TSE: 2412
NYSE: CHT

Annual Report 2003

中華電信
Chunghwa Telecom

Chunghwa Telecom

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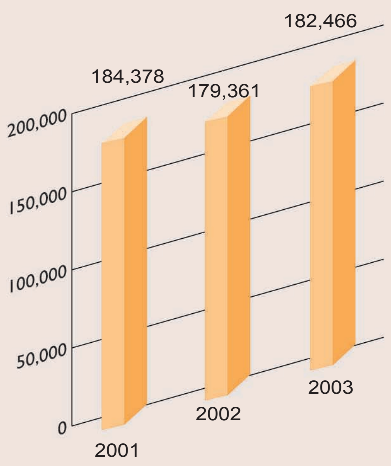
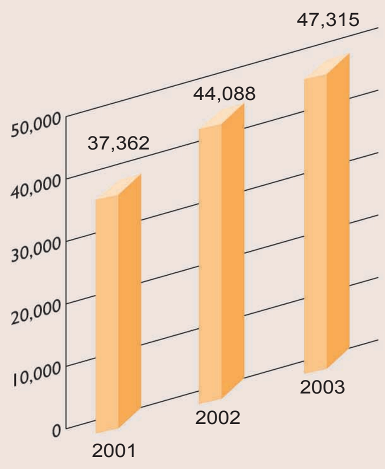
OPERATIONAL AND FINANCIAL SUMMARY

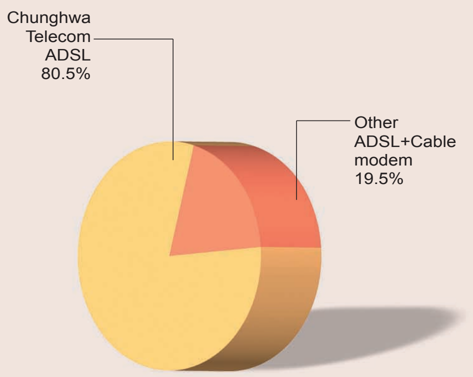
Revenue
(in millions NT$)



Net Income
(in millions NT$)

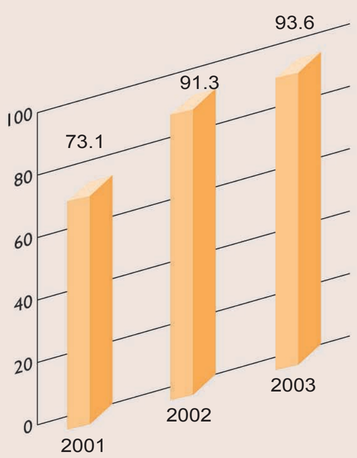


Broadband Market Share

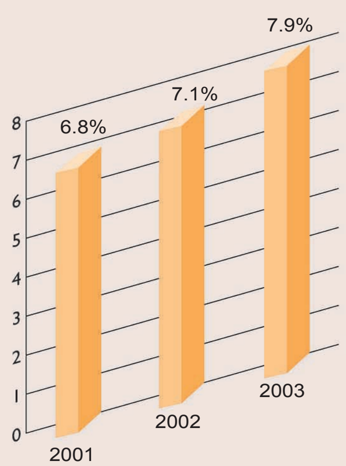


Source: Ministry of Transportation and Communications
Note: Figures shown as of Dec. 2003

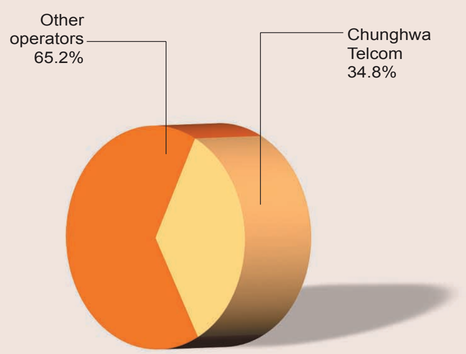
Operating Cash Flow
(in billions NT$)



Dividend Yield



Cellular Revenue Market Share



Source: Ministry of Transportation and Communications
Note: Figures shown as of Dec. 2003

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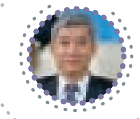


PART I. LETTER TO SHAREHOLDERS

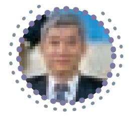
Dear Shareholders:

2003 was another banner year for Chunghwa Telecom Co. Ltd. (Chunghwa Telecom, "the Company"). While many companies in the region were affected by Severe Acute Respiratory Syndrome (SARS), Chunghwa Telecom continued to deliver outstanding financial and operational performance thanks to the defensive nature of the telecommunications business. At the end of 2003, we had 13.14 million fixed-line subscribers, 8.27 million mobile subscribers, 2.43 million ADSL subscribers and 3.55 million HiNet data subscribers. On a year-on-year basis, total revenue grew 1.73% to NT$182.5 billion (US$5.4 billion) while net income grew 7.32% to NT$ 47.3 billion (US$1.4 billion). Net income per share was NT$4.90 (US$0.14), up NT$0.33 over 2002. With these phenomenal results, Chunghwa Telecom was ranked 324th by Forbes Magazine in its 2003 list of "Forbes Global 2000", which rates leading global companies by sales, profitability, assets and market value. Among telecommunications companies in the same list, Chunghwa Telecom was ranked 14th out of 50.

In July 2003, Chunghwa Telecom achieved a significant milestone in its corporate history through the listing of 111 million of its ADRs on the New York Stock Exchange under the ticker symbol "CHT". The ADR offering was a tremendous success and was multiple-times oversubscribed by investors.

Our three main business segments – Internet & data, mobile, and fixed-line, all produced solid performance in 2003. We continue to observe strong growth in the Internet & data segment. In particular, our broadband ADSL subscriber base increased by 740,000. At the same time, 610,000 of our existing 512Kbps ADSL subscribers upgraded to the higher-speed 1.5Mbps service. We believe that the continual expansion of our high-speed ADSL subscriber base is significantly positive for our Multimedia-on-Demand (MOD) service recently launched in March 2004.

In our mobile segment, we believe value-added services such as data services are the key revenue drivers going forward. To this end, we are closely monitoring factors such as handset availability and application development in order to determine the optimal launch timing of our 3G mobile service, currently scheduled for the second half of 2004. We believe the introduction of 3G services will create a new value chain for corporations by enabling new business models driven by e-commerce and m-commerce.



In our fixed-line services segment, revenue fell by 4.91% in 2003 due to fixed-to-mobile substitution and migration to ADSL in Local and Domestic Long Distance (DLD) services, as well as competitive pricing pressure in the International Long Distance (ILD) service. However, the decline in Local and DLD revenue has been stabilizing, while the ILD tariff decrease has been partially offset by the substantial increase in ILD traffic and the successful launch of our wholesale business. All in all, we were able to maintain dominant market shares of 98.4%, 88.2% and 60.1% in our Local, DLD, and ILD business segments respectively.

In addition to a profitable business, Chunghwa Telecom also boasts an exceptionally strong balance sheet. Our strong operating cash flows have been sufficient to fund our capital expenditure and dividend payments, resulting in a much lower leverage compared to many of our global peers. This sound financial structure is also reflected in our credit ratings. The Company enjoys superior domestic long-term and short-term credit ratings of "twAAA" and "twA-1" by Taiwan Rating Company, and an international long-term credit rating of "AA-" by S&P.

We continued to put a strong focus on marketing. Last year, we invested substantial efforts in marketing to the youth segment, through launching on-line HiNet contests as well as many value-added services customized for this segment. At the same time, we are gradually replacing traditional brick-and-mortar customer outlets with e-kiosks, and replacing paper invoices with e-bills. We believe these changes will provide added convenience to our customers and in turn benefit our marketing effort.

Our stringent cost control efforts have produced measurable results in the past few years. Early retirement plans and the redeployment of human resources to high-growth business areas have reduced overall labor costs. Meanwhile, stricter expenditure review policies and centralized procurement have helped control capital expenditure and reduce procurement expenses. Furthermore, the introduction of integrated billing and e-receipts has lowered printing and mailing costs. To increase asset turnover, we are also undergoing a review of our sizeable real estate portfolio and investigating options to generate additional return from these potentially under-utilized assets.

Good corporate citizenship is our way of expressing our gratitude to loyal customers and giving back to the community. The Company is pleased to be an ongoing sponsor of the annual Lantern Festival. During the SARS outbreak, we provided emergency telecommunication support to hospitals involved in managing the epidemic. To help alleviate some of the economic impact, we reduced rates for those enterprises most seriously affected by the crisis, in order to help them get through a very difficult period. Throughout the year, we also participated in a variety of charity events such as the "Let Life Shine" campaign, demonstrating our focus on community issues.

Chunghwa Telecom strongly believes that we should not just be a profitable enterprise, and a leader in the telecommunications industry, but that we should also be a role model for good corporate citizenship.

Increasing shareholder value is what our shareholders expect of us, and therefore is also what our management team and our employees strive to deliver. We believe that through achievement of effective operational results with low cost of capital, Chunghwa Telecom can continue to increase its enterprise value and achieve superior return for its shareholders. This year marks the first year of our listing on the world-renowned New York Stock Exchange. We believe the listing is a clear testament to our world-class corporate governance and reporting standards, which we shall work diligently to uphold and continuously enhance.

As a final note, while this annual report has been prepared according to the format required by ROC SFC, we have inserted articles that detail our new and coming products and services throughout the report. Through these articles, as well as the financial and operational accounts, we hope that all our existing and prospective shareholders will be able to appreciate the commitment of our management team and all the Chunghwa Telecom employees in creating the maximum shareholder value, and to share our pride as we watch Chunghwa Telecom stand today as a world-class corporation by any measure.

Chairman & CEO

President

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

We have made forward-looking statements in this annual report. These forward-looking statements contain information regarding, among other things, our financial condition, future expansion plans and business strategy. The words "believe," "expect," "estimate," "intend," "plan," "seek," "will," "shall" and similar words identify forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that these expectations and projections are reasonable, such forward-looking statements are inherently subject to risks, uncertainties and assumptions.

I. 2003 Business Review

(I) 2003 Operations review

Given the technologically driven characteristics of telecom industry and the current status of Taiwan's telecom market, the Company, anticipating the near saturation of traditional voice business and the boosting demands for wireless and broadband usage, had set its focus in 2003 as follows:

In our broadband business, we continued to promote our ADSL services, introduce higher speed ADSL products, market symmetrical 512Kbps DSL services, and further develop our fiber-to-the-building services.

In our mobile business, we continued to enrich the content of our "emome" portal site, launch additional value-added services, and actively promote our mobile services for daily life. Furthermore, our 3G network infrastructure are being constructed to be ready for wireless broadband business.

In our voice business, we continued to improve our high quality of service, increase voice wholesale , develop additional value-added services, and provide integrated services to defend the market.

In order to increase our overall operating efficiency, we continued to streamline our processes. We also improved our customer relationship management and offered total solutions to business customers.

Cost control remained as an important aspect of our strategy to increase shareholder value. We managed our capital expenditures carefully, aligning spending with the strategic objectives of each business segment. And we maintained strict controls over personnel and maintenance expenses to ensure our profitability.

In 2003, we have 13.14 million fixed line subscribers, accounting for 98.4% market share. Our mobile cutomers reached 8.27 million, representing 33.0% market share. We have 3.55 million HiNet cutomers, representing 45.3% market share. And our ADSL customer base reached 2.43 million at the end of 2003, accounting for 80.5% of the broadband market share. In Taiwan, we are number one in each of our business segments.

(II) Profit and loss summary

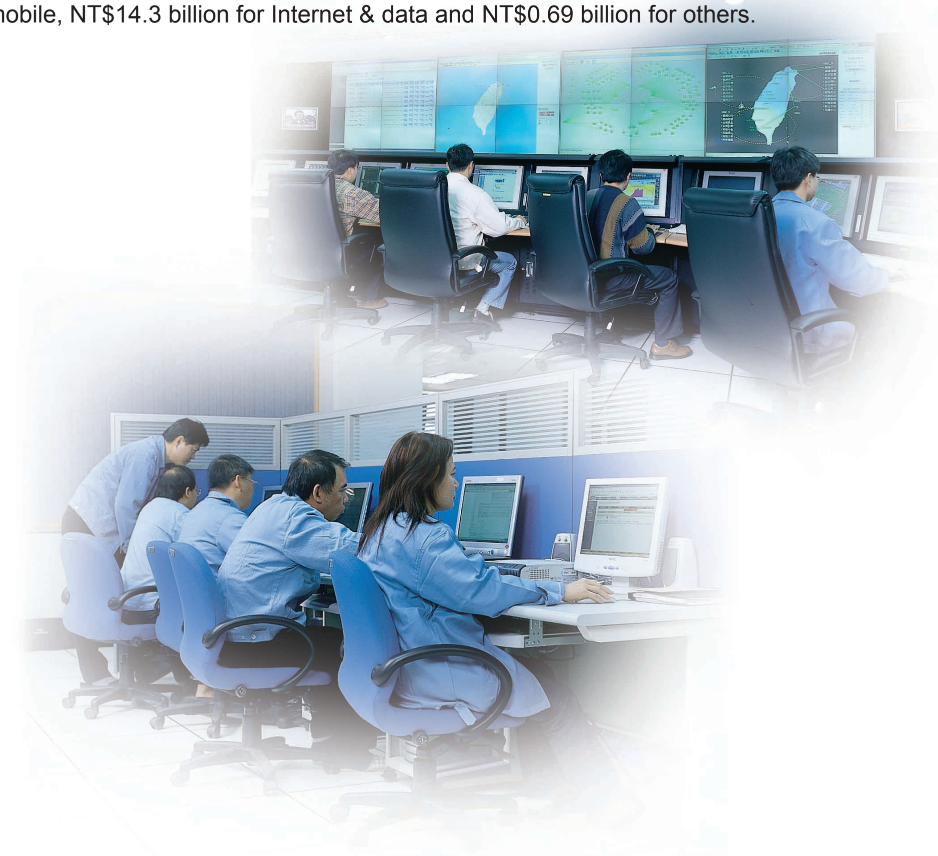
(Unit：NT$ Billions, except per share and per pro forma ADS)

Performance	Year	2002	2003
Revenues/Expenses	Revenues	179.4	182.5
	Total operating costs and expenses	123.7	126.5
Profitability	Operating income	55.7	56.0
	Net income	44.1	47.3
	Net income per share(NT$)	4.57	4.90
	Net income per pro forma equivalent ADS(NT$)	45.70	49.04
	Cash divisends declared per share(NT$)	4.0	4.5(Note)

Note: This amount was proposed by our board of directors for approval of our shareholders in our annual shareholders' meeting of 2004 scheduled on June 25, 2004.

(III) Capital expenditure

Total capital expenditure during 2003 was NT$32.2 billion, which accounted for 93% of total budget. The breakdown of capital expenditure amongst our operational divisions was: NT$9.27 billion for fixed-line, NT$7.94 billion for mobile, NT$14.3 billion for Internet & data and NT$0.69 billion for others.



Major projects in 2003 are as follows：

(1) To upgrade the capabilities of existing digital switch systems, we have procured 600,000 lines of digital local switch systems to be installed in three years (2003~2005).

(2) To expand the capacity of core network, we have installed 82 Optical Add-Drop Multiplexers for metropolitan areas and several regional synchronous digital hierarchy network.

(3) To expand our broadband Internet service, we have installed 582,000 ADSL lines and 900,000 broadband access ports for HiNet.

(4) We continued to expand both of our infrastructure and network coverage for our GSM service. The GSM network capacity to serve customers increased by one million. 500 new base stations have been added. In addition, value-added service platforms for new services, such as multimedia message service, Java games, fleet management express, and personal ring back tone were installed.

(5) On 3G infrastructure rollout, we have installed 800 base stations and a core network to accommodate one million subscribers to meet the service requirements of three key metropolitan areas.

(IV) Research and development

Research and development is a key focus of management as well as a vital part of our business strategy. To effectively leverage the results of our research and to bring to market competitive products and services, we take into consideration the current and future developments of our industry, the evolving needs of our customers, as well as our network and technology platforms.

In 2003, our R&D expenses (excluding depreciation and amortization) were NT$2.58 billion, accounting for 1.41% of revenues. Key R&D focus areas and results are as follows:

1. **Development of mobile value-added services**

   The Company has developed a number of capabilities to support mobile value-added services. A messaging platform has been incorporated in our mobile network to offer special number messaging, MMS greeting card, prepaid short message and special number service, multimedia downloadable service. Location based service platform has also been employed to offer fleet management express such as taxi dispatch. The Company has set up a m-commerce platform to offer mobile micro-payment service.

2. **Internet value-added services and applications**

   The Company has developed a few capabilities to support Internet value-added services and applications. A public key platform has been developed to offer various government agencies to issue digital certificates. The Company has also developed bridge certificate authority capability in which cross boarder tests with neighboring countries have been conducted with satisfactory results. In addition, we have developed an e-procurement system for the government to encourage vendors to participate in government procurement.

3. **Network operation support**

   The Company has developed a number of network operation support systems for all units of operations. These systems are used to improve the quality of service of ADSL, the diversity of optical fiber transmission system routes, the management and monitoring of our cellular network and fixed-line network. The Company also developed IP-based call centers, new generation trouble reporting information systems, and electronic line equipment application management information systems.

4. **Customer service information systems**

   The Company has employed latest information technologies to develop new generation of service order processing systems, billing systems for mobile and fixed-line businesses and our third generation directory information systems. To improve our service to corporate customers, the Company has developed corporate customer service centers for major accounts.

5. **Broadband network technology**

   The Company has eatablished an IPv6 standard test laboratory which is one of the first in this region. The Company also drafted a trial plan for VOIP class 5 switch system.

6. **Wireless network technology**

   The Company's research laboratories have established a 3G experimental network. Insights gained have been applied to solve issues on 2G and 3G network interoperatability, evaluate performance of 3G handsets, and investigate issues related to heterogeneous networks integration. The research laboratories also provide technical assistance to the operating units for cellular network performance improvement.

II. 2004 Operating Targets

(I) Business strategy

The Company has established the following business strategy for 2004 after taking into consideration several pertinent macroeconomic and telecommunications industry specific factors. These include the Government's continuing effort to liberalize telecom market and its promotion of knowledge-based industries, the near saturation of the traditional voice market as well as the Company's existing large customer base.

Our key strategies are:

1. Continue to expand bandwidth of both wireless network and broadband Internet.
2. Continue to introduce new value-added services in both wireless and Internet businesses.
3. Improve service quality and strengthen the brand name of Chunghwa Telecom.
4. Continue to provide total solution to business customers.

(II) Key marketing strategies

Our marketing strategies are as follows:

1. Services

The Company will introduce new services, value-added services, and package customized total solution by integrating fixed-line, wireless and broadband services. Based on market segmentation, diversified customized services will be launched for targeted customers.

On wireless services, we will focus on multimedia value-added services, under the brand name "emome", in addition to our high quality voice services and short message service. We will continue to promote Java-based entertainment, multimedia messaging service, interactive financial management and video streaming multimedia service. Based on the GPRS platform, we will offer community instant message service. We have enhanced our wireless Internet service platform to incorporate xHTML capabilities which enables customers to access to the Internet easily. We believe these new capabilities are more appealing to younger customers. Regarding 3G wireless service rollout, the Company is monitoring the progress of the development in other markets. Please refer to the box on page 41.

On broadband Internet services, we will continue to promote our ADSL services, upgrade 1.5Mbps customers to 2Mbps ADSL service, offer fixed IP address to corporate accounts, and further develop our fiber-to-the-building services. Through our Multimedia-on-Demand (MOD) services, which are delivered through ADSL, customers are able to watch a wide variety of DVD-quality programs at home. This service was launched in March 2004 in greater Taipei area. Please refer to the box on page 96.

2. Pricing

Despite the intense competition, the Company exerts its best effort to maintain a stable tariff structure in our main businesses. However, the Company will offer flexible promotional service packages, such as flat rate and holiday season discount, and discount to major accounts. These allow our customers to select service packages best tailored to their usage patterns and result in increased customer satisfaction.

3. Distribution channel

We have 31 operation centers and 266 sales and service centers located throughout Taiwan that are responsible for operations, sales and customer services in their local areas. We will upgrade our customer service centers to improve the quality of our services. For wireless business, the Company has contracted three distribution agents, each with more than one hundred sales and service outlets. Our customers could also obtain services via Internet, http:// www. cht.com.tw.

4. Promotion

We are committed to further strengthening the Chunghwa Telecom's brand name and image as well as expanding market recognition of our specialized product brands, such as HiNet and emome. We plan to leverage our leading market position and status to reinforce the overall advantage of our product brands. Our promotional campaigns will target at various segments of customers depending on service offerings. Our marketing approach includes improving customer relationship management, analyzing customer needs and behaviors, precise and accurate positioning of our services in the marketplace, and developing effective advertising campaigns. We will also co-sponsor events that attract young segment and corporate customers.

Creating Shareholder Value

Chunghwa Telecom will aim to create shareholder value in three major areas:

Growing key businesses

Chunghwa Telecom is focused on the development of the high-growth broadband and mobile value added services. In July 2003, we reduced ADSL access tariff to increase our ADSL, particular high-speed ADSL, customer base. This paved the way for our successful MOD (Multimedia on Demand) service launched in March 2004. In the mobile value-added services segment, our personal ring back tone application proved extremely popular and helped raise the proportion of mobile revenue generated by mobile value added services. We will also monitor the market conditions closely and launch our 3G services at the optimal time.

Increasing competitiveness

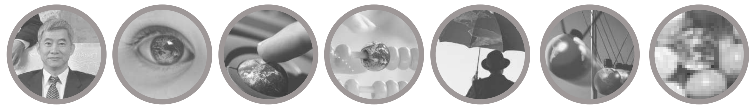
Chunghwa Telecom leverages on its strong brand name, competitive pricing, wide selection of service packages, good customer service, extensive customer base and integrated network to effectively compete with other operators. Our business planning and marketing teams work together to identify customer needs and develop the best services for our customers.

Enhancing profitability

All aspects of our operating costs and capital expenditure, including material and personnel expenses, equipment acquisition, and investments are carefully reviewed before they are approved. In addition to efforts in growing revenue, we maintain stringent cost control. We intend to continue to return excess cash flows generated via the enhancement in profitability to our shareholders in the form of cash dividend.

Efforts devoted in the previous three areas translated into excellent results in all three business segments. At the end of 2003, we had 13.14 million fixed-line customers, 8.27 mobile customers and 3.55 million HiNet ISP customers. On a year-on-year basis, total revenue grew 4.90% to NT$182.5 billion while net income grew 7.32% to NT$47.3 billion. Net income per share was NT$5.03.

"Creating Shareholder Value" is Chunghwa Telecom's mission. We will commit to our shareholders that we will continuously pursue this goal in every aspect of our business.



PART II. CORPORATE OVERVIEW

I. Corporate Profile

Chunghwa Telecom Co., Ltd. is the largest integrated telecommunication service operator in Taiwan providing fixed line, wireless and Internet & data services. The Company was established in July 1996 as a result of the separation of the business and regulatory functions of the Directorate General of Telecommunications(DGT) under the Ministry of Transportation and Communications (MOTC) with a total capital of NT$96,477,249,000. The Company has begun to compete with other private telecom operators in the liberalized telecom market since then. Due to our savvy business senses and proactive marketing strategies, Chunghwa Telecom was able to maintain the leading position in all areas of our businesses. The Company has been listed on the Taiwan Stock Exchange since October 2000 and on the New York Stock Exchange (NYSE) since July 2003. The listing on NYSE is a clear testament to our world-class corporate governance and reporting standards.

(I) Substantial share transfer or change by directors, supervisors or shareholders holding more than 10% of the Company's shares:

Between October 2000 and the end of 2003, the Ministry of Transportation and Communications (MOTC) sold Chunghwa Telecom shares six times. The total shares sold by the MOTC, including those purchased by our employees, were 3,378,969,274. Individual MOTC sales are as follows:

1. For the first domestic release in October 2000, MOTC released 276,510,790 common shares through competitive auction, public subscription and employee purchase.
2. For the second domestic release in June 2001, MOTC released 174,177,879 common shares through after-hour auctions and employee purchases.
3. In October 2001, MOTC released 209,337 common shares at par value to employees whose shares purchased in the first domestic release had been locked for over one year.
4. In November 2002, MOTC released 293,589 common shares at par value to employees whose shares purchased in the first domestic release had been locked for over two years or whose shares purchased in the second domestic release had been locked for over one year.
5. For the third domestic release in December 2002, MOTC released 1,342,229,591 common shares through public tender and employee purchase.

