Available-for-sale financial assets | 22,838                             | 250,000                 |                         | 266,         |
| Fuh Hwa Global Fixed Income FOFs Fund                           |                                     |                               | Available-for-sale financial assets | 15,594                             | 190,000                 |                         | 194,         |
| PCA Asia Pacific REITs-A  |                                     |                               | Available-for-sale financial assets | 7,849                              | 50,000                  |                         | 50,          |
| HSBC Gbl Emerging Markets Bd A Inc                              |                                     |                               | Available-for-sale financial assets | 273                                | 155,112                 |                         | 163,         |
| Templeton Global Bond A Acc \$                                  |                                     |                               | Available-for-sale financial assets | 289                                | 210,001                 |                         | 216,         |
| PIMCO Global Investment Grade Credit Acc                        | Ins H                               |                               | Available-for-sale financial assets | 398                                | 161,575                 |                         | 170,         |
| MFS Meridian Funds (A1 Class)                                   | Global Equity Fund                  |                               | Available-for-sale financial assets | 253                                | 262,293                 |                         | 200,         |
| Fidelity Fds International                                      |                                     |                               | Available-for-sale financial assets | 128                                | 163,960                 |                         | 111,         |
| Fidelity Fds America  |                                     |                               | Available-for-sale financial assets | 937                                | 163,960                 |                         | 123,         |
| JPMorgan Funds  | Global Dynamic Fund (B)             |                               | Available-for-sale financial assets | 303                                | 165,640                 |                         | 114,         |

(Continued)

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| No. | Held Company Name | Marketable Securities Type and Name   | Relationship with the Company | Financial Statement Account         | June 30, 2010                      |                         | Market Value or Net Asset Value | Note   |
|-----|-------------------|---|-------------------------------|-------------------------------------|------------------------------------|-------------------------|---------------------------------|--------|
|     |                   |   |                               |                                     | Shares (Thousands/ Thousand Units) | Carrying Value (Note 6) |                                 |        |
|     |                   | MFS Meridian Funds Research International Fund (A1 share)                   |                               | Available-for-sale financial assets | 173                                | \$ 131,920              | \$ 88,175                       | Note 4 |
|     |                   | Fidelity Fds Emerging Markets   |                               | Available-for-sale financial assets | 137                                | 116,066                 | 76,071                          | Note 4 |
|     |                   | Credit Suisse Equity Fund (Lux) Global Resources                            |                               | Available-for-sale financial assets | 10                                 | 130,402                 | 76,343                          | Note 4 |
|     |                   | Schroder ISF BRIC Fund A1 Acc   |                               | Available-for-sale financial assets | 31                                 | 197,071                 | 176,575                         | Note 4 |
|     |                   | Parvest Europe Convertible Bond Fund  |                               | Available-for-sale financial assets | 71                                 | 398,787                 | 326,243                         | Note 4 |
|     |                   | JPMorgan Funds Global Convertibles Fund (EUR)                               |                               | Available-for-sale financial assets | 868                                | 491,450                 | 394,630                         | Note 4 |
|     |                   | Schroder ISF Euro Corp. Bond A  |                               | Available-for-sale financial assets | 260                                | 190,098                 | 159,223                         | Note 4 |
|     |                   | Fidelity Euro Balanced Fund   |                               | Available-for-sale financial assets | 328                                | 209,085                 | 151,100                         | Note 4 |
|     |                   | Fidelity Fds World  |                               | Available-for-sale financial assets | 180                                | 105,061                 | 64,689                          | Note 4 |
|     |                   | Fidelity Fds Euro Blue Chip   |                               | Available-for-sale financial assets | 101                                | 91,117                  | 51,596                          | Note 4 |
|     |                   | MFS Meridian Funds European Equity Fund (A1 share)                          |                               | Available-for-sale financial assets | 112                                | 117,711                 | 76,544                          | Note 4 |
|     |                   | Henderson Horizon Fund Pan European Equity Fund                             |                               | Available-for-sale financial assets | 230                                | 180,886                 | 135,599                         | Note 4 |
|     |                   | Polaris TW Top 50 Tracker   |                               | Available-for-sale financial assets | 2,880                              | 150,365                 | 142,704                         | Note 5 |
|     |                   | Polaris/P-Shares Taiwan Div Plus ETF  |                               | Available-for-sale financial assets | 600                                | 15,000                  | 13,140                          | Note 5 |
|     |                   | <b>Stocks</b>   |                               |                                     |                                    |                         |                                 |        |
|     |                   | China Steel Corporation   |                               | Available-for-sale financial assets | 926                                | 28,374                  | 27,595                          | Note 5 |
|     |                   | Taiwan Semiconductor Manufacturing Co., Ltd.                                |                               | Available-for-sale financial assets | 456                                | 28,357                  | 27,634                          | Note 5 |
|     |                   | President Chain Store Corp.   |                               | Available-for-sale financial assets | 190                                | 14,373                  | 18,069                          | Note 5 |
|     |                   | <b>Bonds</b>  |                               |                                     |                                    |                         |                                 |        |
|     |                   | NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2009      |                               | Held-to-maturity financial assets   |                                    | 199,579                 | 199,579                         | Note 7 |
|     |                   | Taiwan Power Company 4 <sup>th</sup> Secured Corporate Bond B Issue in 2009 |                               | Held-to-maturity financial assets   |                                    | 348,544                 | 348,544                         | Note 7 |
|     |                   | NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2009      |                               | Held-to-maturity financial assets   |                                    | 50,481                  | 50,481                          | Note 7 |
|     |                   | NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2009      |                               | Held-to-maturity financial assets   |                                    | 200,849                 | 200,849                         | Note 7 |
|     |                   | FCFC 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2009                |                               | Held-to-maturity financial assets   |                                    | 252,471                 | 252,471                         | Note 7 |
|     |                   | Taiwan Power Company 1 <sup>st</sup> Secured Corporate Bond-A Issue in 2009 |                               | Held-to-maturity financial assets   |                                    | 201,742                 | 201,742                         | Note 7 |

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|     |                   | June 30, 2010  |                               |                                   |                                    |                         |                         |                                 |        |
|-----|-------------------|--|-------------------------------|-----------------------------------|------------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| 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   |
|     |                   | Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issued in 2009                 |                               | Held-to-maturity financial assets |                                    | \$ 203,675              |                         | \$ 203,675                      | Note 7 |
|     |                   | Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured corporate Bonds A Issue in 2008                    |                               | Held-to-maturity financial assets |                                    | 103,411                 |                         | 103,411                         | Note 7 |
|     |                   | China Steel Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008                            |                               | Held-to-maturity financial assets |                                    | 103,194                 |                         | 103,194                         | Note 7 |
|     |                   | Formosa Petrochemical Corporation 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008                  |                               | Held-to-maturity financial assets |                                    | 207,829                 |                         | 207,829                         | Note 7 |
|     |                   | Formosa Petrochemical Corporation 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008                  |                               | Held-to-maturity financial assets |                                    | 413,071                 |                         | 413,071                         | Note 7 |
|     |                   | Taiwan Power Co. 5 <sup>th</sup> secured Bond-B Issue in 2008  |                               | Held-to-maturity financial assets |                                    | 208,928                 |                         | 208,928                         | Note 7 |
|     |                   | Mega Securities Co., Ltd. 1 <sup>st</sup> Unsecured Corporate Bond Issue in 2009                           |                               | Held-to-maturity financial assets |                                    | 300,000                 |                         | 300,000                         | Note 7 |
|     |                   | Yuanta Securities Finance Co. Ltd. 1 <sup>st</sup> Unsecured Corporate Bonds-B Issue in 2007               |                               | Held-to-maturity financial assets |                                    | 404,616                 |                         | 404,616                         | Note 7 |
|     |                   | Taiwan Power Co. 5 <sup>th</sup> secured Bond A Issue in 2008  |                               | Held-to-maturity financial assets |                                    | 305,508                 |                         | 305,508                         | Note 7 |
|     |                   | China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds AB issue in 2005 |                               | Held-to-maturity financial assets |                                    | 200,633                 |                         | 200,633                         | Note 7 |
|     |                   | KGI Securities Co., Ltd. 1 <sup>st</sup> Unsecured Corporate Bonds-B Issue in 2007                         |                               | Held-to-maturity financial assets |                                    | 100,000                 |                         | 100,000                         | Note 7 |
|     |                   | Mega Financial Holding Co., Ltd.   |                               | Held-to-maturity financial assets |                                    | 200,000                 |                         | 200,000                         | Note 7 |

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|   |  |                                      |         |         |        |
|---|--|--------------------------------------|---------|---------|--------|
| 1 <sup>st</sup> Unsecured<br>Corporate<br>Bonds-B Issued in<br>2007 | Mega Financial<br>Holding Co., Ltd.  | Held-to-maturity<br>financial assets | 300,000 | 300,000 | Note 7 |
| 2 <sup>nd</sup> Unsecured<br>Corporate<br>Bonds-A Issued in<br>2007 | Formosa<br>Petrochemical<br>Corporation 1 <sup>st</sup>  | Held-to-maturity<br>financial assets | 99,905  | 99,905  | Note 7 |
| Unsecured<br>Corporate Bonds<br>Issue in 2008                       | Taiwan Power Co.<br>5 <sup>th</sup> secured<br>Bond-A Issue in<br>2008                                   | Held-to-maturity<br>financial assets | 149,966 | 149,966 | Note 7 |
|   | Yuanta FHC 1 <sup>st</sup><br>Unsecured<br>Corporate<br>Bonds-A Issue in<br>2008                         | Held-to-maturity<br>financial assets | 100,000 | 100,000 | Note 7 |
|   | Formosa<br>Petrochemical<br>Corporation 3 <sup>rd</sup><br>Unsecured<br>Corporate Bonds<br>Issue in 2008 | Held-to-maturity<br>financial assets | 49,943  | 49,943  | Note 7 |
|   | Taiwan Power<br>Company 6 <sup>th</sup><br>Secured<br>Corporated<br>Bond-A Issue in<br>2008              | Held-to-maturity<br>financial assets | 271,749 | 271,749 | Note 7 |
|   | Formosa<br>Petrochemical<br>Corporation 4 <sup>th</sup><br>Unsecured<br>Corporate Bonds<br>Issue in 2006 | Held-to-maturity<br>financial assets | 300,438 | 300,438 | Note 7 |
|   | NAN YA<br>Company 2 <sup>nd</sup><br>Unsecured<br>Corporate Bonds<br>Issue in 2008                       | Held-to-maturity<br>financial assets | 406,475 | 406,475 | Note 7 |
|   | Taiwan Power<br>Company 3 <sup>rd</sup><br>Unsecured<br>Bond-A Issue in<br>2006                          | Held-to-maturity<br>financial assets | 200,747 | 200,747 | Note 7 |
|   | Taiwan Power Co.<br>1 <sup>st</sup> Unsecured<br>Bond-B Issue in<br>2001                                 | Held-to-maturity<br>financial assets | 90,041  | 90,041  | Note 7 |

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| No. | Held Company Name             | Marketable Securities Type and Name   | Relationship with the Company | Financial Statement Account                   | June 30, 2010                      |  | Market Value or Net Asset Value | Note    |        |
|-----|-------------------------------|---|-------------------------------|---|------------------------------------|--|---------------------------------|---------|--------|
|     |                               |   |                               |   | Shares (Thousands/ Thousand Units) | Carrying Value/Percentage of Ownership |                                 |         |        |
|     |                               | Formosa Petrochemical Corporation 5 <sup>th</sup> Unsecured Corporate Bond Issue in 2006                  |                               | Held-to-maturity financial assets             |                                    | \$ 200,992                             | \$ 200,992                      | Note 7  |        |
|     |                               | NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008                                    |                               | Held-to-maturity financial assets             |                                    | 203,934                                | 203,934                         | Note 7  |        |
|     |                               | China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2006   |                               | Held-to-maturity financial assets             |                                    | 201,567                                | 201,567                         | Note 7  |        |
|     |                               | China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds-A Issue in 2008 |                               | Held-to-maturity financial assets             |                                    | 103,150                                | 103,150                         | Note 7  |        |
|     |                               | Taiwan Power Co. 4 <sup>th</sup> secured Bond-B Issue in 2008   |                               | Held-to-maturity financial assets             |                                    | 51,640                                 | 51,640                          | Note 7  |        |
|     |                               | Formosa Petrochemical Corporation 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008                 |                               | Held-to-maturity financial assets             |                                    | 102,515                                | 102,515                         | Note 7  |        |
|     |                               | Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issued in 2008                |                               | Held-to-maturity financial assets             |                                    | 201,021                                | 201,021                         | Note 7  |        |
|     |                               | NAN YA Company 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2008                                    |                               | Held-to-maturity financial assets             |                                    | 99,905                                 | 99,905                          | Note 7  |        |
|     |                               | MLPC 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008  |                               | Held-to-maturity financial assets             |                                    | 199,741                                | 199,741                         | Note 7  |        |
|     |                               | China Steel Corporation 2 <sup>nd</sup> Unsecured Corporate Bonds-A Issue in 2008                         |                               | Held-to-maturity financial assets             |                                    | 100,023                                | 100,023                         | Note 7  |        |
|     |                               | China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2006   |                               | Held-to-maturity financial assets             |                                    | 201,567                                | 201,567                         | Note 7  |        |
|     |                               | Chinatrust Commercial Bank 2 <sup>nd</sup> Unsecured Subordinate Financial Debentures Issue in 2003       |                               | Held-to-maturity financial assets             |                                    | 199,404                                | 199,404                         | Note 7  |        |
|     |                               | China Development Industrial Bank 2 <sup>nd</sup> Financial Debentures Issue in 2006                      |                               | Held-to-maturity financial assets             |                                    | 199,052                                | 199,052                         | Note 7  |        |
|     |                               | TaipeiFubon Bank 1 <sup>st</sup> Financial Debentures - BA Issue in 2005                                  |                               | Held-to-maturity financial assets             |                                    | 100,011                                | 100,011                         | Note 7  |        |
| 1   | Senao International Co., Ltd. | <u>Stocks</u>   |                               |   |                                    |  |                                 |         |        |
|     |                               | Senao Networks, Inc.  | Equity-method investee        | Investments accounted for using equity method | 15,295                             | 288,051                                | 41                              | 288,051 | Note 8 |
|     |                               | Senao International (Samoa) Holding Ltd.  | Subsidiary                    | Investments accounted for using equity method |                                    |  | 100                             |         | Note 8 |
|     |                               | N.T.U. Innovation Incubation Corporation  |                               | Financial assets carried at cost              | 1,200                              | 12,000                                 | 9                               | 13,412  | Note 2 |
|     |                               | <u>Beneficiary certificates (mutual fund)</u>   |                               |   |                                    |  |                                 |         |        |
|     |                               | Prudential Financial Bond Fund  |                               | Available-for-sale financial assets           | 3,304                              | 50,000                                 |                                 | 50,060  | Note 4 |
|     |                               | IBT Bond Fund   |                               | Available-for-sale financial assets           | 3,691                              | 50,000                                 |                                 | 50,086  | Note 4 |
|     |                               | Fuh Hwa Global Short-term Income Fund   |                               | Available-for-sale financial assets           | 4,850                              | 50,000                                 |                                 | 50,822  | Note 4 |
|     |                               | Fuh Hwa Strategic High Income Fund  |                               | Available-for-sale financial assets           | 5,000                              | 50,000                                 |                                 | 52,200  | Note 4 |

