

創新數位
寫真生活



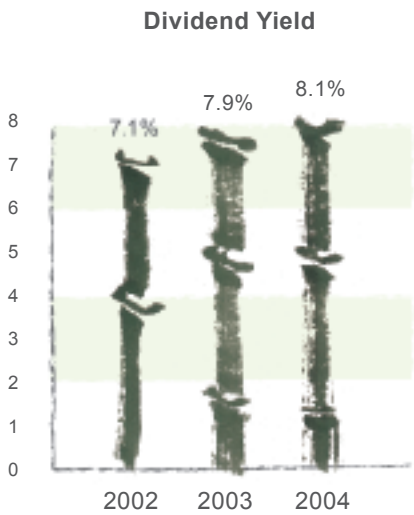
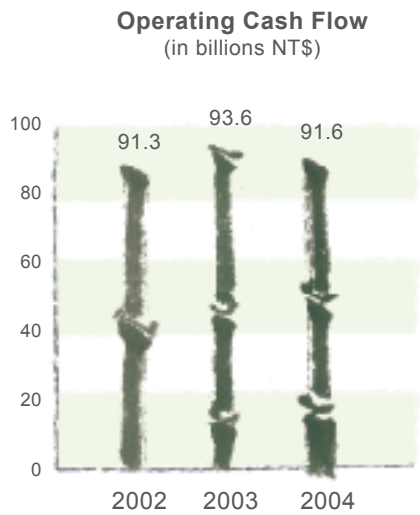
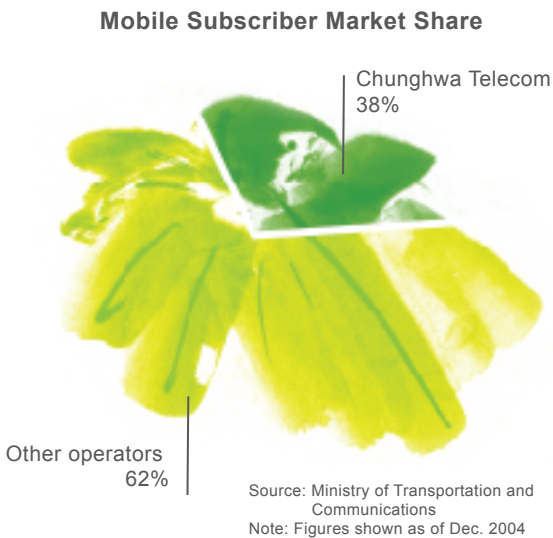
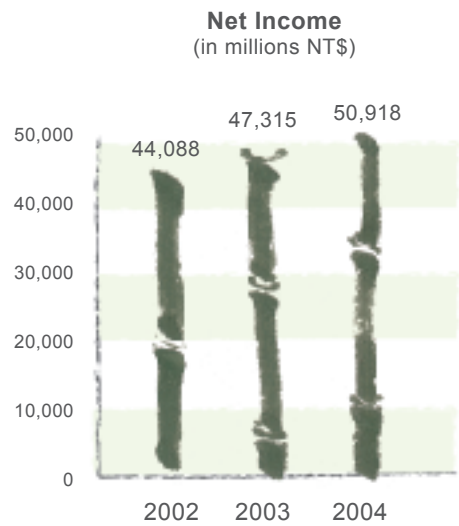
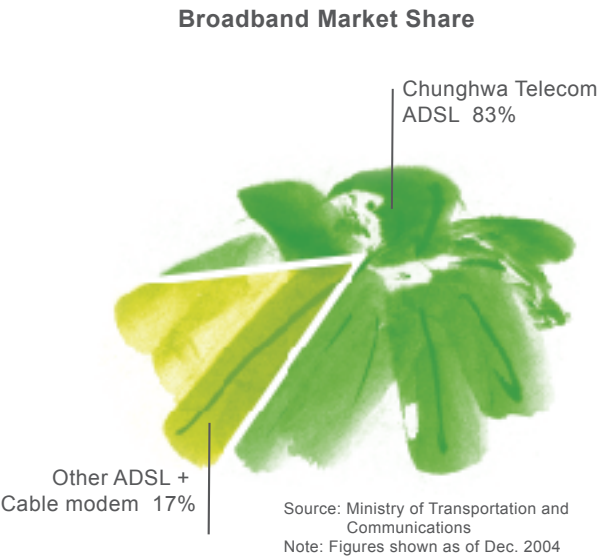
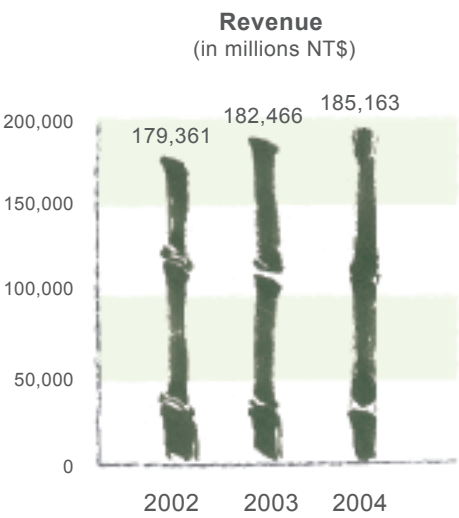
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【OPERATING AND FINANCIAL SUMMARY】



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Wonderful life with digital fun

PART I.

LETTER TO SHAREHOLDERS

Dear Shareholders:

□

We are pleased to report that we had another outstanding year at Chunghwa Telecom ("the Company"). Led by our mobile and Internet & data businesses, our operating Performance for 2004 reached a 3-year high. On a year-on-year basis, total revenues grew 1.5% to NT\$185.2 billion (US\$5.8 billion) While net income grew 7.6% to NT\$50.9 billion (US\$1.6 billion). Net income per share was NT\$5.28 (US\$0.17), up NT\$0.38 over 2003. At the end of 2004, we had 13.24 million fixed-line subscribers, 8.19 million mobile subscribers, 3.07 million broadband subscribers and 3.82mn HiNet Internet subscribers.

□

These numbers speak for themselves, These numbers also illustrate the effectiveness of our strategies. On Internet & data services, despite reducing ADSL broadband tariffs by an average of 24% in June 2004 as a part of our effort to encourage more customers to upgrade their service, broadband revenues grew 11%. In our mobile segment, we continued to launch value-added services and maintained highly competitive tariffs. Chunghwa Telecom has maintained steady growth despite a decline in mobile subscribers due to a policy of termination inactive prepaid customers that has been adopted by all industry players in Taiwan. In our fixed-line services, our highly successful marketing campaigns have helped us maintain an enviable 61.3% market share for International Long Distance services.

□

In Forbes Magazine's March 2004 edition, Chunghwa ranked number 360 on the "Forbes Global 2000" list, which rates leading global companies by sales, profits, assets and market value. Among the 67 telecommunications companies that made the ranking, Chunghwa Telecom came in 22nd, a rather remarkable achievement given our short history as a public company.

□

The Company's share price also showed an encouraging upward trend. In 2004, the share price increased 25% from around NT\$50 in early January to finish the year at a high of NT\$62.5. Our American Depositary Receipts (ADRs) recorded a similar increase of around 40% to close at US\$21 at the end of 2004. Our foreign ownership ratio rose from 12% to 20%. This healthy increase in share price, together with the higher foreign ownership ratio, clearly demonstrates the confidence that both local shareholders and global institutional investors have in our operating abilities.

□

As a profitable and stable company, Chunghwa Telecom is committed to maintaining a high dividend payout policy. In the January 2005 edition of the "FinanceAsia 100 Index", Chunghwa Telecom ranked the 3rd and 6th in terms of dividend yield and dividend payout ratio respectively among the region's blue chip companies.

Our three main business segments - Internet & data, mobile, and fixed-line, all performed solidly in 2004.

Internet & data services

At the end of 2004, Chunghwa Telecom was clearly the market leader in broadband access with an 82% market share. In addition, 78% of broadband customers were our HiNet subscribers. An ADSL tariff reduction in June 2004 prompted a substantial increase in the number of total customers and the attractive upgrade program to higher speed service satisfied our customers' needs. As a result, our ADSL customer base grew significantly with the net addition of 600,000 customers for the year 2004. Meanwhile, we continued to expand our data services in order to further enhance this revenue stream. In 2004, the Internet & data services represented 21.2% of the Company's total revenues.

Mobile services

Mergers and acquisitions in 2004 brought further market consolidation and left the market with three main players. However, thanks to our superior network and service quality, Chunghwa Telecom maintained a definite leading edge over our competitors. At the end of 2004, the Company's market share by number of customers and revenues was 38% and 35% respectively. Total revenues grew 6.2% over 2003, higher than the 4.6% growth observed in the market. Meanwhile, mobile number portability is expected to become reality in 2005. With top-quality service and network infrastructure, we are ready for this new regulation and are confident in our ability to retain customers.

Fixed-line services

Our fixed-line services include Local and Domestic Long Distance (DLD) services, as well as International Long Distance (ILD) service. Through various promotions during festivals and the peak summer season, Chunghwa Telecom was able to maintain a dominant market share of 61.3% in our ILD business. Our DLD market share also stabilized at 86.4%. As for our Local business, the impact of the Local Loop Unbundling for voice, which took effect in June 2004, was minimal and our market share remained at 97.9%.

Our stringent cost control efforts have enhanced further positive results in the past few years. While capital expenditures as a percentage of revenues were 25% in 2002, that ratio dropped to 18% in 2003 and even further to 12% in 2004. Early retirement programs have effectively reduced personnel costs. In May 2004, a total of 486 staff members participated in an early retirement program, saving the Company approximately NT\$580 million for the year. To further improve operating efficiency, we streamlined four operating centers, reallocated human resources while upgrading our service quality, and made better use of our assets.

To become a world-class enterprise, we have also begun to introduce a series of corporate governance measures which bring us in compliance with Executive Yuan's "Policy Program and Action Plan to Strengthen Corporate Governance", the "Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies" as well as the "Sarbanes-Oxley Act" in the US. Chunghwa Telecom was the first state-owned enterprise that elected three independent directors and we also set up an audit committee within our board of directors.

As a responsible and engaging corporate citizen, we believe in giving back to the communities we serve. The Company not only devotes its energy to improving the quality of communication, it has also partnered with many community groups and established a website that facilitates charity activities. In order to bridge the digital divide between urban and rural areas as well as between rich and poor, we have launched the "e-community" project in isolated and rural areas. Additionally, Chunghwa Telecom frequently organizes charitable auctions and exhibitions, and participates in many other corporate sponsorships.

Looking ahead, besides maintaining our core businesses performance, our operating focus will be on multimedia-on-demand (MOD), Fiber-to-the-Building and Fiber-to-the-Home (FTTX), Third-Generation mobile communications (3G) and Internet telephony (VoIP).

In March 2004, we officially launched MOD service and today we have 25 broadcasting channels with expanding content. In January 2005 we signed a contract with a company that partners with four major Hollywood studios, that will provide us with many films to be made available on the MOD and HiNet platforms ahead of cable television.

In broadband Internet services, we plan to continue our campaign to encourage customers to upgrade their speed to 8Mbps and hope to reach a customer base of 300,000 by the end of 2005. Once that is accomplished, FTTX will become our next target. Our aim is to create a favorable environment for value-added, fiber-optic based broadband services.

In the meantime, our 3G infrastructure has progressed as planned and services will be launched during the 2nd half of 2005. We will then be in a position to offer high-speed services such as video phone, music, short film download, mobile TV, video conferencing, mobile book reading, real-time image transfer and multimedia streaming.

Internet telephony is a new trend and the Company pays a great deal of attention to the development of this technology. With our large customer base, Chunghwa Telecom is in a favorable position to lead this market in Taiwan, once the government policy on Internet telephony is clear.

Chunghwa Telecom is totally committed to increasing shareholder value. Going forward, as always, we will continue to do our best to deliver superior returns and hope that all our shareholders will continue to support our efforts.


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. 2004 Business Review

□

(I) 2004 Operations review

Looking back over the past year, the telecom market has become fiercely competitive due to Local Loop Unbundling (LLU), the availability of new fixed-line licenses and an increase in the number of service providers entering the market. Nonetheless, the Company has maintained its level of revenues and profits as a result of the implementation of effective business strategies. In our broadband business, we continued to promote our ADSL services and introduced higher speed connectivity. As a part of this, our 2Mbps ADSL service has substantially exceeded our targets, reaching a total of 1.66 million subscribers at the end of 2004. The Company also continued to market symmetrical 512kbps DSL services and further expanded Fiber-to-the-Building (FTTB) services. Additionally, we launched 256K ADSL products to customers in remote areas in an effort to help bridge the digital divide between urban and rural areas.

In our mobile business, we continued to enrich the content of our "emome" portal site and developed value-added services to help enhance the mobility of information in daily life. The Company continued to build a 3G network infrastructure in preparation for the commercial launch of 3G services.

In our fixed line business, in addition to improving the already high quality of our services, the Company promoted wholesale businesses, developed new value-added services, and provided total solutions to business accounts to help maintain its revenue streams.

In order to increase our overall operating efficiency, we continued to integrate our billing systems and provide electronic bills to further enhance customer services. Cost control remained an important aspect of our strategy to ensure the Company's profitability.

□

At the end of 2004, we had 13.24 million fixed-line subscribers which accounted for a 97.9% market share. For our mobile business, we had 8.19 million subscribers which represented a 38% market share. For our Internet & data business, the Company had 3.82 million HiNet customers, representing a 47.5% market share, and our ADSL customer base reached 3.08 million, accounting for 83.2% of the broadband market.

(II) Profit and loss summary

Unit: NT\$ billions, except per share and per pro forma ADS

Performance		Year	2003	2004
Revenues / Expenses	Revenues		182.5	185.2
	Total operating costs and expenses		126.5	125.3
Profitability	Operating income		56.0	59.9
	Net income		47.3	50.9
	Net income per share (NT\$)		4.90	5.28
	Net income per pro forma equivalent ADS (NT\$)		49.04	52.78
	Cash dividend declared per share (NT\$)		4.5	4.7 (Note)

Note: This amount was proposed by our board of directors for approval of our shareholders in our annual shareholders' meeting of 2005 scheduled on June 21, 2005.

(III) Capital expenditure

Total capital expenditure for 2004 was NT\$22.89 billion, which accounted for 12.3% of total revenue. The breakdown of capital expenditure amongst our main businesses was: NT\$5.04 billion for fixed-line, NT\$5.51 billion for mobile, NT\$11.57 billion for Internet & data and NT\$0.77 billion for others. □

Major projects in 2004 are as follows:

□

1. Installed 658,000 ADSL lines and 700,000 broadband access ports in HiNet.
2. Built 137 sets of local SDH STM64/STM16 network equipments.
3. Deployed the construction of digital exchanges acquired from year 2003 to 2005.
4. Continued to expand our GSM network coverage with 300 more base stations.
5. Finished 3G phase one construction with one million capacity and 800 base stations and continued the phase two construction with accumulated 1.5 million capacity and 1,800 base stations.

(IV) Research and development

□

Telecommunications is a technology-driven business. Technological innovation is key to bringing new services, a vital part of our business strategy. In 2004, our R&D expenses were NT\$2.5 billion, accounting for 1.34% of the total revenues.

Major R&D activities and contributions were as follows:

□

1. Mobile value-added services and applications

- Mobile Internet portal
- Mobile value-added SMS
- Mobile multimedia and Java games
- Voice recognition for mobile services
- Instant messenger
- IN-based personalized ring back tone
- Location-based services
- M-commerce payment system
- Mobile GIS applications for enterprises
- Electronic fleet management system

□

2. Internet & data value-added services and applications

- Government PKI framework
- Government e-procurement systems
- Government service platform
- Content-based trademark management systems
- Integrated content delivery services
- Electronic yellow pages

□

3. Wireless network technologies

- Base station coverage analysis
- Wireless network efficiency assesment and optimization
- GPRS core network testing and optimization
- GSM/3G base station interference analysis
- Fixed mobile convergence GSM/UMTS core network interoperability

□

4. Broadband network technologies

- Application of softswitches
- IP PBX/IP Centrex service platform & integration
- ADSL/SHDSL/VDSL physical layer optimization
- Premises network integration
- Triple-play technologies
- IPv6 technologies
- FTTH test bed
- All-optical networking

5. Network operation support systems

- Operation support system for subscriber lines
- Mobile network operation center
- Optical cable automatic monitoring system
- Corporate customer service centers operation system
- Mobile trouble reporting information system
- Base station information system

□

6. Business support systems

- Customer relationship management systems
- Billing systems
- Enterprise resouce management systems

II. 2005 Operating Targets

(I) Business strategy

Our key strategies for 2005 include:

1. Focus resources on growing broadband markets
2. Emphasize quality of services and customer satisfaction
3. Enrich contents and applications for broadband and mobile services
4. Anticipate future demands for services by further enhancing our network technologies and capacity. We are transforming our existing network to support the Internet protocol.

Enhance Shareholder Value Through Sound Corporate Governance

As a listed company in both Taiwan and the U.S., Chunghwa Telecom acknowledges its fiduciary duties to its shareholders. The Company adheres to not only the corporate governance-related rules set out by the Taiwan Stock Exchange but also the best practice advocated by the Securities and Exchange Commission in the U.S. Chunghwa Telecom aims to enhance shareholder value by practicing high corporate governance standards as well as strengthening its operating performance.

Apart from improving the level of transparency with its information dissemination, the Company has also implemented a series of measures aimed at gaining shareholder trust, including electing three independent directors and setting up an audit committee, a corporate strategy committee and a drafting committee. Meanwhile, internal control measures were amended to be in line with the requirements of Taiwan regulatory authorities as well as the Sarbanes-Oxley Act.

(II) Key marketing strategies

In 2005, our marketing strategies are as follows:

1. Services

The fixed-line voice market in Taiwan is nearly saturated. Broadband access, mobile, Internet and their associated value-added services are the key drivers for further revenue growth. Hence we are focusing on these services.

□

In broadband access and Internet services, we will continue to upgrade our customers to higher speeds of 10M, 20M and 100Mbps broadband services. With enriched contents and applications, we will be able to further up sell our ADSL services. We will also expand MOD services to the central and southern regions of Taiwan. The Company plans to rollout VoIP service in the 2nd quarter of 2005 if the government policy on Internet telephony is clear. The Company will also continue to explore the opportunities to bundle the fixed-line services with other services.