6. For the fourth domestic release in March 2003, MOTC released 7,646,732 common shares through after-hour auctions and employee purchase.
7. For the fifth domestic release in April 2003, MOTC released 170,703,327 common shares through after-hour auctions and employee purchase.
8. For the first internationally concurrent offering in July 2003, MOTC released 1,406,816,540 common shares in an ADR offering, a domestic offering and for employees to purchase.
9. In December 2003, MOTC released 381,489 common shares at par value to employees whose shares purchased in the first domestic release had been locked for over three years or whose shares purchased in the second domestic release had been locked for over two years.
10. In March 2004, MOTC released 3,286,907 common shares at par value to employees whose shares purchased in the third domestic release had been locked for over one year.

As of March 31, 2004, MOTC held 6,265,468,718 common shares of Chunghwa Telecom, which was equivalent to 64.94% of the total number of shares outstanding.

(II) Mergers took place in 2003

None

(III) Change of management control

None

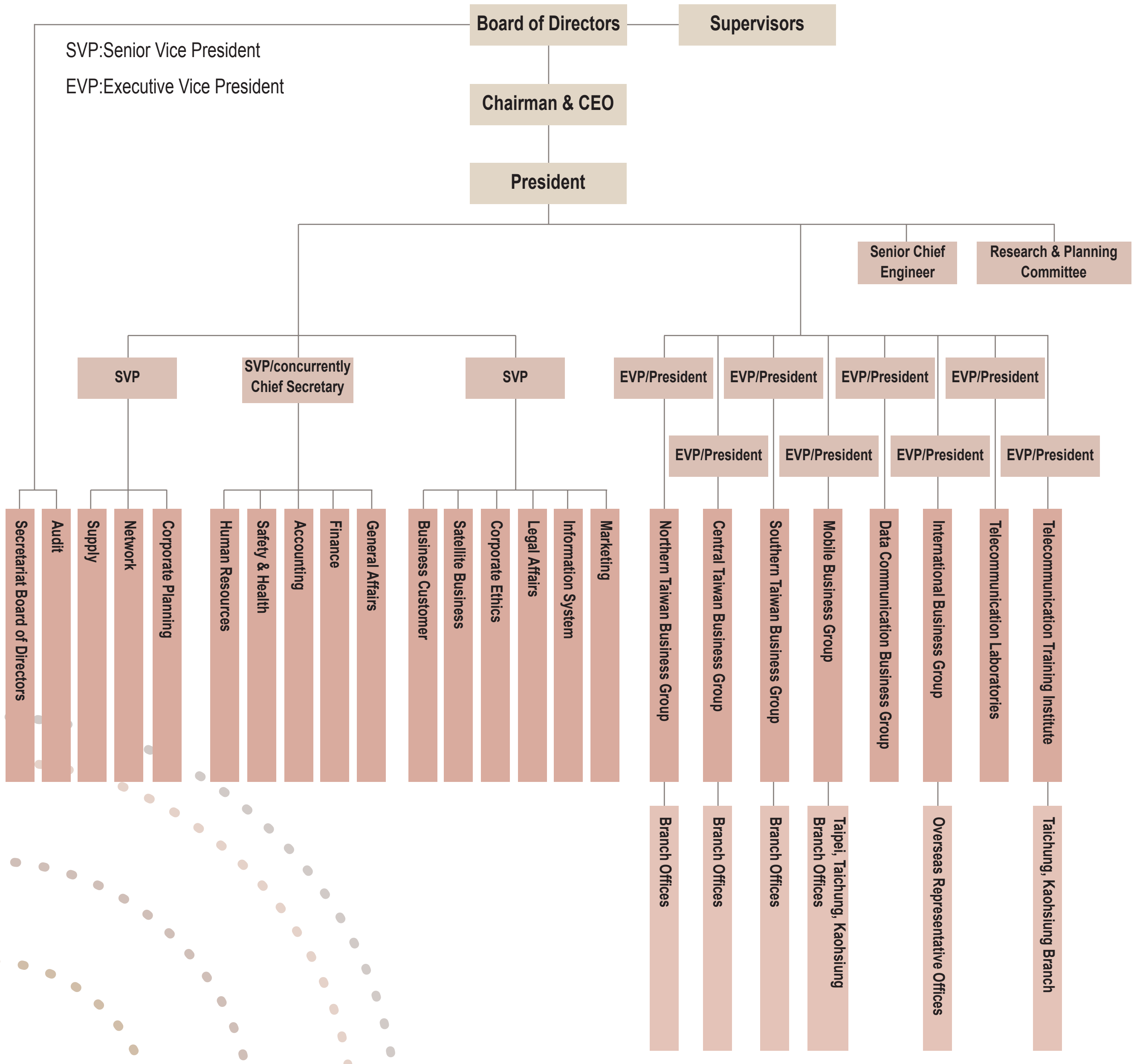
(IV) Other material events that may have had an impact on shareholder rights and the Company

Chunghwa Telecom is currently a state-owned enterprise. According to the Telecommunications Act of the Republic of China, the MOTC could have the Company issue preferred shares when the Company is privatized with the government's holding falls below 50%. The Ministry of Transportation and Communications, as the owner of these preferred shares, will have the right to veto any change in our name or our businesses and any transfer of a substantial part of our business or property. Without the MOTC's approval, all such activities will be deemed invalid. These preferred shares are not transferable and the Company will dispose of these shares after a buy-back at par value following three years from the issuance.

II. Organization

(I) Organization system

1. Organization chart



2. Services offered by each major business group

- **Northern Taiwan Business Group**
  Local and long distance services, pay phone service, leased lines, xDSL, intelligent networks, MOD, business customer services, Internet access and data communications. Branches of the group also serve as distribution channel for all services including mobile and Internet services.
- **Central Taiwan Business Group**
  Local and long distance services, pay phone service, leased lines, xDSL, intelligent networks, business customer services, Internet access and data communications. Branches of the group also serve as distribution channel for all services including mobile and Internet services.
- **Southern Taiwan Business Group**
  Local and long distance services, pay phone service, leased lines, xDSL, intelligent networks, business customer services, Internet access and data communications. Branches of the group also serve as distribution channel for all services including mobile and Internet services.
- **Mobile Business Group**
  Mobile service, international roaming, and value-added services including messaging, voice mail, mobile data（business, leisure, financial management, fashion news, etc.), GPRS, and Mobile Virtual Private Network (MVPN).
- **International Business Group**
  International voice service (ILD, Super eCall), international calling cards（Business cards, Pre-paid cards, E-call cards）, tele-conferencing , video-conferencing, IPLC, IPVPN, IDC, and TWGATE.
- **Data Communication Business Group**
  Internet services, including HiNet, our Internet service provider, ADSL Internet access, Internet value added service and wireless local area networks; and data services, including leased line services, managed data services and Internet data center services
- **Telecommunication Laboratories**
  Applied research and technology development including wireless communications, broadband networks, intelligent network, optical electronics, information security, value added and multi-media services; development of operation support systems, customer service information systems, Internet appliances, and marketing intelligence research and analysis.
- **Telecommunication Training Institute**
  Training of telecommunication professionals, professional skill tests and compiling of training materials, periodicals.

Effective Use of Chunghwa Telecom's Land and Buildings

As of the end of 2003, the book value of Chunghwa's land and buildings was NT$ 85 billion, 19.78 % of the Company's total assets. Effective utilization of these assets will be an important part of the business strategy going forward. The Company has thus adopted the following strategies:

- Every business group reviews its use of land and buildings so as to improve the efficiency of the use of real estate.
- Any acquisition of land or buildings should be prudently assessed its economic benefits.
- Recategorization of land should be based upon its merits and costs incurred.
- For unused land and buildings, leasing will be the short-term strategy; while sales, exchanges, recategorization or joint development of land will be the long-term strategies for the Company's real estate portfolio.

In order to revitalize the Company's land and buildings, we have submitted to the Department of Urban Development of the Taipei City Government and the Urban and Rural Office of the Construction and the Planning Agency of Ministry of the Interior, to recategorize our lands from government and telecom use to telecom use only or other appropriate categories, to enhance the effective use of our land and buildings. As a result, rental revenue from real estate reached over NT$60 million last year.

(II) Information on Directors, Supervisors and Management Team

1. Directors and Supervisors

As of 12/31/2003

Title	Name	Date effective	Term due	First term date effective	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding in other person's name			Education & selected positions	Selected concurrent positions	Managers, directors or supervisors are spouse or within second-degree relative of consanguinity to each other			Cash compensation (NT$)
					Shares	%	Shares	%	Shares	%	Shares	%				Title	Name	Relation	
Juridical Person Re-presented by Directors & Supervisors	MOTC	07/13/2002	07/12/2005	06/11/1996	9,196,826,888	95.32%	6,268,755,620	64.98%	–	–	–	–		–	–	–	–	–	

Title	Name	Date effective	Term due	First term date effective	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding in other person's name		Education & selected positions	Selected concurrent positions	Managers, directors or supervisors are spouse or within second-degree relative of consanguinity to each other			Cash compensation (NT$)
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Chairman	Tan Ho Chen	01/30/2003	07/12/2005	01/30/2003	–	–	7,792	0.00%	2,000	0.00%	–	–	Chairman Master's degree of Regional & Urban Planning Virginia Polytechnic Institute & State University, VA U.S.A.	–	–	–	–	Based on audited salary by Executive Yuan 1,895,736 Monthly rental fee of a car 30,000
Director	Shyue-Ching Lu	07/13/2002	07/12/2005	06/11/1996	–	–	17,017	0.00%	–	–	–	–	President Ph.D. degree in Electrical Engineering from the University of Hawaii	– –	–	–	–	Based on audited salary by Executive Yuan 1,852,656 Bonus 646,114 Monthly rental fee of a car 30,000
Director	Oliver F. L. Yu	07/13/2002	07/12/2005	07/02/2002	–	–	–	–	–	–	–	–	Vice Minister of the MOTC MBA degree from Institute of Management Science, National Chiao Tung University	The Director of China Aviation Development Foundation	–	–	–	Transportation allowance for concurrent assignment 124,800
Director	Yu-Huei Jea	07/13/2002	07/12/2005	12/24/1997	–	–	–	–	–	–	–	–	Senior Counselor of the MOTC Ph.D. degree from the University of Texas at Austin	–	–	–	–	Transportation allowance for concurrent assignment 124,800
Director	Chiu-Kuei Huang	09/26/2003	07/12/2005	09/26/2003	–	–	1,000	0.00%	–	–	–	–	Director of Labor Relations Department of Council of Labor Affairs, Executive Yuan Master's degree of Institute of Labor Science, Chinese Culture University	–	–	–	–	Transportation allowance for concurrent assignment 41,600
Director	Chung-Hsiung Wang	02/12/2003	07/12/2005	02/12/2003	–	–	–	–	–	–	–	–	Director General of Keelung Harbor Bureau, MOTC Master's degree of Shipping and Transportation Management, National Taiwan Ocean University	The supervisor of United Ship Design Development Center	–	–	–	Transportation allowance for concurrent assignment 114,400
Director	Ching-Tern Huang	02/12/2003	07/12/2005	02/12/2003	–	–	–	–	–	–	–	–	Director General of Kaohsiung Harbor Bureau, MOTC Graduated from the National Taiwan Ocean University	–	–	–	–	Transportation allowance for concurrent assignment 119,280
Director	Peter C. Lin	07/13/2002	07/12/2005	10/30/2000	–	–	10,000	0.00%	–	–	–	–	Professor and Director of the Institute of Operations and Management at Kao Yuan Institute of Technology in Taiwan Ph.D. degree in Agricultural Economics from the University of Wisconsin-Madison	–	–	–	–	Transportation allowance for concurrent assignment 157,925
Director	Jing-Twen Chen	07/13/2002	07/12/2005	10/30/2000	–	–	–	–	3,000	0.00%	–	–	Professor at the Department of Finance of the National Central University in Taiwan Ph.D. degree in Finance from the National Taiwan University of Science and Technology	The Director of First Bank The supervisor of Joint Credit Information Center	–	–	–	Transportation allowance for concurrent assignment 124,800

Title	Name	Date effective	Term due	First term date effective	Shareholding when elected		Current shareholding		Spouse & minor shareholding		Shareholding in other person's name		Education & selected positions	Selected concurrent positions	Managers, directors or supervisors are spouse or within second-degree relative of consanguinity to each other			Cash compensation (NT$)
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation	
Director	Zse-Hong Tsai	07/13/2002	07/12/2005	07/13/2002	–	–	–	–	–	–	–	–	Professor of Electrical Engineering at the National Taiwan University Ph. D. in Electrical Engineering from the University of California, Los Angeles	The Director of Broadcasting Development Fund	–	–	–	Transportation allowance for concurrent assignment 124,800
Director	Tse-Ming Chang	10/23/2002	07/12/2005	10/23/2002	–	–	–	–	–	–	–	–	Executive Consultant of Altas Internet & Life International, Inc. MBA degree from the National Taiwan University	Chairman of Taipei Digital Content Protection Association Director of Atlas Internet & Life International, Inc.	–	–	–	Transportation allowance for concurrent assignment 124,800
Director	Lo-Ming Chung	08/29/2003	07/12/2005	08/29/2003	–	–	–	–	–	–	–	–	CFO of China Steel Corporation MBA degree from Arizona State University, U.S.A.	The Supervisor of China Steel Express Corp. The Director of Eminence Investment Corp. The Supervisor of China Steel Machinery Corp.	–	–	–	Transportation allowance for concurrent assignment 58,663
Director	Shih-Peng Tsai	03/10/2003	07/12/2005	03/10/2003	–	–	1,142	0.00%	1	0%	–	–	Representative of Member's Convention, Chunghwa Telecom Workers Union Manager of See-Koo Service Center Ta Tung Junior Technological College of Commerce	–	–	–	–	Based on audited salary by Executive Yuan 1,061,880 Bonus: 366,792 Transportation allowance for concurrent assignment 47,167
Director	Yauh-Hong Lin	03/10/2003	07/12/2005	03/10/2003	–	–	935	0.00%	–	–	–	–	Representative of Member's Convention, Chunghwa Telecom Workers Union Technical Assistant at Network Department of Central Taiwan Business Group Kuang Hwa Vocational High School of Technology	–	–	–	–	Based on audited salary by Executive Yuan 805,380 Bonus: 277,063 Transportation allowance for concurrent assignment 65,213
Director	Yi-Maw Lin	03/10/2003	07/12/2005	03/10/2003	–	–	1,000	0.00%	–	–	–	–	Standing Director of Taichung Branch, Chunghwa Telecom Workers Union, Assistant Engineer at Network Department of Central Taiwan Business Group Graduated from the Chin-Yi Institute of Technology, Studying at the National Open University in Taiwan	–	–	–	–	Based on audited salary by Executive Yuan 1,002,540 Bonus: 345,789 Transportation allowance for concurrent assignment 17,158
Supervisor	Judy Fu-meei Ju	07/13/2002	07/12/2005	03/27/2002	–	–	–	–	–	–	–	–	The Third Department, Director General of Executive Yuan Ph.D. degree of Law from National Taiwan University	Director of Yang Ming Marine Transport Corp.	–	–	–	Transportation allowance for concurrent assignment 124,800
Supervisor	Jui-Min Chen	07/13/2002	07/12/2005	05/14/2002	–	–	–	–	–	–	–	–	Director of the Department of Accounting of MOTC Bachelor degree in Accounting, Feng Chia University.	Supervisor of the Grand Hotel	–	–	–	Transportation allowance for concurrent assignment 124,800
Supervisor	Ming-Daw Chang	10/16/2003	07/12/2005	10/16/2003	–	–	–	–	–	–	–	–	Deputy Director General of Bureau of Monetary Affairs of the Ministry of Finance Master's degree in Law, Chinese Culture University	Director of Central Deposit Insurance Corp. Supervisor of Taiwan Academy of Banking and Finance	–	–	–	Transportation allowance for concurrent assignment 31,200
Supervisor	Yeong-Chwan Hwang	07/13/2002	07/12/2005	02/08/1999	–	–	–	–	–	–	–	–	Director of Accounting Office and Deputy Director of Accounting Management Center of Directorate General of Budget, Accounting and Statistics of Executive Yuan Master's degree from Soochow University in Taiwan	Committee member of Central Procurement Supervision Unit of Public Construction Commission Executive Yuan Vice Chairperson of Accounting Operations Unit of the Directorate General of Budget, Accounting and Statistics, Executive Yuan	–	–	–	Transportation allowance for concurrent assignment 124,800

2. Criteria of independence of Directors and Supervisors

Name \ Requirements	Five or more years of business, law, finance or corporate experience	Conditions to fulfill independence requirement (Note) 1	2	3	4	5	6	7	Remarks
Tan Ho Chen	Yes		v	v	v	v	v		Representative Directors from MOTC
Shyue-Ching Lu	Yes		v	v	v	v	v		Ditto
Oliver F. L. Yu	Yes	v	v	v	v	v	v		Ditto
Yu-Huei Jea	Yes	v	v	v	v	v	v		Ditto
Chiu-Kuei Huang	Yes	v	v	v	v	v	v		Ditto
Lo-Ming Chung	Yes	v	v	v	v	v	v		Ditto
Peter C. Lin	Yes	v	v	v	v	v	v		Ditto
Chung-Hsiung Wang	Yes	v	v	v	v	v	v		Ditto
Ching-Tern Huang	Yes	v	v	v	v	v	v		Ditto
Jing-Twen Chen	Yes	v	v	v	v	v	v		Ditto
Zse-Hong Tsai	Yes	v	v	v	v	v	v		Ditto
Tse-Ming Chang	Yes	v	v	v	v	v	v		Ditto
Shih-Peng Tsai	Yes		v	v	v	v	v		Ditto
Yauh-Hong Lin	Yes		v	v	v	v	v		Ditto
Yi-Maw Lin	Yes		v	v	v	v	v		Ditto

Name \ Requirements	Five or more years of business, law, finance or corporate experience	Conditions to ffulfill independence requirement (Note) 1	2	3	4	5	6	7	Remarks
Judy Fu-meei Ju	Yes	v	v	v	v	v	v		Representative Supervisors from MOTC
Jui-Min Chen	Yes	v	v	v	v	v	v		Ditto
Ming-Daw Chang	Yes	v	v	v	v	v	v		Ditto
Yeong-Chwan Hwang	Yes	v	v	v	v	v	v		Ditto

Note : "v" indicates that the director or supervisor met the following requirements:

(1) Not an employee of the Company or a director, supervisor or employee for the associated companies, but he/she acts as the parent or subsidiary's independent director or independent superior; as such, he/she is not subject to this requirement.

(2) The person indirectly holds 1% or more of the Company's issued shares or a natural shareholder who holds top 10 percentage of the Company's shares.

(3) Not a spouse or relatives of first or second degree of the first two categories.

(4) Not a director, supervisor or employee of an juridical person shareholder who directly holds 5% or more of the total outstanding shares of the Company and not a director, supervisor, or employee of one of the top five juridical person shareholders.

(5) Not a director, supervisor, manager or a shareholder holding 5% or more of the shares of a specific company which involves a finance or business relationship with the Company.

(6) Not a professional, an independent contributor, a partner, or a company, or an executive director, partner, director, or manager of an institutional consortium or the spouse of same that has provided financial, business, or legal or consulting services to the Company or an affiliated enterprise of same during the past year.

(7) Not a juristic person or an authorized representative as defined under Section 27 of the Company Law.

3. Major shareholders of juridical person shareholders

As of 04/16/2004

Juridical person shareholder	Major shareholders of the juridical person shareholder
MOTC	None

4. Management team

As of 12/31/2003

Title	Name	Date effective	Shareholding: No. of shares	Shareholding: % of shares	Shares held by spouse or young children: No. of shares	Shares held by spouse or young children: % of shares	Shareholding in other person's name: Shares	Shareholding in other person's name: % of Shares	Credentials	Position held in a different company	Managers with spouse or with second-degree relative consanguinity to each other: Title	Name	Relationship	Total amount of salary, bonus, special pay and/or profit sharing for GM or deputy GM for the past year (NT$)	Number of employee stock option granted
Chairman	Tan Ho Chen	01/30/2003	7,992	0.00%	2000	0.00%	–	–	Political Deputy Minister, Ministry of Transportation and Communications Master of Regional & Urban Planning Virginia Polytechnic & State University, U.S.A.		–	–	–	Salary: 1,895,736 Bonus: 0 Monthly rental fee of a car: 30,000	–
President	Shyue-Ching Lu	07/01/1996	17,017	0.00%	–	–	–	–	Deputy Director-General, Directorate General of Telecommunications (DGT) Ph. D. in Electrical Engineering, University of Hawaii, U.S.A.		–	–	–	Salary: 1,852,656 Bonus: 646,114 Monthly rental fee of a car: 30,000	–

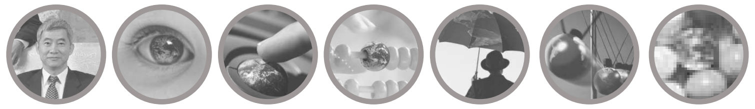
Title	Name	Date effective	Shareholding		Shares held by spouse or young children		Shareholding in other person's name		Credentials	Position held in a different company	Managers with spouse or with second-degree relative consanguinity to each other			Total amount of salary, bonus, special pay and/or profit sharing for GM or deputy GM for the past year (NT$)	Number of employee stock option granted
			No. of shares	% of shares	No. of shares	% of shares	Shares	% of Shares			Title	Name	Relationship		
Senior Vice President	Cheng-Chang Chen	01/16/1997	16,992	0.00%	–	–	–	–	Chief Secretary of Chunghwa Telecom Master's degree of Management Science, National Chiao Tung University	Supervisor of Siemens Telecommunication System Limited and Director of Chunghwa Investment Co., Ltd.	–	–	–	Salary: 1,531,800 Bonus: 541,216	–
Senior Vice President	Feng-Hsiung Chang	07/01/1996	18,782	0.00%	6,000	0.00%	–	–	Deputy Managing Director of Northern Taiwan Telecommunications Administration Master's degree in Management Science, National Chiao Tung University	Director of Siemens Telecommunication Systems Limited and Chunghwa Investment Co., Ltd.	–	–	–	Salary: 1,531,800 Bonus: 541,216	–
Senior Vice President	Chun-Ming Hsieh	07/01/1996	17,301	0.00%	–	–	–	–	Deputy Managing Director of Central Taiwan Telecommunications Administration Master's degree in Management Science, National Chiao Tung University	Director of Taipei Financial Center Corp.	–	–	–	Salary: 1,531,800 Bonus: 541,216	–
Senior Chief Engineer	Cheng-Luh Chen	12/23/2002	17,557	0.00%	1,000	0.00%	–	–	Vice President of International Business Group Bachelor's degree in Electric Engineering, National Taiwan University	Director of Taiwan International Standard Electronics Ltd.	–	–	–	Salary: 1,531,800 Bonus: 534,216	–
Senior Managing Director, Accounting Department	Tse-Min Chen	01/17/2000	16,233	0.00%	–	–	–	–	Deputy Director of Accounting Department Bachelor's degree in Accounting and Statistic Tamkang University	Supervisor of Taipei Financial Center Corp.	–	–	–	Salary: 1,434,180 Bonus: 500,983	–
Senior Managing Director, Finance Department	Hank, Han-Chao, Wang	02/24/2000	16,865	0.00%	–	–	–	–	Managing Director, Operating Management Department, Data Communication Business Group. MBA, Institute of Management Science of NCTU	Supervisor of Chunghwa Investment Co., Ltd.	–	–	–	Salary: 1,434,180 Bonus: 493,983	–
Executive VP & President of Northern Taiwan Business Group	John C.C. Hsueh	10/20/2000	36,776	0.00%	13,876	0.00%	–	–	President of Telecommunication Laboratories Ph.D. in Electrical Engineering & Computer Science, Northwestern University, USA	Director of RPTI International Co., Ltd.	–	–	–	Salary: 1,531,800 Bonus: 567,769	
Vice President of Northern Taiwan Business Group	T. Y. Chang	08/01/2003	7,127	0.00%	6,480	0.00%	–	–	Manager of Panchiao Operation Branch MBA, Institute of Management Science of NCTU	–	–	–	–	Salary: 1,452,660 Bonus: 518,469	–
Chief Engineer of Northern Taiwan Business Group	Tien-Yong Lee	10/01/1998	25,040	0.00%	11,609	0.00%	–	–	Deputy Chief Engineer of Northern Taiwan Buriness Group Electrical Engineering, National Taipei University of Technology	–	–	–	–	Salary: 1,452,660 Bonus: 539,727	–
Vice President of Northern Taiwan Business Group	Tien-Ying Lin	01/20/1999	26,027	0.00%	–	–	–	–	Chief Engineer of International Business Group Bachelor's degree in Electrical Engineering, National Cheng Kung University	–	–	–	–	Salary: 1,452,660 Bonus: 539,727	–
Executive VP & President of Central Taiwan Business Group	Jui-Hsiung Chen	07/01/1996	17,891	0.00%	–	–	–	–	Managing Director of Central Taiwan Telecom Administration Management Science, National Cheng Kung University	Director of International Telecom Development Corporation	–	–	–	Salary: 1,531,800 Bonus: 534,447	–
Vice President of Central Taiwan Business Group	Jin-Shan Kuo	01/16/2001	15,546	0.00%	–	–	–	–	Chief Engineer of Central Taiwan Telecom Administration Dept. of Foreign Languages & Literatures, National Chung Hsing University	–	–	–	–	Salary: 1,452,660 Bonus: 506,847	
Vice President of Central Taiwan Business Group	Ching-Chu Wu	07/01/1996	16,399	0.00%	–	–	–	–	Deputy Chief Engineer of Central Taiwan Telecom Administration Business Administration, Feng Chia University	–	–	–	–	Salary: 1,452,660 Bonus: 506,847	–
Executive VP & President of Southern Taiwan Business Group	Cheng-Tsun Chiang	09/01/2001	16,235	0.00%	–	–	–	–	Senior Managing Director of Network Department Master's degree in Automatic Control Engineering, Feng Chia University	Director of RPTI International Co., Ltd.	–	–	–	Salary: 1,531,800 Bonus: 534,855	–
Vice President of Southern Taiwan Business Group	Hsiu-Hsu Kuo	01/30/1999	16,346	0.00%	1	0.00%	–	–	Deputy Senior Managing Director of Network Department Master's degree in Management Science, National Chiao Tung University	–	–	–	–	Salary: 1,452,660 Bonus: 507,222	
Vice President of Southern Taiwan Business Group	Chi-Shen Wang	01/16/1999	4,475	0.00%	–	–	–	–	Chief Engineer of the Southern Taiwan Business Group Master's degree in Earth Science and Institute of Geophysics, National Central University	–	–	–	–	Salary: 1,452,660 Bonus: 507,222	–