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|     |                                       |  |                               |   |                                    |                         |                         |                                 |        | June 30, 2010 |  |
|-----|---------------------------------------|--|-------------------------------|---|------------------------------------|-------------------------|-------------------------|---------------------------------|--------|---------------|--|
| 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   |               |  |
| 2   | CHIEF Telecom Inc.                    | <u>Stocks</u><br>Unigate Telecom Inc.                              | Subsidiary                    | Investments accounted for using equity method | 200                                | \$ 2,013<br>(Note 13)   | 100                     | \$ 2,013                        | Note 2 |               |  |
|     |                                       | CHIEF Telecom (Hong Kong) Limited                                  | Subsidiary                    | Investments accounted for using equity method | 400                                | 991<br>(Note 13)        | 100                     | 991                             | Note 2 |               |  |
|     |                                       | Chief International Corp.  | Subsidiary                    | Investments accounted for using equity method | 200                                | 8,066<br>(Note 13)      | 100                     | 8,066                           | Note 2 |               |  |
|     |                                       | 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                      | 6,691                           | Note 2 |               |  |
| 3   | Chunghwa System Integration Co., Ltd. | <u>Stocks</u><br>Concord Technology Co., Ltd.                      | Subsidiary                    | Investments accounted for using equity method | 700                                | 4,912<br>(Note 13)      | 100                     | 4,912                           | Note 2 |               |  |
| 8   | Light Era Development Co., Ltd.       | <u>Stocks</u><br>Yao Yong Real Property Co., Ltd.                  | Subsidiary                    | Investments accounted for using equity method | 83,290                             | 2,805,298<br>(Note 13)  | 100                     | 1,871,302                       | Note 2 |               |  |
| 9   | Chunghwa Telecom Singapore Pte., Ltd. | <u>Stocks</u><br>ST-2 Satellite Ventures Pte., Ltd.                | Equity-method investee        | Investments accounted for using equity method | 18,102                             | 410,268<br>(SGD 17,846) | 38                      | 410,268<br>(SGD 17,846)         | Note 2 |               |  |
| 11  | InfoExplorer Co., Ltd.                | <u>Stocks</u><br>InfoExplorer International Co., Ltd.              | Subsidiary                    | Investments accounted for using equity method |                                    |                         | 100                     |                                 | Note 1 |               |  |
| 8   | Concord Technology Co., Ltd.          | <u>Stocks</u><br>Glory Network System Service (Shanghai) Co., Ltd. | Subsidiary                    | Investments accounted for using equity method | 700                                | 4,908<br>(Note 13)      | 100                     | 4,908                           | Note 2 |               |  |
| 4   | Chunghwa Investment Co., Ltd.         | <u>Stocks</u>  |                               |   |                                    |                         |                         |                                 |        |               |  |

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|   |                        |   |        |         |           |     |                |
|---|------------------------|---|--------|---------|-----------|-----|----------------|
|   |                        | Investments accounted for using equity method | 10,317 |         |           |     |                |
| Chunghwa Precision Test Tech. Co., Ltd. | Subsidiary             |   |        | 116,654 | (Note 13) | 54  | 116,654 Note   |
|   |                        | Investments accounted for using equity method | 1,043  |         |           |     |                |
| Chunghwa Investment Holding Co., Ltd.   | Subsidiary             |   |        | 24,055  | (Note 13) | 100 | 24,055 Note    |
|   |                        | Investments accounted for using equity method | 5,000  |         |           |     |                |
| Tatung Technology Inc.                  | Equity-method investee |   |        | 17,037  |           | 28  | 17,037 Note    |
|   |                        | Investments accounted for using equity method | 602    |         |           |     |                |
| PandaMonium Company Ltd.                | Equity-method investee |   |        |         |           | 43  | Note           |
|   |                        | Investments accounted for using equity method | 2,000  |         |           |     |                |
| CHIEF Telecom Inc.                      | Subsidiary             |   |        | 22,525  | (Note 13) | 4   | 22,899 Note    |
|   |                        | Investments accounted for using equity method | 618    |         |           |     |                |
| Senao International Co., Ltd.           | Subsidiary             |   |        | 31,564  | (Note 13) |     | 31,889 Note    |
|   |                        | Financial assets carried at cost              | 2,500  |         |           |     |                |
| iD Branding Ventures                    |                        |   |        | 25,000  |           | 3   | 24,309 Note    |
|   |                        | Financial assets carried at cost              | 511    |         |           |     |                |
| Giga Solar Materials Corporation        |                        |   |        | 56,871  |           | 2   | 243,718 Note 1 |
|   |                        | Financial assets carried at cost              | 4,000  |         |           |     |                |
| UniDisplay Inc.                         |                        |   |        | 46,000  |           | 3   | 57,241 Note    |
|   |                        | Financial assets carried at cost              | 1,100  |         |           |     |                |
| A2peak Power Co. Ltd.                   |                        |   |        | 27,500  |           | 3   | 14,073 Note    |
|   |                        | Financial assets carried at cost              | 2,000  |         |           |     |                |
| Digimax Inc.                            |                        |   |        | 36,000  |           | 4   | 15,812 Note    |
|   |                        | Financial assets carried at cost              | 905    |         |           |     |                |
| ChipSip Technology Co., Ltd.            |                        |   |        | 25,011  |           | 3   | 25,443 Note 1  |
|   |                        | Financial assets carried at cost              | 275    |         |           |     |                |
| Lextar Electronics Corp.                |                        |   |        | 13,753  |           |     | 16,925 Note 1  |
|   |                        | Financial assets carried at cost              | 1,200  |         |           |     |                |
| CoaTronics Inc.                         |                        |   |        | 12,000  |           | 9   | 11,512 Note    |
|   |                        | Financial assets carried at cost              | 1,000  |         |           |     |                |
| Crystal Media Inc.                      |                        |   |        | 15,000  |           | 5   | 6,104 Note     |
|   |                        | Financial assets carried at cost              | 370    |         |           |     |                |
| Win Semiconductors Corp.                |                        |   |        | 10,555  |           |     | 9,816 Note 1   |

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|                            |                                  |     |        |        |        |
|----------------------------|----------------------------------|-----|--------|--------|--------|
|                            | Financial assets carried at cost | 335 |        |        |        |
| Huga Optotech Inc.         | Financial assets carried at cost | 325 | 10,477 | 10,077 | Note 1 |
| OptiVision Technology Inc. | Financial assets carried at cost |     | 10,188 | 10,355 | Note 1 |

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| o. Held Company Name | Marketable Securities Type and Name          | Relationship with the Company | Financial Statement Account         | June 30, 2010           |                         |                         | Market Value or Net Asset Value | Note   |
|----------------------|--|-------------------------------|-------------------------------------|-------------------------|-------------------------|-------------------------|---------------------------------|--------|
|                      |  |                               |                                     | Shares (Thousand Units) | Carrying Value (Note 6) | Percentage of Ownership |                                 |        |
|                      | Daxon Technology Corporation                 |                               | Financial assets carried at cost    | 281                     | \$ 9,593                |                         | \$ 9,644                        | Note 1 |
|                      | Tatung Fine Chemicals Co.                    |                               | Financial assets carried at cost    | 98                      | 8,023                   |                         | 8,455                           | Note 1 |
|                      | Edison Opto Corporation                      |                               | Financial assets carried at cost    | 50                      | 7,925                   |                         | 7,052                           | Note 1 |
|                      | Taimide Technology Ltd.                      |                               | Financial assets carried at cost    | 600                     | 7,200                   | 1                       | 6,126                           | Note 1 |
|                      | Champion Microelectronic Corp.               |                               | Financial assets carried at cost    | 118                     | 6,125                   |                         | 6,765                           | Note 1 |
|                      | DeSolar Co., Ltd.                            |                               | Financial assets carried at cost    | 127                     | 6,084                   |                         | 6,464                           | Note 1 |
|                      | Subtron Technology Co., Ltd.                 |                               | Financial assets carried at cost    | 376                     | 4,937                   |                         | 5,328                           | Note 1 |
|                      | J Touch Corporation                          |                               | Financial assets carried at cost    | 74                      | 3,640                   |                         | 6,443                           | Note 1 |
|                      | Taidoc Technology Corporation                |                               | Financial assets carried at cost    | 26                      | 3,468                   |                         | 2,367                           | Note 1 |
|                      | Cando Corporation                            |                               | Financial assets carried at cost    | 163                     | 3,120                   |                         | 3,471                           | Note 1 |
|                      | eMemory Technology Inc.                      |                               | Financial assets carried at cost    | 31                      | 2,733                   |                         | 2,556                           | Note 1 |
|                      | SuperAlloy Industrial Co., Ltd.              |                               | Financial assets carried at cost    | 176                     | 2,214                   |                         | 2,098                           | Note 1 |
|                      | XinTec Inc.                                  |                               | Financial assets carried at cost    | 24                      | 1,076                   |                         | 1,671                           | Note 1 |
|                      | Formosa Plastics Corporation                 |                               | Available-for-sale financial assets | 76                      | 4,582                   |                         | 5,148                           | Note 1 |
|                      | Fubon Financial Holding Co., Ltd.            |                               | Available-for-sale financial assets | 250                     | 9,265                   |                         | 9,025                           | Note 1 |
|                      | Cathay Financial Holding Co., Ltd.           |                               | Available-for-sale financial assets | 151                     | 8,669                   |                         | 7,231                           | Note 1 |
|                      | LARGAN Precision Co., Ltd.                   |                               | Available-for-sale financial assets | 76                      | 76                      |                         | 103                             | Note 1 |
|                      | Dynapack International Technology Corp.      |                               | Available-for-sale financial assets | 26                      | 2,519                   |                         | 2,326                           | Note 1 |
|                      | Taiwan Hon Chuan Enterprise Co., Ltd.        |                               | Available-for-sale financial assets | 25                      | 1,326                   |                         | 1,478                           | Note 1 |
|                      | Asia Cement Corporation                      |                               | Available-for-sale financial assets | 140                     | 4,627                   |                         | 3,976                           | Note 1 |
|                      | SINTEK Photronic Corp.                       |                               | Available-for-sale financial assets | 100                     | 2,518                   |                         | 2,095                           | Note 1 |
|                      | Anpec Electronics Corporation                |                               | Available-for-sale financial assets | 146                     | 6,055                   |                         | 5,083                           | Note 1 |
|                      | Gemtek Technology Co., Ltd.                  |                               | Available-for-sale financial assets | 70                      | 3,970                   |                         | 3,143                           | Note 1 |
|                      | Wei Chuan Foods Corp.                        |                               | Available-for-sale financial assets | 203                     | 8,913                   |                         | 7,765                           | Note 1 |
|                      | China Steel Corporation                      |                               | Available-for-sale financial assets | 241                     | 7,293                   |                         | 7,191                           | Note 1 |
|                      | I-Chiun Precision Industry Co., Ltd.         |                               | Available-for-sale financial assets | 150                     | 7,320                   |                         | 6,345                           | Note 1 |
|                      | Cyber Power Systems, Inc.                    |                               | Available-for-sale financial assets | 69                      | 5,169                   |                         | 5,147                           | Note 1 |
|                      | Coxon Precise Industrial Co., Ltd.           |                               | Available-for-sale financial assets | 75                      | 6,615                   |                         | 4,732                           | Note 1 |
|                      | Altek Corp.                                  |                               | Available-for-sale financial assets | 35                      | 1,923                   |                         | 1,463                           | Note 1 |
|                      | Advanced Power Electronics Corp.             |                               | Available-for-sale financial assets | 40                      | 1,398                   |                         | 1,316                           | Note 1 |
|                      | UPC Tech. Corp.                              |                               | Available-for-sale financial assets | 50                      | 910                     |                         | 860                             | Note 1 |
|                      | ACES Electronics Co., Ltd.                   |                               | Available-for-sale financial assets | 2                       | 210                     |                         | 187                             | Note 1 |
|                      | Taiwan Semiconductor Manufacturing Co., Ltd. |                               | Available-for-sale financial assets | 30                      | 1,826                   |                         | 1,818                           | Note 1 |
|                      | Feng Hsin Iron & Steel Co., Ltd.             |                               | Available-for-sale financial assets | 30                      | 1,542                   |                         | 1,278                           | Note 1 |
|                      | Swancor. Ind. Co., Ltd.                      |                               | Available-for-sale financial assets | 55                      | 3,158                   |                         | 3,213                           | Note 1 |
|                      | Everlight Electronics Co., Ltd.              |                               | Available-for-sale financial assets | 80                      | 8,542                   |                         | 6,624                           | Note 1 |
|                      | Cyberlink Co.                                |                               | Available-for-sale financial assets | 10                      | 1,395                   |                         | 1,339                           | Note 1 |

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|  |                                     |     |       |       |      |
|--|-------------------------------------|-----|-------|-------|------|
| Optotech Corporation                     | Available-for-sale financial assets | 100 | 2,269 | 2,235 | Note |
| Solar Applied Materials Technology Corp. | Available-for-sale financial assets | 51  | 3,929 | 3,613 | Note |

(Continued)