In mobile services, we will continue to provide high quality voice and short message services. With our "emome" portal, we will continue to promote Java-based entertainment, multimedia messaging services, financial management services and video streaming multimedia services. Based on the GPRS platform, we offer community services such as Push-to-talk over Cellular (PoC) and instant messaging services. The Company plans to introduce 3G services in the 2nd half of 2005.

□

The company will reinforce strategic alliances with other businesses to further develop its content and value-added services, aiming to strengthen its position in the youth market. Besides endeavoring to roll out new businesses and value-added services, we are working on the integration and simplification of customer identities and related authentication mechanisms for service offerings. These will enable us to strengthen our one-stop shopping services to customers.

2. Pricing

In spite of intense competition, the Company attempts to maintain a stable tariff structure in its main businesses. However, the Company will offer discount promotional packages to major accounts and long-standing customers to increase customer loyalty and satisfaction.

□

In broadband Internet services, the Company will continue to maintain stable ARPU levels by migrating customers to higher ADSL speeds.

3. Distribution channel

We have 27 operation centers and 278 service centers which serve as direct channels for the Company only. Our outlets located throughout Taiwan that are responsible for operations, sales and customer services in their serving areas. We continue to improve the quality and functions of each of the service centers and take an active role in marketing and sales. For the mobile business, the Company will continue to improve the service of the three contracted distribution agents of handsets.

For Internet services, we make the best use of capabilities of the net to distribute and to offer value added services. Various payment methods are available. For HiNet customers or CHT mobile customers, usage charges are paid in the monthly bill. For other customers, usage charges are paid with micropayment from our website.

□

4. Promotion

Our promotional campaigns will target various customer segments depending on their respective current and potential spending levels. We will provide different promotional packages to meet customer demands and minimize the churn rate. In the meantime, we will also strengthen our corporate image and enhance general public recognition of the corporate brand.

Corporate Citizenship □

Chunghwa Telecom has always been committed to providing communication services and innovative technologies to all corners of Taiwan. However, in recent years, the Company has not only transformed itself from being a pure communication services provider, but has also served as a catalyst to strengthen communications among human beings.

□

With today's advanced technology, people can communicate with one another anytime and anywhere. Besides improving its technological know-how and service quality, Chunghwa Telecom is also devoted to community activities to help those in need. In cooperation with various charitable organizations, the Company has established a charity website serving as a public welfare channel. Each year, the Company also organizes a variety of fundraising and sponsorship events. All these have demonstrated the Company's commitment to community activities.

创新
Innovation



PART II.

CORPORATE OVERVIEW

I. Corporate Profile

□
Chunghwa Telecom 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 the Company's proactive marketing strategies, Chunghwa Telecom has been able to maintain a leading position in all areas of its business. The Company has been listed on the Taiwan Stock Exchange since October 2000 and on the New York Stock Exchange (NYSE) since July 2003.

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

Between October 2000 and April 16, 2004, the Ministry of Transportation and Communications (MOTC) sold Chunghwa Telecom shares in six different issuances. The total shares sold by the MOTC, including those purchased by our employees, were 3,378,969,275. Individual MOTC sales were as follows:

1. For the first domestic release in October 2000, the MOTC released 276,510,790 common shares through competitive auction, public subscription and employee purchase.
2. For the second domestic release in June 2001, the MOTC released 174,177,879 common shares through after-hour auctions and employee purchases.
3. In October 2001, the 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, the 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, the MOTC released 1,342,229,591 common shares through public tender and employee purchase.
6. For the fourth domestic release in March 2003, the MOTC released 7,646,732 common shares through after-hour auctions and employee purchase.
7. For the fifth domestic release in April 2003, the MOTC released 170,703,327 common shares through after-hour auctions and employee purchase.

造極
登峰



- As of December 31, 2004, the MOTC held 6,259,973,541 common shares of Chunghwa Telecom, which was equivalent to 64.89% of the total number of shares outstanding.

☐ None

In the aftermath of the 921 earthquake, Typhoon Mindulle left a trail of damages in the central and southern part of Taiwan. As a result, the public started to become more conscious of the issues of environmental protection and the changing ecology. The Company, together with the Public Constructions Commission Executive Yuan, organized an environmental protection seminar on July 23, 2004. During the seminar, both the vice chairperson of the Public Constructions Commission and the Company's Chairman & CEO, Mr. Tan Ho Chen, urged the public to improve both human interactions and interactions between humans and the environment to sustain continued growth of Taiwan.

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None

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, where the government's holding falls below 50%. The MOTC, 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 three years after the issuance date.

(I) Organizational system

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graph TD
    A[Board of Directors  
Chairman & CEO] --> B[Supervisors]
    A --> C[Secretariat Board  
of Directors]
    A --> D[Audit]
    A --> E[President]
    E --> F[SVP]
    E --> G[SVP]
    E --> H[SVP]
    E --> I[Research & Planning  
Committee]
    E --> J[Senior Chief Engineer]
    E --> K[EVP / President]
    E --> L[EVP / President]
    E --> M[EVP / President]
    E --> N[EVP / President]
    E --> O[EVP / President]
    E --> P[EVP / President]
    E --> Q[EVP / President]
    E --> R[EVP / President]
    E --> S[EVP / President]
    E --> T[EVP / President]
    F --> F1[Corporate Planning]
    F --> F2[Network]
    F --> F3[Supply]
    G --> G1[Human Resource]
    G --> G2[Safety & Health]
    G --> G3[Accounting]
    G --> G4[Finance]
    G --> G5[General Affairs]
    H --> H1[Marketing]
    H --> H2[Business Customer]
    H --> H3[Satellite Business]
    H --> H4[Information System]
    H --> H5[Legal Affairs]
    H --> H6[Corporate Ethics]
    K --> K1[Northern Taiwan  
Business Group]
    K --> K2[Branch Offices]
    L --> L1[Central Taiwan  
Business Group]
    L --> L2[Branch Offices]
    M --> M1[Southern Taiwan  
Business Group]
    M --> M2[Branch Offices]
    N --> N1[Mobile  
Business Group]
    N --> N2[Taipei, Taichung,  
Kaohsiung Branch Offices]
    O --> O1[Data Communications  
Business Group]
    P --> P1[International  
Business Group]
    P --> P2[Overseas Representative Office]
    Q --> Q1[Telecommunication  
Training Institute]
    Q --> Q2[Branching, Kaohsiung  
Branch]
    R --> R1[Telecommunication  
Laboratories]
    S --> S1[Overseas Representative Office]
    T --> T1[Overseas Representative Office]
    