Title	Name	Date effective	Shareholding		Shares held by spouse or young children		Shareholding in other person's name		Credentials	Position held in a different company	Managers with spouse or with second-degree relative consanguinity to each other			Total amount of salary, bonus, special pay and/or profit sharing for GM or deputy GM for the past year (NT$)	Number of employee stock option granted
			No. of shares	% of shares	No. of shares	% of shares	Shares	% of Shares			Title	Name	Relationship		
Chief Engineer of Southern Taiwan Business Group	Yaw-Ming Wu	01/14/2002	16,208	0.00%	–	–	–	–	Senior Managing Director of Business Customer Department MBA, National of Sun-Yat-Sen University	–	–	–	–	Salary: 1,452,660 Bonus: 507,222	–
Executive VP & President of Mobile Business Group	Chin-Yi Yue	07/16/2000	15,263	0.00%	13,530	0.00%	–	–	VP of Long Distance & Mobile Business Group Master of Electrical Engineering, National Taiwan University	Supervisor, International Telecom Development Corporation	–	–	–	Salary: 1,531,800 Bonus: 542,628	–
Vice President of Mobile Business Group	Jen-Hon Lin	07/01/1996	17,252	0.00%	11,916	0.00%	–	–	VP of Telecommunication Laboratories Master of Electrical Engineering, Polytechnic University of New York, U.S.A	–	–	–	–	Salary: 1,452,660 Bonus: 514,633	–
Vice President of Mobile Business Group	Shu-Yueh Hong	08/30/2001	13,469	0.00%	–	–	–	–	Senior Managing Director of Business Customer Department Bachelor of Transportation and Communication Management Science, National Cheng Kung University	–	–	–	–	Salary: 1,452,660 Bonus: 513,059	–
Chief Engineer of Mobile Business Group	Mu-Piao Shih	10/09/2001	16,785	0.00%	–	–	–	–	Deputy Chief Engineer of of Mobile Business Group Master of Electrical Engineering, National Taiwan University	–	–	–	–	Salary: 1,434,180 Bonus: 496,978	–
Executive VP & President of International Business Group	Shiao-Tung Chiang	12/23/2002	16,518	0.00%	7,041	0.00%	–	–	Vice President of International Business Group MBA, Institute of Management Science of NCTU	Director of International Telecom Development Corporation and Chunghwa Investment Co., Ltd.	–	–	–	Salary: 1,531,800 Bonus: 532,369	–
Vice President of International Business Group	Kwei-Tuo Lee	12/31/2002	14,523	0.00%	–	–	–	–	Chief Engineer of International Business Group Bachelor Degree of the Electrical Engineering Department of NCKU	–	–	–	–	Salary: 1,397,280 Bonus: 485,634	–
Executive VP & President of Data Communication Business Group	Yen-Sung Lee	01/25/2002	13,546	0.00%	7,151	0.00%	–	–	Senior Managing Director of the Information Department Ph.D. of Information Engineering from National Chiao Tung University	Supervisor of RPTI Co., Ltd.	–	–	–	Salary: 1,531,800 Bonus: 534,216	–
Vice President of Data Communication Business Group	M. H. Cheng	01/28/1997	14,895	0.00%	–	–	–	–	Vice President of Northern Taiwan Business Group Bachelor of History & Geography Department, National Taiwan Normal University	–	–	–	–	Salary: 1,452,660 Bonus: 511,616	–
Vice President of Data Communication Business Group	Wen-San Wang	05/07/2002	16,625	0.00%	–	–	–	–	Chief Engineer of DataCommunication Business Group Master of Management Science Department National Chiao Tung University	–	–	–	–	Salary: 1,452,660 Bonus: 511,616	–
President of Telecom Laboratories	Lung-Sing Liang	10/20/2000	17,511	0.00%	–	–	–	–	VP of Telecommunication Laboratories Ph.D. of Electrical Engineering Department, National Taiwan University	Supervisor of Taiwan International Standard Electronics Ltd.	–	–	–	Salary: 1,531,800 Bonus: 541,472	–
Vice President of Telecom Laboratories	Bor-Shenn Jeng	09/18/1997	16,091	0.00%	–	–	–	–	Major Director of Telecommunication Laboratories Ph.D. of Institute of Optical Sciences, National Central University	–	–	–	–	Salary: 1,452,660 Bonus: 507,441	–
Vice President of Telecom Laboratories	Feng-Yue Hung	01/31/2001	14,902	0.00%	–	–	–	–	Major Director of Telecommunication Laboratories Master, Department of Electronics Engineering, National Chiao Tung University	–	–	–	–	Salary: 1,397,280	
President of Training Institute	Lang-Chee Chang	05/07/2002	15,529	0.00%	–	–	–	–	Vice President, Data Communications Business Group Ph.D. Department of Electric Engineering, National Chiao Tung University	–	–	–	–	Salary: 1,531,800 Bonus: 532,429	–
Vice President of Training Institute	Yuan-Hsiung Lye	01/19/1998	15,954	0.00%	–	–	–	–	Deputy Senior Managing Director of Audit Department MBA, National Chiao Tung University	–	–	–	–	Salary: 1,452,660 Bonus: 505,144	–

(III) Change in shareholding positions for directors, supervisors, senior managers and major shareholders

Title	Name	2003		As of 03/31/2004	
		Increased (decreased) shares	Increased (decreased) pledged shares	Increased (decreased) shares	Increased (decreased) pledged shares
Major shareholder (Note 1)	MOTC	(1,627,777,679)	-	(3,286,902)	-
Chairman	Tan Ho Chen (Note 2)	7,792	-	-	-
Director & President	Shyue-Ching Lu (Note 2)	15,336	-	570	-
Director	Oliver F. L. Yu (Note 2)	-	-	-	-
Director	Yu-Huei Jea (Note 2)	-	-	-	-
Director	Chiu-Kuei Huang (Note 2)	-	-	-	-
Director	Chung-Hsiuing Wang (Note 2)	-	-	-	-
Director	Ching-Tern Huang (Note 2)	-	-	-	-
Director	Peter C. Lin (Note 2)	10,000	-	(10,000)	-
Director	Jing-Twen Chen (Note 2)	-	-	-	-
Director	Zse-hong Tsai (Note 2)	-	-	-	-
Director	Tse-Ming Chang (Note 2)	-	-	-	-
Director	Lo-Ming Chung (Note 2)	-	-	-	-
Director	Shih-Peng Tsai (Note 2)	1,011	-	80	-
Director	Yauh-Hong Lin (Note 2)	935	-	74	-
Director	Yi-Maw Lin (Note 2)	-	-	-	-
Supervisor	Judy Fu-meei Ju (Note 2)	-	-	-	-
Supervisor	Jui-Min Chen (Note 2)	-	-	-	-
Supervisor	Yeong-Chwan Hwang (Note 2)	-	-	-	-
Supervisor	Ming-Daw Chang (Note 2)	-	-	-	-
Senior VP	Feng-Hsiung Chang	15,373	-	(2,428)	-
Senior VP	Chun-Ming Hsieh	15,079	-	560	-
Senior VP	Cheng-Chang Chen	15,467	-	575	-
Senior VP	Chin-Yi Yue	15,263	-	573	-
Senior VP	John C. C. Hsueh	15,368	-	(9,428)	-
Senior VP	Jui-Hsiung Chen	15,536	-	575	-
Senior VP	Cheng-Tsun Chiang	15,235	-	571	-
Senior VP	Yen-Sung Lee	12,186	-	320	-
Senior VP	Shaio-Tung Chiang	15,153	-	554	-

Title	Name	2003		As of 03/31/2004	
		Increased (decreased) shares	Increased (decreased) pledged shares	Increased (decreased) shares	Increased (decreased) pledged shares
Vice President	M.H. Cheng (Note 3)	14,895	-	-	-
Vice President	Jen-Hon Lin	14,981	-	554	-
Vice President	Tien-Ying Lin	24,897	-	555	-
Vice President	Ching-Chu Wu (Note 3)	15,019	-	-	-
Vice President	Hsiu-Hsu Kuo	14,990	-	558	-
Vice President	Chi-Shen Wang	3,108	-	-	-
Vice President	Jin-Shan Kuo	14,177	-	560	-
Vice President	Shu-Yueh Hong	11,210	-	320	-
Vice President	Wen-San Wang	14,946	-	555	-
Vice President	Kwei-Tuo Lee	14,522	-	544	-
Vice President	T. Y. Chang	6,931	-	-	-
Vice President	Chi-Mau Sheih (Note 4)	-	-	538	-
Manager	Jar-Nan Chang	14,493	-	537	-
Manager	Dah-Chuan Huang	14,675	-	546	-
Manager	Chia-Hwa Hsiao	7,019	-	-	-
Manager	Yong-An Lee (Note 3)	14,640	-	-	-
Manager	Ju-Ching Fu (Note 5)	14,671	-	-	-
Manager	Shou-Bin Tsai (Note 5)	932	-	-	-
Manager	Chun-Heng Wei	14,540	-	543	-
Manager	Ya-Fu Liu (Note 5)	1,960	-	-	-
Manager	Shiow-Shyong Lin	14,457	-	536	-
Manager	Yung-Hsing Ku	14,358	-	532	-
Manager	Wen-Yu Hu	14,133	-	523	-
Manager	Cheng-Min Huang (Note 5)	1,102	-	-	-
Manager	Shyh-Yung Chen	14,383	-	533	-
Manager	Fu-Tien Lin	13,962	-	519	-
Manager	Wen-Hsiung Wu (Note 5)	7,018	-	-	-
Manager	Tuen-Hsi Hsu (Note 5)	14,742	-	-	-
Manager	Shen-Cheng Chou (Note 3)	13,445	-	-	-
Manager	Wen-Chou Chen (Note 3)	14,562	-	-	-
Manager	Wen-Sheng Liu (Note 5)	13,611	-	-	-
Manager	Ching-Hsiung Tung	12,139	-	480	-
Manager	Hui-Min Wang	7,021	-	160	-
Manager	Jimmy Hwang	13,058	-	514	-



Title	Name	2003		As of 03/31/2004	
		Increased (decreased) shares	Increased (decreased) pledged shares	Increased (decreased) shares	Increased (decreased) pledged shares
Manager	Cheng-Yueh Lo	6,699	-	-	-
Manager	Mao-Jung Kuo	14,284	-	533	-
Manager	Ching-Chih Lu	11,112	-	301	-
Manager	Shun-Cheng Tseng (Note 5)	7,629	-	-	-
Manager	Kun-Chuan Wu	13,926	-	516	-
Manager	Stanley Chen	14,008	-	522	-
Manager	Yu-Shen Tseng	13,101	-	519	-
Manager	Guo-Jing Chen	6,000	-	480	-
Manager	Chung-Hsin Cho	14,296	-	524	-
Manager	Yan-Shiung Chang	4,013	-	80	-
Manager	Dow-Hong Lu (Note 4)	-	-	322	-
Manager	Ching-Hu Tsai (Note 4)	-	-	517	-
Manager	Wen-Tsung Luo (Note 4)	-	-	527	-
Manager	Chin-Piao Su (Note 4)	-	-	523	-
Manager	Ching-Chuan Chen (Note 4)	-	-	518	-
Manager	Shi-Chin Lee (Note 4)	-	-	-	-
Manager	Chung-kuang Chen (Note 4)	-	-	-	-
Manager	Gia-Rong Chen (Note 4)	-	-	-	-
Manager	Tai-Jyi Tseng	13,684	-	511	-
Senior Managing Director, Finance Department	Hank, Han-Chao Wang	14,656	-	543	-
Senior Managing Director, Accounting Department	Tse-Min Chen	14,884	-	552	-

Note 1: Major shareholders are those who hold more than 10% of the Company's shares.
Note 2: The authorized representative of the juridical person, MOTC.
Note 3: Retired in the period of January 1, 2004 to March 31,2004.
Note 4: Assumed in the period of January 1, 2004 to March 31,2004.
Note 5: Transferred to non-management in the period of January 1, 2004 to March 31,2004.

(IV) Long-term investment ownership

Unit: share;%

Long-term Investment	(1) Ownership by CHT		(2) Direct/Indirect Ownership by Directors, Supervisors, and Management		Total Ownership (1) + (2)	
	Shares	%	Shares	%	Shares	%
Alcatel Taiwan	1,760,000	40%	-	-	1,760,000	40%
Siemens Telecommunication Systems Limited	75,000	15%	-	-	75,000	15%
R.P.T. Intergroups International Ltd.	9,234,225	12.42%	-	-	9,234,225	12.42%
International Telecommunication Development Corporation	10	0.05%	-	-	10	0.05%
Chunghwa Investment	98,000,000	49%	-	-	98,000,000	49%
Taipei Financial Center Corporation	199,984,331	11.76%	-	-	199,984,331	11.76%

III. Capital and Shares

(I) History of capitalization

Month Year	Issue Price	Par Value	Authorized Capital		Paid-in Capital		Notes	
			Shares	Amount	Shares	Amount	Source of Capital	Capital Increased by Assets other than Cash
July 1996	34	10	9,647,724,900	96,477,249,000	9,647,724,900	96,477,249,000	Almost full assumption of the capital of DGT under MOTC	None

(II) Common/Preferred shares

Type of Shares	Authorized Capital			Notes
	Outstanding Shares	Unissued Shares	Total	
Common Shares	9,647,724,900	-	9,647,724,900	Listed
Preferred Shares	-	2	-	Not issued yet

(III) Structure of shareholders

As of 08/05/2003(Note)

	Government Agencies	Domestic Financial Institutions	Other Domestic Institutional Investors	Domestic Individual Investors	Foreign Institutional and Individual Investors	Total
Number of Shareholders	4	72	183	71,685	141	72,085
Shares Owned	6,441,968,649	1,013,542,717	674,290,015	313,908,519	1,204,015,000	9,647,724,900
Ownership %	66.77%	10.51%	6.99%	3.25%	12.48%	100.00%

Note: The date was based on the data provided by the Share Registrar.

(IV) Distribution profile of shareholder ownership

As of 12/31/2003(Note 1)

Shareholder Ownership	Number of Shareholders	Shares Owned	Ownership %
1- 999	18,764	2,131,539	0.02%
1,000-5,000	39,239	88,471,147	0.92%
5,001-10,000	9,865	71,544,732	0.74%
10,001-15,000	1,093	14,152,726	0.15%
15,001-20,000	1,064	20,348,893	0.21%
20,001-30,000	605	15,979,552	0.17%
30,001-50,000	610	25,704,931	0.26%
50,001-100,000	412	31,773,497	0.33%
100,001-200,000	201	29,832,545	0.31%
200,001-400,000	92	25,517,147	0.26%
400,001-600,000	35	17,794,659	0.18%
600,001-800,000	9	6,326,000	0.07%
800,001-1,000,000	14	13,116,000	0.14%
1,000,001-999,999,999	80	1,828,725,883	18.95%
1,000,000,000-5,000,000,000	1(Note 2)	1,090,102,000	11.30%
Over 5,000,000,000	1(Note 3)	6,366,203,649	65.99%
Total	72,085	9,647,724,900	100.00%

Note 1: The date was based on the date provided by the Share Registrar.
Note 2: The shareholder was the specialized account, "ADR-Chunghwa Telecom Co., Ltd" in the next list.
Note 3: The shareholder was MOTC. As of December 31, 2003, MOTC hold 6,268,755,620 common shares of the Company, which was equivalent to 64.98% of the total number of shares outstanding.
Note 4: There were no treasury shares held by the Company as of the end of 2003.

(V) Major shareholders list

As of 08/05/2003(Note)

Major Shareholders \ Number of Shares	Number of Shares	Ownership %
MOTC	6,366,203,649	65.99%
ADR - Chunghwa Telecom Co., Ltd.	1,090,102,000	11.30%
Cathay Life Insurance Co.	723,133,000	7.50%
Taiwan Cellular Corporation	375,000,000	3.89%
Chunghwa Post Co., Ltd.	85,906,000	0.89%
TransAsia Telecommunications	75,000,000	0.78%
Shin Kong Life Insurance Co., Ltd.	66,772,000	0.69%
Fubon Life Assurance Co.,Ltd.	65,509,000	0.68%
Taiwan Honyuan Investment Co., Ltd.	42,000,000	0.44%
Bureau of Labor Insurance	37,256,000	0.39%

Note：The date was based on the date provided by the Share Registrar.

(VI) Domestic market prices

Item \ Period		2002	2003	01/01/2004 - 04/16/2004
Domestic market price per share	High	55.50	59.50	60.00
	Low	42.80	45.80	49.40
	Average	49.48	50.80	55.05

(VII) Dividend policy

According to the Company's Articles of Incorporation, our dividend policy is stipulated as follows:

Article 22:

Dividends are paid from after tax net income. Before distributing dividend to shareholders, the Company first recovers past losses, and sets aside a legal reserve equal to 10% of net income until the accumulated legal reserve equals the aggregate par value of the outstanding capital stock of the Company. Aside from the aforesaid legal reserve, the Company may, for business needs or under its Articles of Incorporation, set aside another sum as special reserve. At least 50% of the remaining portion of net income, plus undistributed retained earnings from prior years will be allocated as follows:

1. Not less than 1% distributed to employees as bonuses
2. Not more than 0.2% distributed to directors and supervisors as remuneration
3. Remainder distributed as shareholder dividends. Not less than 10% of the total amount of the distributed dividends must be in cash, but if the cash dividends to be distributed are less than NT$0.10 per share, the dividends may be distributed in the form of stock dividends.

The above Item 1 and 2 will be applicable for the next fiscal year's profit distribution after the Company is privatized.

We have historically distributed cash dividends to our shareholders equal to approximately 90% of our annual net income. We intend to maintain this dividend payout ratio in the future, including after our privatization, subject to a number of commercial factors, including the interests of our shareholders, cash requirements for future capital expenditures, and investments, as well as relevant industry and market practice.

(VIII) Dividend distribution

The Company distributed the following dividends for fiscal years 2001-2003:

In 2002, the Company distributed a cash dividend of NT$3.5 per share for the operation results of fiscal year 2001. In 2003, the Company distributed a cash dividend of NT$4.0 per share for the operation results of fiscal year 2002. The cash dividend of NT$4.5 per share for the fiscal year 2003 was proposed by Board of Directors for approval in the annual shareholders' meeting of 2004 scheduled on June 25, 2004.

(IX) Impact to business performance and EPS resulting from stock dividend distribution

There was no stock dividend distributed.

(X) Profit distribution set aside for Directors & Supervisors compensation, and employee profit sharing

Not applicable before the Company is privatized.

(XI) Buyback of treasury stock during the period January 1, 2003 to April 16, 2004

None

IV. Issuance of Corporate Bonds

None

V. Issuance of Preferred Shares

None

American Depositary Receipts (ADRs)

Chunghwa Telecom successfully listed its ADR on the New York Stock Exchange(NYSE) in July 2003. This was a landmark deal for Taiwan as it became the first state-owned enterprise to list on the NYSE. The transaction marked the first ever concurrent ADR and domestic offerings to take place in Taiwan and the first deal of Taiwan to incorporate the public offering without listing in Japan.

The Company's US$1.58 billion ADR offering was one of the largest in recent years. With an additional 15% of greenshoe, a total of 1,109,750,000 common shares were sold in the offering. All American Depositary Shares (ADSs) were existing shares sold by the MOTC with the listing price of US$14.24 per ADS. As the Company's performance was well recognized by both the foreign institutions as well as the retail investors, the demand for the Company's ADRs was high and resulted in oversubscription.

We have been honored with two prestigious awards for 2003 by leading Asian financial publications. Chunghwa Telecom was chosen ***"Best ADR, Best Privatization and A Leader in Corporate Governance"*** by The Asset Magazine. In addition, the Company was presented an award from FinanceAsia Magazine as achieving the ***"Best Secondary Offering."***

These awards recognize the Company's commitment to upholding high corporate governance standards, its business achievement, and are an acknowledgement of the strong performance of its ADR offering this past year.

VI. Issuance of American Depositary Shares

Issuing Date			**07/17/2003**
Issuance & Listing			New York Stock Exchange
Total Issue Amount (US$)			1.58 billion
Offering Price per ADS(US$)			14.24
Units Issued			110,975,000
Underlying Securities			CHT Common Shares from MOTC
Common Shares Represented			1,109,750,000
Rights and Obligations of ADS Holders			Same as those of Common Share Holders
Trustee			N/A
Depositary Bank			Bank of New York
Custodian Bank			International Commercial Bank of China
ADSs Outstanding			989,140,190
Apportionment of expenses for the issuance and maintenance			Issuing fees were incurred by the MOTC. Registration and maintenance fees were incurred by the Company.
Terms and Conditions in the Deposit Agreement and Custody Agreement			See Deposit Agreement and Custody Agreement for details.
Market Price per ADS(US$)	2003	High	16.10
		Low	13.30
		Average	14.45
	01/01/2004 - 04/16/2004	High	18.13
		Low	14.65
		Average	16.62

VII. Employee Stock Option Plan (ESOP)

None

VIII. Mergers and Acquisitions

None

PART III.
OPERATIONS REVIEW

I. Business Activities

(I) Business scope

Chunghwa Telecom is the largest integrated telecom service provider in Taiwan. Our main business includes fixed-line, wireless and Internet & data.

1. Revenue breakdown

For the year ended December 31, 2003, revenues from fixed line, wireless, Internet & data services and other business comprised 42.5%, 36.6%, 19.5% and 1.4% respectively, of total revenue. The percentage of revenues from wireless and Internet & data businesses increased significantly as compared with 2002, and are expected to grow.