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| No. | Held Company Name | Marketable Securities Type and Name       | Relationship with the Company | Financial Statement Account         | June 30, 2010                     |          | Percentage of Ownership | Market Value or Net Asset Value |        |
|-----|-------------------|---|-------------------------------|-------------------------------------|-----------------------------------|----------|-------------------------|---------------------------------|--------|
|     |                   |   |                               |                                     | Shares (Thousands/Carrying Value) | (Note 6) |                         | Note                            | Note   |
|     |                   | Apex Biotechnology Corp.                  |                               | Available-for-sale financial assets | 86                                | \$ 4,713 |                         | \$ 5,284                        | Note 5 |
|     |                   | ITE Tech. Inc.                            |                               | Available-for-sale financial assets | 75                                | 4,714    |                         | 3,750                           | Note 5 |
|     |                   | Yuanta Financial Holdings                 |                               | Available-for-sale financial assets | 350                               | 7,647    |                         | 6,072                           | Note 5 |
|     |                   | Via Technologies, Inc.                    |                               | Available-for-sale financial assets | 147                               | 4,935    |                         | 3,707                           | Note 5 |
|     |                   | Tang Eng Iron Works Co., Ltd.             |                               | Available-for-sale financial assets | 145                               | 4,347    |                         | 4,205                           | Note 5 |
|     |                   | Sino-American Silicon Products Inc.       |                               | Available-for-sale financial assets | 131                               | 9,870    |                         | 9,064                           | Note 5 |
|     |                   | Lite-On Semiconductor Corp.               |                               | Available-for-sale financial assets | 310                               | 6,926    |                         | 5,596                           | Note 5 |
|     |                   | Taiwan Semiconductor Co., Ltd.            |                               | Available-for-sale financial assets | 383                               | 10,329   |                         | 9,135                           | Note 5 |
|     |                   | Pan Jit International Inc.                |                               | Available-for-sale financial assets | 235                               | 5,835    |                         | 6,756                           | Note 5 |
|     |                   | Ability Enterprise Co., Ltd.              |                               | Available-for-sale financial assets | 150                               | 8,940    |                         | 7,185                           | Note 5 |
|     |                   | Sunrex Technology Corporation             |                               | Available-for-sale financial assets | 225                               | 7,834    |                         | 7,076                           | Note 5 |
|     |                   | ADATA Technology Co., Ltd.                |                               | Available-for-sale financial assets | 50                                | 3,801    |                         | 3,170                           | Note 5 |
|     |                   | Delta Electronics, Inc.                   |                               | Available-for-sale financial assets | 10                                | 925      |                         | 1,035                           | Note 5 |
|     |                   | Visual Photonics Epitaxy Co., Ltd.        |                               | Available-for-sale financial assets | 60                                | 4,726    |                         | 4,524                           | Note 5 |
|     |                   | Ene Technology Inc.                       |                               | Available-for-sale financial assets | 60                                | 3,878    |                         | 2,766                           | Note 5 |
|     |                   | ALi Corporation                           |                               | Available-for-sale financial assets | 140                               | 8,128    |                         | 7,112                           | Note 5 |
|     |                   | Ho Tung Chemical Corp.                    |                               | Available-for-sale financial assets | 205                               | 3,490    |                         | 3,188                           | Note 5 |
|     |                   | Realtek Semiconductor Corp.               |                               | Available-for-sale financial assets | 105                               | 9,103    |                         | 7,466                           | Note 5 |
|     |                   | Global Unichip Corp.                      |                               | Available-for-sale financial assets | 50                                | 6,432    |                         | 5,850                           | Note 5 |
|     |                   | Far Eastern Department Stores Ltd.        |                               | Available-for-sale financial assets | 200                               | 5,416    |                         | 5,290                           | Note 5 |
|     |                   | Yang Ming Marine Transport Corp.          |                               | Available-for-sale financial assets | 510                               | 6,237    |                         | 8,389                           | Note 5 |
|     |                   | Sandmartin International Holdings Limited |                               | Available-for-sale financial assets | 75                                | 776      |                         | 639                             | Note 5 |
|     |                   | Green Energy Technology Inc.              |                               | Available-for-sale financial assets | 10                                | 731      |                         | 639                             | Note 5 |
|     |                   | Transtouch Technology Inc.                |                               | Available-for-sale financial assets | 20                                | 720      |                         | 792                             | Note 5 |
|     |                   | Integrated Memory Logic Limited           |                               | Available-for-sale financial assets | 30                                | 4,551    |                         | 4,380                           | Note 5 |
|     |                   | KD Holding Corporation                    |                               | Available-for-sale financial assets | 7                                 | 581      |                         | 641                             | Note 5 |
|     |                   | Join Well Technology Co., Ltd.            |                               | Available-for-sale financial assets | 190                               | 7,701    |                         | 6,232                           | Note 5 |
|     |                   | EPISTAR corporation                       |                               | Available-for-sale financial assets | 35                                | 3,080    |                         | 2,940                           | Note 5 |
|     |                   | China Airlines Ltd.                       |                               | Available-for-sale financial assets | 325                               | 5,182    |                         | 5,363                           | Note 5 |
|     |                   | Formosa Petrochemical Corp                |                               | Available-for-sale financial assets | 15                                | 1,159    |                         | 1,169                           | Note 5 |

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|   |                                     |       |         |         |        |
|---|-------------------------------------|-------|---------|---------|--------|
| Acme Electronics Corporation              | Available-for-sale financial assets | 35    | 2,249   | 2,275   | Note 5 |
| JuTeng International Holdings Limited     | Available-for-sale financial assets | 195   | 8,175   | 4,661   | Note 5 |
| Tingyi (Cayman Islands) Holding Corp.     | Available-for-sale financial assets | 20    | 814     | 782     | Note 5 |
| Neo-Neno Holdings Limited.                | Available-for-sale financial assets | 300   | 3,960   | 3,450   | Note 5 |
| Lite-On Technology Corp.                  | Available-for-sale financial assets | 10    | 247     | 357     | Note 5 |
| Orise Technology Co., Ltd.                | Available-for-sale financial assets | 15    | 604     | 707     | Note 5 |
| Hon Hai Precision Ind. Co., Ltd.          | Available-for-sale financial assets | 3     | 324     | 342     | Note 5 |
| Uni-president Enterprises Corp.           | Available-for-sale financial assets | 30    | 1,098   | 1,068   | Note 5 |
| Taiwan Glass Ind. Corp.                   | Available-for-sale financial assets | 20    | 587     | 592     | Note 5 |
| <u>Beneficiary certificates (mutual)</u>  |                                     |       |         |         |        |
| PowerShares QQQ                           | Available-for-sale financial assets | 4     | 5,021   | 4,808   | Note 5 |
| Polaris Taiwan Top 50 Tracker             | Available-for-sale financial assets | 40    | 2,289   | 1,982   | Note 5 |
| FSITC Bound Fund                          | Available-for-sale financial assets | 117   | 19,904  | 19,964  | Note 4 |
| Jih Sun Bond Fund                         | Available-for-sale financial assets | 1,068 | 15,042  | 15,099  | Note 4 |
| Fuh Hwa You Li Fund                       | Available-for-sale financial assets | 786   | 10,102  | 10,142  | Note 4 |
| Manulife Asia Pacific Bond Fund           | Available-for-sale financial assets | 2,000 | 20,000  | 20,400  | Note 4 |
| Cathay Bond Fund                          | Available-for-sale financial assets | 2,612 | 31,018  | 31,262  | Note 4 |
| Mega Diamond Bond Fund                    | Available-for-sale financial assets | 9,207 | 110,000 | 110,037 | Note 4 |
| Cathy Mandarin Fund                       | Available-for-sale financial assets | 1,019 | 10,000  | 9,387   | Note 4 |
| Fuh Hwa Global Fixed Income Fund of Funds | Available-for-sale financial assets | 1,899 | 20,757  | 23,646  | Note 4 |
| Cathy Man AHL Futures Trust Fund of Funds | Available-for-sale financial assets | 2,474 | 25,000  | 23,549  | Note 4 |
| Jih Sun Golden Brands Fund of Funds       | Available-for-sale financial assets | 1,000 | 10,000  | 10,000  | Note 4 |

(Continued)



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|  |  |                               |   |                             | June 30, 2010           |                         |                                 |
|--|--|-------------------------------|---|-----------------------------|-------------------------|-------------------------|---------------------------------|
| Company Name                             | Marketable Securities Type and Name  | Relationship with the Company | Financial Statement Account                           | Shares                      | Carrying Value (Note 6) | Percentage of Ownership | Market Value of Net Asset Value |
|  |  |                               |   | (Thousands/ Thousand Units) |                         |                         |                                 |
|  | <u>Bonds</u>   |                               |   |                             |                         |                         |                                 |
|  | Hua Nan Financial Holdings Company 1st Unsecured Subordinate Corporate Bonds Issue in 2006 |                               | Available-for-sale financial assets                   |                             | \$ 51,080               |                         | \$ 51,295                       |
|  | AU Optronics Corporation 1st Secured Corporate Bonds Issue in 2008                         |                               | Available-for-sale financial assets                   |                             | 51,188                  |                         | 51,504                          |
|  | <u>Convertible bonds</u>   |                               |   |                             |                         |                         |                                 |
|  | Everlight Electronics Co., Ltd. 3rd Convertible Bonds                                      |                               | Financial assets at fair value through profit or loss | 40                          | 4,351                   |                         | 4,252                           |
|  | Epistar Corporation Ltd. 3rd Convertible Bond  |                               | Financial assets at fair value through profit or loss | 35                          | 3,732                   |                         | 3,647                           |
|  | Evergreen Marine Corp. (Taiwan) Ltd. 3rd Unsecured Convertible Bond                        |                               | Financial assets at fair value through profit or loss | 60                          | 6,412                   |                         | 6,654                           |
|  | Asia Optical's Second Domestic Unsecured Convertible Bond                                  |                               | Financial assets at fair value through profit or loss | 49                          | 4,900                   |                         | 5,537                           |
|  | King Slide works Co., Ltd. 2nd convertible bond  |                               | Financial assets at fair value through profit or loss | 50                          | 5,000                   |                         | 5,225                           |
|  | Everlight Electronics Co., Ltd. 4th Convertible Bonds                                      |                               | Financial assets at fair value through profit or loss | 50                          | 5,000                   |                         | 5,225                           |
|  | Synnex Technology International Corporation 1st Unsecured Convertible Bond Issue in 2008   |                               | Financial assets at fair value through profit or loss | 9                           | 1,002                   |                         | 1,022                           |
|  | Jintex Corp. 2nd Domestic Secured Convertible Bonds  |                               | Financial assets at fair value through profit or loss | 10                          | 1,000                   |                         | 1,365                           |
|  | Ability Enterprise Co., Ltd. 1st Unsecured Convertible Bonds                               |                               | Financial assets at fair value through profit or loss | 40                          | 4,008                   |                         | 4,120                           |
|  | TUL the Third Security Convertible Bond  |                               | Financial assets at fair value through profit or loss | 15                          | 1,500                   |                         | 1,521                           |
|  | Etron Technology, Inc. 1st in 2010 Unsecured Convertible Bond                              |                               | Financial assets at fair value through profit or loss | 10                          | 1,005                   |                         | 1,072                           |
| Senao International (China) Holding Ltd. | <u>Stocks</u>  |                               |   |                             |                         |                         |                                 |
|  | Senao International HK Limited   | Subsidiary                    | Investment accounted for using equity method          |                             |                         | 100                     |                                 |
|  |  |                               |   |                             |                         |                         | (Note 13)                       |
| Chunghwa Investment Holding Co., Ltd.    | <u>Stocks</u>  |                               |   |                             |                         |                         |                                 |
|  | CHI One Investment Co., Limited  | Subsidiary                    | Investment accounted for using equity method          | 3,500                       | 13,209                  | 100                     | 13,209                          |
|  |  |                               |   |                             | (US\$ 410)              |                         | (US\$ 410)                      |
|  |  |                               |   |                             |                         |                         | (Note 13)                       |
| CHI One Investment Limited               | <u>Stocks</u>  |                               |   |                             |                         |                         |                                 |
|  | Xiamen Sertec Business Technology Co., Ltd.  | Equity-method investee        | Investment accounted for using equity method          |                             | 12,620                  | 49                      | 12,620                          |
|  |  |                               |   |                             | (US\$ 393)              |                         | (US\$ 393)                      |
| Info Explorer International Co., Ltd.    | <u>Stocks</u>  |                               |   |                             |                         |                         |                                 |
|  | InfoExplorer (Hong Kong) Co., Limited  | Subsidiary                    | Investment accounted for using equity method          |                             |                         | 100                     |                                 |

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

(Continued)

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- Note 2: The net asset values of investees were based on unaudited 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, but not on operating stage, yet. Chunghwa has 100% ownership right in an amount of US\$1 in each holding company.
- Note 4: The net asset values of beneficiary certificates (mutual fund) were based on the net asset values on June 30, 2010.
- Note 5: Market value was based on the closing price of June 30, 2010.
- Note 6: Showing at their original carrying amounts without adjustments for fair values, except for held-to-maturity financial assets.
- Note 7: The net asset values of investees were based on amortized cost.
- Note 8: Senao International (Samoa) Holding Ltd. (SIS) was established by Senao in 2009. No capital is injected in SIS yet by June 30, 2010.
- Note 9: Senao International HK Limited (SIHK) was established by SIS in 2009. No capital is injected in SIHK yet by June 30, 2010.
- Note 10: Market value of emerging stock was based on the average trading price on June 30, 2010.
- Note 11: InfoExplorer International Co., Ltd. (IESA) was established by IFE in 2010. No-capital is injected in IESA yet by June 30, 2010.
- Note 12: InfoExplorer (Hong Kong) Co., Limited (IEHK) was established by IESA in 2010. No-capital is injected in IEHK by June 30, 2010.
- Note 13: The amount was eliminated upon consolidation.

(Concluded)

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TABLE 4

**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****SIX MONTHS ENDED JUNE 30, 2010****(Amounts in Thousands of New Taiwan Dollars)**

| Marketable Securities Type and Name  | Financial Statement Account         | Counter-party | Nature of Relationship | Beginning Balance Shares (Thousands/Thousand Units) | Amount (Note 1) | Acquisition Shares (Thousands/Thousand Units) | Amount    | Shares (Thousands/Thousand Units) | Disposal Amount | Carrying Value (Note 1) | Gain (Loss) on Disposal | Ending Balance (Thousands/Thousand Units) |
|--|-------------------------------------|---------------|------------------------|---|-----------------|---|-----------|-----------------------------------|-----------------|-------------------------|-------------------------|---|
| <b>Beneficiary certificates (mutual fund)</b>  |                                     |               |                        |   |                 |   |           |                                   |                 |                         |                         |   |
| PCA Well Pool Fund   | Available-for-sale financial assets |               |                        | 194,181   | \$ 2,500,000    |   | \$        | 194,181                           | \$ 2,521,514    | \$ 2,500,000            | \$ 21,514               |   |
| Yuanta Wan Tai Bond Fund   | Available-for-sale financial assets |               |                        | 173,683   | 2,500,000       | 103,616                                       | 1,500,000 | 277,299                           | 4,013,901       | 4,000,000               | 13,901                  |   |
| Mega Diamond Bond Fund   | Available-for-sale financial assets |               |                        | 126,106   | 1,500,000       |   |           | 126,106                           | 1,504,977       | 1,500,000               | 4,977                   |   |
| Polaris De-Li Fund   | Available-for-sale financial assets |               |                        | 129,654   | 2,008,787       |   |           | 129,654                           | 2,022,219       | 2,008,787               | 13,432                  |   |
| Fuh-Hwa Bond Fund  | Available-for-sale financial assets |               |                        | 108,849   | 1,500,000       |   |           | 108,849                           | 1,504,158       | 1,500,000               | 4,158                   |   |
| Fidelity US High Yield Fund  | Available-for-sale financial assets |               |                        | 535   | 206,588         |   |           | 535                               | 192,038         | 206,588                 | (14,550)                |   |
| <b>Bonds</b>   |                                     |               |                        |   |                 |   |           |                                   |                 |                         |                         |   |
| China Development Financial Holding Corporation Unsecured Corporate Bonds-AB issue in 2005 | Held-to-maturity financial assets   |               |                        |   |                 |   | 200,000   |                                   |                 |                         |                         |   |
|  |                                     |               |                        |   |                 |   |           |                                   |                 |                         | (Note 3)                |   |
| Taiwan Power Co. 5th Bond-A issue in 2008  | Held-to-maturity financial assets   |               |                        |   |                 |   | 300,000   |                                   |                 |                         |                         |   |
|  |                                     |               |                        |   |                 |   |           |                                   |                 |                         | (Note 3)                |   |
| Yuanta Securities Finance Co. Ltd. 1ND Unsecured Corporate Bonds-B issue in 2007           | Held-to-maturity financial assets   |               |                        |   |                 |   | 400,000   |                                   |                 |                         |                         |   |
|  |                                     |               |                        |   |                 |   |           |                                   |                 |                         | (Note 3)                |   |