```

SVP : Senior Vice President
 EVP : Executive Vice President

17

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, multimedia-on-demand (MOD), business customer services, Internet access and data communications. Branches of the group also serve as a 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 a 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 a 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 (IDD, Super eCall), international calling cards (Business Calling Cards, Prepaid Cards, E-call Cards), tele-conferencing, video-conferencing, IPLC, IPVPN, IDC, and TWGate.

■ Data Communications 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.

■ Telecom Laboratories:

Applied research and technology development including wireless communications, broadband networks, intelligent networks, optical electronics, information security, value-added and multi-media services; operational support system development, customer service information systems, Internet appliances, and marketing intelligence research and analysis.

■ Telecom Training Institute:

Training of telecommunication professionals, holding professional skill tests, publishing and issuing training material compilations and periodicals, etc.

(II) Information on Directors, Supervisors and senior Managers

1. Directors and Supervisors

□ As of 12/31/2004

□ 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		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Juridical Shareholder Represented	MOTC	06/25/2004	06/24/2007	06/11/1996	6,265,454,139	64.94%	6,259,973,541	64.89%	—	—	—	—	—	—	—	—	—
Chairman	Tan Ho Chen	06/25/2004	06/24/2007	01/30/2003			8,415	0.00%	2,000	0.00%	—	—	Master's degree of Regional & Urban Planning, Virginia Polytechnic Institute & State University Chairman & CEO of the Company	—	—	—	—
Independent Director	Jing-Twen Chen	06/25/2004	06/24/2007	06/25/2004			—	—	—	—	—	—	Ph.D. degree in Finance from the National Taiwan University of Science and Technology Professor at the Department of Finance of the National Central University in Taiwan	Supervisor of Joint Credit Information Center	—	—	—
Independent Director	Zse-Hong Tsai	06/25/2004	06/24/2007	06/25/2004			—	—	—	—	—	—	Ph.D. in Electrical Engineering from the University of California, Los Angeles Professor of Electrical Engineering at the National Taiwan University	Director of Broadcasting Development Fund Director of the Directorate General of Telecommunications	—	—	—
Independent Director	Joyce H.Y. Jen	06/25/2004	06/24/2007	06/25/2004			—	—	—	—	—	—	Master's degree in Law from the National Taiwan University The founder and a senior partner of Serenity Law Office	—	—	—	—
Director	Shyue-Ching Lu	06/25/2004	06/24/2007	06/11/1996			18,260	0.00%	—	—	—	—	Ph.D. degree in Electrical Engineering from the university of Hawaii President of the Company	—	—	—	—

□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		
					Shares	%	Shares	%	Shares	%	Shares	%			Title	Name	Relation
Director	Oliver F. L. Yu	06/25/2004	06/24/2007	07/02/2002			-	-	-	-	-	-	MBA degree from Institute of Management Science, National Chiao Tung University Vice Minister of the MOTC	Director of China Aviation Development Foundation	-	-	-
Director	Yu-Huei Jea	06/25/2004	06/24/2007	12/24/1997			-	-	-	-	-	-	Ph.D.degree from the University of Texas at Austin Senior Counselor of the MOTC	Director of China Engineering Consultants, Inc.	-	-	-
Director	Jeng-Tsuen Liaw	06/25/2004	06/24/2007	06/21/2002 ~ 02/10/2003			-	-	-	-	-	-	Graduated from the Department of Public Administration and Policy at National Chung-Hsing University Director of Personnel Department of the MOTC	Director of Taiwan Motor Transport Company Ltd.	-	-	-
Director	Yen-Pin Wang	06/25/2004	06/24/2007	06/21/2002 ~ 10/21/2002			-	-	-	-	-	-	Master's degree of National Cheng-Chi University Deputy Director of the Department of General Affairs of the MOTC	Director of Taiwan Motor Transport Company Ltd.	-	-	-
Director	Chiu-Kuei Huang	06/25/2004	06/24/2007	09/26/1993			1,000	0.00%	-	-	-	-	Master's degree of Institute of Labor Science, Chinese Culture University Director of Labor Relations Department of Council of Labor Affairs, Executive Yuan	-	-	-	-
Director	Lo-Ming Chung	06/25/2004	06/24/2007	08/29/2003			-	-	-	-	-	-	MBA degree from Arizona State University CFO of China Steel Corporation	Supervisor of China Steel Express Corp. Director of Eminence Investment Corp. Supervisor of China Steel Machinery Corp.	-	-	-
Director	Chien-Cheng Lin	06/25/2004	06/24/2007	06/25/2004			-	-	-	-	-	-	Ph.D. degree in Materials Science and Engineering from the University of Illinois at Urbana-Champaign Professor of the Department of Materials Science and Engineering at National Chiao Tung University	-	-	-	-
Director	Shih-Peng Tsai	06/25/2004	06/24/2007	03/10/2003			1,222	0.00%	1	0.00%	-	-	Ta Tung Junior Technological College of Commerce Manager of See-koo Service Center of the Company Representative of Member's Convention, Chunghwa Telecom Workers' Union	-	-	-	-
Director	Yauh-Hong Lin	06/25/2004	06/24/2007	03/10/2003			1,011	0.00%	-	-	-	-	Kuang-Hwa Vocational High School of Technology Technical Assistant at Network Department of Central Taiwan Business Group of the Company Representative of Member's Convention, Chunghwa Telecom Workers' Union	-	-	-	-
Director	Yen-Chung Lu	06/25/2004	06/24/2007	08/16/2004			1	0.00%	-	-	-	-	Graduated from the Department of Public Administration and Policy at National Chung-Hsing University Assistant Engineer at Network Department of the Company A Standing Director of Chunghwa Telecom Workers' Union	-	-	-	-
Supervisor	Judy Fu-Meei Ju	06/25/2004	06/24/2007	03/27/2002			-	-	-	-	-	-	Ph.D. degree of Law from National Taiwan University The Third Department, Director General of Executive Yuan	Director of Yang Ming Marine Transport Corp.	-	-	-
Supervisor	Yeong-Chwan Hwang	06/25/2004	06/24/2007	02/08/1999			-	-	-	-	-	-	Master's degree from Soochow University in Taiwan Director of Accounting Office and Deputy Director of Accounting Management Center of Directorate General of Budget, Accounting and Statistics of Executive Yuan	Committee member of Central Procurement Supervision Unit of Public Construction Commission Executive Yuan	-	-	-
Supervisor	Ming-Daw Chang	06/25/2004	06/24/2007	10/16/2003			-	-	-	-	-	-	Master's degree in Law, Chinese Culture University Deputy Director General of Examination Bureau, Financial Supervisory Commission	Director of Central Deposit Insurance Corp. Supervisor of Taiwan Academy of Banking and Finance	-	-	-
Supervisor	Yu-Hsien Lin	06/25/2004	06/24/2007	06/25/2004			-	-	-	-	-	-	Master's degree in Statistics from the National Chung-Hsing University Director of the Department of Accounting of MOTC	-	-	-	-

2. Criteria of independence of Directors and Supervisors

Requirements Name	Five or more years of business, law, finance or corporate experience	Conditions to fulfill independence requirement (Note)							Remarks
		1	2	3	4	5	6	7	
Tan Ho Chen	Yes		√	√		√	√		Representative Director from MOTC
Shyue-Ching Lu	Yes		√	√		√	√		Ditto
Oliver F. L. Yu	Yes	√	√	√		√	√		Ditto
Yu-Huei Jea	Yes	√	√	√		√	√		Ditto
Jeng-Tsuen Liaw	Yes	√	√	√		√	√		Ditto
Yen-Pin Wang	Yes	√	√	√		√	√		Ditto
Chiu-Kuei Huang	Yes	√	√	√		√	√		Ditto
Lo-Ming Chung	Yes	√	√	√	√	√	√		Ditto
Chien-Cheng Lin	Yes	√	√	√	√	√	√		Ditto
Shih-Peng Tsai	Yes		√	√		√	√		Ditto
Yauh-Hong Lin	Yes		√	√		√	√		Ditto
Yen-Chung Lu	Yes		√	√		√	√		Ditto
Jing Twen Chen	Yes	√	√	√	√	√	√		Independent Director
Zse-Hong Tsai	Yes	√	√	√	√	√	√		Ditto
Joyce H.Y. Jen	Yes	√	√	√	√	√	√		Ditto

3. Major shareholders of juridical shareholders

As of 12/31/2004

Juridical shareholder	Major shareholders of the juridical shareholder
MOTC	None

4. Management team

As of 12/31/2004

□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		
			Shares	%	Shares	%	Shares	%			Title	Name	Relationship
Chairman & CEO	Tan Ho Chen	01/30/2003	8,415	0.00%	2,000	0.00%	0	0	Political Deputy of Minister, Ministry of Transportation and Communications Master of Regional & Urban Planning, Virginia Polytechnic & State University	—	—	—	—
President	Shyue-Ching Lu	07/01/1996	18,260	0.00%	0	0	0	0	Deputy Director-General, Directorate General of Telecommunications (DGT) Ph. D. in Electrical Engineering ,University of Hawaii	—	—	—	—
Senior Vice President	Jui-Hsiung Chen	07/07/2004	19,221	0.00%	0	0	0	0	Executive VP & President of the Central Taiwan Business Group Department of Transportation & Communication Management Science, National Cheng Kung University	—	—	—	—

□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		
			Shares	%	Shares	%	Shares	%				Title	Name	Relationship
Senior Vice President	Cheng-Chang Chen	01/16/1997	18,230	0.00%	0	0.00%	0	0		Chief Secretary of Chunghwa Telecom Master of Management Science, National Chiao Tung University	Supervisor of Siemens Telecommunication Systems Limited	-	-	-
Senior Vice President	Feng-Hsiung Chang	03/20/1999	16,002	0.00%	0	0.00%	0	0		Deputy Managing Director of Northern Taiwan Telecommunications Administration Master of Management Science, National Chiao Tung University	Director of Siemens Telecommunication Systems Limited and Chunghwa Investment Co., Ltd.	-	-	-
Senior Vice President	Chin-Yi Yue	07/06/2004	16,482	0.00%	14,611	0.00%	0	0		Executive VP & President of Mobile Business Group Master of Electrical Engineering, National Taiwan University	Director of Taipei Financial Center Corp.	-	-	-
Senior Chief Engineer	Cheng-Luh Chen	12/23/2002	18,863	0.00%	0	0.00%	0	0		VP of International Business Group Electrical Engineering Department of National Taiwan University	Director of Taiwan International Standard Electronics Ltd.	-	-	-
Senior Managing Director, Accounting Department	Cheng-Kan Wu	07/16/2004	16,240	0.00%	0	0.00%	0	0		Deputy Senior Managing Director of Accounting Department MBA, Institute of Management Science of National Chiao Tung University	Supervisor of Taipei Financial Center Corp.	-	-	-
Senior Managing Director, Finance Department	Hank Han-Chao Wang	02/24/2000	18,119	0.00%	0	0.00%	0	0		Managing Director, Operating Management Department of Data Communications Business Group MBA, Institute of Management Science of National Chiao Tung University	Supervisor of Chunghwa Investment Co.,Ltd.	-	-	-
Executive VP & President of Northern Taiwan Business Group	John C. C. Hsueh	10/20/2000	15,994	0.00%	13,884	0.00%	0	0		President of Telecom Laboratories Ph. D. in Electrical Engineering & Computer Science, Northwestern University	-	-	-	-
Vice President of Northern Taiwan Business Group	Tsung-Yen Chang	08/01/2003	7,680	0.00%	517	0.00%	0	0		Manager of Panchiao Operation Branch MBA, Institute of Management Science of National Chiao Tung University	Director of RPTI International Co., Ltd.	-	-	-
Vice President of Northern Taiwan Business Group	Tien-Yong Lee	08/04/2004	16,232	0.00%	18,442	0.00%	0	0		Chief Engineer of Northern Taiwan Business Group Department of Electrical Engineering, National Taipei University of Technology	-	-	-	-
Executive VP & President of Central Taiwan Business Group	Chun-Ming Hsieh	07/07/2004	18,583	0.00%	0	0.00%	0	0		Senior Vice President of Chunghwa Telecom Master of Management Science, National Chiao Tung University	-	-	-	-
Vice President of Central Taiwan Business Group	Chi-Mao Hsieh	01/27/2004	15,833	0.00%	0	0.00%	0	0		Senior Managing Director of Network Department MBA, National Taiwan University	-	-	-	-
Vice President of Central Taiwan Business Group	Shih-Yung Chen	07/22/2004	16,817	0.00%	12,338	0.00%	0	0		Manager of North Taichung Operation Branch MBA, National Chung Hsing University	-	-	-	-
Chief Engineer of Central Taiwan Business Group	Shuen-Cheng Tseng	03/09/2004	2,718	0.00%	0	0.00%	0	0		Manager of Chiayi Operation Branch MBA, Department of Information Management, National Sun Yat-Sen University	-	-	-	-
Executive VP & President of Southern Taiwan Business Group	Tien-Ying Lin	07/05/2004	27,210	0.00%	0	0.00%	0	0		VP of Northern Taiwan Business Group Bachelor of Electrical Engineering, National Cheng Kung University	-	-	-	-
Vice President of Southern Taiwan Business Group	Chi-Shen Wang	01/16/1999	4,715	0.00%	0	0.00%	0	0		Chief Engineer of Southern Taiwan Business Group Master of Earth Science and Institute of Geophysics, National Central University	-	-	-	-

□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		
			Shares	%	Shares	%	Shares	%				Title	Name	Relationship
Vice President of Southern Taiwan Business Group	Jung-Ho Lee	09/01/2004	18,425	0.00%	14,633	0.00%	0	0		Senior Managing Director of Legal Affairs Department Master of Law, National Taiwan University	Director of RPTI International Co., Ltd.	-	-	-
Chief Engineer of Southern Taiwan Business Group	Yaw-Ming Wu	01/14/2002	17,394	0.00%	0	0.00%	0	0		Senior Managing Director of Corporative Services Department Master of Business, National Sun Yat-Sen University	-	-	-	-
Executive VP & President of Mobile Business Group	Hsiao-Tung Chang	07/06/2004	17,720	0.00%	7,514	0.00%	0	0		Executive VP & President of International Business Group MBA, Institute of Management Science, National Chiao Tung University	Director of Chunghwa Investment Co., Ltd.	-	-	-
Vice President of Mobile Business Group	Jen-Hon Lin	07/01/1996	18,533	0.00%	12,867	0.00%	0	0		VP of Telecom Laboratories Master of Electrical Engineering, Polytechnic University of New York	-	-	-	-
Vice President of Mobile Business Group	Shu-Yueh Hong	08/30/2001	14,451	0.00%	0	0	0	0		Senior Managing Director of Corporative Services Department Bachelor of Transportation and Communication Management Science, National Cheng Kung University	-	-	-	-
Chief Engineer of Mobile Business Group	Mu-Piao Shih	10/09/2001	18,037	0.00%	0	0	0	0		Deputy Chief Engineer of Mobile Business Group Master of Electrical Engineering, National Taiwan University	-	-	-	-
Executive VP & President of International Business Group	Cheng-Tsun Chiang	07/06/2004	17,452	0.00%	0	0	0	0		Executive VP & President of Southern Taiwan Business Group Master of Automatic Control Engineering, Feng Chia University	Director of Chunghwa Investment Co., Ltd.	-	-	-
Vice President of International Business Group	Kwei-Tuo Lee	12/31/2002	15,683	0.00%	0	0	0	0		Chief Engineer of International Business Group Bachelor of Electrical Engineering Department, National Cheng Kung University	-	-	-	-
Vice President of International Business Group	Tai-Fen Leng	07/19/2004	17,872	0.00%	0	0	0	0		Senior Managing Director of Marketing Department MBA, Institute of Management Science, National Chiao Tung University	-	-	-	-
Executive VP & President of Data Communications Business Group	Yen-Sung Lee	01/25/2002	14,511	0.00%	1,153	0.00%	0	0		Senior Managing Director of Information Department Ph. D. in Information Engineering, National Chiao Tung University	-	-	-	-
Vice President of Data Communications Business Group	Wen-San Wang	05/07/2002	17,843	0.00%	0	0	0	0		Chief Engineer of Data Communications Business Group Master of Management Science Department, National ChiaoTung Univetsity	-	-	-	-
President of Telecom Laboratories	Lung-Sing Liang	10/20/2000	18,818	0.00%	0	0	0	0		VP of Telecom Laboratories Ph. D., Electrical Engineering Department, National Taiwan University	-	-	-	-
Vice President of Telecom Laboratories	Bor-Shenn Jeng	09/18/1997	17,262	0.00%	0	0	0	0		Major Director of Telecom Laboratories Ph. D., Graduate Institute of Optical Sciences, National Central University	Supervisor of Taiwan International Standard Electronics Ltd.	-	-	-
Vice President of Telecom Laboratories	Feng-Yue Hung	01/31/2001	15,995	0.00%	0	0	0	0		Major Director of Telecom Laboratories Master of Department of Electronic Engineering, National Chiao Tung University	-	-	-	-
President of Telecom Training Institute	Lang-Chee Chang	05/07/2002	16,674	0.00%	0	0	0	0		VP of Data Communications Business Group Ph. D. in Electronic Engineering, National Chiao Tung University	-	-	-	-
Vice President of Telecom Training Institute	Yuan-Hsiung Lye	01/19/1998	17,232	0.00%	0	0	0	0		Deputy Senior Managing Director of Audit Department MBA, National Chiao Tung University	-	-	-	-

5. Directors' remuneration

As of 12/31/2004

Title	Name	Remuneration and allowance (NT\$)	Allocated director remuneration	Employee bonus				Total (NT\$)	% of Net profit after taxation	Share options	Other remuneration (NT\$)
				Cash bonus	Share Bonus	Market value	amount				
Chairman	Tan Ho Chen	0	—	—	—	—	—	0	0.00%	—	—
Director	Shyue-Ching Lu	0	—	—	—	—	—	0	0.00%	—	—
Director	Oliver F. L. Yu	98,400	—	—	—	—	—	98,400	0.00%	—	—
Director	Yu-Huei Jea	82,400	—	—	—	—	—	82,400	0.00%	—	—
Director	Chiu-Kuei Huang	98,400	—	—	—	—	—	98,400	0.00%	—	—
Director	Yen-Pin Wang	56,000	—	—	—	—	—	56,000	0.00%	—	—
Director	Jeng-Tsuen Liaw	56,000	—	—	—	—	—	56,000	0.00%	—	—
Director	Chien-Cheng Lin	56,000	—	—	—	—	—	56,000	0.00%	—	—
Director	Lo-Ming Chung	78,322	—	—	—	—	—	78,322	0.00%	—	—
Director	Shih-Peng Tsai	57,682	—	—	—	—	—	57,682	0.00%	—	—
Director	Yauh-Hong Lin	24,853	—	—	—	—	—	24,853	0.00%	—	—
Director	Yen-Chung Lu	6,300	—	—	—	—	—	6,300	0.00%	—	—
Independent Director	Jing Twen Chen	90,400	—	—	—	—	—	90,400	0.00%	—	—
Independent Director	Zse-Hong Tsai	98,400	—	—	—	—	—	98,400	0.00%	—	—
Independent Director	Joyce H.Y. Jen	76,085	—	—	—	—	—	76,085	0.00%	—	—

6. Supervisors' remuneration

As of 12/31/2004

Title	Name	Remuneration and allowance (NT\$)	Allocated supervisor remuneration	Employee bonus				Total (NT\$)	% of Net profit after taxation	Share options	Other remuneration (NT\$)
				Cash bonus	Share Bonus	Market value	amount				
Supervisor	Judy Fu-Meei Ju	98,400	—	—	—	—	—	98,400	0.00%	—	—
Supervisor	Ming-Daw Chang	98,400	—	—	—	—	—	98,400	0.00%	—	—
Supervisor	Yu-Hsien Lin	56,000	—	—	—	—	—	56,000	0.00%	—	—
Supervisor	Yeong-Chwan Hwang	98,400	—	—	—	—	—	98,400	0.00%	—	—

7. Management team's remuneration

As of 12/31/2004

Title	Name	Salary (NT\$)	Incentive pay (NT\$)	Employee bonus				Total (NT\$)	% of Net profit after taxation	Share options	Other remuneration (NT\$)
				Cash bonus	Share Bonus	Market value	amount				
Chairman & CEO	Tan Ho Chen	1,895,736	663,720	—	—	—	—	2,559,456	0.00%	—	Monthly rental fee of a car 30,000
President	Shyue-Ching Lu	1,852,656	648,642	—	—	—	—	2,501,298	0.00%	—	Monthly rental fee of a car 30,000
Senior VP	Jui-Hsiung Chen	1,531,800	586,087	—	—	—	—	2,117,887	0.00%	—	—
Senior VP	Cheng-Chang Chen	1,531,800	586,342	—	—	—	—	2,118,142	0.00%	—	—
Senior VP	Feng-Hsiung Chang	1,531,800	586,342	—	—	—	—	2,118,142	0.00%	—	—
Senior VP	Chin-Yi Yue	1,531,800	584,428	—	—	—	—	2,116,228	0.00%	—	—
Executive VP	John C.C. Hsueh	1,531,800	589,151	—	—	—	—	2,120,951	0.00%	—	—
Executive VP	Chun-Ming Hsieh	1,531,800	634,342	—	—	—	—	2,166,142	0.00%	—	—
Executive VP	Tien-Ying Lin	1,531,800	575,307	—	—	—	—	2,107,107	0.00%	—	—
Executive VP	Hsiao-Tung Chang	1,531,800	592,597	—	—	—	—	2,124,397	0.00%	—	—
Executive VP	Cheng-Tsun Chiang	1,531,800	650,300	—	—	—	—	2,182,100	0.00%	—	—
Executive VP	Yen-Sung Lee	1,531,800	592,853	—	—	—	—	2,124,653	0.00%	—	—

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

Title	Name	2004		As of 03/31/2005	
		Increased (decreased) shares	Increased (decreased) pledged shares	Increased (decreased) shares	Increased (decreased) pledged shares
Major shareholder	MOTC (Note 1)	(8,782,079)	0	0	0
Chairman & CEO	Tan Ho Chen (Note 2)	623	0	0	0
Director & President	Shyue-Ching Lu (Note 2)	1,243	0	0	0
Director	Shih-Peng Tsai (Note 2)	80	0	0	0
Director	Yauh Hong Lin (Note 2)	76	0	0	0
Director	Yen-Chung Lu (Note 2)	0	0	0	0
Director	Chiu-Kuei Huang (Note 2)	0	0	0	0
Director	Jing-Twen Chen	0	0	0	0

Title	Name	2004		As of 03/31/2005	
		Increased (decreased) shares	Increased (decreased) pledged shares	Increased(decreased) shares	Increased(decreased) pledged shares
Director	Oliver F. L. Yu (Note 2)	0	0	0	0
Director	Zse-Hong Tsai	0	0	0	0
Director	Lo-Ming Chung (Note 2)	0	0	0	0
Director	Jeng-Tsuen Liaw (Note 2)	0	0	0	0
Director	Yu-Huei Jea (Note 2)	0	0	0	0
Director	Joyce H.Y. Jen	0	0	0	0
Director	Yen-Pin Wang (Note 2)	0	0	0	0
Director	Chien-Cheng Lin (Note 2)	0	0	0	0
Supervisor	Ming-Daw Chang (Note 2)	0	0	0	0
Supervisor	Yu-Hsien Lin (Note 2)	0	0	0	0
Supervisor	Yeong-Chwan Hwang (Note 2)	0	0	0	0
Supervisor	Judy Fu-Meei Ju (Note 2)	0	0	0	0
Senior VP	Jui-Hsiung Chen (Note 3)	1,330	0	0	0
Senior VP	Cheng-Chang Chen (Note 3)	1,238	0	0	0
Senior VP	Feng-Hsiung Chang	(2,780)	0	0	0
Senior VP	Chin-Yi Yue	1,219	0	0	0
Executive VP	John C.C. Hsueh	(20,782)	0	0	0
Executive VP	Chun-Ming Hsieh	1,282	0	0	0
Executive VP	Tien-Ying Lin	1,183	0	0	0
Executive VP	Hsiao-Tung Chang	1,202	0	0	0
Executive VP	Cheng-Tsun Chiang	1,217	0	0	0
Executive VP	Yen-Sung Lee	965	0	0	0
Vice President	Jen-Hon Lin	1,281	0	0	0
Vice President	Jung-Ho Lee	653	0	0	0
Vice President	Chi-Shen Wang	240	0	0	0
Vice President	Shih-Yung Chen	1,141	0	0	0
Vice President	Shu-Yueh Hong	982	0	0	0
Vice President	Wen-San Wang	1,218	0	0	0
Vice President	Tai-Fen Leng	1,614	0	0	0
Vice President	Kwei-Tuo Lee	1,160	0	0	0
Vice President	Tsung-Yen Chang	553	0	0	0
Vice President	Tien-Yong Lee	560	0	0	0
Vice President	Chi-Mao Hsieh	1,081	0	0	0
Vice President	Jeng-Lang Huang (Note 4)	-	-	0	0