2. Services

(1) Fixed-line services

- Local telephone services include telephone and value added services such as speed dialing, call waiting, call forwarding, hot-line, three-way calling, wake-up call, do-not-disturb, group lines and UMS.
- Integrated Services Digital Network is a digital, multifunctional communications network that is capable to send and receive digital voice, data, text and image.
- Domestic long distance services include operator assisted toll dialing and subscriber toll dialing .
- Intelligent network provides various services such as advanced toll free calls, tele-voting, personal number, premium rate service and mass calling services.
- International long distance services include international direct dialing, pre-paid calling card, business calling card, e-call, collect call, and conference call service.

emome: e-mobile-me

(2) Wireless services

- We offer digital cellular service through our dual band GSM communications network. We also offer the largest international roaming network. In addition to our basic cellular services, we also offer a broad range of value added telecommunications and information services under the brand name "emome". It offers value added services, including financial information, transaction services, emergency services access numbers, directory information, time, weather and traffic reports. In addition, we launched other cellular value added services, such as Java games, multimedia messaging services, personal ring back tone and others.
- Paging services: Services include a broad range of messaging and wireless information service via "InterMessenger".

(3) Internet & data Services

- HiNet
  HiNet is the brand name of our ISP service. The Company offers dial-up, leased line and ADSL broadband Internet access services. HiNet also offers customers value added services such as music, gaming, e-learning, video streaming, horoscopes, financial information, and mailbox services.
- Leased line
  The Company offers customers with dedicated circuits that allow point-to-point connections for local, domestic long distance, and international voice and data transmissions.
- ADSL
  Using asymmetrical digital technology, subscribers can make phone calls and access to Internet at high speed by using the same local loop.

- WLAN
  By installing access points to our ADSL customers' premises, the Company has been able to extend our broadband access via wireless local area network services for the last meter.

(4) Other services

- Satellite Communication Service
  This includes the leasing of satellite transponders, satellite TV program relay, VSAT, data gathering service and others.
- Telephone Directory Service
  This includes telephone directory and hiPage, an online telephone directory. Both provide customers with comprehensive information on retail stores.

3. Development of new services

(1) Wireless services

- Develop and offer a broad range of value added services for voice, data, multimedia and interactive services on GPRS platform.
- Strengthen the "emome" flagship store and enhance the "emome" website to attract younger customers.
- Continue to focus on the corporate market, promote location based services.
- Roll out 3G services.

(2) Internet & data services

- Launched Multimedia On Demand (MOD) service in March 2004.
- Continue to upgrade HiNet's broadband Internet access speed.
- Continue to develop new value added services.

3G - Third Generation Wireless Communications

Similar to fixed line development, wireless communications is moving toward broadband. The combination of higher speed and mobility enables customers to benefit from wireless Internet, which we believe will be the next wave of growth.

Chunghwa Telecom has been awarded a 3G license. On 3G business, the Company :

- leverages its existing infrastructure, including switching offices and base stations.
- expects to leverage its existing 2G and GPRS functionality by seamless roaming to/from 3G with dual mode triple band handsets.
- leverages its existing customer base with migration packages to encourage high-end customers, who are more prone to wireless Internet with higher data speed access, to use 3G services.
- makes the best use of its "emome" platform for 3G mobile value added services, contents and applications.

The Company is constantly monitoring the progress of 3G service in other markets and evaluating 3G handset capability and functionality. Very recent development indicates that there might be quite a few operators planning to launch their 3G services in the second half of 2004; however, we will be prudently reviewing our roll out schedule.

(II) Industry review

1. Current status and development

Taiwan telecommunication industry is one of the most developed in the Asia Pacific region in terms of fixed line, cellular and broadband Internet penetration. As competition being ever intense, improvement of service quality is important to maintain market share. As traditional voice market reaching saturation, future growth opportunities for carriers will come from wireless and Internet value-added services. In order to capture these opportunities, operators are likely to pursue strategic alliances.

2. Relationship among upstream, midstream and downstream providers

(1) Telecommunication industry may be classified into three vertical constituents - upstream, midstream and downstream. The upstream refers to infrastructure and equipment vendors; the midstream refers to telecom service providers; and the downstream refers to distribution agents.

(2) Telecom service providers, the midstream, owning the network infrastructure, are responsible for network planning and installation, network interconnection and interoperatability, operation administration and maintenance, service provisioning, offering and billing, marketing and sales and customer services.

3. Product development trends and competition

(1) Internet & data

The penetration rate of Internet in Taiwan reached 37% in 2003.

- Broadband access
  - ☐ Demand for 2Mbps and 3Mbps ADSL services will increase over time, and lead to a significant increase of broadband subscribers.
  - ☐ Demand for broadband value-added services such as videophone, video streaming, interactive on-line games, e-learning, MOD and others will grow.
  - ☐ Our broadband customers have reached 2.42 million, accounting for 80.5% of market share. Among them, 730,000 are 1.5Mbps ADSL users.
  - ☐ The Company believes that its ADSL customer base will continue to grow and access bandwidth will be upgraded to higher speed to maintain its broadband market share.
- Internet value-added services
  - ☐ Demand for higher resolution video services and on-line games will continue as broadband access becoming more popular.
  - ☐ Enrich digital contents for video services to attract more subscriptions and develop digital copyright management and content delivery network to facilitate content or program distribution.
  - ☐ The Company offers an open platform with abundant bandwidth and micro-payment mechanisms to support content providers offering services to end-users.
  - ☐ The Company will also incorporate a digital copyright management tool to offer musical download service.
- Leased lines

  With a continuous increase in broadband usage and 3G wireless operators entering the market, bandwidth demand will continue to grow. Currently, our domestic and international leased line market share, in terms of lines of circuits, are 93.9% and 53.4% respectively.

(2) Wireless

Mobile penetration in Taiwan has exceeded 112%.

- Consolidation of mobile market has been going on for some time and has resulted in a more rational market.
- Many 3G service providers will commence operation in the near future, the wireless market might experience another wave of intense competition.
- To maintain our leading position in mobile market, the Company has actively promoted value added services such as personal ring back tone, MMS and Java games.

(3) Fixed-line

Fixed-line penetration in Taiwan has reached 58.7%.

- With mobile substitution for fixed-line services and dial-up minutes decreasing, local and domestic long distance traffic will continue to decrease.
- Taiwan's fixed-line market is fully liberalized. Due to low calling rates for local and domestic long distance, new entrants focus on international long distance business .
- The Company has been able to maintain its local call market share at 98.4% level for over two years since competition started. Our domestic long distance market share was 88.2% and our international long distance market share has been stable at 60.1%.

(III) R & D review

The Company focuses on research and development and makes efficient use of its innovation.

1. R&D expense

Please refer to page 8.

2. Developed technologies and products

Please refer to page 8 and page 9.

3. R&D directions

The major thrust areas of the Company's research and development includes:

- Value added services and applications
- Network operation and customer service information technology
- Broadband network technology
- Wireless network technology
- Enterprise solutions
- Market research
- Applied research in selected areas

(IV) Business development plan

Considering the government's policies to promote new technology, and with the traditional voice market becoming saturated, competition will continue to be intense. In spite of these challenges, the Company has been maintaining a high market share in every business segment.

1. Long-term

(1) Focus on our core businesses:

- enhance traditional voice services
- enrich wireless value added services
- develop broadband Internet and multimedia services

(2) Maintain growth trend in mobile and broadband Internet businesses.

(3) Proactively adopt new technologies to introduce new services so as to maintain the Company's competitiveness.

2. Short-term

(1) Continue to increase our broadband customers and enhance value added services.

(2) Increase the number of wireless customers, particularly targeting younger generation, and to increase revenue from value added services.

(3) Analyze customers' behavior and identify target markets so as to provide attractive services and promotion packages.

(4) Increase customer loyalty by improving customer service quality and offering customerized services.

II. Marketing and Sales

(I). Market analysis

Telecommunications customers typically gravitate towards services that are personal and mobile. Services must be innovative, compelling, and reasonably priced. Variety of service offerings and quality of service must be continually improved in order to maintain loyal customers. Understanding the market environment and the specific needs of our customers enables us to maximize our profits by providing the right service package for each market segment.

Descriptions of our fixed-line, wireless, and Internet & data services are as follows:

1. Fixed-line services

The Company maintains a modern fixed line network comprised of digital switches and optical fiber transmission systems. Various digital subscriber loop technologies have been employed to offer high speed access to the Internet, thus revitalizing the value of the Company's local loops. Local and domestic traffic volumes declined due to mobile substitution. Given the mobile voice saturated, the decline has somewhat stabilized recently. International long distance traffic volume increased significantly compared to the same period last year through the proactive promotion of the wholesale business.

2. Wireless services

- With Taiwan's mobile penetration rate surpassing 112%, there has been a gradual decline in its growth rate. Chunghwa Telecom is the market leader in terms of both subscriber and revenue market shares in this business. In order to continually increase our revenues, we offer value added services such as "emome Darling", wireless data, MMS, Java based entertainment and mobile application

emome Darling

The Company launched its personal ring back tone service, "emome Darling", on July 28, 2003, to offer a variety of pop music and self recorded mailbox options to replace traditional ring tones and to improve call waiting options. Contents available include pop songs, Chinese song collections, eastern and western music, soft music, cartoons, games, jokes, celebrity news, religious sayings, and seasonal greetings. Customers can also subscribe songs for different callers or time of their calls, or they can record personal greetings. More selections will be available going forward. The number of "emome Darling" customers is over 642,000 at the end of March 2004, and is still growing rapidly. This service can be initiated by dialing "700" or by logging on to the Company's emome website at http://www.emome.net.

service platform for customized services. The Company has also initiated handset subsidy for GPRS and MMS handsets to increase mobile data revenue and retain high-end customers.

- As a result of the increasing availability of new handset models with GPRS capability along with price reductions and special promotional programs, currently, we have over 2 million GPRS customers.
- We have introduced additional mobile data services such as mobile office, mobile data virtual private network, intelligent fleet management express and special number service by using the multimedia message platform for business customers.

3. Internet & data services

In order to achieve the goal of reaching six millions broadband subscribers before year 2008 set by the Executive Yuan, the Company offers a wide range of broadband Internet access services. At the end of 2003, the Company's broadband ADSL subscribers surpassed 2.4 million, representing 80.5% of broadband market share. The Company encouraged customers to upgrade access speed from 512Kbps to 1.5Mbps at minimal incremental charges. The number of customers subscribing this program has increased from 120,000 to 720,000. Moreover, HiNet has been repositioning toward ICSP (Internet Content Service Provider) and has also developed a comprehensive alliance strategy to maintain its leadership in the domestic ISP market. In addition, HiNet continues to enrich the contents of its multimedia value added services. The new HiNet home page, designed to attract the youth market, was launched on November 20, 2003. The resulting upgrade improves the overall image of HiNet.

(II) Business process of major services

The Company's three major services are fixed-line, wireless and Internet & data. The primary objective of these services is to offer basic communication and value-added services to general public including residential and business customers. The Company's business process for developing services include service definition and network planning, purchasing and installing equipments, service provisioning, offering and billing, operation administration and maintenance, marketing and sales and customer services.

(III) Supply

The government regulates the Company's procurement process according to the Government Procurement Law. The supply pipeline is stable due to vendors being able to deliver materials according to the contracts.

(IV) Major transaction parties

None of sellers/customers whose business transactions with the Company exceeds 10% of the Company's total purchases/sales. (refer to page 83, 84 or page 91)

(V) Network capacity in 2002 and 2003

Main services / Accumulated capacity		2002	2003
Fixed-line	Local	17,324,501 lines	17,335,065 lines
	Domestic long distance	2,349,480 circuits	2,349,480 circuits
	International long distance	104,840 circuits	104,840 circuits
Mobile	Mobile	7,500,000 subscribers	8,500,000 subscribers
Internet & data	ADSL	2,378,813 ports	3,088,747 ports
	Broadband HiNet	1,900,000 subscribers	2,800,000 subscribers

(VI) Sales volume in 2002 and 2003

Main services		2002		2003	
		Sales Volume	Sales amount (NT$billion)	Sales Volume	Sales amount (NT$billion)
Fixed-Line	Local	12,978,000 lines (accumulated)	48.91	13,137,000 lines (accumulated)	45.67
	Domestic long distance	6,832 million minutes	14.03	6,195 million minutes	13.40
	International long distance	1,368 million minutes	15.72	1,848 million minutes	15.62
Wireless	Mobile	7,422,000 subscribers (accumulated)	62.47	8,267,000 subscribers (accumulated)	65.67
	Paging	222,000 subscribers (accumulated)	1.05	117,000 subscribers (accumulated)	0.59
Internet & data	ADSL	1,683,000 subscribers (accumulated)	8.95	2,426,000 subscribers (accumulated)	13.33
	Broadband HiNet	1,352,000 subscribers (accumulated)	5.49	1,902,000 subscribers (accumulated)	7.8

(VII) Key service quality ratios

1. Two surveys on telecommunication service quality conducted by the DGT of MOTC in 2003 indicated the following results of our operation:
   (1) Segment Survey Results
   Local call, domestic long distance call and international call connection rate have all exceeded the 95.6% threshold.
   (2) Customer Service Survey Results
   Installation time of local telephone, ADSL, leased lines, failure rate per year, repair time and billing accuracy have all met or exceeded the standard requirements.
2. The Company submitted a "Mobile Telephone Service Quality Evaluation Report" for the period from August 1, 2002 to July 31, 2003 to DGT. Items evaluated in the report included wireless provisioning and installation time, base station congestion rate at peak hours, call drop rates, and service coverage. All have met or exceeded the standard requirements.

III. Human Resources and Staff Development

(I) The Company has established guidelines regarding employees' continuing education.

(II) The Company sponsors on-job training for employees to visit telecom institutions or to receive training abroad.

(III) The Company has established training facilities in Panchiao, Taichung and Kaohsiung. During the review period, accumulated total training reached 24,203 person-week while total training expenses were amounted to NT$739 million.

(IV) In addition to the curriculum provided by the Telecommunication Training Institute, each department arranges internal and external training classes and seminars. The Company also designs training classes for all levels of management.

IV. Manpower Structure

Item		2002	2003	March 31, 2004
Number of employees		28,969	29,072	29,018
Average age		44.65	45.27	45.50
Average years of service		20.64	21.23	21.43
Education (%)	Doctorate degree	0.50	0.51	0.51
	Master's degree	7.73	8.23	8.37
	Bachelor's degree	54.29	55.66	55.67
	High school	30.79	30.04	29.89
	Middle school and under	6.69	5.56	5.56

V. Commitment to the Environment

Pollution and its negative effects on public health have become the focus of public attention in recent years. Fortunately, telecommunication service is an industry that produces less pollution than others . The Company has always paid attention to environmental protection in network construction to avoid pollution or any negative effects. The Company not only focuses on maintaining healthy working conditions, but also includes strict penalties in its contracts to prevent any environmental violations.

In order to prevent pollution during the construction of outside plants, the Company follows pertinent regulations such as Waste Disposal Act, Air Pollution Control Act, Noise Control Act, and regularly sends inspectors to check. As a result, the Company has not incurred any pollution related penalty for the past several years. If pollution ever accidentally occurs during the construction of outside plants, the project's sponsor is subject to a penalty and must directly remit payment to the appropriate environmental protection agency.

VI. Employee Relations

(I) Safety, ethics, welfare and pension

1. Employee working environment and safety

To actively promote labor related safety and health, and to help avoid job related injuries, the Company has established several safety initiatives, which are all designed to promote a safer working environment for the Company's employees.

2. Evaluation of employee ethics

(1) The Company evaluates its employees according to several standards that were established for promoting ethical behavior among employees. These include "Civil Servants Service Law", "Communications Employee Performance Assessment Act", "Employee Performance Assessment Codes", "Employee Rewards and Disciplinary Sanctions", etc. These regulations, including incentives and disciplinary sanctions, are communicated throughout the Company; so all employees clearly understand the Company's ethical requirements. All employees are held accountable for their behaviors.

(2) In addition, the Company supports and abides by the Equal Opportunity Law, as applied to both sexes. This law stipulates provisions for menstrual leave, family care leave, maternity leave, infant feeding time, unpaid leave for childcare and flexible working hours, and other similar measures.

(3) The Company has established a policy addressing sexual harassment in the workplace entitled "Sexual Harassment Prevention, Action and Complaint Code," and issued a "Sexual Harassment Prevention Statement". In addition, the Company has established a special committee to manage any related complaints and has set up internal communication channels to appropriately deal with employees' sexual harassment complaints. Any complaint is processed according to "Employee Rewards and Disciplinary Sanctions".

3. Employee welfare policy

(1) The Company carries civil servants' insurance and labor insurance for all employees. When an employee qualifies for a claim, the related department informs and supports the process in order to secure the employee's benefits.

(2) The Company also handles Citizen Health Insurance for employees, family members and retired employees.

(3) The Company organizes leisure activities such as hiking, sightseeing, picnics, and sport games for employees, and holds contests and raffles.

(4) The employee benefit committee provides subsidies for matrimonies, births, children education, retirement and funeral matters for employees or their family members.

4. Pension plans

We maintain two separate non-contributory defined benefit pension plans, which provide retirement benefits based on years of service and monthly salary as mandated by the governmental directive in 1997, the Compnay is required to pay severance payments to employees at the date of our privatization in the following manner.

(1) Employees who choose not to continue their employment with the Company will be entitled to receive pension benefits prescribed under the Labor Standards Law, plus a six-month salary and an additional one-month salary with prior notice; and

(2) Employees who choose to continue their employment with the Company will be entitled only to receive pension benefits prescribed under the Labor Standards Law.

In order to increase operational efficiency, the Company established retirement programs to encourage some of the employees to retire prior to the privatization in the past few years. In 2003, there were 260 employees took the program and left the Company. Please refer to page 76-81.

(II) Agreement and communication mechanism with labor union

Chunghwa Telecom and the labor union signed a group collective agreement according to the Group Agreement Law in 1988. The Company is currently negotiating further revision of such agreement with the labor union. The Company, after negotiating with the labor union, also specified working discipline according to the Article 70 of the Standard Labor Law for employees. With these, the Company maintains a cooperative relationship with the labor union.

There are a number of channels to facilitate communication with the labor union as follows:

1. Convene employer-labor relations meetings.
2. The director and the related managing directors of the labor union will join each department's business review meetings and periodically attend evaluation meetings.
3. Two-thirds of the seats of the Company's welfare and pension fund committees are from the labor union.
4. Encouraging employee to submit proposals on job efficiency improvement.

The labor union, considering its members benefits, opposed the local loop unbundling and share buyback programs, and presented their case to the Legislative Yuan on September 23, 2003. The Company responded to the labor union's demands and communicated with all stakeholders. As a result, the Company was able to maintain normal operations.

VII. Important Contracts

Contract name	Contract parties	Term of agreement	Summary	Remark
Third Generation Mobile Telecommunication System (3G System) Tender Contract.	Chunghwa Telecom and Nokia Oyj	From January 21, 2003 to September 20, 2005	Third generation mobile communication construction project, including core network and base stations	The contract is an open contract with flexible terms. After the contract is signed, the contractor will complete the 1st phase of construction according to the scheduled time frame. The Company will review the market demands and notify the contractor as to when it should start the 2nd phase of construction, likewise the same will be applied for the 3rd phase.

VIII. Significant Lawsuits During 2002 and 2003

None of disputes and administrative prosecution events occurred during 2002 & 2003. There is only one significant lawsuit as follows:

Case	Argument	Amount	Lawsuit start date	Lawsuit parties	Status
Construction Project Payment Lawsuit The contractor is BES Engineering Co., Ltd.	Due to contractor missed the completion date of the project, the contractor was liable to pay the Company 0.2% of total project cost daily as a penalty. In the meantime, the Company had unilaterally debited the penalty from project payment.	NT$270,400,686	May 28, 1997	Chunghwa Telecom vs. BES Engineering Co., Ltd.	This case has been gone through the Taiwan Local Court, the Taiwan High Court, and the Taiwan Supreme Court. The final verdict by the Taiwan High Court on June 22, 2003 was that the Company should refund to the contractor a total of NT$270,110,414 together with interest associated with the delay, and such refund has been made.

PART IV. FINANCIAL SUMMARY

I. Summary Financial Data

	As of or for the year ended June 30,		As of or for the six months ended December 31,		As of or for the year ended December 31,				As of or for the three months ended March 31,		
	1999	2000	1999	2000	2001	2002	2003		2003	2004	
	(in billions, except per share and per pro forma ADS information)										
	NT$	NT$	NT$ (unaudited)	NT$	NT$	NT$	NT$	US$(7)	NT$ (unaudited)	NT$ (unaudited)	US$(7)
Income Statement Data:											
Revenues	192.1	185.0	91.7	95.0	184.4	179.4	182.5	5.4	44.2	45.6	1.4
Operating costs and expenses:											
Costs of services(1)	65.8	64.8	30.5	35.6	72.7	58.1	59.6	1.7	14.2	14.5	0.4
Marketing(1)	18.8	18.0	8.4	9.6	21.9	20.2	20.0	0.6	5.1	4.6	0.2
General and administrative(1)	3.2	3.3	1.5	1.6	3.5	2.7	2.7	0.1	0.7	0.7	–
Research and development(1)	2.6	2.7	1.3	1.3	2.8	2.4	2.6	0.1	0.6	0.6	–
Depreciation and amortization – costs of services	34.8	34.7	17.2	18.2	36.6	37.9	39.2	1.1	9.9	9.6	0.3
Depreciation and amortization – operating expenses	1.9	2.0	1.0	1.0	2.3	2.4	2.4	0.1	0.6	0.6	–
Total operating costs and expenses	127.1	125.5	59.9	67.3	139.8	123.7	126.5	3.7	31.1	30.6	0.9
Operating income	65.0	59.5	31.8	27.7	44.6	55.7	56.0	1.7	13.1	15.0	0.5
Other income(2)	2.7	1.8	1.1	1.2	3.7	2.5	2.2	0.0	0.6	0.6	–
Other expenses(3)	0.2	0.8	0.3	0.5	1.4	1.3	0.6	0.0	0.2	–	–
Income before income tax	67.5	60.5	32.6	28.4	46.9	56.9	57.6	1.7	13.5	15.6	0.5
Income tax	16.2	13.9	7.4	6.8	9.5	12.8	10.3	0.3	2.8	2.7	0.1
Net income	51.3	46.6	25.2	21.6	37.4	44.1	47.3	1.4	10.7	12.9	0.4
Net income per share(4)	5.32	4.83	2.61	2.24	3.87	4.57	4.90	0.14	1.11	1.34	0.04
Net income per pro forma equivalent ADS(5)	53.19	48.27	26.11	22.40	38.73	45.70	49.04	1.44	11.06	13.40	0.41
Balance Sheet Data:											
Cash and cash equivalents	4.1	15.2	14.4	24.1	4.6	7.6	13.5	0.4	5.7	28.5	0.9
Property, plant and equipment – net	299.1	315.5	311.6	322.8	336.4	338.4	329.7	9.7	332.3	322.6	9.8
Total assets	424.9	411.9	402.7	413.4	411.4	428.6	429.7	12.6	422.1	439.0	13.3
Total debt	–	9.0	–	–	17.0	17.7	0.7	–	3.7	0.7	–
Total liabilities	139.5	126.2	138.4	105.2	121.7	128.6	118.9	3.5	111.0	115.1	3.5
Capital stock	96.5	96.5	96.5	96.5	96.5	96.5	96.5	2.8	96.5	96.5	2.9
Total stockholders' equity	285.4	285.7	264.3	308.2	289.7	300.0	310.8	9.1	311.1	323.9	9.8
Cash Flow Data:											
Net cash provided by operating activities	85.7	70.0	41.2	30.0	73.1	91.3	93.6	2.8	19.5	20.1	0.6
Net cash used in investing activities	(49.5)	(52.8)	(28.8)	(25.3)	(53.7)	(55.3)	(32.2)	(1.0)	(7.4)	(5.1)	(0.2)
Net cash provided by (used in) financing activities	(55.1)	(6.1)	(2.1)	4.2	(38.9)	(33.0)	(55.5)	(1.6)	(14.0)	–	–
Capital expenditures	49.2	53.1	29.2	25.4	52.9	43.3	32.2	0.9	7.4	5.1	0.2
Other:											
Cash dividends declared per share	4.76	–	N/A	5.80(6)	3.50	4.00	4.50(8)	0.13	–	–	–

1. Excludes related depreciation and amortization.
2. Includes interest income of NT$1,146 million and NT$372 million for the years ended June 30, 1999 and 2000, respectively, NT$218 million and NT$264 million for the six months ended December 31, 1999 and 2000, respectively, NT$649 million, NT$187 million and NT$100 million (US$3 million) for the years ended December 31, 2001 , 2002 and 2003 respectively.
3. Includes interest expense of NT$4 million and NT$169 million for the years ended June 30, 1999 and 2000, respectively, NT$12 million and NT$103 million for the six months ended December 31, 1999 and 2000, respectively, NT$392 million , NT$171 million and NT$43 million (US$1 million) for the years ended December 31, 2001 , 2002 and 2003 respectively.
4. Net income per share is the same on both an undiluted and a fully diluted basis.
5. Each equivalent ADS represents ten of our common shares.
6. For the 18 month period ended December 31, 2000.
7. The exchange rates used for the above currency translations were NT$33.99=US$1.00 and NT$33.00=US$1.00, which were the noon buying rate announced by the Federal Reserve Bank of New York on December 31, 2003 and March 31, 2004, respectively. The translation does not mean that New Taiwan dollars could actually be converted into U.S. dollars at that rate.
8. This amount was proposed by our board of directors for approval of our shareholders in our annual shareholders' meeting of 2004 scheduled on June 25, 2004.