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|  |                                   |         |          |
|--|-----------------------------------|---------|----------|
| Mega Securities Co., Ltd. 1st Unsecured Corporate Bond issue in 2009 | Held-to-maturity financial assets | 300,000 | (Note 3) |
|--|-----------------------------------|---------|----------|

(Continued)

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| Company Name | Marketable Securities Type and Name   | Financial Statement Account       | Counter-party | Nature of Relationship | Beginning Balance                 | Acquisition                       | Disposal                          | Carrying                          | Gain/Loss                         | Ending Balance                    |
|--------------|---|-----------------------------------|---------------|------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-----------------------------------|
|              |   |                                   |               |                        | Shares                            | Shares                            | Shares                            | Amount                            | Amount                            | Shares                            |
|              |   |                                   |               |                        | (Thousands/<br>Thousand<br>Units) | (Thousands/<br>Thousand<br>Units) | (Thousands/<br>Thousand<br>Units) | (Thousands/<br>Thousand<br>Units) | (Thousands/<br>Thousand<br>Units) | (Thousands/<br>Thousand<br>Units) |
|              | Taiwan Power Co. 5th secured Bond-B issue in 2008                             | Held-to-maturity financial assets |               |                        | \$                                | \$                                | 200,000                           |                                   |                                   | \$ 200,000                        |
|              |   |                                   |               |                        |                                   |                                   | (Note 3)                          |                                   |                                   | (Note 3)                          |
|              | Formosa Petrochemical Corporation 2nd Unsecured Corporate Bonds issue in 2008 | Held-to-maturity financial assets |               |                        |                                   |                                   | 400,000                           |                                   |                                   | 400,000                           |
|              |   |                                   |               |                        |                                   |                                   | (Note 3)                          |                                   |                                   | (Note 3)                          |
|              | China Steel Corporation 1st Unsecured Corporate Bonds issue in 2008           | Held-to-maturity financial assets |               |                        |                                   |                                   | 100,000                           |                                   |                                   | 100,000                           |
|              |   |                                   |               |                        |                                   |                                   | (Note 3)                          |                                   |                                   | (Note 3)                          |
|              | Chinese Petroleum Corporation 1st Unsecured Corporate Bonds-A issue in 2008   | Held-to-maturity financial assets |               |                        |                                   |                                   | 100,000                           |                                   |                                   | 100,000                           |
|              |   |                                   |               |                        |                                   |                                   | (Note 3)                          |                                   |                                   | (Note 3)                          |
|              | Formosa Petrochemical Corporation 4th Unsecured Corporate Bonds issue in 2008 | Held-to-maturity financial assets |               |                        |                                   |                                   | 200,000                           |                                   |                                   | 200,000                           |
|              |   |                                   |               |                        |                                   |                                   | (Note 3)                          |                                   |                                   | (Note 3)                          |
|              | NAN YA Company 2nd Unsecured Corporate Bonds Issue in 2009                    | Held-to-maturity financial assets |               |                        |                                   |                                   | 250,000                           |                                   |                                   | 250,000                           |
|              |   |                                   |               |                        |                                   |                                   | (Note 3)                          |                                   |                                   | (Note 3)                          |
|              | NAN YA Company 3rd Unsecured Corporate Bonds issue in 2009                    | Held-to-maturity financial assets |               |                        |                                   |                                   | 200,000                           |                                   |                                   | 200,000                           |
|              |   |                                   |               |                        |                                   |                                   | (Note 3)                          |                                   |                                   | (Note 3)                          |
|              | Formosa Petrochemical Corporation 3rd Unsecured Corporate Bonds issue in 2008 | Held-to-maturity financial assets |               |                        |                                   |                                   | 200,000                           |                                   |                                   | 200,000                           |
|              |   |                                   |               |                        |                                   |                                   | (Note 3)                          |                                   |                                   | (Note 3)                          |
|              | Taiwan Power Co. 1st Secured Corporate Bond-A issue in 2009                   | Held-to-maturity financial assets |               |                        |                                   |                                   | 200,000                           |                                   |                                   | 200,000                           |
|              |   |                                   |               |                        |                                   |                                   | (Note 3)                          |                                   |                                   | (Note 3)                          |
|              | FCFC 1st Unsecured Corporate Bonds issue in                                   | Held-to-maturity financial assets |               |                        |                                   |                                   | 250,000                           |                                   |                                   | 250,000                           |
|              |   |                                   |               |                        |                                   |                                   | (Note 3)                          |                                   |                                   | (Note 3)                          |

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|                                 |   |  |            |          |           |  |        |           |
|---------------------------------|---|--|------------|----------|-----------|--|--------|-----------|
|                                 | 2009  |  |            |          |           |  |        |           |
|                                 | Taiwan Power Co. 4th Secured Corporate Bond-B issue in 2009 | Held-to-maturity financial assets            |            | 350,000  |           |  |        | 350,000   |
|                                 |   |  |            | (Note 3) |           |  |        | (Note 3)  |
| Light Era Development Co., Ltd. | <u>Stocks</u>   | Investment accounted for using equity method | Subsidiary | 83,290   | 2,793,667 |  | 83,290 | 2,805,290 |

Yao Yong Real Property Co., Ltd.

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

Note 2: The ending balance includes investment gain (loss) recognized under equity method.

Note 3: Stated as it is nominal amounts.

Note 4: The amount was eliminated upon consolidation.

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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

SIX MONTHS ENDED JUNE 30, 2010

(Amounts in Thousands of New Taiwan Dollars)

| Company Name  | Related Party                         | Nature of Relationship | Purchase/Sale   | Transaction Details |                 |               | Abnormal Transaction |                 | Notes/Accounts Payable  | % to Total      |  |
|---|---------------------------------------|------------------------|-----------------|---------------------|-----------------|---------------|----------------------|-----------------|-------------------------|-----------------|--|
|   |                                       |                        |                 | Amount              | % to Total      | Payment Terms | Units Price          | Payment Terms   | Ending Balance (Note 1) |                 |  |
| Chunghwa Telecom Co., Ltd.                          | Senao International Co., Ltd.         | Subsidiary             | Sales           | \$ 956,329          | 1               | 30 days       | (Note 2)             | (Note 2)        | \$ 228,078              |                 |  |
|   |                                       |                        |                 | (Notes 4 and 9)     |                 |               |                      |                 | (Notes 5 and 9)         |                 |  |
|   |                                       |                        | Purchase        | 2,376,748           | 4               | 30-90 days    | (Note 2)             | (Note 2)        | (630,988)               |                 |  |
|   |                                       | (Notes 3 and 9)        |                 |                     |                 |               |                      | (Notes 6 and 9) |                         |                 |  |
|   | Chunghwa System Integration Co., Ltd. | Subsidiary             | Purchase        |                     | 293,915         |               | 30 days              |                 |                         | (162,390)       |  |
|   |                                       |                        |                 |                     | (Notes 8 and 9) |               |                      |                 |                         | (Notes 7 and 9) |  |
| CHIEF Telecom Inc.                                  | Subsidiary                            | Sales                  |                 | 124,162             |                 | 30 days       | (Note 2)             | (Note 2)        | 22,807                  |                 |  |
|   |                                       |                        |                 | (Note 9)            |                 |               |                      |                 | (Note 9)                |                 |  |
|   |                                       | Purchase               |                 | 145,567             |                 | 60 days       | (Note 2)             | (Note 2)        | (40,205)                |                 |  |
|   |                                       |                        |                 | (Note 9)            |                 |               |                      |                 | (Note 9)                |                 |  |
| So-net Entertainment Taiwan Co., Ltd.               | Equity-method investee                | Sales                  |                 | 155,523             |                 | 60 days       |                      |                 | 892                     |                 |  |
|   |                                       |                        |                 |                     |                 |               |                      |                 |                         |                 |  |
| Taiwan International Standard Electronics Co., Ltd. | Equity-method investee                | Purchase               |                 | 461,035             | 1               | 30-90 days    |                      |                 | (321,543)               |                 |  |
|   |                                       |                        |                 |                     |                 |               |                      |                 |                         |                 |  |
| Senao International Co., Ltd.                       | Chunghwa Telecom Co., Ltd.            | Parent company         | Sales           | 2,366,115           | 24              | 30-90 days    | (Note 2)             | (Note 2)        | 619,795                 |                 |  |
|   |                                       |                        |                 | (Notes 3 and 9)     |                 |               |                      |                 | (Notes 6 and 9)         |                 |  |
|   |                                       |                        | Purchase        | 934,619             | 12              | 30 days       | (Note 2)             | (Note 2)        | (148,145)               |                 |  |
|   |                                       |                        | (Notes 4 and 9) |                     |                 |               |                      | (Notes 5 and 9) |                         |                 |  |
| Chunghwa System                                     | Chunghwa Telecom Co.,                 | Parent company         | Sales           | 487,448             | 84              | 30 days       |                      |                 | 164,547                 |                 |  |



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| Integration Co., Ltd. | Ltd.                       |                | (Notes 8 and 9) |          |    | (Note 2) | (Note 2) | (Notes 7 and 9) |          |
|-----------------------|----------------------------|----------------|-----------------|----------|----|----------|----------|-----------------|----------|
| CHIEF Telecom Inc.    | Chunghwa Telecom Co., Ltd. | Parent company | Sales           | 145,567  | 28 | 60 days  | (Note 2) | (Note 2)        | 40,205   |
|                       |                            |                |                 | (Note 9) |    |          |          |                 | (Note 9) |
|                       |                            |                | Purchase        | 124,162  | 27 | 30 days  | (Note 2) | (Note 2)        | (22,807) |
|                       |                            |                |                 | (Note 9) |    |          |          |                 | (Note 9) |

Note 1: Excluding payment and receipts collected in trust for others.

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

Note 3: The difference was because Senao International Co., Ltd. classified the amount as non-operating income and other current liabilities.

Note 4: The difference was because Senao International Co., Ltd. classified the amount as operating expenses.

Note 5: The difference was because Senao International Co., Ltd. classified the amount as other payables.

Note 6: The difference was because Senao International Co., Ltd. classified the amount as other receivables.

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

Note 8: The difference was because Chunghwa classified the amount as property, plant and equipment, inventories, spare parts and other assets.

Note 9: The amount was eliminated upon consolidation.

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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

JUNE 30, 2010

(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             | \$ 228,078<br>(Note 2) | 7.81<br>(Note 1) | \$              |              | \$ 228,078                            | \$                      |
| 1   | Senao International Co., Ltd.         | Chunghwa Telecom Co., Ltd.    | Parent company         | 865,903<br>(Note 2)    | 7.73<br>(Note 1) |                 |              | 1,972                                 |                         |
| 3   | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd.    | Parent company         | 164,547<br>(Note 2)    | 3.07<br>(Note 1) |                 |              | 8,978                                 |                         |

Note 1: Payments and receipts collected in trust for others are excluded from the accounts receivable for calculating the turnover rate.

Note 2: The amount was eliminated upon consolidation.

**Table of Contents****TABLE 7****CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****SIX MONTHS ENDED JUNE 30, 2010****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Investor Company           | Investee Company                                    | Location             | Main Businesses and Products   | Original Investment Amount |                   | Balance as of June 30, 2010 |                             |                          | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1 and 2) | Type of Investment |
|----------------------------|---|----------------------|--|----------------------------|-------------------|-----------------------------|-----------------------------|--------------------------|-----------------------------------|--|--------------------|
|                            |   |                      |  | June 30, 2010              | December 31, 2009 | Shares (Thousands)          | Percentage of Ownership (%) | Carrying Value           |                                   |  |                    |
| Chunghwa Telecom Co., Ltd. | Senao International Co., Ltd.                       | Sindian City, Taipei | Selling and maintaining mobile phones and its peripheral products  | \$ 1,065,813               | \$ 1,065,813      | 71,773                      | 28                          | \$ 1,263,026<br>(Note 8) | \$ 619,140                        | \$ 175,160<br>(Note 8)                 | Subsidiary         |
|                            | Light Era Development Co., Ltd.                     | Taipei               | Housing, office building development, rent and sale services   | 3,000,000                  | 3,000,000         | 300,000                     | 100                         | 2,891,613<br>(Note 8)    | (35,138)                          | (35,064)<br>(Note 8)                   | Subsidiary         |
|                            | Chunghwa Investment Co., Ltd.                       | Taipei               | Telecommunications, telecommunications value-added services and other related professional investment                    | 1,738,709                  | 1,738,709         | 178,000                     | 89                          | 1,653,215<br>(Note 8)    | 58,391                            | 50,874<br>(Note 8)                     | Subsidiary         |
|                            | Chunghwa Telecom Singapore Pte., Ltd.               | Singapore            | Telecommunication wholesale, internet transfer services international data and long distance call wholesales to carriers | 1,389,939                  | 1,389,939         | 61,869                      | 100                         | 1,426,836<br>(Note 8)    | 8,795                             | 8,795<br>(Note 8)                      | Subsidiary         |
|                            | Chunghwa System Integration Co., Ltd.               | Taipei               | Providing communication and information aggregative services   | 838,506                    | 838,506           | 60,000                      | 100                         | 707,252<br>(Note 8)      | 6,043                             | 767<br>(Note 8)                        | 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                          | 508,841                  | 145,029                           | 81,031                                 | Equity investment  |
|                            | CHIEF Telecom Inc.                                  | Taipei               | Internet communication and internet data center ( IDC ) service  | 482,165                    | 482,165           | 37,942                      | 69                          | 486,227<br>(Note 8)      | 53,700                            | 38,551<br>(Note 8)                     | Subsidiary         |
|                            | Viettel-CHT Co., Ltd.                               | Vietnam              | IDC services   | 288,327                    | 288,327           |                             | 30                          | 273,140                  | 37,711                            | 11,319                                 | Equity investment  |
|                            | InfoExplorer Co., Ltd.                              | Banqiao City, Taipei | IT solution provider, IT application consultation, system integration and package solution                               | 283,500                    | 283,500           | 22,498                      | 49                          | 251,982<br>(Note 8)      | (43,352)                          | (22,240)<br>(Note 8)                   | Subsidiary         |
|                            | Donghwa Telecom Co., Ltd.                           | Hong Kong            | International telecommunications IP fictitious internet and internet transfer services                                   | 201,263                    | 201,263           | 51,590                      | 100                         | 239,338<br>(Note 8)      | 8,536                             | 8,536<br>(Note 8)                      | Subsidiary         |
|                            | Chunghwa International Yellow Pages Co.,            | Taipei               | Yellow pages sales and advertisement services  | 150,000                    | 150,000           | 15,000                      | 100                         | 176,704<br>(Note 8)      | 24,505                            | 24,505<br>(Note 8)                     | Subsidiary         |