Vice President	Shiang-Yi Chen (Note 4)	-	-	0	0

Title	Name	2004		As of 03/31/2005	
		Increased (decreased) shares	Increased (decreased) pledged shares	Increased(decreased) shares	Increased(decreased) pledged shares
Manager	Chao-Nan Chang	1,150	0	0	0
Manager	Shuen-Te Yu	583	0	0	0
Manager	Chia-Hua Hsiao	644	0	0	0
Manager	Chun-Heng Wei	1,155	0	0	0
Manager	Shiu-Hsiung Lin	1,148	0	0	0
Manager	Yung-Hsing Ku	1,226	0	0	0
Manager	Wen-Yu Hu	1,208	0	0	0
Manager	Ming-Yuan Lee (Note 5)	520	0	0	0
Manager	Fu-Tien Lin	1,106	0	0	0
Manager	Ching-Hsiung Tung	963	0	0	0
Manager	Hui-Min Wang	640	0	0	0
Manager	Ching-Ming Huang	1,123	0	0	0
Manager	Hsi-Shan Liu	518	0	0	0
Manager	Yung-Hsiung Lin	521	0	0	0
Manager	Chin-Yi Shen	518	0	0	0
Manager	Kun-Chuan Wu	1,191	0	0	0
Manager	Chun-Cheng Chen	1,110	0	0	0
Manager	Yu-Hsin Tseng	1,135	0	0	0
Manager	Kuo-Ching Chen	480	0	0	0
Manager	Chung-Hsin Cho (Note 5)	1,224	0	0	0
Manager	Yuan-Hsiung Chang	320	0	0	0
Manager	Tai-Chi Tseng	1,092	0	0	0
Manager	Tao-Hung Lu	440	0	0	0
Manager	Ching-Hu Tsai	1,037	0	0	0
Manager	Wen-Tsung Lo	1,216	0	0	0
Manager	Chin-Piao Su	1,112	0	0	0
Manager	Ching-Chuan Chen	1,197	0	0	0
Manager	Hsi-Chin Lee	0	0	0	0
Manager	Chung-Kuang Chen	(112)	0	0	0
Manager	Chia-Jung Chen	560	0	0	0
Manager	Min-Ching Jeng (Note 4)	-	-	0	0
Manager	Yau-Ching Tsai (Note 4)	-	-	0	0
Senior Managing Director, Finance Department	Hank Han-Chao Wang	1,254	0	0	0
Senior Managing Director, Accounting Department	Cheng-Kan Wu	581	0	0	0

Note 1: Major shareholders are those who hold more than 10% of the Company's shares.

Note 2: The authorized representative of the substantial shareholder, MOTC.

Note 3: Retired in the period of January 1, 2005 to March 31, 2005.

Note 4: Assumed in the period of January 1, 2005 to March 31, 2005.

Note 5: Transferred to non-management in the period of January 1, 2005 to March 31, 2005.

(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	%
Chunghwa Investment	98,000,000	49	0	0	98,000,000	49
Taiwan International Standard Electronics	1,760,000	40	0	0	1,760,000	40
Taipei Financial Center	288,211,418	12	0	0	288,211,418	12
RPTI International	9,234,225	12	0	0	9,234,225	12
Siemens Telecommunication Systems	75,000	15	0	0	75,000	15

III. Capital and Shares**(I) History of capitalization**

Unit : share ; %

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	9,647,724,902	96,477,249,020	9,647,724,900	96,477,249,000	Almost full amount of DGT capital under MOTC	None

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

(II) Structure of shareholders

As of 07/19/2004 (Note)

	Government agencies	Domestic financial institutions	Other domestic institutional investors	Domestic individual investors	Foreign institutional and individual investors	Total
Number of Shareholders	4	108	199	71,712	330	72,353
Shares Owned	6,335,413,056	940,748,431	428,084,062	318,142,978	1,625,336,373	9,647,724,900
Ownership %	65.67%	9.75%	4.44%	3.30%	16.85%	100.00%

Note: The above table was made according to the shareholders' register on the Company's last record date (07/19/2004).

(III) Distribution profile of shareholder ownership

As of 07/19/2004 (Note1)

Shareholder ownership	Number of shareholders	Shares owned	Ownership %
1- 999	16,287	1,521,959	0.02
1,000-5,000	38,535	87,910,333	0.91
5,001-10,000	9,593	71,710,101	0.74
10,001-15,000	5,125	60,970,752	0.63
15,001-20,000	1,040	19,193,143	0.20
20,001-30,00	480	12,688,178	0.13
30,001-40,000	241	8,897,441	0.09
40,001-50,000	202	9,725,328	0.10
50,001-100,000	308	24,136,954	0.25
100,001-200,000	164	24,780,341	0.26
200,001-400,000	106	31,323,057	0.32
400,001-600,000	65	32,229,280	0.33
600,001-800,000	40	27,809,504	0.29
800,001-1,000,000	34	30,392,006	0.32
1,000,001-999,999,999	131	1,829,615,277	18.96
1,000,000,000-5,000,000,000	1 (Note 2)	1,109,749,190	11.50
Over 5,000,000,001	1 (Note 3)	6,265,072,056	64.94
Total	72,353	9,647,724,900	100.00

Note 1: The above table was made according to the shareholders' register on the Company's last record date (07/19/2004).

Note 2: The shareholder fell under the specialized account, "ADR- Chunghwa Telecom Co., Ltd." in the next list.

Note 3: The shareholder was the MOTC. As of December 31, 2004, the MOTC held 6,259,973,541 of common shares of the Company, which was equivalent to 64.89% of the total number of shares outstanding.

Note 4: There were no treasury shares held by the Company as of the end of 2004.

(IV) Major shareholders list

As of 07/19/2004 (Note)

Major shareholders	Number of shares	Ownership %
MOTC	6,265,072,056	64.94
ADR - Chunghwa Telecom Co., Ltd.	1,109,749,190	11.50
Cathay Life Insurance Co.	702,323,000	7.28
Taiwan Cellular Corporation	277,567,000	2.88
Chunghwa Post Co., Ltd.	108,737,000	1.13
Fubon Life Assurance Co., Ltd.	65,509,000	0.68
Capital Income Builder, Inc.	63,950,000	0.66
Capital World Growth and Income Fund Inc.	61,060,000	0.63
Bureau of Labor Insurance	43,823,000	0.45
GMO Emerging Markets Fund	33,219,000	0.34

Note : The above table was made according to the shareholders' register on the Company's last record date (07/19/2004).

(V) Domestic market prices

Item	Period	2003	2004	01/01/2005-03/31/2005
Domestic market price per share	High	59.50	64.00	66.00
	Low	45.80	49.40	62.50
	Average	50.80	58.05	63.32

(VI) Dividend policy☐

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

Article 22:

Dividends are paid from net income after tax. Before distributing dividends to shareholders, the Company first recovers past losses, and set 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. No less than 1% distributed to employees as bonuses.
2. No more than 0.2% distributed to directors and supervisors as remuneration.
3. The remainder is to be distributed as shareholder dividends. No 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. The Company will distribute its earnings generated as staff bonus and director and supervisor remuneration during the year of privatization depending on the length of privatization in that year.

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.

☐**(VII) Dividend distribution**

The Company distributed the following dividends for fiscal years 2002-2004:

In 2002, the Company distributed a cash dividend of NT\$3.5 per share for the operating results of fiscal year 2001. In 2003, the Company distributed a cash dividend of NT\$4.0 per share for the operating results of fiscal year 2002. In 2004, the Company distributed a cash dividend of NT\$4.5 per share for the operating results of fiscal year 2003. The cash dividend of NT\$4.7 per share for the fiscal year 2004 was proposed by the Board of Directors for approval in the annual general meeting scheduled to be held on June 21, 2005.

☐**(VIII) Impact on company performance and earnings per share as a result of the stock dividend distribution proposed to the annual general meeting 2005**

None

☐**(IX) Employee bonus and remuneration for Directors and Supervisors**

Not applicable before the Company is privatized.

(X) Share repurchase

None

IV. Issuance of Corporate Bonds

None

V. Issuance of Preferred Shares

None

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
Depository Bank			The Bank of New York
Custodian Bank			International Commercial Bank of China
ADSs Outstanding			1,109,749,190 (As of 12/31/2004)
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 Custodian Agreement for details.
Market Price per ADS(US\$)	2004	High	21.34
		Low	14.65
		Average	17.38
	01/01/2005 ~ 03/31/2005	High	21.96
		Low	20.53
		Average	21.39

VII. Employee Stock Option Plan

None

VIII. Mergers and Acquisitions☐

None

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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 services.

1. Revenue breakdown

For the year ended December 31, 2004, revenues from fixed-line, wireless, Internet & data services and other business comprised 38.9%, 38.2%, 21.2% and 1.7% respectively, of total revenues. The percentage of revenues from wireless and Internet & data businesses increased significantly compared with 2003, 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, hotline, three-way calling, wake-up call, do-not-disturb, group lines and Universal Message System (UMS).
- Domestic long-distance services include operator-assisted toll dialing and subscriber toll dialing.
- International long distance services include 009 International Direct Dialing , 019 Super eCall, Hotline 009, prepaid calling card, business calling card, collect calling, and conference calling services.
- Intelligent network provides various services such as advanced toll-free calls, tele-voting, personal number, premium rate service and mass calling services.
- Integrated Services Digital Network is a digital, multifunctional communications network that is capable of sending and receiving digital voice, data, text and images.

(2) Wireless services

- Chunghwa Telecom offers digital cellular service through its dual band GSM communications network. We also offer the largest international roaming network. In addition to our basic cellular services, we provide a broad range of value-added telecommunications and information services via "emome portal". By integrating platforms for IVR, GPRS, SMS and MMS services, "emome", offers value-added services including financial information, transaction services, emergency service access numbers, directory information, dating and personals, entertainment information, time, weather and traffic reports. In addition, we have launched other cellular value-added services, including Java games, personal ring back tone, video streaming, and PoC.
- Paging services: Services include messaging and wireless information service.

(3) Internet & data services

- HiNet
HiNet is the brand name of our ISP service. The Company offers dial-up, leased line, ADSL and FTTB broadband Internet access services. HiNet also offers customers value-added services such as music, gaming, e-learning, video streaming, astrology, financial information and parenting information.
- Leased line
The Company offers point-to-point connections for local, domestic long distance, and international voice and data transmissions for customers with dedicated circuits.
- ADSL
Using asymmetrical digital technology, subscribers can make phone calls and access the Internet at high speed by using the same local loop.
- WLAN
By installing access points at our ADSL customers' premises, the Company has been able to extend its broadband access via wireless local area network services to the last meter.
- MOD
Through our Multimedia-on-Demand (MOD) services, the Company provides a wide variety of DVD-quality programs for customers. In addition to providing broadcasting TV channels, we offer video-on-demand (including Near & True VOD) and two-way services that allow users to choose individual viewing times.

(4) Other services□

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

3. Development of new services

(1) Mobile services

- Continue to introduce additional mobile data services for corporate customers such as mobile Internet, mobile office, mobile data virtual private network, intelligent fleet management, express and special number service.
- Launch mobile blog, two dimensional barcode theatre ticketing service, music center, flash and game sampler.
- Roll out 3G services including video call, mobile TV, push to view, video avatar, personalized ring back video, etc.
- Strengthen the "emome" flagship store and enhance the "emome" website to appeal to the youngsters.

(2) Internet & data services

- Launch Internet music service HiNet KKBox with more than 500,000 titles.
- Establish cyber security operating center and offer Internet security services.
- Launch a new package of services "Xuite" including blog, photo album, Internet name card and chat room.
- Rollout VoIP service.□

(3) Value-added telephone directory service

- Launch 1288 Hotline. Services provided include retail store directory information inquiries and call connection.

3G - Third Generation Mobile Communications

Kicking off the new "Triple-Play" era, 3G consolidates communications, information, media and entertainment on a single platform, enabling customers to enjoy high-speed services. Vodafone, the world's largest mobile phone company, has launched its 3G services in 13 countries including the UK, France, Germany and Japan. With the 3G market maturing, Chunghwa Telecom will launch its services in 2005. In the 3G business, the Company will:

- Leverage its existing 2G and 3G functionality by providing seamless service to customers with dual mode handsets;
- Leverage 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;
- Converge fixed-line and mobile service platforms enabling customers to access personalized information via PC, PDA or mobile phone.

(II) Industry review

1. Current status and development

The telecommunications industry in Taiwan is one of the most developed in the Asia Pacific region in terms of fixed-line, mobile and broadband Internet penetration. Total revenues of Taiwan's telecom market was around NT\$369 billion in 2004, 5.4% growth as compared to 2003. Fixed-line service revenue was NT\$85.9 billion, declined by 3.1% due to fixed to mobile and broadband substitution. Wireless communication revenue was NT\$208.3 billion, grew by 9.8%. Internet and data revenue was NT\$74.7 billion, contributed 13.3% growth. Majority of these revenues were generated by four fixed-line operators, three major GSM mobile operators and 539 type II operators. Both fixed-line and mobile infrastructures are migrating toward broadband.

To capitalize on growth in broadband, telecom service providers around the world intensively prepare to expand their business scope from voice and data to include video services, commonly referred to as triple play services. In order to capture these new opportunities, the Company is aggressively exploring a FTTX network solution. Some of the fixed-line operators in Taiwan have acquired cable operators in order to enhance competitiveness.

Currently many type II operators in Taiwan, including International Simple Reseller (ISR) and Internet Service Provider (ISP), are providing VoIP service to compete with traditional telecom operators.

Taiwan's mobile market had undergone a phase of consolidation, leaving only three main GSM operators in the market.

Technological advances are blurring the line between communications and broadcasting. New types of service are introduced from time to time. For example, digital multimedia services now can be delivered through our Internet service and 3G will be able to provide real time video clip.

At the same time, the proposed new regulatory body National Communications Commission (NCC) will regulate the convergence of communications and electronic media industries.

To cope with the new opportunities, we launched MOD services in 2004 and cooperated with the major TV stations to develop an interactive business model for digital TV over the DVB-MHP and DVB-H platforms.

2. Relationship among upstream, midstream and downstream providers

The telecommunications industry can be classified into three vertical constituents - upstream, midstream and downstream. Upstream refers to infrastructure and equipment vendors; midstream refers to telecom service providers; and downstream refers to distribution agents and sales channels. Telecom service providers, the midstream, owning the network infrastructure, are responsible for network planning and installation, network interconnectivity and compatibility, operation administration and maintenance, service provisioning, offering and billing, marketing and sales and customer services.

For Internet and wireless businesses, the value chain of digital content service can also be classified into three constituents - upstream for content provider; midstream for content aggregators; and downstream for Internet and wireless operators.

3. Product development trends and competition

(1) Internet & data

The penetration rate of the Internet in Taiwan reached 35.4% in 2004.

● Broadband access

- Demand for high-speed access bandwidth has increased significantly with the Company's up sell of ADSL service and the introduction of 8Mbps and 12Mbps ADSL services. 2Mbps ADSL service has been the most popular product with 1.66 million subscribers, accounting for over 54% of the customer base.
- Demand for broadband value-added services such as videophone, video streaming, interactive online games, e-learning, MOD and others will continue to grow.
- Cable modem and ADSL account for 14.2% and 85.8% of Taiwan's broadband market respectively, while the Company has 3.07 million broadband subscribers, representing a 83.1% market share.
- While the Company believes that its ADSL customer base will continue to grow, it will continue to develop new and more diversified products such as FTTX and upgrade its access bandwidth to higher speed to maintain its broadband market share.
- The Company will reinforce strategic alliances with other businesses to further develop our content and value-added service capabilities, aiming to strengthen our position in the youth market.
- In order to provide an Internet environment, the government has invested in PWLAN, e.g. Wireless Broadband City Plans in Taipei, Taichung and Kaohsiung. WLAN service providers are also working actively to increase the number of hotspots. At present, the development of PWLAN is still in embryonic stage and a successful business model is yet to be seen.

● Leased lines

With a steady increase in broadband Internet usage as well as 3G mobile operators entering the market, bandwidth demand will continue to grow. At the end of 2004, our domestic and international leased line market shares, in terms of lines and circuits, were 92% and 47% respectively.

● Internet value-added services

- Demand for higher resolution video services and online games will continue as broadband access becomes more popular.
- The Company will continue to enrich digital video content to attract more subscriptions and develop a digital content delivery network to facilitate content and program distribution.
- The Company offers an open service platform with abundant bandwidth and micropayment mechanisms to support content providers offering services to customers.

□ VoIP Services

Currently, many type II operators in Taiwan, including International Simple Reseller (ISR) and Internet Service Provider (ISP), are providing VoIP service to compete with fixed-line telecom operators. The Company plans to rollout the service in the 2nd quarter of 2005.

(2) Wireless

Mobile penetration in Taiwan was 95% year end 2004, declined from 112% in 2003, owing to the delisting of inactive prepaid customers of all GSM mobile operators.

- The Company maintains the highest postpaid customer base of 88%.
- Consolidation of the mobile market has occurred and resulted in three major GSM operators.
- Many 3G service providers will commence operations in the 2nd half of 2005. This, together with the introduction of number portability, will increase competition.
- To maintain our leading position in the mobile market, the Company has actively promoted value-added services such as personal ring back tones, MMS, Java entertainment applications and PoC to enhance value to customers.

(3) Fixed-line

Fixed-line penetration in Taiwan has reached 59.6%.

- With mobile substitution, local and domestic long distance traffic continue to decrease.
- The major competition is still in ILD services. The Company defended successfully and maintained the market share at the 61.3% level.
- The Company has been able to maintain its local call market share at 97.9% and DLD at 86.4% by the end of 2004.
- The MOD service launched in March 2004 in Taipei and Keelung areas. The service will expand to Taoyuan, Hsinchu, Yilan, Taichung, Tainan, and Kaohsiung areas in 2005.

□

(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 9.

□

(IV) Business development plan

1. Long-term

- (1) Focus on our core businesses namely voice, data and video communication via an integrated fixed and mobile broadband network to meet personal, home and corporate needs.

- (2) Enlarge our scope of business from network services to include information services, content aggregation, application services and selected CPE/CPN.

2. Short-term

- (1) Continue to increase our broadband customer base, upgrade customers to higher speed and enhance HiNet value-added services.
- (2) Increase the number of mobile post-paid customers, specifically target a younger demographic, and increase revenue from value-added services.
- (3) Expand the coverage of MOD service, enrich the contents and programs, and increase customer base.
- (4) Utilize CRM to analyze customers' behavior and identify target markets so as to provide attractive services and promotional packages.
- (5) Increase customer loyalty by improving quality of service and offering bundled services.

II. Marketing and Sales

(I) Market analysis