II. Financial Statements and Notes

(I) Independent auditors' report

The Board of Directors and Stockholders
Chunghwa Telecom Co., Ltd.

We have audited the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of December 31, 2002 and 2003, and the related statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three year period ended December 31, 2003, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chunghwa Telecom Co., Ltd. as of December 31, 2002 and 2003 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

Our audits also comprehended the translation of New Taiwan Dollar amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 3. Such U.S. dollar amounts are presented for the convenience of the readers.

Deloitte & Touche

Deloitte & Touche
(T N Soong & Co and Deloitte & Touche (Taiwan)
Established Deloitte & Touche Effective June 1, 2003)
Taipei, Taiwan
Republic of China

March 11, 2004

(II) Financial Statements

CHUNGHWA TELECOM CO., LTD.

BALANCE SHEETS

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

ASSETS	Notes	December 31 2002 NT$	2003 NT$	2003 US$ (Note 3)
CURRENT ASSETS				
Cash and cash equivalents	2,4,18	$ 7,652	$ 13,553	$ 399
Trade notes and accounts receivable – net	2,5	17,211	14,813	436
Inventories–net	2,6	1,164	1,220	36
Prepaid expenses		486	494	14
Deferred income taxes	2,14	16,845	16,983	500
Other current assets		1,929	1,703	50
Total current assets		45,287	48,766	1,435
INVESTMENTS IN UNCONSOLIDATED COMPANIES	2,7,18	3,727	3,496	103
PROPERTY, PLANT AND EQUIPMENT–Net	2,8,15	338,388	329,678	9,699
INTANGIBLE ASSETS				
Deferred pension cost	2,13	24,032	29,940	881
3G concession	2	10,179	10,179	300
Patents and computer software–net	2	212	251	7
Total intangible assets		34,423	40,370	1,188
OTHER ASSETS				
Deferred income taxes°Xnon-current	2,14	3,464	2,901	85
Other	18	3,364	4,484	132
Total other assets		6,828	7,385	217
TOTAL ASSETS		$ 428,653	$ 429,695	$12,642

LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	December 31 2002 NT$	2003 NT$	2003 US$ (Note 3)
CURRENT LIABILITIES				
Trade notes and accounts payable		$ 11,217	$ 11,713	$ 345
Income tax payable	2,14	6,172	4,923	145
Accrued expenses	9	13,804	14,206	418
Accrued pension liabilities	2,13	32,226	42,199	1,241
Current portion of deferred income	2	3,957	3,186	94
Customers' deposits	18	11,975	10,957	322
Other current liabilities	10,15	17,574	19,203	565
Total current liabilities		96,925	106,387	3,130
OTHER LIABILITIES				
Deferred income – net of current portion	2	13,855	11,610	341
Long-term loans	11,18	17,700	700	21
Other		153	243	7
Total other liabilities		31,708	12,553	369
Total liabilities		128,633	118,940	3,499
COMMITMENTS AND CONTINGENT LIABILITIES	16			
STOCKHOLDERS' EQUITY	12			
Capital stock–NT$10 (US$0.29) par value; authorized, issued and outstanding–9,647,724,900 common shares		96,477	96,477	2,838
Capital surplus		133,862	135,873	3,998
Retained earnings		69,681	78,405	2,307
Total stockholders' equity		300,020	310,755	9,143
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		$ 428,653	$ 429,695	$12,642

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

CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF OPERATIONS

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

	Notes	2001 NT$	2002 NT$	2003 NT$	2003 US$ (Note 3)
SERVICE REVENUES	2	$184,378	$179,361	$182,466	$ 5,368
OPERATING COSTS AND EXPENSES	2				
Costs of services, excluding depreciation and amortization		72,733	58,120	59,633	1,755
Marketing, excluding depreciation and amortization	2	21,867	20,167	19,992	588
General and administrative, excluding depreciation and amortization		3,451	2,647	2,726	80
Research and development, excluding depreciation and amortization	2	2,804	2,428	2,581	76
Depreciation and amortization –cost of services		36,648	37,890	39,170	1,152
Depreciation and amortization –operating expense		2,272	2,408	2,399	71
Total operating costs and expenses		139,775	123,660	126,501	3,722
INCOME FROM OPERATIONS		44,603	55,701	55,965	1,646
OTHER INCOME					
Interest		649	187	100	3
Equity in net income of unconsolidated companies		189	-	3	-
Other income		2,803	2,294	2,098	62
Total other income		3,641	2,481	2,201	65

	Notes	2001 NT$	2002 NT$	2003 NT$	2003 US$ (Note 3)
OTHER EXPENSES					
Interest		392	171	43	1
Equity in net loss of unconsolidated companies	2,7	-	232	-	-
Other expense		971	852	509	15
Total other expenses		1,363	1,255	552	16
INCOME BEFORE INCOME TAX		46,881	56,927	57,614	1,695
INCOME TAX	2,14	9,519	12,839	10,299	303
NET INCOME		$ 37,362	$ 44,088	$ 47,315	$ 1,392
NET INCOME PER SHARE	2	$3.87	$4.57	$4.90	$0.14
WEIGHTED–AVERAGE NUMBER OF COMMON SHARES OUTSTANDING		9,647,724,900	9,647,724,900	9,647,724,900	9,647,724,900
NET INCOME PER PRO FORMA EQUIVALENT ADS	2	$38.73	$45.70	$49.04	$1.44
WEIGHTED–AVERAGE NUMBER OF PRO FORMA EQUIVALENT ADSs OUTSTANDING		964,772,490	964,772,490	964,772,490	964,772,490

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

CHUNGHWA TELECOM CO., LTD.
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Amounts in Millions, Except Shares Data)

	Capital Stock			Retained Earnings				Total
	Common shares	Amount	Capital Surplus	Legal reserve	Special reserve	Unappropriated earnings	Total	Stockholders' Equity
		NT$	NT$	NT$	NT$	NT$	NT$	NT$
BALANCE, DECEMBER 31, 2000 (IN NT$)	9,647,724,900	$ 96,477	$133,758	$ 15,105	$ 2,675	$ 60,175	$ 77,955	$ 308,190
Additional capital contributed by government	–	–	62	–	–	–	–	62
Appropriations of 2000 earnings:								
Legal reserve	–	–	–	6,274	–	(6,274)	–	–
Dividends	–	–	–	–	–	(55,957)	(55,957)	(55,957)
Net income for the year ended December 31, 2001	–	–	–	–	–	37,362	37,362	37,362
BALANCE, DECEMBER 31, 2001 (IN NT$)	9,647,724,900	96,477	133,820	21,379	2,675	35,306	59,360	289,657
Additional capital contributed by government	–	–	42	–	–	–	–	42
Appropriations and distributions of 2001 earnings:								
Legal reserve	–	–	–	3,727	–	(3,727)	–	–
Dividends	–	–	–	–	–	(33,767)	(33,767)	(33,767)
Net income for the year ended December 31, 2002	–	–	–	–	–	44,088	44,088	44,088
BALANCE, DECEMBER 31, 2002 (IN NT$)	9,647,724,900	96,477	133,862	25,106	2,675	41,900	69,681	300,020
Additional capital contributed by government	–	–	80	–	–	–	–	80
Additional capital contributed by the MOTC through selling shares to employees at a discounted price	–	–	1,931	–	–	–	–	1,931
Appropriations and distributions of 2002 earnings:								
Legal reserve	–		–	4,331	–	(4,331)	–	–
Dividends	–	–	–	–	–	(38,591)	(38,591)	(38,591)
Net income for the year ended December 31, 2003	–	–	–	–	–	47,315	47,315	47,315
BALANCE, DECEMBER 31, 2003 (IN NT$)	9,647,724,900	$ 96,477	$135,873	$ 29,437	$ 2,675	$ 46,293	$ 78,405	$310,755
BALANCE, DECEMBER 31, 2003 (IN US$) (Note 3)	9,647,724,900	$ 2,838	$ 3,998	$ 866	$ 79	$ 1,362	$ 2,307	$ 9,143

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

CHUNGHWA TELECOM CO., LTD.
STATEMENTS OF CASH FLOWS
(Amounts in Millions)

	Years Ended December 31			
	2001	2002	2003	2003
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	$37,362	$44,088	$47,315	$ 1,392
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for doubtful accounts	3,869	4,931	3,239	95
Depreciation and amortization	38,920	40,298	41,569	1,223
Cash dividends received from unconsolidated companies	94	–	–	–
Net loss on disposal of scrap inventories and property, plant and equipment	955	150	143	4
Equity in net loss (net income) of unconsolidated companies	(189)	232	(3)	–
Stock compensation for shares issued to employees at a discount	–	–	1,931	57
Deferred income taxes	(1,850)	744	425	13
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Trade notes and accounts receivable	(3,280)	(1,764)	(760)	(22)
Inventories	2,454	(483)	(1,719)	(51)
Prepaid expenses	1,383	60	(8)	–
Other current assets	(259)	811	145	4
Other assets	(1,724)	1,028	(1,235)	(36)
Increase (decrease) in:				
Trade notes and accounts payable	3,583	(2,666)	2,159	63
Income tax payable	(4,540)	3,314	(1,249)	(37)
Accrued expenses	(892)	(422)	402	12
Customers' deposits	(1,294)	(940)	(1,018)	(30)
Other current liabilities	1,066	1,969	1,138	33
Accrued pension liabilities	957	3,653	4,065	120
Deferred income	(3,243)	(3,467)	(3,016)	(89)
Other liabilities	(273)	(183)	90	3
Net cash provided by operating activities	73,099	91,353	93,613	2,754

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

	Years Ended December 31			
	2001	2002	2003	2003
	NT$	NT$	NT$	US$ (Note 3)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of investments in unconsolidated companies	(980)	(2,000)	–	–
Proceeds from disposal of investments in unconsolidated companies	58	–	234	7
Acquisitions of property, plant and equipment	(52,935)	(43,260)	(32,248)	(948)
Proceeds from disposal of property, plant and equipment	294	294	6	–
Payment on 3G concession	–	(10,179)	–	–
Acquisitions of patents and computer software	(131)	(174)	(193)	(6)
Net cash used in investing activities	(53,694)	55,319)	(32,201)	(947)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long–term loans	$30,000	$38,700	$ –	$ –
Payments on principal of long–term loans	(13,000)	(38,000)	(17,000)	(500)
Cash dividends paid	(55,957)	(33,767)	(38,591)	(1,135)
Additional capital contributed by government	62	42	80	2
Net cash used in financing activities	(38,895)	(33,025)	(55,511)	(1,633)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(19,490)	3,009	5,901	174
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	24,133	4,643	7,652	225
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 4,643	$ 7,652	$13,553	$ 399
SUPPLEMENTAL INFORMATION				
Interest paid	$ 392	$ 122	$ 66	$ 2
Income tax paid	$15,908	$ 8,781	$11,121	$ 327

(III) Notes to Financial Statements

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

1. GENERAL

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

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

The MOTC is in the process of privatizing the Company by reducing the government ownership to below 50% in stages. Certain of the Company's common shares were sold, in connection with the foregoing privatization plan, in domestic public offerings in August 2000, in September 2000, in June 2001, in December 2002, and in March 2003, in April 2003, and in July 2003. Certain of the Company's common shares were sold to its employees in October 2000, October 2001, November 2002, February 2003, April 2003, June 2003, July 2003 and December 2003. In July, 2003 the MOTC sold the Company's common shares in an international offering of securities in the form of American Depository Shares ("ADS"). The MOTC intends to continue to sell the Company's common shares in the ROC and throughout the process of privatization to the Company's employees. As of March 11, 2004 the MOTC owns 64.98% shares of the Company.

The Company's common shares were listed and traded on the Taiwan Stock Exchange and the New York Stock Exchange on October 27, 2000 and on July 17, 2003, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The Company maintains its accounting books and records based on the ROC Government regulations and accounting principles generally accepted in the ROC ("ROC GAAP"). The accompanying financial statements have been prepared to present its financial position, results of operations and cash flows in accordance with generally accepted accounting principles in the United States ("US GAAP").

The financial statements as of December 31, 2003 and for the years ended December 31, 2002 and 2003 included herein have been prepared by the Company pursuant to the rules and regulations of the United States Securities and Exchange Commission (the "SEC").

Use of Estimates

The preparation of financial statements requires management to make certain estimates and assumptions that affect the recorded amounts of assets, liabilities, revenues and expenses of the Company. The Company continually evaluates these estimates, including those related to allowances for doubtful accounts, useful lives of long term assets, pension plans, valuation allowances on deferred income taxes, customer service periods, impairment of assets and the fair value of financial instruments. The Company bases its estimates on historical experience and other assumptions, which it believes to be reasonable under the circumstances. Actual results may differ from these estimates.

Foreign Currency Transactions

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

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

b. Other assets and liabilities—credited or charged to current income.

Cash Equivalents

Cash equivalents include commercial paper purchased with maturities of three months or less from the date of acquisition.

Inventories

Inventories, consisting mainly of telecommunication cables, are stated at the lower of cost (weighted-average cost method) or market value (replacement cost or net realizable value). If the market value is below cost, the Company writes down the inventory to the market value which then becomes the new cost basis.

Investments in Unconsolidated Companies

Investments in shares of stock in companies where the Company exercises significant influence over operating and financial policy decisions are accounted for using the equity method of accounting. The difference between the investment cost and the Company's proportionate share in the net assets of the investee at the date of acquisition is amortized over the estimated useful life of any intangible assets identified. Any goodwill identified is not amortized and evaluated for impairment when circumstances warrant. Any cash dividends received are recognized as a reduction in the carrying value of the investment. Unrealized profits arising from downstream transactions to equity investees are deferred in the Company's portion of equity income or loss. Profits and losses arising from equipment purchases from equity investees are eliminated and recognized over the estimated remaining useful life of the equipment.

Investments in shares of stock with no readily determinable market values are accounted for using the cost method when the ownership is less than 20%. Cash dividends received are recorded as income and stock dividends received are accounted for as increases in the number of shares held but not recognized as income.

The costs of investments sold are determined using the weighted-average method.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation expense is determined based upon the assets' estimated useful life using the straight-line method.

The estimated useful lives are as follows:

	Useful Life (Years)
Buildings and improvements	10-60
Telecommunications equipment:	
Transmission equipment	9-15
Exchange equipment	6-12
Miscellaneous equipment	3-10

Cost of maintenance and repairs, including the cost of replacing minor items not constituting substantial improvements, is charged to current income.

Losses incurred for the sale or disposal of property, plant and equipment are recorded as costs of services.

Valuation of Long-lived Assets

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the total of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the assets, a loss is recognized for the excess of the carrying amount over the fair value of the asset. No impairment charge was recorded throughout the periods presented in the accompanying financial statements.

3G Concession

This is the amount paid by the Company to the ROC government in connection with the grant of a concession to provide various telecommunication services using spectrum assigned by the MOTC that utilizes the International Mobile Telecommunication—2000: The Global Standard for Third Generation Wireless Communications technical standards as announced by the International Telecommunications Union (the "3G concession"). Licenses for 3G mobile telecommunication services are granted by the MOTC through a three-step procedure. Applicants first obtain a concession from the MOTC through a bidding process. The concession is valid from the issue date to December 31, 2004. The Company may apply to extend this date by one year with approval from the MOTC. The holder of the concession must then obtain a network construction permit from the Directorate General of Telecommunications (the "DGT", the regulator of the telecommunication industry). Once the network construction is complete, the applicant may apply for a 3G license from the MOTC. The 3G license is valid through December 31, 2018. The 3G concession and any additional licensing fees will be amortized on a straight-line basis from the date operations commence through the date the license expires. The 3G Concession cost is subject to review for impairment as other long-lived assets.

Patents and Computer Software

Patents are amortized using the straight-line method over the estimated useful lives ranging from 12 to 20 years. Computer software costs are capitalized and amortized using the straight-line method over the estimated useful lives of three years. Amortization expenses for the years ended December 31, 2001, 2002 and 2003 were NT$112 million, NT$122 million and NT$154 million, respectively. Accumulated amortization was NT$659 million and NT$813 million as of December 31, 2002 and 2003, respectively.

Deferred Income

Deferred income represents one-time connection fees received from subscribers. The deferred income is recognized over the average expected customer service periods.

The average expected customer service periods (in years) are as follows:

	As of December 31	
	2002	2003
Fixed-line	13	13
Cellular	6	5
Paging	2	2
Internet	3	3

Revenue Recognition

The Company evaluates revenue recognition for its transactions using the SEC Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition".

The Company records service revenues over the periods they are earned. The costs of providing services are recognized as incurred. Handset subsidy costs are paid to a vendor that sells a handset to a customer who subscribes to the service, as an inducement to enter into a service contract, and are recognized as a cost of service when incurred. Usage revenues from fixed-line services, cellular services, Internet and data services, and inter-connection 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 Company had accrued unbilled revenues for services provided amounting to NT$1,265 million and NT$1,329 million as of December 31, 2002 and 2003, and are included in accounts receivable in the accompanying balance sheets.

Other revenues are recognized as follows: (a) one-time subscriber connection fees are deferred and recognized over the average expected customer service periods, (b) fixed-monthly fees (on fixed-line services, wireless (cellular and paging) 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.

Concentrations

For all periods presented, no individual customer or supplier constituted more than 10% of the Company's revenues, trade notes and accounts receivables, purchases or trade notes and accounts payable. The Company also does not have concentrations of available sources of labor, services or other rights that could, if suddenly eliminated, severely impact its operations. However, telecommunications franchises and licenses are issued solely by authority of the ROC government. The withdrawal or the revocation of the franchise and licenses by the ROC government would severely impact the Company's operations. The Company invests its cash with several high-quality financial institutions.

Pension Costs

Pension costs are recorded on the basis of actuarial calculations. As a foreign registrant, the Company adopted SFAS No. 87 on July 1, 1996 as it was not feasible for the Company to obtain the information necessary to adopt SFAS No. 87 as of July 1, 1989. The Company has allocated a portion of the transition obligation directly to equity on the date of adoption based on the ratio of: (a) the years elapsed between the effective date in SFAS No. 87 and the adoption date, to (b) the remaining service period of employees expected to receive benefits as estimated at the adoption date.

Advertising and Promotional Expenses

Advertising and promotional expenses are charged to income as incurred. These expenses were NT$1,723 million, NT$1,935 million and NT$1,861 million for the years ended December 31, 2001, 2002 and 2003, respectively.

Research and Development Costs

Research and development costs are charged to income as incurred.

Employee Stock Compensation

In connection with the privatization plan of the Company, employees may be offered to purchase shares of common stock of the Company at less than fair market value. The Company records the difference between the quoted market price of the stock on the date of purchase and the purchase price as compensation expense and charges to income in the period of the purchase.

Income Tax

The Company is subject to income tax in the ROC. The Company accounts for income tax using the asset and liability method. Under this method, deferred income tax is recognized for investment tax credits, losses carried forward and the future tax consequences attributable to differences between financial statement carrying amounts and their respective tax bases, using enacted laws. A valuation allowance is recognized if, based on the weight of available evidence, it is more likely than not that a portion or the entire deferred tax asset will not be realized.

Income taxes on undistributed earnings (10%) generated after 1998 are recorded as expense in the current year.

Comprehensive Income

Comprehensive income includes all changes in equity during a period from sources other than the stockholders. The balance of comprehensive income is zero for all balance sheet dates presented.

Net Income Per Share and Per Pro Forma Equivalent ADS

Net income per share is computed by dividing net income by the weighted-average number of common shares outstanding during the periods. Net income per pro forma equivalent ADS is calculated by multiplying the above net income per share by ten as each ADS is expected to represent ten common shares.

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board ("FASB") released Interpretation No. 46 Consolidation of Variable Interest Entities ("FIN 46") which requires that all primary beneficiaries of Variable Interest Entities (VIE) consolidate that entity. FIN 46 is effective immediately for VIEs created after January 31, 2003 and to VIEs in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003 to VIEs in which an enterprise holds a variable interest it acquired before February 1, 2003. In December 2003, the FASB published a revision to FIN 46 ("FIN 46R") to clarify some of the provisions of the interpretation and to defer the effective date of implementation for certain entities. Under the guidance of FIN 46R, entities that do not have interests in structures that are commonly referred to as special purpose entities (SPE's) are required to apply the provisions of the interpretation in financial statements for periods ending after March 14, 2004. The Company does not have interests in special purpose entities and will apply the provisions of FIN 46R with its first quarter 2004 financial statements.

3. U.S. DOLLAR AMOUNTS

The Company maintains its accounts and expresses its financial statements in New Taiwan dollars. For convenience only, U.S. dollar amounts presented in the accompanying financial statements have been translated at the noon buying rate for cable transfers as certified for customs purposes by the Federal Reserve Bank of New York as of December 31, 2003, which was NT$33.99 to US$1.00. The convenience translations should not be construed as representations that the New Taiwan dollar amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

4. CASH AND CASH EQUIVALENTS

	December 31	
	2002	2003
	NT$	NT$
Cash and bank deposits	$ 2,460	$ 2,112
Commercial paper purchased	5,192	11,441
Total	$ 7,652	$ 13,553

5. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The changes in this account are summarized as follows:

	Years Ended December 31		
	2001	2002	2003
	NT$	NT$	NT$
Balance, beginning of period	$ 2,563	$ 5,008	$ 7,505
Provision for doubtful accounts	3,869	4,931	3,158
Accounts receivable written off	(1,424)	(2,434)	(2,877)
Balance, end of period	$ 5,008	$ 7,505	$ 7,786

6. INVENTORIES—NET

	December 31	
	2002	2003
	NT$	NT$
Supplies—net	$ 1,107	$ 1,124
Work in process	36	1
Materials in transit	21	95
	$ 1,164	$ 1,220

The insurance coverage on inventories as of December 31, 2003 amounted to NT$1,147million.

7. INVESTMENTS IN UNCONSOLIDATED COMPANIES

The investments in unconsolidated companies comprise the following:

	December 31			
	2002		2003	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
	NT$		NT$	
Equity investees:				
Chunghwa Investment ("CHI")	$ 982	49	$ 987	49
Taiwan International Standard Electronics ("TISE")	435	40	433	40
	1,417		1,420	
Cost investees:				
Taipei Financial Center ("TFC")	$ 2,000	12	$ 2,000	12
Lucent Technologies Taiwan Telecom ("Lucent")	234	15	-	-
RPTI International ("RPTI")	71	12	71	12
Siemens Telecommunication Systems ("Siemens")	5	15	5	15
	2,310		2,076	
	$ 3,727		$ 3,496	

TISE designs, manufactures and sells telecommunications equipment. It also provides maintenance services on such telecommunications equipment. No dividends were declared by TISE for the years ended December 31, 2002 and 2003, respectively.

CHI invests in companies engaged in telecom and software businesses. No dividends were declared by CHI for the years ended December 31, 2002 and 2003, respectively.

The investments in TFC, Lucent, RPTI and Siemens have no quoted market values and are carried at their original costs which approximate fair value. The investment in Lucent was sold at its carrying value in June 2003.