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|                               |               |  |        |        |       |     |          |        |          |                |
|-------------------------------|---------------|--|--------|--------|-------|-----|----------|--------|----------|----------------|
| Ltd.                          |               |  |        |        |       |     | (Note 8) |        | (Note 8) |                |
| Skysoft Co., Ltd.             | Taipei        | Providing of music on-line, software, electronic information, and advertisement services | 67,025 | 67,025 | 4,438 | 30  | 87,234   | 6,219  | 1,866    | Equity investe |
| 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 | 75,974   | 15,134 | 11,692   | Subsidi        |
|                               |               |  |        |        |       |     | (Note 8) |        | (Note 8) |                |

(Continued)

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| Investor Company            | Investee Company                                | Location               | Main Businesses and Products   | Original Investment Amount |                   | Balance as of June 30, 2010 |                             |                 | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1 and 2) | Note          |
|-----------------------------|---|------------------------|--|----------------------------|-------------------|-----------------------------|-----------------------------|-----------------|-----------------------------------|--|---------------|
|                             |   |                        |  | June 30, 2010              | December 31, 2009 | Shares (Thousands)          | Percentage of Ownership (%) | Carrying Value  |                                   |  |               |
|                             | Spring House Entertainment Inc.                 | Taipei                 | Network services, producing digital entertainment contents and broadband visual sound terrace development  | \$ 62,209                  | \$ 62,209         | 5,996                       | 56                          | \$ 64,866       | \$ 13,366                         | \$ 7,770                               | Subsidiary    |
|                             | KingWaytek Technology Co., Ltd.                 | Taipei                 | Publishing books, data processing and software services  | 71,770                     | 71,770            | 1,703                       | 33                          | 64,834          | (4,695)                           | (4,346)                                | Equity-method |
|                             | So-net Entertainment Taiwan                     | Taipei                 | Online service and sale of computer hardware   | 60,008                     | 60,008            | 3,429                       | 30                          | 26,155          | (15,884)                          | (4,765)                                | Equity-method |
|                             | Chunghwa Telecom Japan Co., Ltd.                | Japan                  | Telecom business, information process and information provide service, development and sale of software and consulting services in telecommunication | 17,291                     | 17,291            | 1                           | 100                         | 12,667          | 6,020                             | 1,810                                  | Subsidiary    |
|                             | New Prospect Investments Holdings Ltd. (B.V.I.) | British Virgin Islands | Investment   | (Note 3)                   | (Note 3)          |                             | 100                         | (Notes 3 and 8) |                                   | (Notes 3 and 8)                        | Subsidiary    |
|                             | Prime Asia Investments Group Ltd. (B.V.I.)      | British Virgin Islands | Investment   | (Note 3)                   | (Note 3)          |                             | 100                         | (Notes 3 and 8) |                                   | (Notes 3 and 8)                        | Subsidiary    |
| Senao International, Ltd.   | Senao Networks, Inc.                            | Linkou Hsiang, Taipei  | Telecommunication facilities manufactures and sales.   | 206,190                    | 206,190           | 15,295                      | 41                          | 288,051         | 73,806                            | 29,196                                 | Equity-method |
|                             | Senao International (Samoa) Holding Ltd.        | Samoa Islands          | International investment   |                            |                   |                             | 100                         | (Notes 4 and 8) |                                   | (Notes 4 and 8)                        | Subsidiary    |
| IEF Telecom Inc.            | Unigate Telecom Inc.                            | Taipei                 | Telecommunication and internet service.  | 2,000                      | 2,000             | 200                         | 100                         | 2,013           | 16                                | 16                                     | Subsidiary    |
|                             | CHIET Telecom (Hong Kong) Limited               | Hong Kong              | Network communication and engine room hiring   | 1,678                      | 1,678             | 400                         | 100                         | 991             | (2)                               | (2)                                    | Subsidiary    |
|                             | Chief International Corp.                       | Samoa Islands          | Network communication and engine room hiring   | 6,068                      | 6,068             | 200                         | 100                         | 8,066           | 424                               | 424                                    | Subsidiary    |
| Chunghwa Telecom Integrated | Concord Technology Co., Ltd                     | Brunei                 | Providing advanced business solutions to telecommunications  | 22,530                     | 16,179            | 700                         | 100                         | 4,912           | (2,253)                           | (2,253)                                | Subsidiary    |
|                             |   |                        |  |                            | (US\$ 500)        |                             |                             | (US\$ 153)      |                                   |  |               |

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|                               |  |        |                                 |               |        |     |           |                |                |            |
|-------------------------------|--|--------|---------------------------------|---------------|--------|-----|-----------|----------------|----------------|------------|
|                               |  |        |                                 | (US\$<br>700) |        |     | (Note 8)  | ((US\$<br>71)) | ((US\$<br>71)) |            |
|                               |  |        |                                 |               |        |     |           |                | (Note 8)       |            |
| ht Era<br>velopment<br>, Ltd. | Yao Yong<br>Real Property<br>co., Ltd. | Taipei | Real estate leasing<br>business | 2,793,667     | 83,290 | 100 | 2,805,298 | 17,044         | 11,631         | Subsidiary |
|                               |  |        |                                 |               |        |     | (Note 8)  |                | (Note 9)       |            |
|                               |  |        |                                 |               |        |     |           |                | (Continued)    |            |

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| No. | Investor Company                         | Investee Company                                  | Location             | Main Businesses and Products  | Original Investment Amount |                         | Balance as of June 30, 2010 |                             |                                     | Net Income (Loss) of the Investee | Recognized Gain (Loss) (Notes 1 and 2) | Note                   |
|-----|--|---|----------------------|---|----------------------------|-------------------------|-----------------------------|-----------------------------|-------------------------------------|-----------------------------------|--|------------------------|
|     |  |   |                      |   | June 30, 2010              | December 31, 2009       | Shares (Thousands)          | Percentage of Ownership (%) | Carrying Value                      |                                   |  |                        |
| 9   | Chunghwa Telecom Singapore Pte., Ltd.    | ST-2 Satellite Ventures Pte., Ltd.                | Singapore            | Operation of ST-2 telecommunication satellite   | 409,061<br>(SGD 18,102)    | 409,061<br>(SGD 18,102) | 18,102                      | 38                          | 410,268<br>(SGD 17,846)             | (1,964)<br>((SGD 86))             | (751)<br>((SGD method 33))             | Equity-investee        |
| 11  | InfoExplorer Co., Ltd.                   | InfoExplorer International Co., Ltd.              | Samoa Islands        | International investment  |                            |                         |                             | 100                         |                                     |                                   |  | Subsidiary             |
| 14  | Chunghwa Investment Co., Ltd.            | Chunghwa Precision Test Tech. Co., Ltd.           | Tao Yuan             | Semiconductor testing components and printed circuit board industry production and marketing of electronic products | 91,875                     | 91,875                  | 10,317                      | 54                          | 116,654<br>(Note 8)                 | 13,201                            | 7,094<br>(Note 8)                      | Subsidiary             |
|     |  | Chunghwa Investment Holding Co., Ltd.             | Bornei               | General investment  | \$ 34,483<br>(US\$ 1,043)  | \$ 20,000<br>(US\$ 589) | 1,043                       | 100                         | \$ 24,055<br>(US\$ 748)<br>(Note 8) | \$ (1,124)<br>((US\$ 35))         | \$ (1,124)<br>((US\$ 35))              | Subsidiary             |
|     |  | Tatung Technology Inc.                            | Taipei               | The product of SET TOP BOX  | 50,000                     | 50,000                  | 5,000                       | 28                          | 17,037                              | (70,655)                          | (19,108)                               | Equity-method investee |
|     |  | Panda Monium Company Ltd.                         | Cayman               | The production of animation   | 20,000<br>(US\$ 602)       | 20,000<br>(US\$ 602)    | 602                         | 43                          |                                     |                                   |  | Equity-method investee |
|     |  | CHIEF Telecom Inc.                                | Taipei               | Telecommunication and internet service  | 20,000                     | 20,000                  | 2,000                       | 4                           | 22,525<br>(Note 8)                  | 53,700                            | 1,965<br>(Note 8)                      | Subsidiary             |
|     |  | Senao International Co., Ltd.                     | Sindian City, Taipei | Selling and maintaining mobile phones and its peripheral products   | 30,188                     |                         | 618                         | 0.23                        | 31,564<br>(Note 8)                  | 619,140                           | 1,375<br>(Note 8)                      | Subsidiary             |
| 18  | Concord Technology Co., Ltd              | Glory Network System Service (Shanghai) Co., Ltd. | Shanghai             | Providing advanced business solutions to telecommunications   | 22,530<br>(US\$ 700)       | 16,179<br>(US\$ 500)    | 700                         | 100                         | 4,908<br>(US\$ 153)<br>(Note 8)     | (2,253)<br>((US\$ 71))            | (2,253)<br>((US\$ 71))                 | Subsidiary             |
| 22  | Senao International (Samoa) Holding Ltd. | Senao International HK Limited                    | Hong Kong            | International investment  |                            |                         |                             | 100                         |                                     |                                   |  | Subsidiary             |
| 24  | Chunghwa Investment Holding Co., Ltd.    | CHI One Investment Co., Limited                   | Hong Kong            | General investment  | 14,483<br>(US\$ 450)       |                         | 3,500                       | 100                         | 13,209<br>(US\$ 410)<br>(Note 8)    | (1,072)<br>((US\$ 34))            | (1,072)<br>((US\$ 34))                 | Subsidiary             |
| 26  |  |   | Xiamen               |   |                            |                         |                             | 49                          | 12,620                              | (2,123)                           | (1,040)                                |                        |

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|                                 |   |  |            |            |             |                                    |
|---------------------------------|---|--|------------|------------|-------------|------------------------------------|
| CHI One Investment Co., Limited | Xiamen Sertec Business Technology Co., Ltd. | Customer Services and platform rental activities | (US\$ 431) | (US\$ 393) | ((US\$ 67)) | ((US\$ Equity-method 33)) investee |
|---------------------------------|---|--|------------|------------|-------------|------------------------------------|

|    |                                      |                                       |           |                          |     |                 |            |                 |
|----|--------------------------------------|---------------------------------------|-----------|--------------------------|-----|-----------------|------------|-----------------|
| 27 | InfoExplorer International Co., Ltd. | InfoExplorer (Hong Kong) Co., Limited | Hong Kong | International investment | 100 | (Notes 7 and 8) | Subsidiary | (Notes 7 and 8) |
|----|--------------------------------------|---------------------------------------|-----------|--------------------------|-----|-----------------|------------|-----------------|

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 of differences between the investment cost and net value and elimination of 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, but not on operating stage. Chunghwa has 100% ownership right in an amount of US\$1 in each holding company.

Note 4: Senao International (Samoa) Holding Ltd. (SIS) was established by Senao International Co., Ltd. in 2009. No capital is injected in SIS yet by June 30, 2010.

Note 5: Senao International Co., Ltd. established Senao International HK Limited (SIHK) by the subsidiary, SIS in 2009. No capital is injected in SIHK yet by June 30, 2010.

Note 6: InfoExplorer International Co., Ltd. (IESA) was established by IFE in 2010. No-capital is injected in IESA yet by June 30, 2010.

Note 7: InfoExplorer (Hong Kong) Co., Limited (IEHK) was established by IESA in 2010. No-capital is injected in IEHK yet by June 30, 2010.

Note 8: The amount was eliminated upon consolidation.

Note 9: The transactions happened after Chunghwa has control over YYRP on March 1, 2010, were eliminated upon consolidation.

(Concluded)



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TABLE 8

## CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## INVESTMENT IN MAINLAND CHINA

## SIX MONTHS ENDED JUNE 30, 2010

(Amounts in Thousands of New Taiwan Dollars, in Thousands of U.S. Dollars)

| Investee  | Main Businesses and Products                                | Total Amount of Paid-in Capital | Investment Type | Accumulated Outflow of Investment from Taiwan as of January 1, 2010 | Investment Flows Outflow | Accumulated Outflow of Investment from Taiwan as of June 30, 2010 | % Ownership of Direct or Indirect Investment (Note 2 and 5) | Investment Gain (Loss) | Carrying Value as of June 30, 2010 (Note 5) | Accumulated Inward Remittance of Earnings as of June 30, 2010 |
|---|---|---------------------------------|-----------------|---|--------------------------|---|---|------------------------|---|---|
| Glory Network System Service (Shanghai) Co., Ltd. | Providing advanced business solutions to telecommunications | \$ 22,530                       | Note 1          | \$ 16,179   | \$ 6,351                 | \$ 22,530   | 100%  | \$ (2,253)             | \$ 4,908                                    | \$  |
|   |   | (US\$ 700)                      |                 | (US\$ 500)  | (US\$ 200)               | (US\$ 700)  |   | ((US\$ 71))            | (US\$ 153)                                  |   |
| Kiamei Sertec Business Technology Co., Ltd.       | Customer Services and platform rental activities            | 28,282                          | Note 1          |   | 13,863                   | 13,863  | 49%   | (1,040)                | 12,620                                      |   |
|   |   | (US\$ 880)                      |                 |   | (US\$ 431)               | (US\$ 431)  |   | ((US\$ 33))            | (US\$ 393)                                  |   |

| Accumulated Investment in Mainland China as of June 30, 2010 | Investment Amounts Authorized by Investment Commission, MOEA | Upper Limit on Investment Stipulated by Investment Commission, MOEA |
|--|--|---|
| \$ 22,530  | \$ 48,169  | \$ 378,602  |
| (US\$ 700)   | (US\$ 1,500)   | (Note 3)  |
| 13,863   | 79,882   | 1,224,285   |
| (US\$ 431)   | (US\$ 2,500)   | (Note 4)  |

Note 1: Chungghwa System Integration Co., Ltd. and Chungghwa Investment Co., Ltd. indirectly owns this investee through an investment company registered in a third region.

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

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

Note 4: The amount was calculated based on the net assets value of Chungghwa Investment Co., Ltd.

Note 5: The amount was eliminated upon consolidation.