Customers in Taiwan are very demanding. Services must be innovative, compelling and affordable. The variety of service offerings and quality of service must be continually improved. Understanding the market environment and the specific needs of our customers enables us to offer the right service package for each market segment.

1. Fixed-line services

Due to intense competition as well as mobile and broadband substitutions, revenues of local and domestic long distance services have dropped. However, the substitution effect was somewhat mitigated because the growth in mobile and broadband businesses has slowed down. As compared to last year, revenues from local services decreased by 7.2% while revenue from domestic long distance services decreased by 11.1%. International long distance traffic volume remained stable through proactive promotion of the wholesale business, although revenues have decreased by 2.7% as compared to last year. The local loop has been unbundled for voice services; however, it has had limited impact on the fixed-line business as of the end of 2004.

2. Mobile services

Due to delisting of the inactive prepaid customers in 2004, the number of total subscribers has decreased 1% to 8.19 million compared with 2003. With the promotion of various multimedia value-added services and packages to customers and mobile data services to corporate customers, such as MDVPN mobile office, special code for MMS application platform and PoC, the number of subscribers and ARPU have increased, leading to a revenue increase of 6.8% as compared to last year.

3. Internet & data

In order to achieve the national goal of reaching six million broadband subscribers in 2008, the Company offers a wide range of broadband Internet access services. At the end of 2004, the Company's broadband ADSL subscribers had reached 3.07 million, representing a year-on-year increase of 26%. Among all subscribers, 1.66 million were 2Mbps ADSL users, representing a year-on-year increase of 118%. The Company encourages customers to upgrade access speed to 8Mbps at minimal incremental charges. Moreover, HiNet service was also strengthened to maintain the Company's leadership in the ISP market. Revenues from Internet & data reached NT\$39.3 billion, representing a year-on-year increase of 10.5%.

(II) Business processes of major services

The Company's three major services include fixed-line, wireless and Internet & data. The primary objective of these services is to offer basic communication and value-added services to the general public, including residential and business customers. The Company's process for developing services includes service definition, network planning, equipment installation and maintenance.

(III) Supply

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

□

(IV) Major transaction parties

None of sellers/customers whose business transactions with the Company exceed 10% of the Company's total purchases/sales over the latest two years.

(V) Network capacity in 2003 and 2004

Capacity		2003	2004
Main services			
Fixed-line	Local	17,335,065 lines	17,376,633 lines
	Domestic long distance	2,349,480 circuits	2,319,120 circuits
	International long distance	104,840 circuits	115,040 circuits
Mobile	Mobile	8,500,000 subscribers	9,000,000 subscribers
Internet & data	ADSL	3,088,747 ports	3,746,945 ports
	Broadband HiNet	2,800,000 subscribers	3,500,000 subscribers

(VI) Sales volume in 2003 and 2004

		2003		2004	
Main services		Sales volume	Sales amount (NT\$billion)	Sales volume	Sales amount (NT\$billion)
Fixed-line	Local	13,137,000 lines	45.67	13,242,000 lines	42.52
	Domestic long distance	6,195 million minutes	13.40	5,621 million minutes	11.91
	International long distance	1,848 million minutes	15.62	1,855 million minutes	15.16
Wireless	Mobile	8,267,000 subscribers	65.67	8,191,000 subscribers	70.14
	Paging	117,000 subscribers	0.59	66,000 subscribers	0.30
Internet & data	ADSL	2,426,000 subscribers	13.33	3,070,000 subscribers	14.95
	Broadband HiNet	1,902,000 subscribers	7.80	2,434,000 subscribers	10.76

(VII) Key service quality ratio

- Two surveys on telecommunication service quality conducted by the DGT of MOTC in 2004 indicated the following results of our operation:
 - Segment Survey Results

Local call, domestic long distance call, international call and customer service call connection rate have all exceeded the 95.6% threshold.
 - 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.
- The Company submitted a "Mobile Telephone Service Quality Evaluation Report" for the period from August 1, 2003 to July 31, 2004 to the DGT. Items evaluated in the report include 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

- The Company has established guidelines regarding employees' continuing education.
- The Company sponsors on-the-job training for employees to visit telecom institutions or to receive training abroad. 297 employees participated in overseas training in 2004.
- The Company has established Training Institutions in Panchiao, Taichung and Kaohsiung. As of the review period, accumulated total training time had reached 23,280 person-weeks while total training expenses totaled NT\$728 million.
- The Company has established an E-learning website and knowledge management system.

(VI) 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		2003	2004	March 31, 2005
Number of Employees		29,072	28,518	28,020
Average age		45.27	46.00	46.13
Average years of service		21.23	21.96	22.05
Education (%)	Doctorate degree	0.51	0.53	0.54
	Master's degree	8.23	8.88	9.07
	Bachelor's degree	55.66	55.76	55.77
	High school	30.04	29.44	29.38
	Middle school and under	5.56	5.39	5.24

V. Commitment to 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) Employees' workplace health and safety

In order to improve the health and safety management system in our workplace as well as to prevent occupational accidents, the Company has implemented the Voluntary Protection Program related procedures and actively participated in the domestic Voluntary Protection Program that the Council of Labor Affairs has implemented. The Company's Southern Taiwan Business Group also participated in the international Occupational Health and Safety Management System- OHSAS 18001. By effectively using the "Plan, Do, Check and Action" operating management procedure, we have fulfilled the requirements of these programs and received certificates, while at the same time promoting the Company's culture in maintaining a safe and healthy workplace that meets or exceeds international standards.

(II) Evaluation of employee ethics

- The Company has adopted a code of ethics that applies to its directors, supervisors, managers and employees based on the following criteria:
 - All employees should behave in an honest and ethical manner, especially when there are potential conflicts between personal and company interests.
 - Sensitive company information should be kept confidential.
 - Disclosure of periodic reports should be complete, fair, accurate and timely.
 - All customers, suppliers and competitors should be treated equally.
 - Employees should make efficient use of and protect company assets.
 - Government regulations must be followed, such as those related to insider trading.
 - If any of the rules are violated or are suspected to have been violated, the employee should immediately report to the designated parties as indicated in the code.
- The Company has established guidelines for performance evaluation with respect to awards and punishments. It has made the employees fully aware of such evaluation.

(III) Employee welfare policy

- The Company carries civil servants' insurance and labor insurance for all employees. When an employee qualifies for a claim, the related department administers and supports the process in order to secure the employee's benefits.
- The Company handles Citizen Health Insurance for employees, family members and retired employees.
- The Company organizes leisure activities such as hiking, sightseeing, picnics, and sporting activities for employees, and also holds contests and raffles.
- The Company cosponsors the Employee Welfare Committee which provides subsidies for marriage, birth, child education, retirement and funeral matters for employees and their family members.

(IV) Pension plans

Chunghwa Telecom maintains 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 Company is required to pay severance payments to employees at the date of its 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 has offered early retirement programs to employees. In 2004, there were 580 employees who had participated in the program.

□
(V) Agreement and communication mechanism with the Labor Union:

There are a number of mechanisms to facilitate communication with the Labor Union.

- 1. Negotiating group collective agreements according to the Group Agreement Law.
- 2. To stipulate employee working practices according to the Standard Labor Law, Article 70.
- 3. To convene employer-labor relations meetings.
- 4. The director and the related managing directors of the labor union will join each department's business review meetings and periodically attend evaluation meetings.
- 5. Two-thirds of the seats of the Company's welfare and pension fund committees are from the labor union.
- 6. To encourage employees to submit proposals concerning job efficiency improvement.

□ Faced with privatization, the Company will use open communications to reach agreements in response to requests by the Labor Union to secure employee rights. The Company will make its best efforts to resolve disputes through improving communications with the Labor Union.

□
(VI) Loss from employee disputes during 2004 and as of March 31, 2005

None

VII. Important Contracts

Contract name	Contract parties	Term of agreement	Summary
Next Generation SDH(NG SDH) Network Tender Contract	Chunghwa Telecom and Siemens Telecommu-nication Systems Limited	From April 8, 2004 to April 8, 2006	The NG SDH network construction project includes STM-64 and STM-16 multiplexer with GbE ports. The main purpose of this project is to provide GbE trunk circuits for broadband service
High Performance Edge Routers Tender Contract	Chunghwa Telecom and INTECH Taiwan Corp	From November 11, 2004 to February 14, 2005	200 sets of High Performance Edge Router and management servers
Multimedia on Demand (MOD) Service and Management Platform Tender Contract	Chunghwa Telecom and Acer	From June 9, 2004 to September 9, 2004	For MOD video services platform, and 20,000 set-top-boxes

eCommunity Services for Rural Residents

□ To comply with the government's policy in bridging the digital divide between urban and rural areas, as well as between rich and poor; the Company, in collaboration with the content service providers, Government and the Community Development Council, initiated an eCommunity project "Bridging the digital divide to facilitate communications between urban and rural areas". Under this project, disadvantaged minorities in rural areas were able to improve access to Internet technology and upgrade their capabilities in making use of IT applications to enhance the competitiveness of their descendants. Moreover, the sophisticated and abundant legacy of traditional culture can be preserved digitally and delivered globally via the Internet.

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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				
	2000	1999	2000	2001	2002	2003	2004	
	(in billions, except per share and per pro forma ADS information)							
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	US\$
	(unaudited)							
Income Statement Data:								
Revenues	185.0	91.7	95.0	184.4	179.4	182.5	185.2	5.8
Operating costs and expenses:								
Costs of services (1)	64.8	30.5	35.6	72.7	58.1	59.6	60.3	1.9
Marketing (1)	18.0	8.4	9.6	21.9	20.2	20.0	19.3	0.6
General and administrative (1)	3.3	1.5	1.6	3.5	2.7	2.7	2.5	0.1
Research and development (1)	2.7	1.3	1.3	2.8	2.4	2.6	2.5	0.1
Depreciation and amortization								
- costs of services	34.7	17.2	18.2	36.6	37.9	39.2	38.4	1.2
Depreciation and amortization	2.0							
- operating expenses	125.5	1.0	1.0	2.3	2.4	2.4	2.3	-
Total operating costs and expenses	59.5							
	1.8	59.9	67.3	139.8	123.7	126.5	125.3	3.9
Operating income	0.8	31.8	27.7	44.6	55.7	56.0	59.9	1.9
Other income (2)	60.5	1.1	1.2	3.7	2.5	2.2	2.7	0.1
Other expenses (3)	13.9	0.3	0.5	1.4	1.3	0.6	0.4	-
Income before income tax	46.6	32.6	28.4	46.9	56.9	57.6	62.2	2.0
Income tax	4.83	7.4	6.8	9.5	12.8	10.3	11.3	0.4
Net income		25.2	21.6	37.4	44.1	47.3	50.9	1.6
Net income per share (4)	48.27	2.61	2.24	3.87	4.57	4.90	5.28	0.17
Net income per pro forma equivalent ADS (5)	15.2	26.11	22.40	38.73	45.70	49.04	52.78	1.66
Balance Sheet Data:								
Cash and cash equivalents	315.5	14.4	24.1	4.6	7.6	13.5	29.3	0.9
Property, plant and equipment - net	411.9							
	9.0	311.6	322.8	336.4	338.4	329.7	311.6	9.8
Total assets	126.2	402.7	413.4	411.4	428.6	429.7	438.4	13.8
Total debt	96.5	-	-	17.0	17.7	0.7	0.7	-
Total liabilities	285.7	138.4	105.2	121.7	128.6	118.9	119.7	3.8
Capital stock		96.5	96.5	96.5	96.5	96.5	96.5	3.0
Total stockholders' equity		264.3	308.2	289.7	300.0	310.8	318.7	10.0
Cash Flow Data:	70.0							
Net cash provided by operating activities	(52.8)	41.2	30.0	73.1	91.3	93.6	91.6	2.9
Net cash used in investing activities	(6.1)	(28.8)	(25.3)	(53.7)	(55.3)	(32.2)	(32.5)	(1.0)
Net cash provided by (used in) financing activities	53.1	(2.1)	4.2	(38.9)	(33.0)	(55.5)	(43.4)	(1.4)
Capital expenditures	-	29.2	25.4	52.9	43.3	32.2	22.9	0.7
Other:								
Cash dividends declared per share		N/A	5.80 (6)	3.50	4.00	4.50	-	-



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- (1) Excludes related depreciation and amortization.
 (2) Includes interest income of NT\$372 million for the year ended June 30, 2000; NT\$218 million and NT\$264 million for the six months ended December 31, 1999 and 2000, respectively; and NT\$649 million, NT\$187 million, NT\$100 million and NT\$224 million (US\$7.1 million) for the years ended December 31, 2001, 2002, 2003 and 2004 respectively.
 (3) Includes interest expense of NT\$169 million for the year ended June 30, 2000; NT\$12 million and NT\$103 million for the six months ended December 31, 1999 and 2000, respectively; and NT\$392 million, NT\$171 million, NT\$43 million and NT\$5 million (US\$0 million) for the years ended December 31, 2001, 2002, 2003 and 2004, 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.

II. Financial Statements and Notes

(I) Report of independent registered public accounting firm

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, 2003 and 2004, 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, 2004, 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 audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. Our audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2003 and 2004 and the results of its operations and its cash flows for each of the years in the three year period ended December 31, 2004 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

March 4, 2005

(II) Financial statements



CHUNGHWA TELECOM CO., LTD.

STATEMENTS OF OPERATIONS

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

	Notes	Year Ended December 31			
		2002	2003	2004	
		NT\$	NT\$	NT\$	US\$ (Note 3)
SERVICE REVENUES	2	\$ 179,361	\$ 182,466	\$ 185,163	\$ 5,834
OPERATING COSTS AND EXPENSES	2				
Costs of services, excluding depreciation and amortization		58,120	59,633	60,256	1,899
Marketing, excluding depreciation and amortization	2	20,167	19,992	19,298	608
General and administrative, excluding depreciation and amortization		2,647	2,726	2,550	80
Research and development, excluding depreciation and amortization	2	2,428	2,581	2,476	78
Depreciation and amortization - cost of services		37,890	39,170	38,358	1,209
Depreciation and amortization - operating expense		2,408	2,399	2,345	74
Total operating costs and expenses		123,660	126,501	125,283	3,948
INCOME FROM OPERATIONS		55,701	55,965	59,880	1,886
OTHER INCOME					
Interest		187	100	224	7
Equity in net income of unconsolidated companies		-	3	70	2
Other income		2,294	2,098	2,423	77
Total other income		2,481	2,201	2,717	86
OTHER EXPENSES					
Interest		171	43	5	-
Equity in net loss of unconsolidated companies	2,8	232	-	-	-
Other expense		852	509	415	13
Total other expenses		1,255	552	420	13
INCOME BEFORE INCOME TAX		56,927	57,614	62,177	1,959
INCOME TAX	2,15	12,839	10,299	11,259	355
NET INCOME		\$ 44,088	\$ 47,315	\$ 50,918	\$ 1,604
NET INCOME PER SHARE	2	\$ 4.57	\$ 4.90	\$ 5.28	\$ 0.17
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 EQUIVALENT ADS	2	\$ 45.70	\$ 49.04	\$ 52.78	\$ 1.66
WEIGHTED AVERAGE NUMBER OF 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.
BALANCE SHEETS
(Amounts in Millions, Except Shares and Par Value Data)

ASSETS	Notes	December 31			LIABILITIES AND STOCKHOLDERS' EQUITY	Notes	December 31		
		2003	2004				2003	2004	
		NT\$	NT\$	US\$ (Note 3)			NT\$	NT\$	US\$ (Note 3)
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents	2,4,19	\$ 13,553	\$ 29,283	\$ 923	Trade notes and accounts payable		\$ 11,713	\$ 14,484	\$ 456
Short-term investments	2,5,19	-	9,115	287	Income tax payable	2,15	4,923	5,032	159
Trade notes and accounts receivable, net	2,6	14,813	13,673	431	Accrued expenses	10	14,206	14,368	453
Inventories, net	2,7	1,220	1,439	45	Accrued pension liabilities	2,14	42,199	44,252	1,394
Prepaid expenses		494	602	19	Current portion of deferred income	2	3,186	2,633	83
Deferred income taxes	2,15	16,983	17,283	544	Current portion of long-term loans	12,19	-	200	6
Other current assets		<u>1,703</u>	<u>1,609</u>	<u>51</u>	Customers' deposits	19	10,957	9,262	292
					Other current liabilities	11,16	<u>19,203</u>	<u>18,966</u>	<u>598</u>
Total current assets		<u>48,766</u>	<u>73,004</u>	<u>2,300</u>	Total current liabilities		<u>106,387</u>	<u>109,197</u>	<u>3,441</u>
INVESTMENTS IN UNCONSOLIDATED COMPANIES	2,8,19	<u>3,496</u>	<u>4,035</u>	<u>127</u>	OTHER LIABILITIES				
PROPERTY, PLANT AND EQUIPMENT, NET	2,9,16	<u>329,678</u>	<u>311,638</u>	<u>9,819</u>	Deferred income, net of current portion	2	11,610	9,778	308
INTANGIBLE ASSETS					Long-term loans	12,19	700	500	16
Deferred pension cost	2,14	29,940	33,222	1,047	Other		<u>243</u>	<u>203</u>	<u>6</u>
3G concession	2	10,179	10,179	321	Total other liabilities		<u>12,553</u>	<u>10,481</u>	<u>330</u>
Patents and computer software, net	2	<u>251</u>	<u>207</u>	<u>6</u>	Total liabilities		<u>118,940</u>	<u>119,678</u>	<u>3,771</u>
Total intangible assets		<u>40,370</u>	<u>43,608</u>	<u>1,374</u>	COMMITMENTS AND CONTINGENT LIABILITIES	17			
OTHER ASSETS					STOCKHOLDERS' EQUITY	13			
Deferred income taxes - non-current	2,15	2,901	2,444	77	Capital stock - NT\$10 (US\$0.32) par value; authorized, issued and outstanding - 9,647,724,900 common shares		96,477	96,477	3,040
Other	19	<u>4,484</u>	<u>3,692</u>	<u>116</u>	Capital surplus		135,873	136,362	4,296
Total other assets		<u>7,385</u>	<u>6,136</u>	<u>193</u>	Retained earnings		78,405	85,909	2,706
					Cumulative translation adjustments		<u>-</u>	<u>(5)</u>	<u>-</u>
TOTAL		<u>\$ 429,695</u>	<u>\$ 438,421</u>	<u>\$ 13,813</u>	Total stockholders' equity		<u>310,755</u>	<u>318,743</u>	<u>10,042</u>
					TOTAL		<u>\$ 429,695</u>	<u>\$ 438,421</u>	<u>\$ 13,813</u>

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					Cumulative Translation Adjustments Equity	Total Stockholders' Equity
	Common Shares	Amount	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Total		
		NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
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	-	-	-	-	-	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	-	-	-	-	-	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
Additional capital contributed by government	-	-	32	-	-	-	-	-	32
Additional capital contributed by the MOTC through selling shares to employees at a discounted price	-	-	457	-	-	-	-	-	457
Appropriations and distributions of 2003 earnings:									
Legal reserve	-	-	-	4,850	-	(4,850)	-	-	-
Special reserve	-	-	-	-	1	(1)	-	-	-
Dividends declared	-	-	-	-	-	(43,414)	(43,414)	-	(43,414)
Net income	-	-	-	-	-	50,918	50,918	-	50,918
Cumulative translation adjustment for foreign-currency investments in unconsolidated companies	-	-	-	-	-	-	-	(5)	(5)
BALANCE, DECEMBER 31, 2004 (IN NT\$)	9,647,724,900	\$ 96,477	\$ 136,362	\$ 34,287	\$ 2,676	\$ 48,946	\$ 85,909	(\$ 5)	\$ 318,743
BALANCE, DECEMBER 31, 2004 (IN US\$) (Note 3)	9,647,724,900	\$ 3,040	\$ 4,296	\$ 1,080	\$ 84	\$ 1,542	\$ 2,706	\$ -	\$ 10,042

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

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

	Year Ended December 31			
	2002	2003	2004	
	NT\$	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	\$ 44,088	\$ 47,315	\$ 50,918	\$ 1,604
Adjustments to reconcile net income to net cash provided by operating activities:				
Provision for doubtful accounts	4,931	3,239	1,565	49