8. PROPERTY, PLANT AND EQUIPMENT—NET

	December 31	
	2002	2003
	NT$	NT$
Cost		
Land	$ 42,142	$ 42,326
Buildings and improvements	51,528	53,901
Telecommunications equipment	594,786	607,093
Miscellaneous equipment	26,931	28,279
Subtotal	715,387	731,599
Accumulated depreciation		
Buildings and improvements	10,154	11,215
Telecommunications equipment	395,791	412,773
Miscellaneous equipment	19,732	21,140
Subtotal	425,677	445,128
Construction in progress	48,582	43,159
Advances related to acquisition of equipment	96	48
Property, plant and equipment—net	$338,388	$329,678

On July 1, 1996, pursuant to the guidance on the incorporation of the Company and as instructed by the ROC's Executive Yuan (executive branch), the ROC Government (through the MOTC) transferred to the Company certain land and buildings with carrying value of NT$53,895 million. Those properties, as of that date, were registered in the name of the ROC's National Properties Bureau ("NPB"). As the number of the Company's properties is large, management has begun the process of registering the titles to the properties in the name of the Company. The process has been delayed due to the requirement of rezoning a small number of currently-classified agricultural and industrial zoned property to telecommunication or special purpose property prior to the approval of title transfer by the Executive Yuan. As of December 31, 2002 and 2003, titles to land and buildings with carrying value of NT$617 million and NT$397 million were still in the name of the NPB, respectively.

Capitalized interest expense aggregated to NT$130 million, NT$302 million and NT$46 million for the years ended December 31, 2001, 2002 and 2003, respectively. The rate of capitalized interest is from 4.15% to 4.32%, 1.51% to 4.18%, and 0.56% to 1.67%, respectively.

The Company carries insurance on certain buildings and certain telecom equipment with carrying value of NT$7,871 million and NT$5,146 million as of December 31, 2002 and 2003, respectively. The Company does not carry comprehensive insurance on all properties.

9. ACCRUED EXPENSES

	December 31	
	2002	2003
	NT$	NT$
Accrued compensation	$ 8,862	$ 8,997
Accrued franchise fees	2,369	2,435
Other accrued expenses	2,573	2,774
Total	$ 13,804	$ 14,206

10. OTHER CURRENT LIABILITIES

	December 31	
	2002	2003
	NT$	NT$
Advances from subscribers	$ 5,897	$ 6,504
Payables to construction suppliers	4,075	3,081
Amounts collected from subscribers in trust for others	3,443	3,610
Payable to equipment suppliers	1,933	3,230
Miscellaneous	2,226	2,778
Total	$ 17,574	$ 19,203

11. LONG-TERM LOANS

Long-term loans consist of the following:

	December 31	
	2002	2003
	NT$	NT$
Syndicated Loan	$ 17,000	$ -
Common Tunnel Fund	700	700
Total	$ 17,700	$ 700

The loan from the Common Tunnel Fund was obtained pursuant to a long-term loan agreement with the Common Tunnel Fund managed by Ministry of Interior that allows the Company to obtain unsecured interest-free credit until March 12, 2007. The outstanding principal amounts as of December 31, 2002 and 2003 are payable in three annual installments (NT$0.2 billion, NT$0.2 billion and NT$0.3 billion) starting on March 12, 2005.

The Syndicated Loans were obtained pursuant to long-term loan agreements with several banks that allows the Company to obtain unsecured credit until June 19, 2006. These loans bear fixed annual interest rates ranging from 1.58% to 1.70% on December 31, 2002. As of December 31, 2003, the Company had repaid the outstanding balance of these syndicated loans.

As of December 31, 2003, the Company has unused credit lines totaling approximately NT$230,000 million, which are available for short-term and long-term borrowings.

12. STOCKHOLDERS' EQUITY

Under the Company's Articles of Incorporation, authorized capital is 9,647,724,900 common shares. The Company's Articles of Incorporation and the Republic of China Telecommunications Act provide that the MOTC has the right to purchase two redeemable preferred shares (NT$10 par value) in the event its ownership in the Company falls below 50% of the outstanding common shares.

For the purpose of privatizing the Company, the MOTC sold 1,109,750 common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 1,109,750 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003.

The ADS holders generally have the same rights and obligations as other common shareholders, subject to the provision of relevant laws. The exercise of such rights and obligations shall comply with the related regulations and deposit agreement, which stipulate, among other things, that ADS holders can, through deposit agents; exercise their voting rights, sell their ADSs, and receive dividends declared and subscribe to the issuance of new shares.

As of December 31, 2003, a portion of the outstanding ADSs were revoked in exchange for approximately 120,160 thousand common shares of the Company, which represented 1.25% of the Company's total outstanding common shares. Therefore, the outstanding ADSs were 98,914 thousand units, which equaled approximately 989,140 thousand common shares and represented 10.25% of the Company's total outstanding common shares.

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

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

b. The holder of preferred shares has the same stock option as holders of common shares when the Company raises capital by issuing new shares.

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

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

Under the ROC Company Law, capital surplus may only be utilized to offset deficits or be declared as stock dividends. Also, such capital surplus can only be declared as a stock dividend by the Company at an amount calculated in accordance with the provisions of existing regulations. As of December 31, 2003, the amount of retained earnings available for dividends was NT$49,159 million and was based on earnings as determined using ROC government regulations.

In addition, before distributing a dividend or making any other distribution to stockholders, the Company must pay all outstanding taxes, recover any past losses and set aside a legal reserve equal to 10% of its net income, and, depending on its business needs or requirements, may also set aside a special reserve. The cash dividends to be distributed shall not be less than 10% of the total amount of dividends to be distributed. If the cash dividend to be distributed is less than NT$0.10 per share, such cash dividend shall be distributed in the form of common shares.

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

The MOTC, as part of the privatization plan of the Company, offered for sale to both corporate and individual investors 289,431,000 common shares of the Company between the period from August 16, 2000 to August 19, 2000 through an auction whereby the minimum price per share was set at NT$104. The minimum price was set on July 20, 2000 by an evaluation committee designated by the MOTC. The actual number sold was 206,627,000 common shares of the Company at an average price of approximately NT$109 per share for total proceeds of NT$22,549 million.

From September 6, 2000 to September 14, 2000, the MOTC offered for sale to individual investors 1,334,982,000 common shares of the Company at NT$104 per share, of which only 65,832,000 common shares were sold for total proceeds of NT$6,847 million.

From June 7, 2001 to June 20, 2001, the MOTC offered for sale to both corporate and individual investors 482,386,000 common shares of the Company through an auction whereby the minimum price per share (throughout the offer period) was set between NT$57.00 and NT$60.50. The MOTC sold 173,484,000 common shares for total proceeds of NT$9,950 million.

On December 25, 2002, the MOTC offered and sold to corporate investors 1,300,000,000 common shares of the Company at NT$50.30 per share for total proceeds of NT$65,390 million.

From March 3, 2003 to March 5, 2003, the MOTC offered for sale to both corporate and individual investors 100,000,000 common shares of the Company through an auction whereby the minimum price per share (throughout the offer period) was set between NT$51 and NT$52. The MOTC sold 7,424,000 common shares for total proceeds of NT$380 million.

From April 10, 2003 to April 16, 2003, the MOTC offered for sale to both corporate and individual investors 500,000,000 common shares of the Company through an auction whereby the minimum price per share (throughout the offer period) was set between NT$49 and NT$50. The MOTC sold 165,830,000 common shares for total proceeds of NT$8,276 million.

On July 17, 2003, the MOTC offered for sale to both corporate and individual investors 200,000,000 common shares of the Company through an auction whereby the minimum price per share (throughout the offer period) was set at NT$49. The MOTC sold 200,000,000 common shares for total proceeds of NT$9,800 million.

The MOTC, as a part of privatization plan of the Company, offered for sale in the form of American Depository Shares ("ADS") 96,500,000 shares on July 17, 2003 and 14,475,000 shares on July 24, 2003 (one ADS represents ten common shares) whereby the price per ADS was set at US$14.24 (NT$49 per common share). The MOTC sold 110,975,000 ADSs, representing 1,109,750,000 common shares, for total proceeds of US$1,580 million (NT$54,307 million).

The MOTC, in connection with the privatization plan of the Company, sold, at discounted prices, to employees 3,051,786 shares from October 12, 2000 to October 16, 2000, 683,455 shares from October 4, 2001 to October 8, 2001, 40,856,440 shares from January 15, 2003 to January 24, 2003, 215,251 shares from April 2, 2003 to April 4, 2003, 4,806,292 shares from June 2, 2003 to June 6, 2003 and 97,066,540 shares from October 28, 2003 to October 31, 2003 for total consideration of NT$255 million, NT$28 million, NT$1,645 million, NT$9 million, NT$189 million and NT$3,789 million, respectively. The terms of the offers for the share purchases provided that substantially all full-time employees meeting limited employment qualifications may participate on an equitable basis taking into account service years, rank, level, salary and position, and performance. Such common shares, pursuant to the Enforcement Rule of the Statute Governing Privatization of State-Owned Enterprises, were offered and sold at a price similar to the price for those common shares sold to individual and corporate investors, which were NT$104, NT$51.20, NT$50.30, NT$51, NT$49 and NT$45 per share, respectively. The employees purchased the common shares at discounts of 10% and 20% in consideration for their commitment to hold the common shares for two and three years (the "holding periods"), respectively. In circumstances wherein the employees took advantage of such discounts, the common shares are held by an escrow agent on behalf of the employees/stockholders. There are no circumstances under which the MOTC or the Company would be required to repurchase these common shares. Also, the employees are not required to remain employed with the Company during the duration of the holding periods. The Company has recognized NT$1,452 million as compensation expense for the year ended December 31, 2003 for the shares purchased by employees in 2003 that were subject to a discount. In addition, the MOTC sold 1,000,004 common shares, 10,424 common shares, 1,373,151 common shares, 7,481 common shares, 67,035 common shares and 37,883,399 common shares to employees at their undiscounted price of NT$104 per share, NT$51.20 per share, NT$50.30 per share, NT$51 per share, NT$49 and NT$45 per share, respectively, for total consideration of NT$104 million, NT$1 million, NT$69 million, NT$0.4 million, NT$3 million, and 1,705 million, respectively.

The MOTC, in connection with the compensation of the employees, sold to employees 209,337 shares from October 29, 2001 to November 7, 2001, 293,589 shares from November 1, 2002 to November 7, 2002 and 381,489 shares from November 28, 2003 to December 3, 2003 for total consideration of NT$2 million, NT$3 million and NT$4 million, respectively. The terms of the offers for the share purchases provided that employees purchase common shares from the above offering and hold for one to three years. Such common shares, pursuant to the Enforcement Rule of the Statute Governing Privatization of State-Owned Enterprises, were sold at par value (NT$10). The employees are not required to remain employed with the Company during the duration of the holding periods. The Company has recognized NT$15 million as compensation expense for the year ended December 31, 2003 for the shares purchased by employees in 2003 that were subject to par value.

13. PENSION PLAN

At the time of its incorporation on July 1, 1996, the Company continued the existing two noncontributory defined benefit pension plans covering all its employees, as previously adopted by the DGT. The first plan (hereinafter referred to as "Plan A") covers civil service eligible employees (i.e., employees who meet the necessary qualifications set by the ROC Government) and the second plan (hereinafter referred to as "Plan B") covers all other employees of the Company (hereinafter referred to as "non-civil service eligible employees"). The adoption of two pension plans is necessary as different pension laws apply to civil service eligible and non-civil service eligible employees.

Plan A provides benefits equal to the sum of: (a) the lump-sum payment equivalent to one benefit unit per year for the first twenty service years rendered and one-half benefit unit per service year rendered thereafter, with one benefit unit equivalent to a portion of the salary of the employee at the time of retirement (referred to hereinafter as "pensionable salary"), and (b) annuity payments payable monthly equivalent to a certain percentage of the benefit unit. Plan B provides benefits equal to the lesser of: (a) forty-five benefit units, or (b) two benefit units per service year rendered for the first fifteen years, and one-half benefit unit per service year exceeding fifteen years rendered before August 1, 1984 and one benefit unit per service year for services rendered after August 1, 1984, with one benefit unit equivalent to the monthly average base salary (consisting of regular salary items plus overtime salary). Plan A is funded based on amounts included in budgets approved by the Legislative Yuan and supplementary budgets approved by the Executive Yuan while Plan B is funded at an amount equivalent to 2% to 15% of the monthly salary.

The Company adopted SFAS No. 87 on July 1, 1996 (adoption date), the date of its incorporation. The unrecognized net transition obligation recorded to shareholders' equity on July 1, 1996 was NT$6,571 million which represents the difference in the net pension cost for the period from the issuance of SFAS No. 87 and the date of adoption. The remaining unrecognized net transition obligation of NT$16,790 million is amortized over the estimated remaining service period of the employees as determined on July 1, 1996, which is a period of twenty-five years and seventeen years for civil service eligible employees and non-civil service eligible employees, respectively.

On June 23, 1997, the Council for Economic Planning and Development of the ROC Government officially instructed the Company to complete its privatization by June 30, 2001. Effective on the privatization date, except for those who will have reached the mandatory retirement age (the age of 65 for Plan A participants and age 60 for Plan B participants) by that day, employees will receive pension benefit payments calculated in accordance with the Guidelines on Payments of Severance Benefits to Employees of State-Owned Enterprises ("Guidelines"), as required by the ROC Government for state-owned enterprises instructed to undergo privatization plans. The employees not covered by the Guidelines will continue to receive benefits either as Plan A or Plan B participants.

Under the Guidelines, the Company was to pay all benefit payments on June 30, 2001, the initial expected date of privatization, to settle all employees' past service costs under the existing plans. On the actual privatization date, a replacement plan with substantially the same provisions will be put in place. The settlement benefit payments, regardless of the respective original plan participation, will be as follows: (a) employees who will voluntarily leave the Company on the privatization date (hereinafter referred to as "separated employees") will receive a service clearance payment which is calculated similar to the benefit formula under the original Plan B as mentioned above plus an additional six-month salary and one-month advance notice pay (hereinafter referred to as the "additional separation payments"); (b) employees who opt to remain with the privatized company after the privatization date (hereinafter referred to as "privatized company employees") will receive an amount equivalent to those received by the separated employees without the additional separation payments; and (c) privatized company employees who are involuntarily terminated by the Company within five years from the date of privatization (hereinafter referred to as "redundant employees") will receive redundancy benefits equivalent to the amount computed based on one benefit unit for every year of service after privatization plus the additional separation payments (hereinafter referred to as "redundancy benefit payments"). The six-month portion of the additional separation payments and the redundancy benefit payments will be paid by the MOTC and the one-month portion will be paid by the Company.

The unrecognized prior service costs, which amounted to NT$30,018 million, related to the increased benefits provided under the plan amendment described in the preceding paragraph were amortized through June 30, 2001. The unrecognized prior service costs associated with the plan amendment exclude any costs expected to be incurred for the additional separation payments or redundancy benefit payments. The additional separation payments under the Guidelines are accounted for as special termination benefits and will be recognized in the period when the employee accepts the offer while the redundancy benefit payments will be recognized in the period management has approved a plan of termination.

On December 2, 1999, in order to increase operational efficiency, the Company approved a Special Retirement Incentive Program ("Program"). The employees eligible under the Program, except those who would have reached the mandatory retirement age during its effectiveness, are those: (a) who have worked with the Company for at least five years and who are at least 60 years of age, (b) who have worked with the Company for at least 25 years, (c) who have worked with the Company for at least fifteen years and who are at least 55 years of age, (d) who are at least 45 years old, (e) who are unable to return to work after an extended illness, and (f) special cases approved by a special committee. The Program allowed eligible employees who elected to voluntarily leave the Company between the period from June 1, 2000 through June 30, 2001 to also receive benefit payments based on the respective original plan (meaning Plan A or Plan B) plus the additional separation payments. The present value of such amounts over and above the lump sum amount that would have been paid to the employees had they stayed until June 30, 2001 was accounted for as special termination benefits. Accordingly, such benefits were recognized as a liability and charged to income upon the employee acceptance of the terms of the Program. The Company recognized termination benefits of NT$2,413 million for the year ended December 31, 2001.

On December 31, 2000, the Legislative Yuan approved the ROC Government Budget for the calendar year 2001 (the "Budget"). The Budget assumed that the proceeds from the privatization of the Company would be in the fourth quarter of the calendar year 2001, thereby formalizing the ROC Government's approval to delay the privatization. The MOTC also instructed the Company to complete its privatization by December 31, 2001. The change in the privatization date to December 31, 2001 was viewed as a change in the plan assumption, and, accordingly, the resulting adjustment in the projected benefit obligation approximated NT$680 million and was accounted for as an actuarial gain.

The privatization of the Company was not completed on December 31, 2001 primarily a result of unfavorable conditions in the capital markets. The MOTC informed the Company on December 28, 2001 that the new target privatization date was December 31, 2003. The Company accounted for the change in the privatization date also as a change in the assumption with the resulting adjustment in the projected benefit obligation of NT$668 million accounted for as an actuarial loss.

The privatization of the Company was not completed on December 31, 2003. On November 29, 2003, the Chairman, as representative of the MOTC, approved the new target privatization date to be December 31, 2004. The Company accounted for the change in the privatization date as a change in the assumption with the resulting adjustment of NT$1,243 million in the projected benefit obligation accounted for as an actuarial gain.

In addition, pursuant to a regulation issued by the Executive Yuan, the obligation related to annuity payments due after the date of privatization for Plan A participants who retire prior to that date will be borne by the MOTC. Such amounts have been included in the Company's pension computation as of December 31, 2002 and 2003. Upon privatization, the portion of liabilities that will be taken over by the MOTC will be accounted for as contributed capital and recorded in stockholders' equity.

The components of net periodic benefit costs are as follows:

	Years Ended December 31		
	2001	2002	2003
	NT$	NT$	NT$
Service cost	$ 2,429	$ 2,285	$ 1,970
Interest cost	5,229	2,870	2,362
Expected return on plan assets	(4,071)	(2,196)	(1,618)
Termination benefit under the Program	2,413	-	-
Amortization of unrecognized net transition obligation	939	939	939
Amortization of unrecognized prior service costs	4,381	-	-
Amortization of unrecognized net loss	6	172	635
Net periodic pension cost	$ 11,326	$ 4,070	$ 4,288

The changes in benefits obligation and plan assets and the reconciliation of funded status are as follows:

	Years Ended December 31		
	2001	2002	2003
	NT$	NT$	NT$
Change in benefits obligation:			
Projected benefits obligation, beginning of year	($106,231)	($114,289)	($119,822)
Services cost	(2,429)	(2,285)	(1,970)
Interest cost	(5,229)	(2,870)	(2,362)
Termination benefit under the Program	(2,413)	-	-
Actuarial loss	(6,782)	(8,347)	(4,557)
Benefits paid	8,795	7,969	2,585
Projected benefits obligation, end of year	($114,289)	($119,822)	($126,126)

	Years Ended December 31		
	2001	2002	2003
	NT$	NT$	NT$
Change in plan assets:			
Fair value of plan assets, beginning of year	$ 83,889	$ 89,377	$ 83,478
Actual return on plan assets	3,914	1,654	1,462
Employer contributions	10,369	416	223
Benefits paid	(8,795)	(7,969)	(2,585)
Fair value of plan assets, end of year	$ 89,377	$ 83,478	$ 82,578
Reconciliation of funded status			
Funded status	($ 24,912)	($ 36,344)	($ 43,548)
Unrecognized net transition obligation	11,628	10,689	9,750
Unrecognized actuarial loss	8,743	17,461	21,539
Net amount recognized	($ 4,541)	($ 8,194)	($ 12,259)
The weighted-average asset allocations:			
Asset category			
Time deposit	68%	67%	73%
Short-term Notes	32%	33%	30%
Taiwan government securities	-%	-%	4%
Total	100%	100%	100%

The target asset allocations are established through an investment policy established by the Chunghwa Telecom's Employee Pension Fund Committee and agreed to by the MOF. As increased liquidity of the fund is necessary due to the privatization of the Company, the current policy for plan assets is to place funds in time deposit accounts of the financial and postal institutions, non-designated trust funds in an investing company or financial institution and government bonds. In addition, the pension fund may invest in beneficial certificates of equity securities.

The Company expects to contribute NT$6,271 million to the pension plans in 2004. Under the terms agreed upon for the privatization of the Company, the MOTC will contribute NT$40,791 million to the pension plans in 2004.

Expected benefit payments, which reflect expected future service, as appropriate, are as follows: NT$129,957 million in 2004, NT$250 million in 2005 and NT$674 million in 2006.

The amounts recognized in the accompanying balance sheets at December 31 are as follows:

	Years Ended December 31		
	2001	2002	2003
	NT$	NT$	NT$
Amounts recognized			
Accrued pension liability	($ 21,583)	($ 32,226)	($ 42,199)
Intangible assets—deferred pension cost	17,042	24,032	29,940
Net amount recognized	($ 4,541)	($ 8,194)	($ 12,259)
Aggregate Accumulated benefit obligation	($110,960)	($116,332)	($125,499)
Accumulated benefit obligation—Plan A	($110,571)	($116,200)	($125,291)
Fair value of plan assets—Plan A	$ 88,998	$ 82,884	$ 81,813
Actuarial assumptions			
Discount rate used in determining present value	4.00%	3.75%	3.20%
Long-term rate of return on plan assets	4.00%	3.75%	3.20%
Rate of compensation increase	5.00%	5.00%	5.50%

The discount rate and expected return on plan assets presented in the table above is used to determine pension expense for the succeeding year. We select the expected rate of return on plan assets on the basis of a near term view of asset portfolio performance of our pension plans due to the privatization of the Company and the near term potential need for liquidity.

14. INCOME TAXES

The components of income taxes are as follows:

	Years Ended December 31		
	2001	2002	2003
	NT$	NT$	NT$
Current	$ 11,369	$ 12,095	$ 10,724
Deferred	(1,850)	744	(425)
	$ 9,519	$ 12,839	$ 10,299

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

	Years Ended December 31		
	2001	2002	2003
	NT$	NT$	NT$
Income tax expense computed at statutory tax rate	$ 11,720	$ 14,232	$ 14,404
Permanent differences	(354)	(99)	308
Investment tax credits	(2,554)	(2,095)	(4,348)
Other	707	801	(65)
Income tax expense	$ 9,519	$ 12,839	$ 10,299

Upon privatization in the period when the government's ownership percentage falls below 50%, the Company will continue to be subject to a 10% tax on its undistributed earnings as required by the Income Tax Law of the ROC. As the Company is currently and has historically been required under government regulations to distribute all its earnings within six months subsequent to year end, it has been required to pay a minimal amount of tax under this regulation. For ROC GAAP purposes, the 10% tax on undistributed earnings is recorded as an expense at the time shareholders resolve that its earnings shall be retained and the liability is incurred.

Permanent differences consist primarily of tax-exempt income from the sale of marketable securities and interest income on commercial paper purchased, which are subject to a separate income tax rate of 20%.

Deferred income taxes arise due to temporary differences in the book and tax bases of certain assets and liabilities. Significant components of deferred income tax assets are shown in the following table:

	December 31	
	2002	2003
	NT$	NT$
Current:		
Provision for doubtful accounts	$ 1,688	$ 1,614
Deferred income	989	797
Accrued pension costs	14,823	15,237
Prepaid card revenues (related liability is included in "other current liabilities")	915	850
Other—net	145	435
	18,560	18,933
Less—valuation allowance	1,715	1,950
	$ 16,845	$ 16,983
Non-current:		
Deferred income	$ 3,442	$ 2,887
Other	1,091	1,828
	4,533	4,715
Less—valuation allowance	1,069	1,814
	$ 3,464	$ 2,901

The above deferred income tax assets were computed based on a tax rate of 25%. A portion of the amount included in other relates to the timing differences between US GAAP reporting and the taxable base for the 10% undistributed earnings tax. These differences are computed based on a tax rate of 10%.