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TABLE 9

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**  
**INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009**  
**(Amount in Thousands of New Taiwan Dollars)**

| Year | No.<br>(Note 1) | Company<br>Name                  | Related Party                                 | Nature of<br>Relationship<br>(Note 2) | Financial<br>Statement<br>Account        | Transaction Details |                              |  |
|------|-----------------|----------------------------------|---|---------------------------------------|--|---------------------|------------------------------|--|
|      |                 |                                  |   |                                       |  | Amount<br>(Note 5)  | Payment<br>Terms<br>(Note 3) | % to<br>Total Sales or<br>Assets<br>(Note 4) |
| 2010 | 0               | Chunghwa<br>Telecom Co.,<br>Ltd. | Senao International Co., Ltd.                 | a                                     | Accounts<br>receivable                   | \$ 228,078          |                              |  |
|      |                 |                                  |   |                                       | Accounts payable                         | 633,902             |                              |  |
|      |                 |                                  |   |                                       | Amounts collected<br>in trust for others | 234,915             |                              |  |
|      |                 |                                  |   |                                       | Revenues                                 | 956,329             |                              | 1  |
|      |                 |                                  |   |                                       | Non-operating<br>income and gains        | 3                   |                              |  |
|      |                 |                                  |   |                                       | Operating costs<br>and expenses          | 2,376,748           |                              | 2  |
|      |                 |                                  |   |                                       | Property, plant and<br>equipment         | 64                  |                              |  |
|      |                 |                                  |   |                                       | Work in process                          | 91                  |                              |  |
|      |                 |                                  |   |                                       | Office supplies                          | 163                 |                              |  |
|      |                 |                                  | CHIEF Telecom Inc.                            | a                                     | Accounts<br>receivable                   | 23,075              |                              |  |
|      |                 |                                  |   |                                       | Accounts payable                         | 40,324              |                              |  |
|      |                 |                                  |   |                                       | Amounts collected<br>in trust for others | 2,511               |                              |  |
|      |                 |                                  |   |                                       | Revenues                                 | 124,162             |                              |  |
|      |                 |                                  |   |                                       | Operating costs<br>and expenses          | 145,567             |                              |  |
|      |                 |                                  | Unigate Telecom Inc.                          | a                                     | Revenues                                 | 218                 |                              |  |
|      |                 |                                  | Chunghwa International Yellow Pages Co., Ltd. | a                                     | Accounts<br>receivable                   | 10,244              |                              |  |
|      |                 |                                  |   |                                       | Accounts payable                         | 3,804               |                              |  |
|      |                 |                                  |   |                                       | Amounts collected<br>in trust for others | 9,205               |                              |  |
|      |                 |                                  |   |                                       | Revenues                                 | 7,890               |                              |  |
|      |                 |                                  |   |                                       | Operating costs<br>and expenses          | 15,309              |                              |  |
|      |                 |                                  | Chunghwa System Integration Co., Ltd.         | a                                     | Accounts<br>receivable                   | 2,706               |                              |  |
|      |                 |                                  |   |                                       | Accounts payable                         | 162,390             |                              |  |
|      |                 |                                  |   |                                       | Payables to<br>contractors               | 2,157               |                              |  |
|      |                 |                                  |   |                                       | Revenues                                 | 15,148              |                              |  |
|      |                 |                                  |   |                                       | Non-operating<br>income and gains        | 268                 |                              |  |
|      |                 |                                  |   |                                       | Operating costs<br>and expenses          | 293,915             |                              |  |

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|                               |   |                               |         |
|-------------------------------|---|-------------------------------|---------|
|                               |   | Work in process               | 1,605   |
|                               |   | Spare parts                   | 8,941   |
|                               |   | Property, plant and equipment | 174,478 |
|                               |   | Intangible assets             | 7,524   |
|                               |   | Other deferred expenses       | 985     |
| Chunghwa Telecom Global, Inc. | a | Accounts receivable           | 17,296  |
|                               |   | Accounts payable              | 45,319  |
|                               |   | Revenues                      | 28,448  |
|                               |   | Operating costs and expenses  | 62,793  |
|                               |   | Property, plant and equipment | 16,470  |

(Continued)

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| Year | No.<br>(Note 1) | Company<br>Name | Related Party                           | Nature of<br>Relationship<br>(Note 2) | Financial<br>Statement<br>Account    | Transaction Details |                           | % to<br>Total Sales or<br>Assets<br>(Note 4) |
|------|-----------------|-----------------|---|---------------------------------------|--------------------------------------|---------------------|---------------------------|--|
|      |                 |                 |   |                                       |                                      | Amount<br>(Note 5)  | Payment Terms<br>(Note 3) |  |
|      |                 |                 | Donghwa Telecom Co., Ltd.               | a                                     | Accounts<br>receivable               | \$ 8,237            |                           |  |
|      |                 |                 |   |                                       | Accounts<br>payable                  | 36,901              |                           |  |
|      |                 |                 |   |                                       | Operating<br>costs and<br>expenses   | 14,886              |                           |  |
|      |                 |                 | Spring House Entertainment Inc.         | a                                     | Property, plant<br>and equipment     | 25,465              |                           |  |
|      |                 |                 |   |                                       | Accounts<br>receivable               | 6,939               |                           |  |
|      |                 |                 |   |                                       | Accounts<br>payable                  | 17,569              |                           |  |
|      |                 |                 |   |                                       | Revenues                             | 1,340               |                           |  |
|      |                 |                 |   |                                       | Operating<br>costs and<br>expenses   | 26,102              |                           |  |
|      |                 |                 | Chunghwa Telecom Japan Co., Ltd.        | a                                     | Accounts<br>receivable               | 4,101               |                           |  |
|      |                 |                 |   |                                       | Accounts<br>payable                  | 3,493               |                           |  |
|      |                 |                 |   |                                       | Operating<br>costs and<br>expenses   | 7,788               |                           |  |
|      |                 |                 | Light Era Development Co., Ltd.         | a                                     | Property, plant<br>and equipment     | 5,994               |                           |  |
|      |                 |                 |   |                                       | Accounts<br>receivable               | 1,144               |                           |  |
|      |                 |                 |   |                                       | Accounts<br>payable                  | 494                 |                           |  |
|      |                 |                 |   |                                       | Revenues                             | 10,427              |                           |  |
|      |                 |                 |   |                                       | Operating<br>costs and<br>expenses   | 669                 |                           |  |
|      |                 |                 | Chunghwa Telecom Singapore Pte., Ltd.   | a                                     | Accounts<br>receivable               | 1,443               |                           |  |
|      |                 |                 |   |                                       | Accounts<br>payable                  | 2,548               |                           |  |
|      |                 |                 |   |                                       | Revenues                             | 7,511               |                           |  |
|      |                 |                 |   |                                       | Operating<br>costs and<br>expenses   | 11,726              |                           |  |
|      |                 |                 | InfoExplorer Co., Ltd.                  | a                                     | Accounts<br>receivable               | 50                  |                           |  |
|      |                 |                 |   |                                       | Accounts<br>payable                  | 7,929               |                           |  |
|      |                 |                 |   |                                       | Revenues                             | 736                 |                           |  |
|      |                 |                 |   |                                       | Operating<br>costs and<br>expenses   | 27,196              |                           |  |
|      |                 |                 | Chunghwa Precision Test Tech. Co., Ltd. | a                                     | Accounts<br>receivable               | 1,788               |                           |  |
|      |                 |                 |   |                                       | Accounts<br>payable                  | 241                 |                           |  |
|      |                 |                 |   |                                       | Revenues                             | 1,234               |                           |  |
|      |                 |                 |   |                                       | Non-operating<br>income and<br>gains | 451                 |                           |  |
|      |                 |                 |   |                                       | Operating<br>costs and               | 1                   |                           |  |

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|   |                               |   | expenses |                                       |           |   |
|---|-------------------------------|---|----------|---------------------------------------|-----------|---|
| 1 | Senao International Co., Ltd. | Chunghwa Telecom Co., Ltd.                    | b        | Accounts receivable                   | 619,795   |   |
|   |                               |   |          | Accrued custodial receipts            | 246,108   |   |
|   |                               |   |          | Prepaid expenses                      | 2,914     |   |
|   |                               |   |          | Accounts payable                      | 148,145   |   |
|   |                               |   |          | Amounts collected in trust for others | 79,933    |   |
|   |                               |   |          | Advances from customers               | 10,941    |   |
|   |                               |   |          | Revenues                              | 2,366,115 | 2 |
|   |                               |   |          | Non-operating income and gains        | 10        |   |
|   |                               |   |          | Non-operating costs and expenses      | 3         |   |
|   |                               |   |          | Operating costs and expenses          | 956,329   | 1 |
|   |                               | Chunghwa System Integration Co., Ltd.         | c        | Revenues                              | 4         |   |
|   |                               | Spring House Entertainment Inc.               | c        | Revenues                              | 43        |   |
|   |                               | Chunghwa International Yellow Pages Co., Ltd. | c        | Revenues                              | 49        |   |
|   |                               |   |          | Operating costs and expenses          | 48        |   |
|   |                               | Light Era Development Co., Ltd.               | c        | Revenues                              | 151       |   |

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| Year | No.<br>(Note 1) | Company Name                                  | Related Party              | Nature of<br>Relationship<br>(Note 2) | Transaction Details            |   | % to<br>Total Sales<br>or<br>Assets<br>(Note 4) |
|------|-----------------|---|----------------------------|---------------------------------------|--------------------------------|---|---|
|      |                 |   |                            |                                       | Financial Statement<br>Account | Amount<br>(Note 5)<br>Payment Terms<br>(Note 3) |   |
|      | 2               | CHIEF Telecom Inc.                            | Chunghwa Telecom Co., Ltd. | b                                     | Accounts receivable            | \$ 42,717                                       |   |
|      |                 |   |                            |                                       | Prepaid expenses               | 118   |   |
|      |                 |   |                            |                                       | Accounts payable               | 22,806  |   |
|      |                 |   |                            |                                       | Advances from customers        | 269   |   |
|      |                 |   |                            |                                       | Revenues                       | 145,567   |   |
|      |                 |   |                            |                                       | Operating costs and expenses   | 124,162   |   |
|      |                 | Unigate Telecom Inc.                          |                            | c                                     | Accounts payable               | 1,694   |   |
|      |                 |   |                            |                                       | Revenues                       | 11  |   |
|      |                 |   |                            |                                       | Operating costs and expenses   | 1,241   |   |
|      |                 | Chunghwa System Integration Co., Ltd.         |                            | c                                     | Accounts receivable            | 14  |   |
|      |                 |   |                            |                                       | Revenues                       | 124   |   |
|      |                 | Donghwa Telecom Co., Ltd.                     |                            | c                                     | Accounts receivable            | 303   |   |
|      |                 |   |                            |                                       | Revenues                       | 504   |   |
|      |                 | Yao Yong Real Property Co., Ltd.              |                            | c                                     | Accounts payable               | 4,283   |   |
|      |                 |   |                            |                                       | Non-operating income and gains | 72  |   |
|      |                 |   |                            |                                       | Operating costs and expenses   | 28,983  |   |
|      | 3               | Chunghwa System Integration Co., Ltd.         | Chunghwa Telecom Co., Ltd. | b                                     | Accounts receivable            | 164,547   |   |
|      |                 |   |                            |                                       | Accounts payable               | 2,706   |   |
|      |                 |   |                            |                                       | Revenues                       | 487,448   |   |
|      |                 |   |                            |                                       | Operating costs and expenses   | 15,416  |   |
|      |                 | CHIEF Telecom Inc.                            |                            | c                                     | Accounts payable               | 14  |   |
|      |                 |   |                            |                                       | Operating costs and expenses   | 124   |   |
|      |                 | Chunghwa International Yellow Pages Co., Ltd. |                            | c                                     | Revenues                       | 64  |   |
|      |                 |   |                            |                                       | Operating costs and expenses   | 78  |   |
|      |                 | Senao International Co., Ltd.                 |                            | c                                     | Operating costs and expenses   | 4   |   |
|      |                 | InfoExplorer Co., Ltd.                        |                            | c                                     | Accounts receivable            | 65  |   |
|      |                 |   |                            |                                       | Accounts payable               | 143   |   |
|      |                 |   |                            |                                       | Revenues                       | 722   |   |
|      |                 |   |                            |                                       | Operating costs and expenses   | 143   |   |
|      | 5               | Chunghwa Telecom Global, Inc.                 | Chunghwa Telecom Co., Ltd. | b                                     | Accounts receivable            | 45,306  |   |
|      |                 |   |                            |                                       | Prepaid expenses               | 13  |   |
|      |                 |   |                            |                                       | Accounts payable               | 16,118  |   |
|      |                 |   |                            |                                       | Advances from customers        | 1,178   |   |
|      |                 |   |                            |                                       | Revenues                       | 79,263  |   |
|      |                 |   |                            |                                       | Operating costs and expenses   | 28,448  |   |
|      | 7               | Spring House Entertainment Inc.               | Chunghwa Telecom Co., Ltd. | b                                     | Accounts receivable            | 17,569  |   |
|      |                 |   |                            |                                       |                                | 6,939   |   |

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|                               |   |                              |        |
|-------------------------------|---|------------------------------|--------|
|                               |   | Advances from customers      |        |
|                               |   | Revenues                     | 26,102 |
|                               |   | Operating costs and expenses | 1,340  |
| Senao International Co., Ltd. | c | Operating costs and expenses | 43     |

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| Year | No.<br>(Note 1) | Company Name                                  | Related Party                         | Nature of<br>Relationship<br>(Note 2) | Transaction Details            |                    |                              |
|------|-----------------|---|---------------------------------------|---------------------------------------|--------------------------------|--------------------|------------------------------|
|      |                 |   |                                       |                                       | Financial<br>Statement Account | Amount<br>(Note 5) | Payment<br>Terms<br>(Note 3) |
|      | 15              | Unigate Telecom Inc.                          | Chunghwa Telecom Co., Ltd.            | b                                     | Operating costs and expenses   | \$ 218             |                              |
|      |                 |   | CHIEF Telecom Inc.                    | c                                     | Accounts receivable            | 1,694              |                              |
|      |                 |   |                                       |                                       | Revenues                       | 1,241              |                              |
|      |                 |   |                                       |                                       | Operating costs and expenses   | 11                 |                              |
|      | 4               | Chunghwa International Yellow Pages Co., Ltd. | Chunghwa Telecom Co., Ltd.            | b                                     | Accounts receivable            | 3,295              |                              |
|      |                 |   |                                       |                                       | Accrued custodial receipts     | 9,205              |                              |
|      |                 |   |                                       |                                       | Prepaid expenses               | 509                |                              |
|      |                 |   |                                       |                                       | Accounts payable               | 8,437              |                              |
|      |                 |   |                                       |                                       | Advances from customers        | 1,807              |                              |
|      |                 |   |                                       |                                       | Revenues                       | 15,309             |                              |
|      |                 |   |                                       |                                       | Operating costs and expenses   | 7,890              |                              |
|      |                 |   | Senao International Co., Ltd.         | c                                     | Revenues                       | 48                 |                              |
|      |                 |   |                                       |                                       | Operating costs and expenses   | 49                 |                              |
|      |                 |   | Chunghwa System Integration Co., Ltd. | c                                     | Revenues                       | 78                 |                              |
|      |                 |   |                                       |                                       | Operating costs and expenses   | 46                 |                              |
|      |                 |   |                                       |                                       | Property, plant and equipment  | 18                 |                              |
|      | 6               | Donghwa Telecom Co., Ltd.                     | Chunghwa Telecom Co., Ltd.            | b                                     | Accounts receivable            | 36,901             |                              |
|      |                 |   |                                       |                                       | Accounts payable               | 7,853              |                              |
|      |                 |   |                                       |                                       | Advances from customers        | 384                |                              |
|      |                 |   |                                       |                                       | Revenues                       | 40,351             |                              |
|      |                 |   | CHIEF Telecom Inc.                    | c                                     | Accounts payable               | 303                |                              |
|      |                 |   |                                       |                                       | Operating costs and expenses   | 504                |                              |
|      |                 |   | Chunghwa Telecom Singapore Pte., Ltd. | c                                     | Accounts payable               | 905,143            |                              |
|      |                 |   |                                       |                                       | Operating costs and expenses   | 2,682              |                              |
|      | 8               | Light Era Development Co., Ltd.               | Chunghwa Telecom Co., Ltd.            | b                                     | Prepaid expenses               | 494                |                              |
|      |                 |   |                                       |                                       | Accounts payable               | 1,144              |                              |
|      |                 |   |                                       |                                       | Revenues                       | 669                |                              |
|      |                 |   |                                       |                                       | Operating costs and expenses   | 10,427             |                              |
|      |                 |   | Senao International Co., Ltd.         | c                                     | Operating costs and expenses   | 151                |                              |
|      | 11              | InfoExplorer Co., Ltd.                        | Chunghwa Telecom Co., Ltd.            | b                                     | Accounts receivable            | 7,929              |                              |
|      |                 |   |                                       |                                       | Accounts payable               | 50                 |                              |
|      |                 |   |                                       |                                       | Revenues                       | 27,196             |                              |
|      |                 |   |                                       |                                       | Operating costs and expenses   | 736                |                              |
|      |                 |   | Chunghwa System Integration Co., Ltd. | c                                     | Accounts receivable            | 143                |                              |
|      |                 |   |                                       |                                       | Accounts payable               | 65                 |                              |
|      |                 |   |                                       |                                       | Revenues                       | 143                |                              |
|      |                 |   |                                       |                                       | Operating costs and expenses   | 722                |                              |