Depreciation and amortization	40,298	41,569	40,703	1,282
Net unrealized loss on short-term investments	-	-	12	-
Cash dividends received from equity companies	-	-	56	2
Net loss on disposal of scrap inventories and property, plant and equipment	150	143	168	5
Equity in net loss (net income) of unconsolidated □ companies	232	(3)	(70)	(2)
Stock compensation for shares issued to employees at a discount	-	1,931	457	14
Deferred income taxes	744	425	157	5
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Trade notes and accounts receivable	(1,764)	(760)	(382)	(12)
Inventories	(483)	(1,719)	(326)	(10)
Prepaid expenses	60	(8)	(108)	(3)
Other current assets	811	145	134	4
Other assets	1,028	(1,235)	742	24
Increase (decrease) in:				
Trade notes and accounts payable	(2,666)	2,159	2,879	91
Income tax payable	3,314	(1,249)	109	3
Accrued expenses	(422)	402	162	5
Customers' deposits	(940)	(1,018)	(2,421)	(76)
Other current liabilities	1,969	1,138	464	15
Accrued pension liabilities	3,653	4,065	(1,229)	(39)
Deferred income	(3,467)	(3,016)	(2,385)	(75)
Other liabilities	(183)	90	(40)	(1)
Net cash provided by operating activities	91,353	93,613	91,565	2,885
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase and sales of short-term investments - net	-	-	(9,127)	(287)
Acquisition of investments in unconsolidated companies	(2,000)	-	(530)	(17)
Proceeds from disposal of investments in unconsolidated companies	-	234	-	-
Acquisitions of property, plant and equipment	(43,260)	(32,248)	(22,889)	(721)
Proceeds from disposal of property, plant and equipment	294	6	215	7
Payment on 3G concession	(10,179)	-	-	-
Acquisitions of patents and computer software	(174)	(193)	(122)	(4)
Net cash used in investing activities	(55,319)	(32,201)	(32,453)	(1,022)

(Continued)

	Year Ended December 31			
	2002	2003	2004	
	NT\$	NT\$	NT\$	US\$ (Note 3)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term loans	\$ 38,700	\$ -	\$ -	\$ -
Payments on principal of long-term loans	(38,000)	(17,000)	-	-
Cash dividends paid	(33,767)	(38,591)	(43,414)	(1,368)
Additional capital contributed by government	42	80	32	1
Net cash used in financing activities	(33,025)	(55,511)	(43,382)	(1,367)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	3,009	5,901	15,730	496
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,643	7,652	13,553	427
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 7,652	\$ 13,553	\$ 29,283	\$ 923
SUPPLEMENTAL INFORMATION				
Interest paid	\$ 122	\$ 66	\$ 4	\$ -
Income tax paid	\$ 8,781	\$ 11,121	\$ 10,993	\$ 346
NON-CASH FINANCING ACTIVITIES				
Current portion of long-term loans	\$ -	\$ -	\$ 200	\$ 6

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

CHUNGHWA TELECOM CO., LTD.

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 which 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 at various dates from August 2000 to July 2003. Certain of the Company's common shares were also sold to its employees at various dates from October 2000 to 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 December 31, 2004, the MOTC owns 64.89% shares of the Company.

The Company's common shares were listed and traded on Taiwan Stock Exchange and 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").

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:

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

Short-term Investments

Short-term Investments include commercial paper and repurchaseable bonds purchased with original maturities greater than 90 days. The Company has classified investments as held to maturity which the Company has the ability to and intends to hold to maturity. Held-to-maturity investments are reported at amortized cost with any realized gains and losses recorded in other income and expense. Investments in mutual funds are designated as trading and are carried at their fair value with unrealized valuation gains and losses recognized in earnings.

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 annually or 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

3G Concession represents 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, 2002, 2003 and 2004 were NT\$122 million, NT\$154 million and NT\$166 million, respectively. Accumulated amortization was NT\$813 million and NT\$979 million as of December 31, 2003 and 2004, 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	
	2003	2004
Fixed-line	13	13
Cellular	5	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\$1,329 million and NT\$1,383 million as of December 31, 2003 and 2004, 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\$1,935 million, NT\$1,861 million and NT\$2,526 million for the years ended December 31, 2002, 2003 and 2004, 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.

Derivative Financial Instruments

The Company enters into forward contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates underlying the value of liabilities denominated in foreign currencies until such liabilities are paid. A forward contract obligates the Company to exchange predetermined amounts of specified foreign currencies at specified exchange rates on specified dates. These foreign currency forward exchange contracts are denominated in the same currency in which the underlying foreign currency liabilities are denominated and bear a contract value and maturity date that approximate the value and expected settlement date, respectively, of the underlying transactions. For contracts that are designated and effective as hedges, unrealized gains and losses on open contracts at the end of each accounting period, resulting from changes in the fair value of these contracts, are recognized in earnings in the same period as gains and losses on the underlying foreign denominated receivables are recognized and generally offset. Gains and losses on forward contracts and foreign denominated liabilities are included in other income (expense), net. The Company does not enter into or hold derivatives for trading or speculative purposes and only enters into contracts with highly rated financial institutions.

Derivatives are recognized at fair value and included in either other current liabilities or other current assets on the balance sheet.

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 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 equivalent ADS is calculated by multiplying the above net income per share by ten as each ADS represents ten common shares.

Recent Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123(R) "Share-Based Payment." SFAS No. 123(R) requires that companies recognize compensation expense equal to the fair value of stock options or other share based payments for the annual reporting period that begins after June 15, 2005. SFAS No. 123(R) applies to all awards granted after June 15, 2005, and prior period's awards that are modified, repurchased, or cancelled after June 15, 2005. There is no impact to the Company as a result of this standard as the Company does not currently issue stock options to its employees or others.

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, 2004, which was NT\$31.74 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	
	2003	2004
	NT\$	NT\$
Cash and bank deposits	\$ 2,112	\$ 1,958
Negotiable Certificate of Deposit	-	8,900
Commercial paper	11,441	18,425
	<u>\$ 13,553</u>	<u>\$ 29,283</u>

5. SHORT-TERM INVESTMENT

Short-term investments comprised an open-end bond mutual fund of NT\$8,901 million and a repurchaseable bond of NT\$214 million. The gross unrealized gains for open-end bond mutual funds were NT\$1 million, and the unrealized foreign exchange losses for repurchaseable bond were NT\$13 million as of December 31, 2004.

6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The changes in this account are summarized as follows:

	Year Ended December 31		
	2002	2003	2004
	NT\$	NT\$	NT\$
Balance, beginning of period	\$ 5,008	\$ 7,505	\$ 7,786
Provision for doubtful accounts	4,931	3,158	1,522
Accounts receivable written off	(2,434)	(2,877)	(4,835)
Balance, end of period	<u>\$ 7,505</u>	<u>\$ 7,786</u>	<u>\$ 4,473</u>

7. INVENTORIES, NET

	December 31	
	2003	2004
	NT\$	NT\$
Supplies, net	\$ 1,124	\$ 1,111
Work in process	1	2
Materials in transit	95	326
	<u>\$ 1,220</u>	<u>\$ 1,439</u>

The insurance coverage on inventories as of December 31, 2004 amounted to NT\$1,146 million.

8. INVESTMENTS IN UNCONSOLIDATED COMPANIES

The investments in unconsolidated companies comprise the following:

	December 31			
	2003		2004	
	Carrying Value	% of Owner-ship	Carrying Value	% of Owner-ship
	NT\$		NT\$	
Equity investees:				
Chunghwa Investment ("CHI")	\$ 987	49	\$ 930	49
Taiwan International Standard Electronics ("TISE")	433	40	499	40
	<u>1,420</u>		<u>1,429</u>	
Cost investees:				
Taipei Financial Center ("TFC")	2,000	12	2,530	12
RPTI International ("RPTI")	71	12	71	12
Siemens Telecommunication Systems ("Siemens")	5	15	5	15
	<u>2,076</u>		<u>2,606</u>	
	<u>\$ 3,496</u>		<u>\$ 4,035</u>	

TISE designs, manufactures and sells telecommunications equipment. It also provides maintenance services on such telecommunications equipment. Dividends amounted to NT\$56 million were declared by TISE for the years ended December 31, 2004.

CHI invests in companies engaged in telecom and software businesses. No dividends were declared by CHI for the years ended December 31, 2003 and 2004, respectively.

The Company evaluated the investments in TFC, RPTI and Siemens for investment. The investments have no quoted market values and are carried at their original costs which approximate fair value based on the net asset values on the respective companies.

9. PROPERTY, PLANT AND EQUIPMENT, NET

	December 31	
	2003	2004
	NT\$	NT\$
Cost		
Land	\$ 42,326	\$ 42,407
Buildings and improvements	53,901	56,265
Telecommunications equipment	607,093	613,626
Miscellaneous equipment□	28,279	27,361
	<u>731,599</u>	<u>739,659</u>
Accumulated depreciation		
Buildings and improvements	11,215	12,194
Telecommunications equipment	412,773	426,649
Miscellaneous equipment□	21,140	20,579
	<u>445,128</u>	<u>459,422</u>
Construction in progress	43,159	31,360
Advances related to acquisition of equipment	48	41
Property, plant and equipment, net	<u>\$ 329,678</u>	<u>\$ 311,638</u>

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 a 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 of December 31, 2004, all the properties had been registered in the name of the Company.□

No interest expense was capitalized for the year ended December 31, 2004. Capitalized interest expense aggregated to NT\$302 million and NT\$46 million for the years ended December 31, 2002 and 2003, respectively. The rate of capitalized interest is from 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\$5,146 million and NT\$1,802 million as of December 31, 2003 and 2004, respectively. The Company does not carry comprehensive insurance on all properties.

10. ACCRUED EXPENSES

	December 31	
	2003	2004
	NT\$	NT\$
Accrued compensation	\$ 8,997	\$ 9,207
Accrued franchise fees	2,435	2,500
Other accrued expenses	2,774	2,661
	<u>\$ 14,206</u>	<u>\$ 14,368</u>

11. OTHER CURRENT LIABILITIES

	December 31	
	2003	2004
	NT\$	NT\$
Advances from subscribers	\$ 6,504	\$ 6,835
Amounts collected from subscribers in trust for others	3,610	3,467
Payable to equipment suppliers	3,230	4,150
Payables to construction suppliers	3,081	2,318
Other	2,778	2,196
	<u>\$ 19,203</u>	<u>\$ 18,966</u>

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

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, 2004 are payable in three annual installments (NT\$0.2 billion, NT\$0.2 billion and NT\$0.3 billion) starting on March 12, 2005.

As of December 31, 2004, the Company has unused credit lines of approximately NT\$190,000 million, which are available for short-term and long-term borrowings.

13. 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.

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:

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

For the purpose of privatizing the company, the MOTC sold 1,109,750 thousand common shares of the Company in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange in July 17, 2003.

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, 2004, the outstanding ADSs were 110,975 thousand units, which equaled approximately 1,109,749 thousand common shares, and represented 11.50% of the Company's total outstanding common shares.

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, 2004, the amount of retained earnings available for dividends was NT\$50,776 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, in connection with the privatization plan of the Company, sold shares of stock at discounted prices, to employees at various times from October 2000 to October 31, 2003. 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\$1,916 million as compensation expense for the shares purchased by employees that were subject to a discount for the year ended December 31, 2003.

The MOTC, in connection with the compensation of the employees, sold to employees 3,286,907 shares from February 27, 2004 to March 9, 2004, 14,579 shares from May 31, 2004 to June 18, 2004, 382,083 shares from June 30, 2004 to July 6, 2004 and 5,098,515 shares from November 30 to December 8, 2004 for total consideration of NT\$33 million, NT\$0.1 million, NT\$4 million, and NT\$50 million, respectively. The terms of the offers for the share purchases provided that employees purchase common shares from the above offering and hold the shares 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\$11 million, NT\$15 million, and NT\$457 million as compensation expense for the shares purchased by employees that were subject to par value for the year ended December 31, 2002, 2003, and 2004, respectively

14. 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 was 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.

In order to increase operational efficiency, the Company approved a Special Retirement Incentive Program ("Program"). The Program allows eligible employees who voluntarily leave the Company on February 1, 2005 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 amount over and above the lump sum amount that would have been paid to the employees had they stayed until February 1, 2005 was accounted for as special termination benefits. Accordingly, such benefits were recognized as a liability and charged to income when employees formally accepted the terms of the Program.

The privatization of the Company was not completed on December 31, 2004. The Chairman, as representative of the MOTC, approved the new target privatization date to be December 31, 2005. The Company accounted for the change in the privatization date as a change in the assumption with the resulting adjustment in the projected benefit obligation accounted for as an actuarial loss.

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, 2003 and 2004. 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 Labor Pension Act of ROC will be effective beginning July 1, 2005 and this pension mechanism is considered as a defined contribution plan. The employees who were subject to the Labor Standards Law prior to the enforcement of this Act may choose to be subject to the pension mechanism under this Act or continue to remain subject to the pension mechanism under the Labor Standards Law. For those employees who were subject to the Labor Standards Law prior to July 1, 2005 and still work for the same company after July 1, 2005 and choose to be subject to the pension mechanism under this Act, their seniority as of July 1, 2005 shall be maintained. The rate of contribution by an employer to the Labor Pension Fund per month shall not be less than 6% of each employee's monthly salary or wage.

The components of net periodic benefit costs are as follows:

	Year Ended December 31		
	2002	2003	2004
	NT\$	NT\$	NT\$
Service cost	\$ 2,285	\$ 1,970	\$ 1,943
Interest cost	2,870	2,362	1,887
Expected return on plan assets	(2,196)	(1,618)	(1,226)
Termination benefit under the Program	-	-	243
Amortization of unrecognized net transition obligation	939	939	939
Amortization of unrecognized net loss	172	635	907
Net periodic benefit pension cost	<u>\$ 4,070</u>	<u>\$ 4,288</u>	<u>\$ 4,693</u>

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

	Year Ended December 31		
	2002	2003	2004
	NT\$	NT\$	NT\$
Change in benefits obligation:			
Projected benefits obligation, beginning of year	\$ (114,289)	\$ (119,822)	\$ (126,126)
Services cost	(2,285)	(1,970)	(1,943)
Interest cost	(2,870)	(2,362)	(1,887)
Termination benefit under the Program	-	-	(243)
Actuarial loss	(8,347)	(4,557)	(8,038)
Benefits paid	7,969	2,585	3,326
Projected benefits obligation, end of year	<u>\$ (119,822)</u>	<u>\$ (126,126)</u>	<u>\$ (134,911)</u>
Change in plan assets:			
Fair value of plan assets, beginning of year	\$ 89,377	\$ 83,478	\$ 82,578
Actual return on plan assets	1,654	1,462	696
Employer contributions	416	223	5,922
Benefits paid	(7,969)	(2,585)	(3,326)
Fair value of plan assets, end of year	<u>\$ 83,478</u>	<u>\$ 82,578</u>	<u>\$ 85,870</u>
Reconciliation of funded status			
Funded status	\$ (36,344)	\$ (43,548)	\$ (49,041)
Unrecognized net transition obligation	10,689	9,750	8,811
Unrecognized actuarial loss	17,461	21,539	29,200
Net amount recognized	<u>\$ (8,194)</u>	<u>\$ (12,259)</u>	<u>\$ (11,030)</u>
The weighted-average asset allocations:			
Asset category			
Time deposit	67%	73%	85%
Short-term notes	33%	23%	15%
Taiwan government securities	- %	4%	- %
	<u>100%</u>	<u>100%</u>	<u>100%</u>

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\$6,100 million to the pension plans in 2005. Under the terms agreed upon for the privatization of the Company, the MOTC will contribute NT\$45,687 million to the pension plans in 2005.

Expected benefit payments, which reflect expected future service, as appropriate, are as follows:

	Plan A	Plan B
	NT\$	NT\$
2005	\$ 138,619	\$ 350
2006	-	173
2007	-	379
2008	-	964
2009	-	836
2010-2014	-	8,727

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

	Year Ended December 31		
	2002	2003	2004
	NT\$	NT\$	NT\$
Amounts recognized			
Accrued pension liability	\$ (32,226)	\$ (42,199)	\$ (44,252)
Intangible assets-deferred pension cost	24,032	29,940	33,222
Net amount recognized	<u>\$ (8,194)</u>	<u>\$ (12,259)</u>	<u>\$ (11,030)</u>

Information for the Company's pension plan with an accumulated benefit obligation in excess of plan assets is as follows:

	Year Ended December 31		
	2002	2003	2004
	NT\$	NT\$	NT\$
Aggregate accumulated benefit obligation	<u>\$ (116,332)</u>	<u>\$ (125,499)</u>	<u>\$ (130,982)</u>
Accumulated benefit obligation - Plan A	<u>\$ (116,200)</u>	<u>\$ (125,291)</u>	<u>\$ (130,643)</u>
Fair value of plan assets - Plan A	<u>\$ 82,884</u>	<u>\$ 81,813</u>	<u>\$ 84,924</u>
Actuarial assumptions:		<u>Before Privatization</u>	<u>After Privatization</u>
<u>Year ended December 31, 2002</u>			
Discount rate used in determining present value		1.95%	3.75%
Rate of compensation increase			
All employees		2.00%	5.00%
Annuity increase for retirees		-	3.00%
Rate of return on plan assets			
Plan A		1.95%	3.75%
Plan B		1.95%	3.75%
<u>Year ended December 31, 2003</u>			
Discount rate used in determining present value		1.50%	3.20%
Rate of compensation increase			
All employees		0.50%	3.50%
Annuity increase for retirees		-	2.00%
Rate of return on plan assets			
Plan A		1.50%	-
Plan B		1.50%	3.20%
<u>Year ended December 31, 2004</u>			
Discount rate used in determining present value		1.50%	3.20%
Rate of compensation increase			
□ All employees		3.50%	2.00%
□ Annuity increase for retirees		3.00%	2.00%
Rate of return on plan assets			
□ Plan A		1.50%	-
□ Plan B		1.50%	3.20%

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.

15. INCOME TAXES

The components of income taxes are as follows:

	Year Ended December 31		
	2002	2003	2004
	NT\$	NT\$	NT\$
Current	\$ 12,095	\$ 10,724	\$ 11,101
Deferred	744	(425)	158
	<u>\$ 12,839</u>	<u>\$ (10,299)</u>	<u>\$ 11,259</u>

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:

	Year Ended December 31		
	2002	2003	2004
	NT\$	NT\$	NT\$
Income tax expense computed at statutory tax rate	\$ 14,232	\$ 14,404	\$ 15,544
Permanent differences	(99)	308	(65)
Investment tax credits	(2,095)	(4,348)	(3,379)
Other	801	(65)	(841)
Income tax expense	<u>\$ (12,839)</u>	<u>\$ 10,299</u>	<u>\$ 11,259</u>

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. Upon privatization, the 10% tax on undistributed earnings will be recorded as an expense in the year of the earnings.

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	
	2003	2004
	NT\$	NT\$
Current:		
Provision for doubtful accounts	\$ 1,614	\$ 685
Deferred income	797	658
Accrued pension costs	15,237	15,723
Prepaid card revenues (related liability is included in "other current liabilities")	850	735
Other, net	435	1,963
	<u>18,933</u>	<u>19,764</u>
Less - valuation allowance	1,950	2,481
	<u>\$ 16,983</u>	<u>\$ 17,283</u>