15. TRANSACTIONS WITH RELATED PARTIES

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

The Company engages in business transactions with the following related party:

Company	Relationship
TISE	Equity investee
Chunghwa System Integration("CSI")	Subsidiary of CHI

Significant transactions with the above related party are summarized as follows:

	December 31			
	2002		2003	
	Amount	%	Amount	%
Payables				
Accrued expenses				
CSI	$ -	-	$ 30	-

	December 31			
	2002		2003	
	Amount	%	Amount	%
Payable to construction supplier (included in "other current liabilities")				
TISE	$ 873	4	$ 632	6
CSI	-	-	21	-
	$ 873	4	$ 653	6

	Years Ended December 31					
	2001		2002		2003	
	Amount	%	Amount	%	Amount	%
Operating Cost and Expenses						
CSI	$ -	-	$ -	-	$ 96	-
Acquisition of Equipment						
TISE	$ 3,018	6	$ 6,879	16	$ 4,471	14
CSI	-	-	-	-	49	-
	$ 3,018	6	$ 6,879	16	$ 4,520	14

The foregoing acquisitions were conducted under normal commercial terms.

16. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2003, the Company has remaining commitments under non-cancelable contracts with various parties as follows: (a) acquisitions of land and buildings of NT$3,402 million, and (b) acquisitions of telecommunications equipment of NT$10,976 million.

The Company also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years through 2006. Minimum rental commitments under those leases are as follows:

	December 31, 2003
	NT$
Within the following year	$ 1,036
During the second year	747
During the third year	571
During the fourth year	256
During the fifth year and thereafter	129
Total	$ 2,739

As of December 31, 2003, the Company had unused letters of credit of NT$10,775 million.

The Company has a commitment to contribute NT$2,500 million to a Fixed Line Fund administered by the Ministry of Interior Affairs and Taiwan Power Company, of which NT$1,000 million has been contributed by the Company on June 30, 1995. If the balance of the Fixed Line Fund is not sufficient for its purpose, the above three parties will determine when to raise additional funds and the contribution amounts from each party. In addition, the Company has a commitment to contribute NT$2,000 million to a Piping Fund administered by the Taipei City Government, of which NT$1,000 million was contributed by the Company on August 15, 1996.

17. LITIGATION

The Company is involved in various legal proceedings of a nature considered normal to its business. It is the Company's policy to accrue for amounts related to these legal matters when it is probable that a liability has been incurred and the amount is reasonably estimable.

The Company believes that the various asserted claims and litigation in which it is involved will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of any such claim or litigation.

18. INFORMATION ON FINANCIAL INSTRUMENTS

The non-derivative financial instruments are as follows:

	December 31			
	2002		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	NT$	NT$	NT$	NT$
Assets				
Cash and cash equivalents	$ 7,652	$ 7,652	$ 13,553	$ 13,553
Investments in unconsolidated companies, accounted for using the equity method	1,417	1,952	1,420	1,857
Refundable deposits (included in "other assets—other")	2,759	2,759	4,018	4,018
Liabilities				
Customers' deposits	11,975	9,004	10,957	9,337
Long-term loans	17,700	17,700	700	700

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

a. Cash and cash equivalents. The carrying amounts approximate fair values because of the short maturity of those instruments.

b. Investments in unconsolidated companies, accounted for using the equity method. The fair value is based on net asset values of the investments in unconsolidated companies if quoted market prices are not available.
c. Refundable deposits. The carrying amounts approximate fair values as the average lease term associated with these deposits is approximately one year.
d. Customers' deposits. The fair value is the discounted value based on projected cash flow. The projected cash flows were discounted using the average expected customer service periods.
e. Long-term loans. The fair value is the discounted value based on projected cash flows. The projected cash flows were discounted using the maturity dates of long-term loans.

19. SEGMENT REPORTING

Operating segments are defined as components of an enterprise regarding which separate financial information is available for regular evaluation by the chief operating decision maker, or decision making group, in deciding how to allocate resources and in assessing performance.

The Company organizes its business segments based on the various types of telecommunications services provided to customers. The major business segments operated by the Company are classified as below:

- Local operations—the provision of local telephone services;
- DLD operations—the provision of domestic long distance call services;
- ILD operations—the provision of international long distance call services;
- Cellular operations—the provision of cellular and related services;
- Paging operation—the provision of paging and related services;
- Internet and data operation—the provision of Internet access, lease line, and related services;
- All other operations—the services other than the above six categories, such as carrying out project research and providing training.

The operating segments are managed separately because each operating segment represents a strategic business unit that serves different markets. All the operating segments of the Company have been aggregated into the above reportable segments.

The Company evaluates performance based on several factors using information prepared on the ROC government regulations basis. The information below is provided on this basis with a summary of US GAAP adjustments to reconcile to the amounts presented in the statement of operations. The Company does not allocate interest and other income, interest expense or taxes to operating segments, nor does the Company's chief operating decision maker evaluate operating segments on these criteria. Except as discussed above, the accounting policies for segment reporting are the same as for the Company as a whole. The Company's primary measure of segment profit is based on income or loss from operations.

a. Business Segments:

As of and for the year ended December 31, 2001

	Fixed-Line			Cellular		Internet		
	Local	DLD	ILD	Service	Paging	and Data	All Other	Total
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
Service revenues for reportable segments	$ 73,536	$ 20,731	$ 20,682	$ 57,595	$ 1,341	$ 38,571	$ 2,608	$215,064
Elimination of intersegment amount	(18,872)	(2,608)	(1)	(828)	(3)	(9,813)	(88)	(32,213)
US GAAP adjustments	1,799	(128)	(67)	(94)	6	32	(21)	1,527
Total service revenues from external customers	$ 56,463	$ 17,995	$ 20,614	$ 56,673	$ 1,344	$ 28,790	$ 2,499	$184,378
Operating costs and expenses, excluding depreciation and amortization	$ 41,991	$ 11,131	$ 14,447	$ 31,557	$ 1,157	$ 21,867	$ 1,232	$123,382
Elimination of intersegment amount	(2,951)	(7,388)	(2,300)	(13,673)	(379)	(5,368)	(154)	(32,213)
US GAAP adjustments	3,246	313	324	1,729	46	395	44	6,097
	$ 42,286	$ 4,056	$ 12,471	$ 19,613	$ 824	$ 16,894	$ 1,122	97,266
Unallocated corporate amount								3,589
Total operating costs and expenses, excluding depreciation and amortization								$100,855
Depreciation and amortization	$ 23,947	$ 1,448	$ 821	$ 4,405	$ 485	$ 7,703	$ 479	$ 39,288
US GAAP adjustments	(345)	(25)	(15)	(46)	(5)	(23)	(6)	(465)
	$ 23,602	$ 1,423	$ 806	$ 4,359	$ 480	$ 7,680	$ 473	38,823
Unallocated corporate amount								97
Total depreciation and amortization								$ 38,920
Income from operations	$ 7,598	$ 8,152	$ 5,414	$ 21,633	($ 301)	$ 9,001	$ 897	$ 52,394
Elimination of intersegment amount	(15,921)	4,780	2,299	12,845	376	(4,445)	66	-
US GAAP adjustments	(1,102)	(416)	(376)	(1,777)	(35)	(340)	(59)	(4,105)
	($ 9,425)	$ 12,516	$ 7,337	$ 32,701	$ 40	$ 4,216	$ 904	48,289
Unallocated corporate amount								3,686
Total income from operations								$ 44,603
Segment income before income tax	$ 6,110	$ 8,116	$ 5,411	$ 21,454	($ 315)	$ 9,355	$ 869	$ 51,000
Elimination of intersegment amount	(15,921)	4,780	2,299	12,845	376	(4,445)	66	-
US GAAP adjustments	772	(381)	(156)	(684)	(28)	(291)	(10)	(778)
	($ 9,039)	$ 12,515	$ 7,554	$ 33,615	$ 33	$ 4,619	$ 925	50,222
Unallocated corporate amount								(3,341)
Total segment income before income tax								$ 46,881

	Fixed-Line Local	Fixed-Line DLD	Fixed-Line ILD	Cellular Service	Paging	Internet and Data	All Other	Total
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
Segment assets	$271,271	$ 16,364	$ 19,176	$ 50,179	$ 2,323	$ 70,888	$ 11,221	$441,422
US GAAP adjustments	(56,130)	(3,058)	(2,594)	(3,561)	(154)	(4,306)	(2,142)	(71,945)
	$215,141	$ 13,306	$ 16,582	$ 46,618	$ 2,169	$ 66,582	$ 9,079	369,477
Unallocated corporate amount								41,937
Total segment assets								$411,414
Expenditures for segment assets	$ 17,425	$ 4,663	$ 635	$ 12,680	$ 2	$ 16,173	$ 1,241	$ 52,819
Unallocated corporate amount								116
Total expenditures for segment assets								$ 52,935

As of and for the year ended December 31, 2002

	Fixed-Line Local	Fixed-Line DLD	Fixed-Line ILD	Cellular Service	Paging	Internet and Data	All Other	Total
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
Service revenues for reportable segments	$ 67,950	$ 16,135	$ 15,720	$ 63,337	$ 1,059	$ 40,525	$ 2,904	$207,630
Elimination of intersegment amount	(18,343)	(2,103)	(1)	(867)	(5)	(9,344)	(181)	(30,844)
US GAAP adjustments	2,184	(17)	(17)	416	-	33	(24)	2,575
Total service revenues from external customers	$ 51,791	$ 14,015	$ 15,702	$ 62,886	$ 1,054	$ 31,214	$ 2,699	$179,361
Operating costs and expenses, excluding depreciation and amortization	$ 34,112	$ 7,510	$ 11,453	$ 33,150	$ 859	$ 19,130	$ 624	$106,838
Elimination of intersegment amount	(3,896)	(5,453)	(2,500)	(13,419)	(163)	(5,243)	(170)	(30,844)
US GAAP adjustments	2,000	72	96	233	14	676	274	3,365
	$ 32,216	$ 2,129	$ 9,049	$ 19,964	$ 710	$ 14,563	$ 728	79,359
Unallocated corporate amount								4,003
Total operating costs and expenses, excluding depreciation and amortization								$ 83,362

	Fixed-Line Local	Fixed-Line DLD	Fixed-Line ILD	Cellular Service	Paging	Internet and Data	All Other	Total
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
Depreciation and amortization	$ 23,445	$ 1,353	$ 545	$ 5,304	$ 374	$ 8,974	$ 751	$ 40,746
US GAAP adjustments	(358)	(21)	(5)	(77)	(5)	(125)	(5)	(596)
	$ 23,087	$ 1,332	$ 540	$ 5,227	$ 369	$ 8,849	$ 746	40,150
Unallocated corporate amount								148
Total depreciation and amortization								$ 40,298
Income from operations	$ 10,393	$ 7,272	$ 3,722	$ 24,883	($ 174)	$ 12,421	$ 1,529	$ 60,046
Elimination of intersegment amount	(14,447)	3,350	2,499	12,552	158	(4,101)	(11)	-
US GAAP adjustments	542	(68)	(108)	260	(9)	(518)	(293)	(194)
	($ 3,512)	$ 10,554	$ 6,113	$ 37,695	($ 25)	$ 7,802	$ 1,225	59,852
Unallocated corporate amount								(4,151)
Total income from operations								$ 55,701
Segment income before income tax	$ 10,115	$ 7,310	$ 3,741	$ 25,562	($ 177)	$ 12,518	$ 1,489	$ 60,558
Elimination of intersegment amount	(14,447)	3,350	2,499	12,552	158	(4,101)	(11)	-
US GAAP adjustments	1,048	(48)	(82)	321	(6)	(346)	(224)	663
	($ 3,284)	$ 10,612	$ 6,158	$ 38,435	($ 25)	$ 8,071	$ 1,254	61,221
Unallocated corporate amount								(4,294)
Total segment income before income tax								$ 56,927
Segment assets	$260,407	$ 10,510	$ 14,071	$ 61,496	$ 1,448	$ 75,369	$ 14,436	$437,737
US GAAP adjustments	(47,106)	(810)	(1,734)	(4,657)	(81)	(9,353)	(4,077)	(67,818)
	$213,301	$ 9,700	$ 12,337	$ 56,839	$ 1,367	$ 66,016	$ 10,359	369,919
Unallocated corporate amount								58,734
Total segment assets								$428,653
Expenditures for segment assets	$ 17,760	$ 2,728	$ 879	$ 4,709	$ -	$ 15,965	$ 1,160	$ 43,201
Unallocated corporate amount								59
Total expenditures for segment assets								$ 43,260

As of and for the year ended December 31, 2003

	Fixed-Line			Cellular		Internet		
	Local	DLD	ILD	Service	Paging	and Data	All Other	Total
	NT$	NT$	NT$	NT$	NT$	NT$	NT$	NT$
Service revenues for reportable segments	$ 64,508	$ 16,000	$ 15,620	$ 66,659	$ 595	$ 44,159	$ 2,750	$210,291
Elimination of intersegment amount	(18,145)	(2,600)	(2)	(987)	(3)	(8,582)	(132)	(30,451)
US GAAP adjustments	2,048	35	45	516	-	4	(22)	2,626
Total service revenues from external customers	$ 48,411	$ 13,435	$ 15,663	$ 66,188	$ 592	$ 35,581	$ 2,596	$182,466
Operating costs and expenses, excluding depreciation and amortization	$ 33,430	$ 6,528	$ 11,059	$ 33,264	$ 482	$ 19,935	$ 930	$105,628
Elimination of intersegment amount	(4,735)	(4,772)	(2,942)	(13,239)	(86)	(4,420)	(257)	(30,451)
US GAAP adjustments	3,516	110	163	425	15	1,191	473	5,893
	$ 32,211	$ 1,866	$ 8,280	$ 20,450	$ 411	$ 16,706	$ 1,146	81,070
Unallocated corporate amount								3,862
Total operating costs and expenses, excluding depreciation and amortization								$ 84,932
Depreciation and amortization	$ 22,312	$ 1,328	$ 616	$ 5,574	$ 311	$ 10,891	$ 786	$ 41,818
US GAAP adjustments	(248)	(11)	(11)	(52)	(3)	(86)	-	(411)
	$ 22,064	$ 1,317	$ 605	$ 5,522	$ 308	$ 10,805	$ 786	41,407
Unallocated corporate amount								162
Total depreciation and amortization								$ 41,569
Income from operations	$ 8,766	$ 8,144	$ 3,945	$ 27,821	($ 198)	$ 13,333	$ 1,034	$ 62,845
Elimination of intersegment amount	(13,410)	2,172	2,940	12,252	83	(4,162)	125	-
US GAAP adjustments	(1,220)	(64)	(107)	143	(12)	(1,101)	(495)	(2,856)
	($ 5,864)	$ 10,252	$ 6,778	$ 40,216	($ 127)	$ 8,070	$ 664	59,989
Unallocated corporate amount								(4,024)
Total income from operations								$ 55,965
Segment income before income tax	$ 8,897	$ 8,221	$ 3,936	$ 28,037	($ 198)	$ 13,548	$ 994	$ 63,435
Elimination of intersegment amount	(13,410)	2,172	2,940	12,252	83	(4,162)	125	-
US GAAP adjustments	(536)	(48)	(81)	213	(10)	(895)	(420)	(1,777)
	($ 5,049)	$ 10,345	$ 6,795	$ 40,502	($ 125)	$ 8,491	$ 699	61,658
Unallocated corporate amount								(4,044)
Total segment income before income tax								$ 57,614
Segment assets	$218,741	$ 8,870	$ 14,510	$ 65,306	$ 1,103	$105,098	$ 12,814	$426,442
US GAAP adjustments	(41,770)	(1,810)	(1,676)	(4,921)	(66)	(14,052)	(2,929)	(67,224)
	$176,971	$ 7,060	$ 12,834	$ 60,385	$ 1,037	$ 91,046	$ 9,885	359,218
Unallocated corporate amount								70,477
Total segment assets								$429,695
Expenditures for segment assets	$ 7,545	$ 1,314	$ 415	$ 7,938	$ -	$ 14,302	$ 666	$ 32,180
Unallocated corporate amount								68
Total expenditures for segment assets								$ 32,248

b. Geographic information

The users of the Company's services are mainly from Taiwan, ROC. The revenues it derived outside Taiwan are mainly inter-connection fees from other telecommunication carriers. The geographic information for revenues is as follows:

	Years Ended December 31		
	2001	2002	2003
	NT$	NT$	NT$
Taiwan, ROC	$179,607	$173,127	$176,429
Overseas	4,771	6,234	6,037
Total	$184,378	$179,361	$182,466

c. Gross sales to major customers

The Company has no single customer account representing 10% or more of its total revenues for all periods presented.

The Company has non-revenue generating offices in Hong Kong, Thailand and the United States of America. All non-current assets (including investments in unconsolidated companies, property, plant and equipment, intangible assets, and other assets) except for NT$0.08 million and NT$0.04 million at December 31, 2002 and 2003, respectively, are located in Taiwan, ROC.

PART V.
FINANCIAL STATUS
AND RISK MANAGEMENT

I. Major Capital Expenditures and Sources of Capital

Unit: NT$ Million

Project (2002-2005)	Actual or planned source of capital	Actual or estimated completion date	Total amount (Note)	Actual or estimated execution of major capital expenditure			
				2002	2003	2004	2005
Fixed-line	Shareholder's Equity and loan	Dec. 2005	41,034	20,729	9,839	5,275	5,191
Wireless	Shareholder's Equity and loan	Dec. 2005	22,930	4,702	7,930	5,826	4,472
Internet and data	Shareholder's Equity and loan	Dec. 2005	55,689	15,857	14,301	12,350	13,181
R&D	Shareholder's Equity	Dec. 2005	2,887	951	570	727	639
Training	Shareholder's Equity	Dec. 2005	325	67	84	84	90

Note:The amount is based on accrual basis.

II. Estimated Results

Year	Item	Productivity	Sales volume	Sales amount (NT$Million)
2004	Fixed-line	Construct digital local switches with total 274,000 lines	Add 203,000 subscribers	1,317
		Construct digital toll switches with total 80,000 circuits	Carry DLD traffic of 189 million minutes	
		Construct 600 digital international telephone circuits	Carry ILD traffic of 32 million minutes.	
	Wireless	Expand network capacity for additional 500,000 subscribers	Add 355,000 mobile subscribers	3,013
	Internet & data	Construct 460,000 internet ports	Provide HiNet service to 580,000 subscribers	5,029
		Construct 475,000 ADSL lines	Provide Broadband service to 327,000 subscribers	
		Construct leased line circuits	Provide 31,000Mbps leased line bandwidth	
2005	Fixed-line	Construct digital local switches with total 120,000 lines	Add 88,000 subscribers	887
		Construct digital toll switches with total 60,000 circuits	Carry DLD traffic of 139 million minutes	
		Construct 600 digital international telephone circuits	Carry ILD traffic of 39 million minutes	
	Wireless	Expand network capacity for additional 900,000 subscribers	Add 599,000 subscribers	4,630
	Internet & data	Construct 400,000 internet ports	Provide HiNet service to 327,000 subscribers	3,631
		Construct 460,000 ADSL lines	Provide Broadband service to 328,000 subscribers	
		Construct leased line circuits	Provide 25,000Mbps leased line bandwidth	

III. Long-term Investments

During the fiscal year 2003, there were no long-term investments exceeding 5% of the Company's paid-in capital. Please refer to page 33, 70 and 71.

IV. Risk Management and Assessment

(I) The structure of risk management

The Company's audit department is responsible for reviewing risk management performance.

The departments responsible for internal control are listed as follows:

Corporate planning

Responsible for corporate planning strategies, and evaluating the performance of mid-term and long-term investments to reduce strategic risk.

Finance

Responsible for the allocation and use of funds, and instituting hedging strategies to minimize financial risk.

Marketing

Responsible for the marketing strategies, sales promotion programs and monitor the market conditions so as to minimize operational risk.

Network

Responsible for network planning, installation, operation and maintenance and constantly measure the network performance to minimize network related risk.

Legal affairs

Responsible for closely following government regulations, and managing issues related to contracts and litigation so as to minimize legal risk.

Information technology management

Responsible for proper implementation of network information security measures so as to minimize information security risk.

(II) Impact of interest rates, inflation, and currency exchange rates and policies on the Company's profit and loss in 2003

During the past few years, interest rates have remained low and inflation has been stable. Since the Company has a low debt to equity ratio and its debt is primarily short term, overall impact from these macroeconomic factors on the Company have been minimal.

Exchange rate fluctuations had little effect on the profit and loss statement during 2002 and 2003 as the Company's international revenues and expenses were mostly balanced. The Company is more exposed on the cash flow side, particularly in the payment for foreign sourced 3G equipment. These payments are scheduled in three phases, with the first occurring in 2003. Due to the fluctuating exchange rate of the New Taiwan Dollar, the US dollar and the Euro, exchange rate gains and losses were largely offset. The Company did incur a small foreign exchange loss, however, this accounted for only a small portion of the Company's overall payments during the year. The net impact on the Company's financial statements was minimal.

Multimedia on Demand (MOD)

Multimedia on Demand is a set of value added services based on broadband network and ADSL access.

By using set-top-box and TV set, customers can use their existing ADSL connection to enjoy MOD or surf the Internet and make phone calls. Due to its interactive and on-demand nature, MOD customers can watch their favorite movies or programs at their convenience as well as other regularly scheduled television programs.

Chunghwa Telecom's MOD made its debut in March 2004 starting with the Greater Taipei area. More than 20,000 subscribers have already signed up during the initial launch of this service.

The Company has been awarded a cable licence covering 13 major cities, representing approximately 75% of the population of Taiwan, in February 2004. Services will extend to central and southern Taiwan areas next year.

(III) The Company has not made loans to or signed guarantees for any other entities. The Company will strictly follow all required procedures to mitigate risks and will conduct performance reviews in respect to any future derivative trading.

(IV) Additional funds reguired for unfinished projects in 2003

R&D projects of 2003 were all carried out on schedule. There were no unfinished projects left.

(V) Impacts of major changes in international and domestic policy, laws and regulations on the Company's financials

1. Government fees

(1) Regulation: In accordance with Fee Regulations related to the use of public roads for outside plant announced in December 2002, the Company is subject to pay public road usage fees to governments.

(2) Impact: Since the fee structure has yet to be finalized by the MOTC and Ministry of Interior, the Company expects the cost of operation will increase. If the fee structure is unbearable, the Company will seek tariff rebalancing to reflect such costs.

2. Local loop unbundling

(1) Telecommunication regulations stipulate that operators who own local loops cannot refuse rental of these facilities to other fixed-line operators. The MOTC has requested the Company to reach an agreement with alternative fixed-line operators in regard to this issue.

(2) Impact: The Company expects to lose some customers to alternative fixed-line operators after the implementation of local loop unbundling. However, with our well-known brand name, superior network quality and customer service, we expect the impact to be limited.

3. M Taiwan program: Mobile Taiwan - A seamless dual network

Government policies:

(1) Defining a new business model where cellular and WLAN technologies are integrated to form a seamless dual network for wireless Internet access. This program is to leverage upon Taiwan's superior electronics manufacturing capabilitiy and major market share of WLAN products.

(2) The government intends to appropriate a special fund up to NT$30bn for construction of shared conduits.

Impact:

(1) The Company has established capabilities to authenticate and bill WLAN customers via its cellular network or HiNet.

(2) WLAN has been an extension of the Company's broadband strategy.

(3) The Company has been awarded the contract for building WLAN infrastructure in Hsin Yi district in Taipei City.

(4) The construction of shared conduit under this program may help to alleviate some of the pressure on local loop unbundling.

4. Mobile deposit refund

The Company has over 1.94 million mobile customers who have paid deposits totaling over NT$ 5.4 billion when they subscribe our service. The Company notifies these customers their refund eligibility as well as their reimbursement options.

(1) Any customer who has subscribed for more than one year of service and who has no outstanding balance may go to the Company's sales and service center to demand a refund.

(2) Customers may also opt to receive remittance in the form of service credits.

If this option is selected, the customer will receive a discount on services to which the credit is applied.

(VI) The impact of technological change on the Company's financial status and measures to be taken

1. VOIP technology

(1) Driven by technological innovation and the attraction of lower tariff of voice services, the VOIP market is expected to grow. With VOIP technology, the fixed-line business model will change and may result in decline of its revenue.

The Versatile HiNet

HiNet is one of the largest ISPs in the world. Its success hinges on high quality of service, superior content, competitive pricing and innovative marketing programs. Currently we have over 3.5 million ISP customers of which 2.4 million are broadband users. The Company's strategy is to migrate existing narrowband subscribers to ADSL where our scale and cost advantages are unmatched. ADSL also enables us to generate significantly higher revenue per user.

Given these strengths, HiNet has offered e-enterprise services to business, e-government services to government agencies and general public as well as superior value-added services to millions of customers.