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|    |                                     |                            |   |                     |        |
|----|-------------------------------------|----------------------------|---|---------------------|--------|
| 10 | Chunghwa Telecom<br>Japan Co., Ltd. | Chunghwa Telecom Co., Ltd. | b | Accounts receivable | 3,493  |
|    |                                     |                            |   | Accounts Payable    | 4,101  |
|    |                                     |                            |   | Revenues            | 13,782 |

(Continued)

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| Year | No.<br>(Note 1) | Company Name                                   | Related Party              | Nature of<br>Relationship<br>(Note 2) | Transaction Details            |                    | % to<br>Total Sales<br>or<br>Assets<br>(Note 4) |
|------|-----------------|--|----------------------------|---------------------------------------|--------------------------------|--------------------|---|
|      |                 |  |                            |                                       | Financial Statement Account    | Amount<br>(Note 5) |   |
|      | 9               | Chunghwa<br>Telecom<br>Singapore Pte.,<br>Ltd. | Chunghwa Telecom Co., Ltd. | b                                     | Accounts receivable            | \$ 2,548           |   |
|      |                 |  |                            |                                       | Accounts payable               | 1,443              |   |
|      |                 |  |                            |                                       | Revenues                       | 11,726             |   |
|      |                 |  |                            |                                       | Operating costs and expenses   | 7,511              |   |
|      |                 |  | Donghwa Telecom Co., Ltd.  | c                                     | Accounts receivable            | 905,143            |   |
|      |                 |  |                            |                                       | Revenues                       | 2,682              |   |
|      | 20              | Chunghwa<br>Precision Test<br>Tech. Co., Ltd.  | Chunghwa Telecom Co., Ltd. | b                                     | Prepaid expenses               | 241                |   |
|      |                 |  |                            |                                       | Accounts payable               | 1,788              |   |
|      |                 |  |                            |                                       | Non-operating income and gains | 1                  |   |
|      |                 |  |                            |                                       | Operating costs and expenses   | 1,685              |   |
|      | 25              | Yao Yong Real<br>Property Co.,<br>Ltd.         | CHIEF Telecom Inc.         | c                                     | Rent receivables               | 4,283              |   |
|      |                 |  |                            |                                       | Revenues                       | 28,983             |   |
|      |                 |  |                            |                                       | Operating costs and expenses   | 72                 |   |

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| Year | No.<br>(Note 1) | Company Name               | Related Party                         | Nature of<br>Relationship<br>(Note 2) | Financial<br>Statement<br>Account     | Transaction Details |                              | % to<br>Total Sales or<br>Assets<br>(Note 4) |
|------|-----------------|----------------------------|---------------------------------------|---------------------------------------|---------------------------------------|---------------------|------------------------------|--|
|      |                 |                            |                                       |                                       |                                       | Amount<br>(Note 5)  | Payment<br>Terms<br>(Note 3) |  |
| 2009 | 0               | Chunghwa Telecom Co., Ltd. | Senao International Co., Ltd.         | a                                     | Accounts receivable                   | \$ 121,635          |                              |  |
|      |                 |                            |                                       |                                       | Accounts payable                      | 520,969             |                              |  |
|      |                 |                            |                                       |                                       | Amonuts collected in trust for others | 224,382             |                              |  |
|      |                 |                            |                                       |                                       | Revenues                              | 347,971             |                              |  |
|      |                 |                            |                                       |                                       | Other income                          | 4                   |                              |  |
|      |                 |                            |                                       |                                       | Operating costs and expenses          | 2,566,458           |                              | 3  |
|      |                 |                            |                                       |                                       | Property, plant and equipment         | 268                 |                              |  |
|      |                 |                            |                                       |                                       | Work in process                       | 88                  |                              |  |
|      |                 |                            |                                       |                                       | Office supplies                       | 109                 |                              |  |
|      |                 |                            | CHIEF Telecom Inc.                    | a                                     | Accounts receivable                   | 21,388              |                              |  |
|      |                 |                            |                                       |                                       | Accounts payable                      | 50,215              |                              |  |
|      |                 |                            |                                       |                                       | Revenues                              | 111,274             |                              |  |
|      |                 |                            |                                       |                                       | Operating costs and expenses          | 150,251             |                              |  |
|      |                 |                            | Chunghwa System Integration Co., Ltd. | a                                     | Accounts receivable                   | 14,800              |                              |  |
|      |                 |                            |                                       |                                       | Accounts payable                      | 205,965             |                              |  |
|      |                 |                            |                                       |                                       | Payables to contractors               | 1,358               |                              |  |
|      |                 |                            |                                       |                                       | Revenues                              | 7,925               |                              |  |
|      |                 |                            |                                       |                                       | Non-operating income and gains        | 2,103               |                              |  |
|      |                 |                            |                                       |                                       | Operating costs and expenses          | 169,862             |                              |  |
|      |                 |                            |                                       |                                       | Property, plant and equipment         | 187,788             |                              |  |
|      |                 |                            |                                       |                                       | Intangible assets                     | 10,951              |                              |  |
|      |                 |                            |                                       |                                       | Work in process                       | 2,441               |                              |  |
|      |                 |                            |                                       |                                       | Spare parts                           | 6,400               |                              |  |
|      |                 |                            |                                       |                                       | Other deferred expenses               | 58                  |                              |  |
|      |                 |                            | Chunghwa Telecom Global, Inc.         | a                                     | Accounts receivable                   | 13,987              |                              |  |
|      |                 |                            |                                       |                                       | Accounts payable                      | 25,173              |                              |  |
|      |                 |                            |                                       |                                       | Amounts collected in trust for others | 3,618               |                              |  |

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|   |   |                                       |        |
|---|---|---------------------------------------|--------|
|   |   | Revenues                              | 25,128 |
|   |   | Operating costs and expenses          | 24,183 |
|   |   | Property, plant and equipment         | 21,770 |
| Spring House Entertainment Inc.               | a | Accounts receivable                   | 7,613  |
|   |   | Accounts payable                      | 12,212 |
|   |   | Revenues                              | 1,182  |
|   |   | Operating costs and expenses          | 32,456 |
| Unigate Telecom Inc.                          | a | Revenues                              | 1,276  |
| Chunghwa International Yellow Pages Co., Ltd. | a | Accounts receivable                   | 30,306 |
|   |   | Accounts payable                      | 4,786  |
|   |   | Amounts collected in trust for others | 4,680  |

(Continued)

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| Year | No.<br>(Note 1) | Company<br>Name                       | Related Party              | Nature of<br>Relationship<br>(Note 2) | Financial<br>Statement<br>Account     | Transaction Details |                           | % to<br>Total Sales or<br>Assets<br>(Note 4) |
|------|-----------------|---------------------------------------|----------------------------|---------------------------------------|---------------------------------------|---------------------|---------------------------|--|
|      |                 |                                       |                            |                                       |                                       | Amount<br>(Note 5)  | Payment Terms<br>(Note 3) |  |
|      |                 |                                       |                            |                                       | Revenues                              | \$ 8,167            |                           |  |
|      |                 |                                       |                            |                                       | Operating costs and expenses          | 25,844              |                           |  |
|      |                 | Donghwa Telecom Co., Ltd.             |                            | a                                     | Accounts receivable                   | 2,385               |                           |  |
|      |                 |                                       |                            |                                       | Accounts payable                      | 36,285              |                           |  |
|      |                 |                                       |                            |                                       | Revenues                              | 3,306               |                           |  |
|      |                 |                                       |                            |                                       | Operating costs and expenses          | 6,276               |                           |  |
|      |                 | Light Era Development Co., Ltd.       |                            | a                                     | Accounts payable                      | 494                 |                           |  |
|      |                 |                                       |                            |                                       | Revenues                              | 2,215               |                           |  |
|      |                 | InfoExplorer Co., Ltd.                |                            | a                                     | Accounts payable                      | 4,405               |                           |  |
|      |                 |                                       |                            |                                       | Revenues                              | 474                 |                           |  |
|      |                 |                                       |                            |                                       | Operating costs and expenses          | 100                 |                           |  |
|      |                 | Chunghwa Telecom Japan Co., Ltd.      |                            | a                                     | Accounts receivable                   | 974                 |                           |  |
|      |                 |                                       |                            |                                       | Accounts payable                      | 769                 |                           |  |
|      |                 |                                       |                            |                                       | Amounts collected in trust for others | 1,843               |                           |  |
|      |                 |                                       |                            |                                       | Operating costs and expenses          | 771                 |                           |  |
|      |                 | Chunghwa Telecom Singapore Pte., Ltd. |                            | a                                     | Accounts payable                      | 1,068               |                           |  |
|      |                 |                                       |                            |                                       | Amounts collected in trust for others | 230                 |                           |  |
|      |                 |                                       |                            |                                       | Operating costs and expenses          | 1,083               |                           |  |
|      | 1               | Senao International Co., Ltd.         | Chunghwa Telecom Co., Ltd. | b                                     | Accounts receivable                   | 745,115             |                           |  |
|      |                 |                                       |                            |                                       | Accounts payable                      | 72,766              |                           |  |
|      |                 |                                       |                            |                                       | Accrued custodial receipts            | 5                   |                           |  |
|      |                 |                                       |                            |                                       | Prepaid expense                       | 231                 |                           |  |
|      |                 |                                       |                            |                                       | Amounts collected in trust for others | 48,869              |                           |  |
|      |                 |                                       |                            |                                       | Revenues                              | 2,566,835           |                           | 3  |
|      |                 |                                       |                            |                                       | Non-operating income and gains        | 88                  |                           |  |
|      |                 |                                       |                            |                                       | Operating costs and expenses          | 347,971             |                           |  |

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|   |                                       |   |   |                                  |         |
|---|---------------------------------------|---|---|----------------------------------|---------|
|   |                                       |   |   | Non-operating costs and expenses | 4       |
|   |                                       | Chunghwa International Yellow Pages Co., Ltd. | c | Operating costs and expenses     | 1,002   |
| 2 | CHIEF Telecom Inc.                    | Chunghwa Telecom Co., Ltd.                    | b | Accounts receivable              | 50,215  |
|   |                                       |   |   | Accounts payable                 | 21,119  |
|   |                                       |   |   | Advances from customers          | 269     |
|   |                                       |   |   | Revenues                         | 150,251 |
|   |                                       |   |   | Operating costs and expenses     | 111,274 |
|   |                                       | Unigate Telecom Inc.                          | c | Accounts payable                 | 1,479   |
|   |                                       | Chunghwa Telecom Global, Inc.                 | c | Revenues                         | 17      |
|   |                                       |   |   | Operating costs and expenses     | 10      |
|   |                                       | Donghwa Telecom Co., Ltd.                     | c | Accounts receivable              | 25      |
| 3 | Chunghwa System Integration Co., Ltd. | Chunghwa Telecom Co., Ltd.                    | b | Accounts receivable              | 207,302 |
|   |                                       |   |   | Accounts payable                 | 14,800  |
|   |                                       |   |   | Prepaid expense                  | 21      |
|   |                                       |   |   | Revenues                         | 377,500 |
|   |                                       |   |   | Operating costs and expenses     | 10,028  |
|   |                                       | Spring House Entertainment Inc.               | c | Accounts receivable              | 100     |
|   |                                       |   |   | Revenues                         | 501     |

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| Year | No.<br>(Note 1) | Company Name                                  | Related Party                                 | Nature of<br>Relationship<br>(Note 2) | Financial<br>Statement<br>Account     | Transaction Details |                           | % to<br>Total Sales or<br>Assets<br>(Note 4) |
|------|-----------------|---|---|---------------------------------------|---------------------------------------|---------------------|---------------------------|--|
|      |                 |   |   |                                       |                                       | Amount<br>(Note 5)  | Payment Terms<br>(Note 3) |  |
|      |                 |   | Chunghwa International Yellow Pages Co., Ltd. | c                                     | Accounts receivable                   | \$ 17               |                           |  |
|      |                 |   |   |                                       | Revenues                              | 1,484               |                           |  |
|      |                 |   | Light Era Development Co., Ltd.               | c                                     | Revenues                              | 5                   |                           |  |
|      | 5               | Chunghwa Telecom Global, Inc.                 | Chunghwa Telecom Co., Ltd.                    | b                                     | Accounts receivable                   | 28,759              |                           |  |
|      |                 |   |   |                                       | Accounts payable                      | 12,790              |                           |  |
|      |                 |   |   |                                       | Prepaid expense                       | 32                  |                           |  |
|      |                 |   |   |                                       | Advances from customers               | 1,197               |                           |  |
|      |                 |   |   |                                       | Revenues                              | 45,953              |                           |  |
|      |                 |   |   |                                       | Operating costs and expenses          | 25,128              |                           |  |
|      |                 |   | CHIEF Telecom Inc.                            | c                                     | Revenues                              | 10                  |                           |  |
|      | 7               | Spring House Entertainment Inc.               | Chunghwa Telecom Co., Ltd.                    | b                                     | Accounts receivable                   | 12,212              |                           |  |
|      |                 |   |   |                                       | Amounts collected in trust for others | 7,613               |                           |  |
|      |                 |   |   |                                       | Revenues                              | 32,456              |                           |  |
|      |                 |   |   |                                       | Operating costs and expenses          | 1,182               |                           |  |
|      |                 |   | Chunghwa System Integration Co., Ltd.         | c                                     | Accounts payable                      | 100                 |                           |  |
|      |                 |   |   |                                       | Property, plant and equipment         | 477                 |                           |  |
|      |                 |   |   |                                       | Operating costs and expenses          | 24                  |                           |  |
|      | 15              | Unigate Telecom Inc.                          | Chunghwa Telecom Co., Ltd.                    | b                                     | Operating costs and expenses          | 1,276               |                           |  |
|      |                 |   | CHIEF Telecom Inc.                            | c                                     | Accounts receivable                   | 1,479               |                           |  |
|      |                 |   |   |                                       | Operating costs and expenses          | 17                  |                           |  |
|      | 4               | Chunghwa International Yellow Pages Co., Ltd. | Chunghwa Telecom Co., Ltd.                    | b                                     | Accounts receivable                   | 4,211               |                           |  |
|      |                 |   |   |                                       | Accrued custodial receipts            | 4,680               |                           |  |
|      |                 |   |   |                                       | Prepaid expenses                      | 575                 |                           |  |
|      |                 |   |   |                                       | Accounts payable                      | 24,245              |                           |  |
|      |                 |   |   |                                       | Advances from customers               | 6,061               |                           |  |
|      |                 |   |   |                                       | Revenues                              | 25,844              |                           |  |
|      |                 |   |   |                                       | Operating costs and expenses          | 8,167               |                           |  |
|      |                 |   | Senao International Co., Ltd.                 | c                                     | Revenues                              | 1,002               |                           |  |
|      |                 |   | Chunghwa System Integration Co., Ltd.         | c                                     | Accounts payable                      | 17                  |                           |  |
|      |                 |   |   |                                       | Operating costs and expenses          | 292                 |                           |  |
|      |                 |   |   |                                       | Property, plant and equipment         | 1,192               |                           |  |
|      | 6               | Donghwa Telecom Co., Ltd.                     | Chunghwa Telecom Co., Ltd.                    | b                                     | Accounts receivable                   | 36,285              |                           |  |