Non-current:		
Deferred income	\$ 2,887	\$ 2,444
Other	1,828	244
	<u>4,715</u>	<u>2,688</u>
Less - valuation allowance	1,814	244
	<u>\$ 2,901</u>	<u>\$ 2,444</u>

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%.

16. TRANSACTIONS WITH RELATED PARTIES

As the Company is a state-owned enterprise, the ROC Government is one of the Company's 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.

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

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

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

	December 31			
	2003		2004	
	Amount	%	Amount	%
Payables				
Accrued expenses				
TISE	\$ -	-	\$ 58	-
CSI	30	-	-	-
	<u>\$ 30</u>	<u>-</u>	<u>\$ 58</u>	<u>-</u>
Payable to construction supplier (included in "other □ current liabilities")				
TISE	\$ 632	6	\$ 77	-
CSI	21	-	17	-
	<u>\$ 653</u>	<u>6</u>	<u>\$ 94</u>	<u>-</u>

	Year Ended December					
	2002		2003		2004	
	Amount	%	Amount	%	Amount	%
Operating cost and expenses						
TISE	\$ -	-	\$ -	-	\$ 193	-
CSI	-	-	96	-	121	-
	<u>\$ -</u>	<u>-</u>	<u>\$ 96</u>	<u>-</u>	<u>\$ 314</u>	<u>-</u>
Acquisition of equipment						
TISE	\$ 6,879	16	\$ 4,471	14	\$ 879	4
CSI	-	-	49	-	155	1
	<u>\$ 6,879</u>	<u>16</u>	<u>\$ 4,520</u>	<u>14</u>	<u>\$ 1,034</u>	<u>5</u>

The foregoing acquisitions were conducted under normal commercial terms.

17. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2004, the Company has remaining commitments under non-cancelable contracts with various parties as follows: (a) acquisitions of land and buildings of NT\$3,391 million, and (b) acquisitions of telecommunications equipment of NT\$12,126 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. Minimum rental commitments under those leases are as follows:

	December 31
	2004
	NT\$
Within the following year	\$ 1,226
During the second year	984
During the third year	636
During the fourth year	332
During the fifth year and thereafter	136
	<u>\$ 3,314</u>

As of December 31, 2004, the Company had unused letters of credit of NT\$6,147 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 was 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.

18. 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.

19. INFORMATION ON FINANCIAL INSTRUMENTS

a. Derivative financial instruments

The Company enters into forward contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates underlying the value of liabilities denominated in foreign currencies until such liabilities are paid. There were no foreign currency forward exchange contracts outstanding as of December 31, 2004. The net realized exchange loss for the year ended December 31, 2004 was of NT\$27 million.

b. Non-derivative financial instruments are as follows:

	December 31			
	2003		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	NT\$	NT\$	NT\$	NT\$
Assets				
Cash and cash equivalents	\$ 13,553	\$ 13,553	\$ 29,283	\$ 29,283
Short-term investments	-	-	9,115	9,115
Investments in unconsolidated companies, accounted for using the equity method	1,420	1,857	1,429	1,767
Refundable deposits (included in "other assets - other")	4,018	4,018	3,357	3,357
Liabilities				
Customers' deposits	10,957	9,337	9,262	7,771
Long-term loans (including current portion)	700	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:

- (1) Cash and cash equivalents. The carrying amounts approximate fair values because of the short maturity of those instruments.
- (2) Short-term investments. The carrying amounts approximate fair values because of the short maturity of those instruments.
- (3) 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.
- (4) Refundable deposits. The carrying amounts approximate fair values as the average lease term associated with these deposits is approximately one year.
- (5) Customers' deposits. The fair value is the discounted value based on projected cash flows. The projected cash flows were discounted using the average expected customer service periods.
- (6) Long-term loans (including current portion). 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.

20. 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, leased 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. Reportable segments:

As of and for the year ended December 31, 2002

	Fixed-Line			Cellular Service	Paging	Internet and Data	All Other	Total
	Local	DLD	ILD					
	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
Unallocated corporate amount	\$ 32,216	\$ 2,129	\$ 9,049	\$ 19,964	\$ 710	\$ 14,563	\$ 728	79,359
Total operating costs and expenses, excluding depreciation and amortization								\$ 83,362

(Continued)

	Fixed-Line							Total
	Local	DLD	ILD	Cellular Service	Paging	Internet and Data	All Other	
	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)
	<u>\$ 23,087</u>	<u>\$ 1,332</u>	<u>\$ 540</u>	<u>\$ 5,227</u>	<u>\$ 369</u>	<u>\$ 8,849</u>	<u>\$ 746</u>	<u>40,150</u>
Unallocated corporate amount								148
Total depreciation and amortization								<u>\$ 40,298</u>
Income from operations	\$ 10,393	\$ 7,272	\$ 3,722	\$ 24,883	\$ (174)	\$ 12,421	\$ 15,29	\$ 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)
	<u>\$ (3,512)</u>	<u>\$ 10,554</u>	<u>\$ 6,113</u>	<u>\$ 37,695</u>	<u>\$ (25)</u>	<u>\$ 7,802</u>	<u>\$ 1,225</u>	<u>59,852</u>
Unallocated corporate amount								(4,151)
Total income from operations								<u>\$ 55,701</u>
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
	<u>\$ (3,284)</u>	<u>\$ 10,612</u>	<u>\$ 6,158</u>	<u>\$ 38,435</u>	<u>\$ (25)</u>	<u>\$ 8,071</u>	<u>\$ 1,254</u>	<u>61,221</u>
Unallocated corporate amount								(4,294)
Total segment income before income tax								<u>\$ 56,927</u>
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)
	<u>\$213,301</u>	<u>\$ 9,700</u>	<u>\$ 12,337</u>	<u>\$ 56,839</u>	<u>\$ 1,367</u>	<u>\$ 66,016</u>	<u>\$ 10,359</u>	<u>\$ 369,919</u>
Unallocated corporate amount								58,734
Total segment assets								<u>\$ 428,653</u>
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								<u>\$ 43,260</u>

As of and for the year ended December 31, 2003

	Fixed-Line							Total
	Local	DLD	ILD	Cellular Service	Paging	Internet and Data	All Other	
	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	<u>2,048</u>	<u>35</u>	<u>45</u>	<u>516</u>	<u>-</u>	<u>4</u>	<u>(22)</u>	<u>2,626</u>
Total service revenues from external customers	<u>\$ 48,411</u>	<u>\$ 13,435</u>	<u>\$ 15,663</u>	<u>\$ 66,188</u>	<u>\$ 592</u>	<u>\$ 35,581</u>	<u>\$ 2,596</u>	<u>\$ 182,466</u>
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	<u>3,516</u>	<u>110</u>	<u>163</u>	<u>425</u>	<u>15</u>	<u>1,191</u>	<u>473</u>	<u>5,893</u>
	<u>\$ 32,211</u>	<u>\$ 1,866</u>	<u>\$ 8,280</u>	<u>\$ 20,450</u>	<u>\$ 411</u>	<u>\$ 16,706</u>	<u>\$ 1,146</u>	<u>81,070</u>
Unallocated corporate amount								3,862
Total operating costs and expenses, excluding depreciation and amortization								<u>\$ 84,932</u>
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)
	<u>\$ 22,064</u>	<u>\$ 1,317</u>	<u>\$ 605</u>	<u>\$ 5,522</u>	<u>\$ 308</u>	<u>\$ 10,805</u>	<u>\$ 786</u>	<u>41,407</u>
Unallocated corporate amount								162
Total depreciation and amortization								<u>\$ 41,569</u>
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	<u>(1,220)</u>	<u>(64)</u>	<u>(107)</u>	<u>143</u>	<u>(12)</u>	<u>(1,101)</u>	<u>(495)</u>	<u>(2,856)</u>
	<u>\$ (5,864)</u>	<u>\$ 10,252</u>	<u>\$ 6,778</u>	<u>\$ 40,216</u>	<u>\$ (127)</u>	<u>\$ 8,070</u>	<u>\$ 664</u>	<u>59,989</u>
Unallocated corporate amount								(4,024)
Total income from operations								<u>\$ 55,965</u>
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	<u>(536)</u>	<u>(48)</u>	<u>(81)</u>	<u>213</u>	<u>(10)</u>	<u>(895)</u>	<u>(420)</u>	<u>(1,777)</u>
	<u>\$ (5,049)</u>	<u>\$ 10,345</u>	<u>\$ 6,795</u>	<u>\$ 40,502</u>	<u>\$ (125)</u>	<u>\$ 8,491</u>	<u>\$ 699</u>	<u>\$ 61,658</u>
Unallocated corporate amount								(4,044)
Total segment income before income tax								<u>\$ 57,614</u>

(Continued)

	Fixed-Line			Cellular Service	Paging	Internet and Data	All Other	Total
	Local	DLD	ILD					
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
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)
	<u>\$ 176,971</u>	<u>\$ 7,060</u>	<u>\$ 12,834</u>	<u>\$ 60,385</u>	<u>\$ 1,037</u>	<u>\$ 91,046</u>	<u>\$ 9,885</u>	<u>\$ 359,218</u>
Unallocated corporate amount								70,477
Total segment assets								<u>\$ 429,695</u>
Expenditures for segment assets	<u>\$ 7,545</u>	<u>\$ 1,314</u>	<u>\$ 415</u>	<u>\$ 7,938</u>	<u>\$ -</u>	<u>\$ 14,302</u>	<u>\$ 666</u>	<u>\$ 32,180</u>
Unallocated corporate amount								68
Total expenditures for segment assets								<u>\$ 32,248</u>

As of and for the year ended December 31, 2004

	Fixed-Line			Cellular Service	Paging	Internet and Data	All Other	Total
	Local	DLD	ILD					
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Service revenues for reportable segments	\$ 60,666	\$ 14,325	\$ 15,159	\$ 71,216	\$ 299	\$ 50,194	\$ 3,252	\$ 215,111
Elimination of intersegment amount	(17,451)	(2,417)	(3)	(1,081)	(1)	(10,843)	(17)	(31,813)
US GAAP adjustments	<u>1,711</u>	<u>36</u>	<u>49</u>	<u>137</u>	<u>-</u>	<u>(41)</u>	<u>(27)</u>	<u>1,865</u>
Total service revenues from external customers	<u>\$ 44,926</u>	<u>\$ 11,944</u>	<u>\$ 15,205</u>	<u>\$ 70,272</u>	<u>\$ 298</u>	<u>\$ 39,310</u>	<u>\$ 3,208</u>	<u>\$ 185,163</u>
Operating costs and expenses, excluding depreciation and amortization	\$ 34,975	\$ 5,117	\$ 10,728	\$ 32,726	\$ 273	\$ 23,800	\$ 1,908	\$ 109,527
Elimination of intersegment amount	(4,125)	(3,784)	(3,070)	(12,859)	(62)	(7,591)	(322)	(31,813)
US GAAP adjustments	<u>1,961</u>	<u>34</u>	<u>38</u>	<u>251</u>	<u>3</u>	<u>453</u>	<u>149</u>	<u>2,889</u>
	<u>\$ 32,811</u>	<u>\$ 1,367</u>	<u>\$ 7,696</u>	<u>\$ 20,118</u>	<u>\$ 214</u>	<u>\$ 16,662</u>	<u>\$ 1,735</u>	<u>80,603</u>
Unallocated corporate amount								3,977
Total operating costs and expenses, excluding depreciation and amortization								<u>\$ 84,580</u>
Depreciation and amortization	\$ 20,225	\$ 835	\$ 671	\$ 5,946	\$ 307	\$ 12,464	\$ 509	\$ 40,957
US GAAP adjustments	<u>(227)</u>	<u>(10)</u>	<u>(11)</u>	<u>(56)</u>	<u>(4)</u>	<u>(104)</u>	<u>-</u>	<u>(412)</u>
	<u>\$ 19,998</u>	<u>\$ 825</u>	<u>\$ 660</u>	<u>\$ 5,890</u>	<u>\$ 303</u>	<u>\$ 12,360</u>	<u>\$ 509</u>	<u>40,545</u>
Unallocated corporate amount								158
Total depreciation and amortization								<u>\$ 40,703</u>

(Continued)

	Fixed-Line			Cellular Service	Paging	Internet and Data	All Other	Total
	Local	DLD	ILD					
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
Income from operations	\$ 5,466	\$ 8,373	\$ 3,760	\$ 32,544	\$ (281)	\$ 13,930	\$ 835	\$ 64,627
Elimination of intersegment amount	(13,326)	1,367	3,067	11,778	61	(3,252)	305	-
US GAAP adjustments	<u>(23)</u>	<u>12</u>	<u>22</u>	<u>(58)</u>	<u>1</u>	<u>(390)</u>	<u>(176)</u>	<u>(612)</u>
	<u>\$ (7,883)</u>	<u>\$ 9,752</u>	<u>\$ 6,849</u>	<u>\$ 44,264</u>	<u>\$ (219)</u>	<u>\$ 10,288</u>	<u>\$ 964</u>	<u>64,015</u>
Unallocated corporate amount								(4,135)
Total income from operations								<u>\$ 59,880</u>
Segment income before income tax	\$ 5,628	\$ 8,586	\$ 3,929	\$ 32,540	\$ (283)	\$ 14,317	\$ 760	\$ 65,477
Elimination of intersegment amount	(13,326)	1,367	3,067	11,778	61	(3,252)	305	-
US GAAP adjustments	<u>746</u>	<u>25</u>	<u>(8)</u>	<u>139</u>	<u>3</u>	<u>(168)</u>	<u>(163)</u>	<u>574</u>
	<u>\$ (6,952)</u>	<u>\$ 9,978</u>	<u>\$ 6,988</u>	<u>\$ 44,457</u>	<u>\$ (219)</u>	<u>\$ 10,897</u>	<u>\$ 902</u>	<u>66,051</u>
Unallocated corporate amount								(3,874)
Total segment income before income tax								<u>\$ 62,177</u>
Segment assets	\$ 199,136	\$ 6,406	\$ 13,834	\$ 65,831	\$ 648	\$ 106,402	\$ 15,376	\$ 407,633
US GAAP adjustments	<u>(40,132)</u>	<u>(1,421)</u>	<u>(1,452)</u>	<u>(5,275)</u>	<u>(43)</u>	<u>(16,108)</u>	<u>(1,831)</u>	<u>(66,262)</u>
	<u>\$ 159,004</u>	<u>\$ 4,985</u>	<u>\$ 12,382</u>	<u>\$ 60,556</u>	<u>\$ 605</u>	<u>\$ 90,294</u>	<u>\$ 13,545</u>	<u>341,371</u>
Unallocated corporate amount								97,050
Total segment assets								<u>\$ 438,421</u>
Expenditures for segment assets	<u>\$ 4,475</u>	<u>\$ 309</u>	<u>\$ 255</u>	<u>\$ 5,512</u>	<u>\$ -</u>	<u>\$ 11,572</u>	<u>\$ 722</u>	<u>\$ 22,845</u>
Unallocated corporate amount								44
Total expenditures for segment assets								<u>\$ 22,889</u>

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:

	Year Ended December 31		
	2002	2003	2004
	NT\$	NT\$	NT\$
Taiwan, ROC	\$ 173,127	\$ 176,429	\$ 180,031
Overseas	<u>6,234</u>	<u>6,037</u>	<u>5,132</u>
	<u>\$ 179,361</u>	<u>\$ 182,466</u>	<u>\$ 185,163</u>

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 office in Thailand. All non-current assets (including investments in unconsolidated companies, property, plant and equipment, intangible assets, and other assets) except for NT\$0.04 million and NT\$0.02 million at December 31, 2003 and 2004, respectively, are located in Taiwan, ROC.

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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	Actual or Estimated Execution of Major Capital Expenditure			
				2002	2003	2004	2005E
Fixed-line	Shareholder's equity	Dec. 2005	40,367	20,729	9,839	4,813	4,986
Wireless	Shareholder's equity	Dec. 2005	22,468	4,702	7,930	5,508	4,328
Internet & data	Shareholder's equity	Dec. 2005	54,429	15,857	14,30	11,571	12,700
R&D	Shareholder's equity	Dec. 2005	2,743	951	1	631	591
Training	Shareholder's equity	Dec. 2005	317	67	570	83	83

II. Estimated Results

Unit : NT\$ million

Year	Item	Productivity	Sales volume	Sales amount
2005	Fixed-line	Construct digital local switches with total 97,000 lines	Add 59,000 subscribers	559
		Construct digital toll switches with total 30,000 circuits	Carry DLD traffic of 40 million minutes	
		Construct 600 digital international telephone circuits	Carry ILD traffic of 36 million minutes	
	Wireless	Expand network capacity for additional 900,000 subscribers	Add 670,000 mobile subscribers	4,728
	Internet & data	Construct 400,000 internet ports	Provide HiNet service to 336,000 subscribers	3,662
		Construct 460,000 ADSL lines	Provide broadband service to 316,000 subscribers	
		Construct leased line circuits	Provide 38,000 Mbps leased line bandwidth	
2006	Fixed-line	Construct digital local switches with total 97,000 lines	Add 58,000 subscribers	873
		Construct digital toll switches with total 215,000 circuits	Carry DLD traffic of 267 million minutes	
		Construct 500 digital international telephone circuits	Carry ILD traffic of 31 million minutes	
	Wireless	Expand network capacity for additional 500,000 subscribers	Add 316,000 mobile subscribers	2,372
	Internet & data	Construct 454,000 Internet ports	Provide HiNet service to 363,000 subscribers	3,702
		Construct 358,000 ADSL lines	Provide broadband service to 277,000 subscribers	
		Construct leased line circuits	Provide 39,000 Mbps leased line bandwidth	

III. Long-term Investments

During the fiscal year 2004, there were no long-term investments exceeding 5% of the Company's paid-in capital. Please refer to page 32 and 68.

IV. Risk Management and Assessment

(I) The structure of risk management

Risk management of each operation of the Company is carried out by the corresponding department based on its business function. The audit department is responsible for reviewing the risk management performance of each operation based on the risk management plan. The departments responsible for risk management and controls are 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 marketing strategies, sales promotion programs and monitoring market conditions so as to minimize operational risk.

Network:

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

Legal affairs:

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

Information technology:

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

Accounting:

Responsible for implementing and regularly updating internal control policy to ensure the effectiveness and efficiency of operations, maintain the reliability of financial reporting and comply laws and regulations.

(II) Impact of Interest rates, currency exchange rates and inflation on the Company's profit and loss in 2004 and future adaptive measures

The Company had no interest bearing debt at the end of year 2004; therefore, the Company had not incurred any debt-related risk. Interest rates may continue to increase several basis points. As such, the Company will invest most of its free capital in floating rate investments and if necessary, with interest rate swaps to minimize the interest rate risk. Concerning exchange rate fluctuations, the settlement fee for the Company with international carriers in ILD and mobile roaming services were mostly net disbursements to the Company, thus, the recent weakening of the US dollar has thus benefited the Company. Meanwhile, though the Euro strengthened during 2004, the Company has partly hedged the final payments of the first phase of the 3G project so as to minimize the impact. The net result had a minimal impact on the Company's financial performance. For year 2004, the inflation rate remained stable; thus there was no impact on the Company's profit and loss statement.

(III) Regarding with making loans to or signed guarantees for any other entities and derivative trading

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 with respect to any future derivative trading.

(IV) Funds required for projects in 2005

The Company's research and development programs focus on fulfilling the needs of the customers, and improving the efficiency of the Company's operations.

The main activities are:

1. establishing comprehensive network operation system and customer information system
2. developing innovative value-added platforms and services
3. acting as a system integrator for corporate customers
4. defining advanced network architecture
5. conducting marketing research and developing business strategy

Future R&D will focus on technologies of next generation network (NGN), next generation operation support system (NGOSS), the fourth generation of mobile communication, ubiquitous broadband & multimedia services, as well as the home networking and digital home applications and so on.

In 2005, the R&D budget is about NT\$3 billion.

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

1. Government fees

- (1) Regulation: In accordance with the amended Public Road Act released on July 2, 2003 and the amended Urban Road Act released on January 7, 2004, the government has the right to collect public road usage fees. The MOTC and the Ministry of Interior have finalized the fee structure. The Company has used public roads for outside plants, thus obliged to pay public road usage fees beginning Jan 1, 2005.
- (2) Impact: The Company has to pay these fees annually. There will be a 50% discount on the fees in the first two years. Starting from the third year, the Company estimates to pay approximately NT\$1 billion for these fees annually.

2. Local loop unbundling

- (1) Regulation: The Telecommunications Act stipulates that operators who own local loops cannot refuse rental of these facilities to other fixed-line operators. The Company reached an agreement with other three fixed-line operators to lease out some of its local loops for voice only starting from June 2004.
- (2) Impact: The Company has lost some customers to alternative fixed-line operators since then; however, the impact has been limited.

3. Mobile Taiwan program - a seamless dual network

(1) Government policies:

- Defining a new business model where cellular and WLAN technologies are integrated to form a seamless dual network for wireless Internet access, the government intends to take advantage of Taiwan's electronics manufacturing capability and market share of WLAN products to build a seamless dual network in Taiwan.
- The government proposed to appropriate a special fund up to NT\$30 billion for construction of shared conduits.

(2) Impact:

- The business model of a seamless dual network as outlined above is yet to be built.
- The construction of shared conduits under this program may help to alleviate some of the pressure of local loop unbundling.

(VI) Impact of technological change on the Company's financials and corresponding measures to be taken

1. VoIP technology

- (1) Driven by technological innovation and the attraction of a lower tariff on voice services, the VoIP market is expected to grow. With VoIP technology, the fixed-line business model might be changed and may result in a decline of fixed-line revenue.
- (2) The Company has introduced IP technology into its international network and launched a Super E-call service which is less expensive than regular ILD services. The Company has also offered VoIP service through its ISP HiNet by the brand name of "hiCall" and also brought in carrier-classed softswitch for VoIP service pilot run on its local and DLD network. The Company will also gradually migrate its PSTN to an IP-based network and provide IP-based broadband multimedia services to generate new revenue streams.