In the Internet world of infinite opportunities, HiNet, in a more innovative and avant-garde way, attemps to extend the roles of broadband Internet service provider(ISP) to include content and application services to also be an Internet content service provider(ICSP).

To enhance the publicity of HiNet new role as ICSP and to create a younger brand image, HiNet has initiated the "Face-Off" tactic on November 22, 2003. The "Face-Off" HiNet portal has been presented by 100% graphical web interface. Please log on to the Company's HiNet website at http://www.hinet.net.

HiNet has reclassified content services into ten new categories, including video-on-demand, game, community, music, fortune-telling, finance, e-learning, SMS, Japanese fan, and online news. These new initiatives have won positive feedback from our customers. HiNet aims to become the leading brand of Chinese content provider in the near future.

(2) The Company has proactively adopted new technological developments in its business. VOIP technology is of no exception. The Company has incorporated in its international network IP technology and launched a Super E-call service which is less expensive than regular ILD service. The Company has also offered VOIP service in HiNet. The Company will also gradually migrate its PSTN to IP based and provide IP-based broadband multimedia services.

2. New generation synchronous digital hierarchy (NG SDH) transmission technology

(1) NG SDH transmission technology can effectively enhance the capability of broadband metro-network. Introducing NG SDH along with the deployment of IP digital subscriber line access multiplexer enables the Company to offer private line circuit services to enterprises with high quality gigabit ethernet interface.

(2) The Company plans to introduce NG SDH network equipment to build a metro/core network that interfaces with the enterprise network of corporate clients.

3. Triple play service technology

(1) The rapid development of broadband and IP network enables operators to offer voice, data and video services simultaneously which is referred to as triple play.

(2) The Company has offered data and video services on HiNet.

(3) The Company also has launched MOD service in March 2004.

(VII) The impact of corporate image change on risk management and measures to be taken

1. The HiNet homepage revamp aims to rejuvenate our corporate image. Along with the HiNet changing from ISP only to more content-oriented, we have enhanced the website's search engine and adjusted the homepage last year. It has been a success and the advertising business has been growing since then.
2. During the SARS outbreak, the Company provided emergency telecommunication support to hospitals involved in managing the epidemic. The Company has assisted in the installation of remote monitoring equipments for the home quarantines. To help alleviate some of the economic impact, the Company reduced rates for those enterprises most seriously affected by the crisis, in order to help them get through a very difficult period.
3. The labor union, considering its members benefits, opposed the local loop unbundling and share buyback programs, and presented their case to the Legislative Yuan on September 23, 2003. The Company responded to the labor union's demands and communicated with all stakeholders. As a result, the Company was able to maintain normal operations.

V. Other Significant Issues

None

PART VI. Corporate Governance

The Company's corporate governance and its implementations are presented as follows:

I. Ownership Structure and Shareholders' Rights

(I) Method of handling shareholder suggestions or disputes

The Company has a department dedicated to handling shareholder suggestions or disputes.

(II) Awareness of major shareholders and their masters

In accordance with Stock Exchange Law, Article 25, the Company reports changes in shareholder equity every month for all insiders (including directors, supervisors , managers and shareholders with over 10% ownership) through the TSE's publicly accessible website at http://emops.tse.com.tw/emops_all.htm. (Note: In accordance with Article 19 of Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies, "major shareholder" is a shareholder who holds over 5% interest in the Company or is one of the top 10 largest shareholders. The Company has obtained its shareholder list during the non-transfer period of its stock.)

(III) Establishment of risk management mechanism and firewall between its affiliates.

Management has performed a company-wide risk assessment and implemented appropriate firewalls between its affiliates regarding personnel, assets and financial responsibilities.

II. Composition and Responsibilities of Board of Directors

(I) Implementation for selecting independent directors

The Company will implement the program as prescribed by law.

The current composition of the board consists of 15 members appointed by the MOTC, three of whom are expert representatives. The board also includes three labor union representatives, as dictated by state-owned enterprise management law.

(II) Regular evaluation of independence of the auditor

The Company's initial auditor was selected by an independent evaluation committee. The Company periodically assesses the auditor's independence.

III. Composition and Responsibilities of Supervisors

(I) Implementation for selecting independent supervisors

1. The Company will implement the program as prescribed by law.
2. The Company has four supervisors appointed by MOTC. Each exercises duties independently in accordance with the law. As a state-owned enterprise, the Company is subject to national audit practice.

(II) Communication channels with employees and shareholders

The Company's Investor Relations website at http://www.cht.com.tw/ir contains the "Message Feedback" under the section "IR Contacts". The Company has implemented a procedure by which suggestions are reviewed and communicated to the appropriate department. Supervisors are also available at the annual shareholder's meeting to directly communicate with shareholders. Staffs share their experience and knowledge through a chat room on the website set up by the Company.

IV. Establishment of Communication Channels with Stakeholders

The Company provides individual contact for each business segment to communicate with stakeholders. Opinions of interested parties are all properly handled. In the event that a supervisor is to be involved in the concerned query, that supervisor will be notified to handle the case.

V. Information Disclosure

(I) Availability of the Company's website disclosing finance, operations and corporate governance information

1. The Company's website (http://www.cht.com.tw) has an Investor Relations column in both Chinese and English. This channel is the means by which the Company can promptly and regularly disclose financial information to shareholders. Designated employees have been appointed to maintain the website, and the distribution of pertinent information has been prompt.
2. The Company website contains current information regarding operations, financial position and a comprehensive search function.
3. The Company also publishes information such as the rules of procedures for the Board Meeting and guidelines for Strategy Committee and for Drafting Committee on its website.

(II) Alternatives of disclosure

1. Selected personnel in the accounting and finance departments have been designated to be responsible for compiling information for disclosure.
2. Mr. C.C. Chen has been designated as the financial spokesperson and Mr. H. C. Wang serves as the financial agency spokesperson. Mr. F. H. Chang has been designated as business spokesperson and Ms. T. F. Leng serves as business agency spokesperson.
3. The Company's 2003 investor conferences were conducted under rules of the Taiwan Stock Exchange. The Company has made video and audio recordings of the proceedings available on its website. Finance and business information announced at the conference were placed in the Market Observation Post System (http://emops.tse.com.tw/emops_all.htm) in accordance with TSE's regulations. Related inquiries were also handled through the Investor Relations section on the Company's website and by the Investor Relations Department.

VI. Establishment of Audit Committees and Others

1. The Board of Directors passed resolutions on October 21, 2003 and December 23, 2003 to set guidelines for the establishment of Strategy Committee and Drafting Committee to enhance the Board Meeting's efficiency.

2. The Company plans to establish an Audit Committee as prescribed by law.
3. Since Chunghwa Telecom is a state-owned enterprise, the Company is subject to Article 6 of the auditing law that stipulates that the Company's financial audit should be conducted by the Ministry of Audit. The Law of Audit mandates more detailed guidance than the generally accepted auditing regulations in the ROC.

VII. Other Significant Information on Corporate Governance

(I) Training Programs for Directors and Supervisors

Total five directors and one supervisor participated in the 2003 Symposium hosted by the Taiwan Securities and Futures Information Center.

(II) Attendance of directors and supervisors at the board meetings

In 2003, the Company held eight board meetings (including one extra meeting and one shareholders meeting).

All directors attended more than 6 meetings with the exception of two directors appointed on August 29, 2003 and September 26, 2003 respectively.

Supervisors have attended most, if not all, of the board meetings.

(III) Establishment of procedures to avoid directors' conflicts of interests

1. All directors have been appointed by the MOTC. To avoid conflicts of interests, directors are required to sign a declaration acknowledging full awareness of Company's Laws requirement.
2. According to Article 15 of the Company's board meeting rules, directors and the juridical persons they represent should excuse themselves from participating discussion and voting or voting on behalf of other directors under the following circumstances:
   (1) If there exists interests with the director and the juridical person he/she represents, and might cause material damage to the Company.
   (2) If the director voluntarily excuses himself.
   (3) If the board of directors resolves that the individual should excuse himself.

(IV) Maintenance of liability insurance for directors and supervisors

1. To indemnify directors and supervisors from personal liability and financial loss arising from job responsibilities, the Company is purchasing liability insurance according to the Government Procurment Law.
2. The procurment was submitted to the MOTC on June 23, 2003 and was approved.

(V) Social responsibilities

1. The Company is an ongoing sponsor of the annual Lantern Festival.
2. During the SARS outbreak, we provided emergency telecommunication support to hospitals involved in managing the epidemic. To help alleviate some of the economic impact, we reduced rates for those enterprises most seriously affected by the crisis, in order to help them get through a very difficult period.
3. The Company participated in charity fundraising activities such as "2003 Athletic Days" and the charity run for the "Chang Gung Memorial Hospital Cancer Foundation". The Company also offered toll free numbers to facilitate the collection of donation.
4. The Company participated in various cultural, folk and sports activities to promote the vibrancy of local communities. The Company co-hosted the "Vienna Concert" and "World Youth Baseball Championship 2003".
5. To bridge digital gap, the Company has launched services with discount for rural residents, handicapped and charity organizations. Chunghwa Telecom is also committed to providing 15 Family Assistance Centers with one year of free HiNet and ADSL broadband access.
6. The Company has a contigency plan to backup fixed lines with mobile service in special districts, especially the remote mountainous areas when natural disaster occurs.
7. As telecom services becomes a necessity in a modern society, the Company has been designated by MOTC to offer universal services.

VIII. Establishment of the system of corporate governance practices according to principles dictated by the "Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies"

The Company has been reviewing the amendments as issued by the TSE on December 31, 2003, and will implement changes in policy as needed.

PART VII.
Other Significant Events

I. Affiliate's Information

None

II. Implementation of Internal Controls

(I) Statement of Internal Control System

Chunghwa Telecom Co., Ltd.
Internal Control Statement

April 15, 2004

The Company states the following with regard to its internal control system during the period from January 1, 2003 to December 31, 2003, based on the findings of a self-evaluation:

1. The Company is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. The Company has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguard of asset security), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. The Company judges the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies promulgated by the Securities and Futures Commission, Ministry of Finance (hereinbelow, the "Regulations"). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. control environment 2. risk assessment 3. control activities 4. information and communications 5. monitoring. Each element further contains several items. Please refer to the Regulations for details.
4. The Company has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, the Company believes that during the stated time period its internal control system (including its supervision of subsidiaries), encompassing internal controls for knowledge of the degree of achievement of operational effectiveness and efficiency objectives, reliability of financial reporting, and compliance with applicable laws and regulations, was effectively designed and operating, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This statement has been passed by the Board of Directors Meeting of the Company held on April 15, 2004, where the 14 attending directors all affirmed the content of this Statement.

Chunghwa Telecom Co., Ltd.

Chairman & CEO

President

(II) Disclosure of audit reports

For year 2003, we did not designate appointed auditor to conduct internal control assessment. However, before the auditor expressed an opinion regarding the fairness presentation of financial statements, based on the regulations for Audit of Financial Statement by Certified Public Accountants and Generally Accepted Auditing Standards, in the Republic of China, the auditor had applied sampling method within a necessary range to evaluate the confidence level of company's internal control for accounting procedures to determine sampling scope of auditing procedure. According to the auditor's major auditing interpretation of 2003 local financial report, the auditor did not find any material deficient in the accounting procedures of internal control which would affect the fairness presentation of financial reports.

III. Major Resolutions of Shareholders Meeting and Board Meetings

(I) Important resolutions presented at the 2003 shareholders meeting

1. The Company's distribution of earnings for 2002

Implementation: The retained earnings of 2002 were allocated on August15, 2003, with a cash dividend of NT$4 per share. Total dividends distributed amounted to NT$38,590,899,600.

2. Amended Article of Incorporation No. 2

To fulfill the requirements of the Ministry of Economic Affairs, "Office Building Rental", "Stall Space Rental", "Factory Rental" and "Conference Room Rental" were reclassified as "Real Estate Leasing" of the Company. In addition, two separate businesses, namely "Radio-Frequency Equipment Import Business" and "Cable System Operator Business" were created.

Implementation: The amended Articles of Incorporation was voted on and passed by the shareholder meeting 2003 and was delivered to the Ministry of Economic Affairs to facilitate a registration change. And this has been done.

3. Disposal of the Company's assets

The government shall not get involved in, interfere or damage the Company's shareholder rights. Chunghwa Telecom shall not give in to opening up local loops at the expense of shareholders' rights and interests.

Implementation: According to the Telecommunications Act, the Company has been negotiating with alternative fixed-line operators on the matter of local loop unbundling. To uphold both shareholders' and the Company's interests, Chunghwa Telecom is still negotiating with the alternative fixed-line operators based on the following principles:

(1) The rental of the local loop should be limited within a time frame.

(2) The rental fees for local loop should be reasonable.

(3) Unbundling terms should be fair, reasonable and take both parties' interests into consideration.

4. The Executive Yuan and the MOTC should respect the Company's corporate governance policies and strengthen the authority of the Board of Directors and the management team to enhance operational efficiency.

Implementation:

(1) The Excutive Yuan passed the "Strengthening Corporate Governance and Execution Directive," in the 2865th meeting on November 12, 2003, and mandated of related parties to follow.

(2) In compliance with the above mentioned directive, Chunghwa Telecom issued "The Ordiance of Board Meeting of Chunghwa Telecom Co., Ltd.", established two functional committees, namely the "Strategy Committee" and the "Drafting Committee," and updated "The Division of Responsibilities between MOTC and Chunghwa Telecom Co., Ltd." In addition, to enhance operational efficiency, the Board has authorized the management to dispose or exchange its land valued below NT$50 million.

5. Chunghwa Telecom shall confer with the Company's labor union regarding the release of shares to avoid benefiting any specific party or consortium, and to better protect shareholder and employee interests.

Implementation: The Company had planned to repurchase treasury shares via a public tender offer. After several discussions with the labor union, it was decided to proceed only when an agreement has been reached between both parties.

(II) Important resolutions by the Board of Directors Meeting during 2003 or the period from January 1, 2004 to April 16, 2004

Date	Meeting	Important issues	Resolutions
02/25/2003	The 6th Meeting of the 3rd Term Board of Directors	Resolution 6: Draft amendments to Article 2 of Chunghwa Telecom's Articles of Incorporation	All directors present agreed and passed the "Amendments to Article Two of Chunghwa Telecom's Articles of Incorporation".
		Resolution 7: Chunghwa Telecom planned to have its 2003 annual shareholder meeting at Chunghwa Telecom's Training Institute on June 17, 2003 (Tuesday). The attached "Agenda of Chunghwa Telecom's 2003 annual shareholder meeting" was submitted for approval.	All directors present agreed and passed the "Agenda of Chunghwa Telecom's 2003 shareholders general meeting".
		Resolution 8: To accommodate the MOTC's plan to issue shares in the overseas market, the Company would submit the application in due time. "Plans for Overseas Listing of Shares" was submitted for approval.	All directors present agreed and passed the resolution.

Date	Meeting	Important issues	Resolutions
		Resolution 11: Regarding the appointment of four representatives to negotiate with Chunghwa Telecom's labor union on the amendments to the collective bargaining agreement, it was proposed to appoint the Chairman, the head of the Legal Affairs Department Mr. Lee Jung-Ho, the head of the Accounting Department Mr. Tse-Min Chen and the head of Human Resources Department Mr. Huang Jen-Lang. The resolution was submitted for approval.	All directors present agreed and passed the resolution.
		Resolution 12: 2004 budget was submitted for approval.	Resolution approved by all directors present.
04/22/2003	The 7th Meeting of the 3rd Term Board of Directors,	Resolution 3: The 2002 operating results, final report and audited financial statements were submitted for approval.	Resolution approved by all the directors present.
		Resolution 4: "2003 Financial Forecast" was submitted for approval.	Resolution approved by all the directors present.
		Resolution 5: It was proposed to distribute NT$38,590,899,600 of profit made in 2002 as cash dividend. Dividend record date is to be decided at the Board Meeting. The resolution was submitted for approval.	I. Resolution approved by all the directors present. II. A cash dividend of NT$4 per share will be distributed subject to review by the Executive Yuan and the Minitry of Audit. III. Dividend record date will be determined by the Board Meeting.
		Resolution 7: Proposed Amendments to "Chunghwa Telecom Materials Management Policy" was submitted for approval.	All the directors present passed the amendment.
06/24/2003	The 8th Meeting of the 3rd Term Board of Directors	Resolution 2: The Company plans to buy back and write off seven to ten percent of its outstanding shares before December 2003 to reduce the cost of capital, and increase the return on equity and earnings per share. The resolution was submitted for approval.	I. Resolution shall be assessed by the Management and should negotiate with the labor union. II. Procedures and auditor's assessment on share buyback according to rules and regulations need to be submitted to the Board of Directors for further discussion.
08/19/2003	The 9th Meeting of the 3rd Term Board of Directors	Resolution 4: The Company's first half-year financial results and auditor report in 2003 were to be submitted to the Board of Directors for approval. The resolution was submitted for approval.	Resolution approved by all the directors present.
		Resolution 5: Audited final report 2002 was submitted for approval.	Resolution approved by all the directors present.
		Resolution 6: The Company has appointted Deloitte Touche Tohmatsu as the independent auditor. Contract period will end on December 31, 2003 and final report will be audited before June 30, 2004, the Company plans to extend this contract for two more years. The resolution was submitted for approval.	Resolution approved by all the directors present.

Date	Meeting	Important issues	Resolutions
		Resolution 9: To protect the Company's trade secrets, it is proposed to have directors and supervisors sign an agreement to keep business secrets. The resolution was submitted for approval.	Resolution approved by all the directors present. It was agreed that both should have a simple format and be accompanied by an attachment describing the scope of business secrets.
		Resolution 11: Amendment on Article 2 of "Organizational Statute of Chunghwa Telecom" was submitted for approval.	Amendment on Article 2 of "Organizational Statute of Chunghwa Telecom" was approved by all the directors present.
		Resolution 12: Amendment to Article 7 and 8 of "Chunghwa Telecom's Business Group Organizational Structure in Northern, Middle and Southern Taiwan District" was submitted for approval.	Amendment was approved by all directors present. Two additional resolutions were attached for implementation by the management.
10/21/2003	The 10th Meeting of the 3rd Term Board of Directors	Resolution 8: To enhance the directors' and supervisors' functions, increase transparency, strengthen operational responsibility, it was proposed to set up two functional committees, i.e., a Strategy Committee and a Drafting Committee. Resolution was submitted for approval.	After revising the rules of the Strategy Committee, the setup of Strategy Committee was approved by all the directors present.
12/23/2003	The 11th Meeting of the 3rd Term Board of Directors	Resolution 11: To enhance the directors' and supervisors' functions, increase transparency, strengthen operational responsibility and enhance efficient decision-making, it was proposed to set up a Drafting Committee. The resolution was submitted for approval.	I. Supplemental material on "Drafting Committee Processing Flowchart" was presented as attachment V for the directors' and supervisors' reference. II. Resolution was approved by all the directors present.
		Resolution 12: "Amendment To Chunghwa Telecom's Endorsement Guarantee Procedures" review was submitted for approval.	Resolution was approved by all the directors present.
02/24/2004	The 12th Meeting of the 3rd Term Board of Directors	Resolution 2: A portion of "Division of Responsibilities between MOTC and Chunghwa Telecom Co., Ltd" was proposed to be amended, and was submitted for approval.	All directors present approved the amendment.
04/15/2004	The 13th Meeting of the 3rd Term Board of Directors	Resolution 1: The 2003 operating results, final report and audited financial statements were submitted for approval.	I. Resolution approved by all the directors present. II. The 2003 operating results will be submitted to and reported in the 2004 shareholders meeting. III. The 2003 final report will be reviewed by the supervisors and the supervisors' report will be submitted to the 2004 shareholders meeting to be recognized. IV. The remaining should be implemented by the management according to related regulations.

Date	Meeting	Important issues	Resolutions
		Resolution 2: It was proposed to distribute NT$43,414,762,050 of profit made in 2003 as cash dividend. Dividend record date is to be decided at the board meeting. The resolution was submitted for approval.	I. Resolution approved by all the directors present. II. A cash dividend of NT$4.5 per share will be distributed subjected to review by the Executive Yuan and the Ministry of Audit. III. The record date will be determined by the Board Meeting. (Note: Three labor union representatives including Director Shih-Peng Tsai, Director Yauh-Hong Lin and Director Yi-Maw Lin proposed that the record date should be determined by the shareholders meeting rather than by the board of directors.) IV. This resolution will be submitted to the 2004 shareholders meeting to be recognized.
		Resolution 3: It was proposed to sign internal control statement in order to be able to post on the TSE's publicly accessible website (http://emops.tse.com.tw/emops_all.htm) before the end of April. The resolution was submitted for approval.	Resolution approved by all the directors present and will be implemented by the management according to related regulations.
		Resolution 4: The draft of "The Procedure of Chunghwa Telecom Acquiring and Disposing of Assets" was submitted for approval.	I. All the board of directors present agreed to add " membership certificate" to article 3. The remaining articles will be assured after revised according to the opinions raised by directors and supervisors and will be implemented by the management according to related regulations. II. Resolution will be submitted to the 2004 shareholders meeting to be resolved.
		Resolution 5: It was proposed to purchase the cash capital increase shares of Taipei Financial Center Corporation in 2004. The resolution was submitted for approval.	Resolution approved by all the directors present and will be implemented by the management according to related regulations.

IV. Directors' Opinions

There is only one different opinion on record made by the three labor union directors on the resolution passed by the Board of Directors meeting on August 19, 2003 as follows:

Date	Meeting	Important issues under discussion	Resolutions	Different opinions	Implementation by management.
8/19/2003	The 9th Meeting of the 3rd Term Board of Directors	Resolution 10: Drafted Ordinance of the Board of Directors of Chunghwa Telecom Co., Ltd., and submitted for approval	I. All directors present agreed and approved Article 13 of "The Ordinance of the Board of Directors of Chunghwa Telecom Co., Ltd.", which stipulated that "vote by name shall be applied if proposed by directors present at the meeting and such a proposal is passed by over one fifth of the directors". Also approved was the following addition to the Appendix of Article 15, "however with respect to the resolution on employee rights, the Board of Directors will not reject the involvement of labor union directors . (According to Clause 3 of Item 2 of Article 35, labor union directors should avoid involving the resolution on employee rights.) II. Other proposals were passed without amendment. (i.e. Appendix 3: Descriptions to the ordinance of the Board of Directors and the comparison tables). Management shall obey these procedures. Names with different opinions were recorded.	Different opinions expressed by three labor union representatives, Director Shih-Peng Tsai, Director Yauh-Hong Lin and Director Yi - Maw Lin during the discussion of Article 8 "to delete item 3 in Article 8".	In the future, Board meetings shall convene according to the Ordinance of the Board of Directors of Chunghwa Telecom Co., Ltd.

V. Private Placement of Securities

None

VI. Shares Held or Released by Subsidiaries

Not Applicable

VII. Legal Penalties

Regulatory authorities' legal penalties to the Company, and the Company's resulting punishment of its employees: None.

VIII. Additional Information

(I) Auditing Fee

The Company is not required to disclose the auditing fee according to the local regulations in Article 22 of Guidelines Governing the Preparation of Financial Reports by Securities Issuers.

(II) Any Events in 2003 That Had Material Impacts on Shareholders' Rights or Stock Prices as Stated in Item 2 Paragraph 2 of Article 36 of Securities and Exchange Law of Taiwan

None

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Chunghwa Telecom was the sponsor of the theme lantern, representing " good luck, well-being, health and success" in the 2003 Kaohsiung Lantern Festival.
Traditionally, Chinese people recognize a twelve year cycle, in which, each year is represented by an animal, in the following order: rat, ox, tiger, rabbit, dragon, snake, horse, goat, monkey, chicken, dog, and pig.

Bountiful Harvest

The year of goat symbolizes abundance and good fortune. Like the strong, proud ram, leading his flock, the spirit of Chunghwa is alive with energy and full of enthusiasm.

The beginning of 2003 ushered in a new era of peace and prosperity for the country; and the Taiwan lantern festival helped us all capture the feeling of healthiness, comfort, success and good luck.

Chunghwa now seeks to perpetuate the message of the good will with every household, every enterprise and every endeavor in our nation.

Our future vision sees us all in a common embrace of pride, happiness and high spirits with caring hearts and ceaseless efforts.

Chunghwa firmly believes that the future holds many more bountiful harvests for us all.

The New Landmark in Taipei: Taipei 101