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|   |                                       |                            |                              |                              |     |
|---|---------------------------------------|----------------------------|------------------------------|------------------------------|-----|
|   |                                       |                            | Accounts payable             | 2,385                        |     |
|   |                                       |                            | Revenues                     | 6,276                        |     |
|   |                                       |                            | Operating costs and expenses | 3,306                        |     |
|   | CHIEF Telecom Inc.                    | c                          | Accounts payable             | 25                           |     |
| 8 | Light Era Development Co., Ltd.       | Chunghwa Telecom Co., Ltd. | b                            | Prepaid expense              | 494 |
|   |                                       |                            | Operating costs and expenses | 2,215                        |     |
|   | Chunghwa System Integration Co., Ltd. |                            | c                            | Operating costs and expenses | 5   |

(Continued)



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| Year | No.<br>(Note 1) | Company Name                          | Related Party              | Nature of<br>Relationship<br>(Note 2) | Financial<br>Statement<br>Account | Transaction Details |                           | % to<br>Total Sales<br>or<br>Assets<br>(Note 4) |
|------|-----------------|---------------------------------------|----------------------------|---------------------------------------|-----------------------------------|---------------------|---------------------------|---|
|      |                 |                                       |                            |                                       |                                   | Amount<br>(Note 5)  | Payment Terms<br>(Note 3) |   |
|      | 11              | InfoExplorer Co., Ltd.                | Chunghwa Telecom Co., Ltd. | b                                     | Accounts receivable               | \$ 4,405            |                           |   |
|      |                 |                                       |                            |                                       | Revenues                          | 100                 |                           |   |
|      |                 |                                       |                            |                                       | Operating cost and expenses       | 474                 |                           |   |
|      | 10              | Chunghwa Telecom Japan Co., Ltd.      | Chunghwa Telecom Co., Ltd. | b                                     | Accounts receivable               | 2,612               |                           |   |
|      |                 |                                       |                            |                                       | Accounts payable                  | 974                 |                           |   |
|      |                 |                                       |                            |                                       | Revenue                           | 771                 |                           |   |
|      | 9               | Chunghwa Telecom Singapore Pte., Ltd. | Chunghwa Telecom Co., Ltd. | b                                     | Accounts receivable               | 1,068               |                           |   |
|      |                 |                                       |                            |                                       | Accrued custodial receipts        | 230                 |                           |   |
|      |                 |                                       |                            |                                       | Revenue                           | 1,083               |                           |   |

Note 1: Significant transactions between the Company and its subsidiaries or among 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 transaction prices of SENAO, CHIEF and CIYP, LED and IFE 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 June 30, 2010, while revenues, costs and expenses are shown as a percentage to consolidated total operating revenues for the six months ended June 30, 2010.

Note 5: The amount was eliminated upon consolidation.

(Concluded)

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TABLE 10

## CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## SEGMENT INFORMATION

## SIX MONTHS ENDED JUNE 30, 2010 AND 2009

(Amount in Thousands of New Taiwan Dollars)

|   | Domestic Fixed<br>Communications<br>Business | Mobile<br>Communications<br>Business | Internet<br>Business | International<br>Fixed<br>Communications<br>Business | Others         | Adjustment     | Total          |
|---|--|--------------------------------------|----------------------|--|----------------|----------------|----------------|
| <u>Six months ended June 30,<br/>2010</u> |  |                                      |                      |  |                |                |                |
| Revenues from external customers          | \$ 34,531,832                                | \$ 44,332,353                        | \$ 11,912,530        | \$ 7,685,014   | \$ 817,348     | \$             | \$ 99,279,077  |
| Intersegment revenues (Note 2)            | \$ 7,002,938                                 | \$ 1,008,705                         | \$ 497,105           | \$ 777,127   | \$ 376,443     | \$ (9,662,318) | \$             |
| Segment income before tax                 | \$ 9,185,239                                 | \$ 15,611,985                        | \$ 4,984,664         | \$ 1,475,002   | \$ (907,798)   | \$             | \$ 30,349,092  |
| Total assets                              | \$ 230,427,685                               | \$ 63,899,852                        | \$ 17,003,915        | \$ 21,629,202  | \$ 126,410,667 | \$             | \$ 459,371,321 |
| <u>Six months ended June 30,<br/>2009</u> |  |                                      |                      |  |                |                |                |
| Revenues from external customers          | \$ 35,232,892                                | \$ 42,534,750                        | \$ 11,401,547        | \$ 7,434,707   | \$ 575,048     | \$             | \$ 97,178,944  |
| Intersegment revenues (Note 2)            | \$ 6,710,818                                 | \$ 947,285                           | \$ 400,188           | \$ 757,995   | \$ 206,370     | \$ (9,022,656) | \$             |
| Segment income before tax                 | \$ 8,838,902                                 | \$ 15,952,908                        | \$ 4,447,754         | \$ 1,088,363   | \$ (845,674)   | \$             | \$ 29,482,253  |
| Total assets                              | \$ 238,442,514                               | \$ 66,014,555                        | \$ 17,461,917        | \$ 18,538,428  | \$ 121,055,251 | \$             | \$ 461,512,665 |

Note 1: The Company organizes its reporting segments based on types of organizational business. The five reporting segments are segregated as below: domestic fixed communications business, mobile communications business, internet business, international fixed communications business and others.

Domestic fixed communications business the provision of local telephone services, domestic long distance telephone services, broadband access, and related services;

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Mobile communications business the provision of mobile services, sales of mobile handsets and data cards, and related services;

Internet business the provision of HiNet services and related services;

International fixed communications business the provision of international long distance telephone services and related services;

Others the provision of non-Telecom Services, and the corporate related items not allocated to reportable segments.

Note 2: Represents intersegment revenues from goods and services.

Note 3: Beginning from September 1, 2009, the Company redefined its financial reporting operating segments into five operating segments: (a) domestic fixed communications business, (b) mobile communications business, (c) internet business, (d) international fixed communications business and (e) others. Prior to September 1, 2009, Chunghwa Telecom had seven operating segments: (a) local operations, (b) domestic long distance operations, (c) international long distance operations, (d) cellular service operations, (e) internet and data operations, (f) cellular phone sales and (g) all others. The redefinition of the Company's operating segments is expected to facilitate the management's ability to assess the performance of each operating segment by conforming the Company's operating segments to the international trends of other telecommunications companies in general. The Company also early adopted the Statement of Financial Accounting Standards No. 41 Operating Segments (SFAS No. 41) starting from September 1, 2009. For the comparative purpose, the segments information for the six months ended June 30, 2009 was presented in accordance with SFAS No. 41.

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**Exhibit 4**

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

**GAAP Reconciliations of**

**Consolidated Financial Statements for the**

**Six Months Ended June 30, 2010 and 2009**

**Table of Contents****1. SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING POLICIES FOLLOWED BY THE COMPANY AND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN THE UNITED STATES OF AMERICA (UNAUDITED) (AMOUNTS IN MILLIONS OF NEW TAIWAN DOLLARS, UNLESS STATED OTHERWISE)**

The following is a reconciliation of consolidated net income and stockholders' equity under ROC GAAP as reported in the audited consolidated financial statements to unaudited consolidated net income and stockholders' equity determined under US GAAP. For the descriptions of principal differences between ROC GAAP and US GAAP, please refer to Form 20-F filed with the Securities and Exchange Commission of the United States (the "SEC") on April 20, 2010 (File No. 001-31731).

**1) Net Income Reconciliation**

|   | Six Months Ended<br>June 30 |              |
|---|-----------------------------|--------------|
|   | 2010<br>NT\$                | 2009<br>NT\$ |
| Consolidated net income based on ROC GAAP                                       | \$ 25,443                   | \$ 22,633    |
| Adjustment:   |                             |              |
| a. Property, plant and equipment  |                             |              |
| 1. Adjustments of gains and losses on disposal of property, plant and equipment |                             |              |
| 2. Adjustments for depreciation expenses  | 62                          | 95           |
| b. 10% tax on unappropriated earnings   | 1,720                       | 2,098        |
| d. Revenues recognized from deferred income of prepaid phone cards              | 28                          | 381          |
| e. Revenues recognized from deferred one-time connection fees                   | 630                         | 796          |
| f. Share-based compensation   | (2)                         | (9)          |
| g. Defined benefit pension plan   |                             |              |
| i. Income tax effect of US GAAP adjustments                                     | (276)                       | (627)        |
| j. Noncontrolling interests of acquired subsidiary                              | (1)                         | (3)          |
| Other minor GAAP differences not listed above                                   | (15)                        | (19)         |
| Net adjustment  | 2,146                       | 2,712        |
| Consolidated net income based on US GAAP  | \$ 27,589                   | \$ 25,345    |
| Attributable to   |                             |              |
| Stockholders of the parent  | \$ 27,114                   | \$ 24,947    |
| Noncontrolling interests  | 475                         | 398          |
|   | \$ 27,589                   | \$ 25,345    |
| Basic earnings per common share   | \$ 2.80                     | \$ 2.57      |
| Diluted earnings per common share   | \$ 2.79                     | \$ 2.56      |

(Continued)

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|  | Six Months Ended<br>June 30 |              |
|--|-----------------------------|--------------|
|  | 2010<br>NT\$                | 2009<br>NT\$ |
| Weighted-average number of common shares outstanding (in 1,000 shares) |                             |              |
| Basic  | 9,696,808                   | 9,696,808    |
| Diluted  | 9,732,755                   | 9,730,102    |
| Net income per pro forma equivalent ADSs                               |                             |              |
| Basic  | \$ 27.96                    | \$ 25.73     |
| Diluted  | \$ 27.86                    | \$ 25.64     |
| Weighted-average number of pro forma equivalent ADSs (in 1,000 shares) |                             |              |
| Basic  | 969,681                     | 969,681      |
| Diluted  | 973,276                     | 973,010      |

(Concluded)

**2) Stockholders Equity Reconciliation**

|  | June 30      |              |
|--|--------------|--------------|
|  | 2010<br>NT\$ | 2009<br>NT\$ |
| Total stockholders equity based on ROC GAAP                                      | \$ 363,989   | \$ 365,648   |
| Adjustment:  |              |              |
| a. Property, plant and equipment   |              |              |
| 1. Capital surplus reduction   | (60,168)     | (60,168)     |
| 2. Adjustment on depreciation expenses, and disposal gains and losses            | 4,203        | 4,054        |
| 3. Adjustments of revaluation of land  | (5,803)      | (5,813)      |
| b. 10% tax on unappropriated earnings  | (2,317)      | (2,049)      |
| d. Deferred income of prepaid phone cards  |              |              |
| 1. Capital surplus reduction   | (2,798)      | (2,798)      |
| 2. Adjustment on deferred income recognition                                     | 2,568        | 2,306        |
| e. Revenues recognized from deferred one-time connection fees                    |              |              |
| 1. Capital surplus reduction   | (18,487)     | (18,487)     |
| 2. Adjustment on deferred income recognition                                     | 15,212       | 13,952       |
| f. Share-based compensation  |              |              |
| 1. Adjustment on capital surplus   | 15,702       | 15,692       |
| 2. Adjustment on retained earnings   | (15,702)     | (15,692)     |
| g. 1. Accrual for accumulative other comprehensive income under pension guidance | (2)          | 22           |
| 2. Accrual for pension cost  | (28)         | (29)         |
| h. Adjustment for pension plan upon privatization                                |              |              |
| 1. Adjustment on capital surplus   | 1,782        | 1,782        |
| 2. Adjustment on retained earnings   | (9,665)      | (9,665)      |

(Continued)

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|   | June 30         |                 |
|---|-----------------|-----------------|
|   | 2010            | 2009            |
|   | NT\$            | NT\$            |
| i. Income tax effect of US GAAP adjustments           | \$ 4,962        | \$ 5,590        |
| j. Noncontrolling interests of acquired<br>Subsidiary | 27              | 59              |
| Other GAAP differences not listed above               | 167             | 175             |
| <b>Net adjustment</b>                                 | <b>(70,347)</b> | <b>(71,069)</b> |
| <br>Total equity based on US GAAP                     | <br>\$ 293,642  | <br>\$ 294,579  |
| <b>Attributable to</b>                                |                 |                 |
| Stockholders of the parent                            | \$ 290,091      | \$ 291,489      |
| Noncontrolling interests                              | 3,551           | 3,090           |
|   | \$ 293,642      | \$ 294,579      |

(Concluded)

**3) Cash Flows Differences**

The Company applies ROC SFAS No. 17, Statement of Cash Flows. Its objectives and principles are similar to those set out in U.S. standards. The principal differences between the two standards relate to classification. Cash flows from investing activities for changes in other assets, and cash flows from financing activities for changes in customers' deposits and other liabilities are reclassified to operating activities under U.S. standards.

Note 1: There are significant differences in the classification of items on the statements of income under ROC GAAP and US GAAP. These include:

- (1) Incentives paid to third party dealers for inducing business:

Under ROC GAAP: Such account is included in operating expenses.

Under US GAAP: Such account is included in cost of revenues.

- (2) Gains (losses) on disposal of property, plant and equipment and other assets:

Under ROC GAAP: Such account is included in non-operating income (expenses).

Under US GAAP: Such account is included in cost of revenues.

**2. RECENT ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED**

In September 2009, the FASB issued new guidance relating to revenue arrangements with multiple deliverables which established the accounting and reporting guidance for arrangements under which the vendor will perform multiple revenue-generating activities. Specifically, the update addresses how to separate deliverables and how to measure and allocate arrangement consideration to one or more units of

accounting. The update is effective for fiscal years beginning on or after June 15, 2010. The Company is currently evaluating the impact of the adoption of the update.