2. WiMAX technology

- (1) WiMAX is a point to multi-points wireless access technology which could be used as a substitution for ADSL. The standard 802.16-2004 for fixed access applications was approved in October 2004. Mass production is expected to take place in 2006, the earliest. Meanwhile, the draft for standard 802.16e, which provides mobility, is now under development and is unlikely to be put into the market before 2007. WiMAX systems can work on license-exempt or licensed frequency bands. If used in the license-exempt frequency band, it's vital to avoid interference from others. At present, a unified frequency plan for WiMAX is not available globally.
- (2) The company is actively evaluating WiMAX product and its applications.

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 offers data and video services via its ISP "HiNet".
- (3) The Company launched MOD service in March 2004, thus entering the age of triple play services.

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

1. Petition by the Taiwan Confederation of Trade Unions (TCTU) at Legislative Yuan on October 19, 2004

TCTU initiated a petition at Legislative Yuan on October 19, 2004. Chunghwa Telecom Workers' Union mobilized its members and their families for about 1500 people to join the petition. The purpose of the petition was to urge the government to sign a collective bargaining agreement with the unions prior to privatization to protect the rights of its members after the Company privatized. The scale of the petition was not large. The petition ended peacefully after the petitioners voiced their opinions.

2. The Chunghwa Telecom Workers' Union passed a resolution on December 5, 2004 giving it the right to strike

The dispute submitted to the Department of Labor, Taipei City Government over the signing of a collective bargaining agreement was determined as "coordinated not sustained" on Nov 11, 2003; therefore, the Chunghwa Telecom Workers' Union passed a resolution on Dec 5, 2004 in accordance with Article 26 of the Labor Union Act that the Unions are eligible to initiate a strike. The Company has set up a task force to prepare for the possible strikes to ensure continuity of its operations and services.

3. Jing Ju Company's deception case

After the revelation of the Jing Ju the deception case, the Company immediately informed the Department of Investigation in Kaohsiung City. In addition to punishing the staff involved, the Company sued Jing Ju for the flaw. Moreover, the Company put in place preventive measures to avoid a similar situation in the future. The Company also reached an agreement with the banks according to the negotiations resolution made with the Consumer Protection Ombudsman of Taipei City Government and Consumer Protection Commission, Executive Yuan to have both the Company and the banks bear the broadband Internet expenses of the victims of this case until the original contract expires.

4. Confidentiality of customer information

In response to a recent customer information leakage incident in the financial, health care, Coast Guard Administration, and telecommunication sectors, the Company's senior management requested all branch offices and department heads to review and implement customer information protection system so as to ensure strict confidentiality of customer information.

(VIII) Expected benefits and risks of M&A activities

☐ None

(IX) Expected benefits and risks of plant expansion

☐ None

(X) Risks on concentration of purchases and sales

☐ None

(XI) The impact and risks of significant change in shareholdings of directors, supervisors or major shareholders holding more than 10% stakes in the Company

☐ None

(XII) The impact and risks of a change in rights of operation

☐ None

(XIII) Significant Lawsuits

Case	Argument	Amount	Lawsuit start date	Lawsuit parties	Status
Damage claims	Arguments on air time charges of the connection services	NT\$ 211,521,377 NT\$ 40,946,017	11/02/2004	Taiwan Cellular Corp. TransAsia Telecommunications <input type="checkbox"/> vs. Chunghwa Telecom	Proceedings being conducted by the Taipei District Court
Damage claims	Arguments on air time charges of the connection services	NT\$ 139,674,013 NT\$ 66,660,287	09/10/2004	Far Eastone Telecommunications, KGT <input type="checkbox"/> vs. Chunghwa Telecom	Proceedings being conducted by the Taipei District Court

(XIV) Other major risks

None

V. Other Significant Issues

None



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PART VI.

CORPORATE GOVERNANCE

PART VI

CORPORATE GOVERNANCE

To comply with the "Accountability of Companies in Taiwan (ACT) : Policy Agenda and Action Plan to Strengthen Corporate Governance" promoted by the Executive Yuan, the Company has drawn up the "Code of Corporate Governance for Chunghwa Telecom Co., Ltd." and assigned a department dedicated to ensure its implementation. Other than reinforcing the implementation of corporate governance, several major tasks have been carried per the following:

- Three independent directors were elected at the 2004 Annual General Meeting and the scope of their duties were stipulated.
- Completed the review and amendment of the existing internal control system by the end of 2004.
- The Audit Department now reports directly to the Board of Directors.
- Three functional committees were established under BOD : Audit Committee, Strategy Committee and Drafting Committee.
- Liability insurance has been procured for all directors and supervisors commencing April 2004.
- Process for acquisition and disposal of assets and rules for the proceedings of board meetings have been stipulated.
- A new auditor was appointed in 2004 for the audit of local financial statement and the rotation was implemented.
- Company rules now dictate directors and supervisors must attend training classes and shareholder meetings.

I. Ownership Structure and Shareholders' Rights

(I) Method of handling shareholders suggestions or disputes

The Company sets a department dedicated to handle shareholders' suggestions and disputes.

(II) Identification of major shareholders and their masters

In accordance with Article 25 of the Securities and Exchange Law, the Company reports changes in shareholder equity every month for all insiders (including directors, 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 lost during the non-transfer period of its stock.)

(III) Establishment of risk management mechanism and firewalls 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) Independent directors

Three independent directors were elected at the Company's Annual General Meeting.

(II) Regular evaluation of the independence of the auditor

The Company still assesses the auditor's independence on at least an annual basis.

III. Composition and Responsibilities of Supervisors

(I) Implementation of independent supervisors

1. The Company will implement the program as prescribed by law.
2. The Company has four supervisors who are representatives of MOTC. Each supervisor 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 "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. Staff members can also 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 an 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 of the case.

V. Information Disclosure

(I) Availability of the Company's website to disclose financial, operations and corporate governance information

1. The Company's website (<http://www.cht.com.tw>) has an Investor Relations section 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's website, with a comprehensive search function, is also capable of updating the latest information and providing full coverage on operations and financial position.
3. The Company also publishes information such as the rules of procedure for board meetings and guidelines for the Strategy, Drafting and Audit Committees, code of the Company's corporate governance and the important resolutions of each board meeting are all posted on the Company website.

(II) Alternatives of disclosure

1. Selected personnel in the accounting and finance department have been designated to be responsible for compiling information for disclosure.
2. Mr. Hank H. C. Wang has been designated as the financial spokesperson and Mr. F. H. Chang has been designated as business spokesperson.
3. The Company's 2004 investor conferences were conducted under the 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 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 Committee and Others

(I) The operations of the Audit Committee

The Audit Committee was established on September 21, 2004 to assist the Board in examination of the Company's accounting system, financial condition, the procedure for financial reporting, the internal control system, the annual auditing plan and report, and the appointment and compensation of an external auditor. The committee is comprised of three independent directors and three meetings had been held as of the end of December 2004.

(II) The operations of the Strategy Committee

The guidelines for the establishment of the Strategy Committee was approved on October 21, 2003. The committee was formed to convene meetings when necessary and to hold discussions on important company development issues when required. The committee is comprised of five directors and three meetings were held in 2004.

(III) The operations of the Drafting Committee

The Drafting Committee was formed after the guidelines for the establishment of this committee was approved on December 21, 2003. Relevant handling procedures were also set up accordingly to review proposals submitted by directors and management. The committee is comprised of three directors and nine meetings were held in 2004.

VII. Implementation of Corporate Governance

The Board approved the "Code of Corporate Governance for Chunghwa Telecom Co., Ltd." with a total of 57 articles on August 26, 2004 in the 2nd Meeting of the 4th Term Board of Directors.

VIII. Other Significant Information on Corporate Governance

(I) The progress of training directors and supervisors

A total of 15 directors and 3 supervisors participated in the 2004 Symposia hosted by the Securities and Futures Institute.

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

In 2004, a total of eight board meetings were held including one extemporaneous meeting. All directors and supervisors attended most, if not all, of the board meetings.

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

According to Article 15 of the Company's board meeting rules, directors and shareholders they represent should excuse themselves from participating in discussion and voting or voting on behalf of other directors under the following circumstances:

1. If there exist conflicting interests with the director or the juridical shareholder he/she represents that 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

To indemnify directors and supervisors from personal liability and financial loss arising from job responsibilities, the Company purchased liability insurance according to the Government Procurement Law.

(V) Social responsibilities

1. The Company is an ongoing sponsor of the annual Lantern Festival.
2. The Company participated in the promotion of the documentary film titled "Life" and established a website for charity activities.
3. The Company participated in activities promoting environmental protection such as "Taipei's 922 Car Free Day", the "Artificial Wetland in Jhunan" and "Ecological Festival".
4. The Company participated in various cultural, historical and sports activities and also co-hosted "Formosa Festival, 2004", the "Super Basketball League" and "The Morriston Orpheus Choir Concert".
5. The Company organized the "Plan of hope fulfillment", which through "Family Assistance Centers", donated computers with broadband Internet access to selected low income families under a fair, equal and open process.
6. The Company has a contingency plan to backup fixed lines with mobile service in special districts which have suffered from natural disasters and led to communications interruption.
7. The Company organized a national charity fundraising campaign to assist minorities. Chunghwa Telecom also provides low income families with one year of free broadband Internet access.
8. The Company offered free SIM card replacements, waived 6 months of fees and provided 3 models of free handsets to victims of typhoon Mindulle.
9. The Company jointly placed an advertisement on workplace safety with the Council of Labor Affairs to draw employers' attention to labor safety.

(VI) Staffs awarded to certificates related to transparency of financial reports

11 Certified Public Accountants, 6 Certified Internal Auditors, 6 Qualified Internal Auditors and 2 Certified Purchasing Professionals.

PART VII.

OTHER SIGNIFICANT EVENTS

無遠弗届

I. Affiliate's Information: None

II. Implementation of Internal Controls

(I) Statement of internal control system

Chunghwa Telecom Co., Ltd.
Internal Control Statement
March 29, 2005

The Company states the following with regard to its internal control system during the period from January 1, 2003 to December 31, 2004, 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 (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, 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 March 29, 2005.

Tan Hocheun
Chairman & CEO

Shye-Clay Lu
President

(II) Disclosure of audit reports

For year 2004, we did not appoint 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 the Company's internal controls for accounting procedures to determine the sampling scope of auditing procedures. According to the auditor's major auditing interpretation of 2004 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 2004 shareholders meeting

- The Company's distribution of earnings for 2003
Implementation: The retained earnings of 2003 were allocated on July 30, 2004, with a cash dividend of NT\$4.50 per share. Total dividends distributed amounted to NT\$43,414,762,050.
- To comply with the Regulations Governing the Acquisition or Disposition of Assets by Public Companies and having examined the Company's business and the actual need, the Company has passed the resolution to set out the Process for Acquisition and Disposal of Assets.
- According to the land zoning regulations, part of the land owned by the Company is allowed to operate unconditionally or conditionally as a "general hostel" and a "travellers' hostel" business. To fully utilize its land, the Company passed the resolution to amend Article 2 of the Article of Incorporation to include the "general hostel" (J901020) and "travellers' hostel" (J901011) business in its operations.
Implementation: The amended Articles of Incorporation were delivered to the Ministry of Economic Affairs to facilitate a registration change before formal implementation.
- The Company proposed to distribute part of its earnings generated as staff bonus and director and supervisor remuneration during the year of privatization depending on the length of privatisation in that year. To facilitate this, the Company passed the resolution to amend Section 2 of Articles 22 of the Company's Articles of Incorporation.
- To comply with the Regulations Governing Loaning of Funds and Making of Endorsements/Guarantees by Public Companies, the Company passed the resolution to amend the Company's Process for Endorsements and Guarantees.

- To abide by the Corporate Governance Best-Practice Principles for TSE/GTSM Listed Companies and with reference to the Company's Law, the rules on Rules Governing the Use of Proxies for Attendance at Shareholder Meetings of Public Companies and the Taiwan Stock Exchange's AGM rules of Procedure, the Company passed the resolution to amend the Company's Rules of Procedure for Shareholders' Meeting.

□

- To re-elect the Company's 4th term directors and supervisors. The 4th term Board of Directors is comprised of 15 directors and 4 supervisors, with the terms of service agreements of 3 years lasting from June 25, 2004 to June 24, 2007.

Implementation: The re-election was completed during the 2004 shareholders' meeting held on June 25, 2004. The elected parties began their services on the same day.

(II) Important resolutions by the board of directors meeting during the period from April 17, 2004 to March 31, 2005

Date	Meeting	Important issues	Resolutions
4/28/2004	The 2 nd Meeting of the 3 rd Term Board of Directors	<p>Summary 1: The proposal to re-elect in the 2004 Annual Shareholders' Meeting all directors and Supervisors for the Company's 4th Board of Directors, which shall consist of 15 directors and four supervisors, each to serve a term of three years from June 25, 2004 to June 24, 2007, was submitted for approval by the Board.</p> <p>Summary 2: The draft revision of Article 2, Paragraph 1 of the Organizational Statute of Chunghwa Telecom Co., Ltd. was submitted for approval by the Board.</p> <p>Summary 3: The proposal to revise the agenda of the 2004 Annual Shareholders' Meeting and the attached revised draft "Agenda of the Chunghwa Telecom Co., Ltd. 2004 Annual Shareholders' Meeting " were submitted for approval by the Board.</p> <p>Summary 4: The Company's auditor-reviewed "2004 Financial Forecast" was submitted for approval by the Board.</p> <p>Summary 5: Since the Company is a listed company, it must set out an internal code of conduct. Both the Chinese and English versions of the "Code of Ethics of Chunghwa Telecom" were submitted for approval by the Board.</p>	<p>1. A roll call vote was taken on this proposal. Out of the 15 directors in attendance, the following 12 directors voted in favor of the proposal: Tan Ho Chen, Shyue-Ching Lu, Oliver F.L. Yu, Chiu-Kuei Huang, Yu-Huei Jea, Chung-Hsiung Wang, Ching-Tern Huang, Jin-Twen Chen, Peter C. Lin, Tse-Ming Chang, Zse-Hong Tsai, and Lo-Ming Chung. The remaining three directors Shih-Peng Tsai, Yauh-Hong Lin and Yi-Maw Lin voted against the proposal.</p> <p>2. The proposal was passed and will be submitted to the 2004 Annual Shareholders' Meeting for deliberation and approval.</p> <p>The attending directors unanimously passed the proposal and submitted it to the 2004 Annual Shareholders' Meeting for deliberation and approval.</p> <p>The attending directors unanimously passed the proposal and requested the Management to implement said proposal in accordance with the rules and procedures of the related regulations.</p> <p>The attending directors unanimously passed the proposal and requested Management to implement said proposal in accordance with the rules and procedures of the related regulations.</p> <p>1.The attending directors unanimously passed the Code of Ethics. 2.The directors and supervisors were requested to submit opinions concerning revision of said Code to the Management within one week. The Company shall review and revise said Code accordingly. Thereafter, the directors and supervisors will be notified of the revision, if any. The key revisions of the Code shall be included as items for report at the next regular Board meeting.</p>

Date	Meeting	Important issues	Resolutions
6/25/2004	The 1 st Meeting of the 4 th Term Board of Directors	Elections: Summary: Nomination for the Chairman of the Board of Chunghwa Telecom	The voting results: 1. Director Oliver F.L. Yu nominated Director Tan Ho Chen to continue to serve as the Chairman of the Company's Fourth Board of Directors. 2. All 15 directors present unanimously consented and passed the proposed resolution to elect Director Tan Ho Chen as Chairman of the Fourth Board of Directors of Chunghwa Telecom Co., Ltd.
		Summary 1: The proposal that Director Shyue-Ching Lu continue to serve as President was submitted for approval.	All directors present approved and passed the proposed resolution to appoint Director Shyue-Ching Lu as President of Chunghwa Telecom Co., Ltd.
		Summary 2: The proposal concerning the record date for declaration of the 2003 Company cash dividend was submitted for approval.	All directors present resolved to fix July 19, 2004 as the dividend record date and requested Management to implement in accordance with the rules and procedures of the related regulations.
		Extemporary motions: The proposed senior management's personnel change involving the Company's Senior Vice President Jui-Hsiung Chen and five other individuals was submitted for deliberation pursuant to the Company's business development needs.	All directors present affirmed this proposal and requested the Management to implement said proposal in accordance with the rule and procedure of the related regulations.
8/26/2004	The 2 nd Meeting of the 4 th Term Board of Directors	Summary 1: CPAs Chin-shan Wang and Chien-hsin Hsieh of Deloitte & Touche were originally in charge of certifying the company's financial reports. The proposal that, due to the work schedule and personnel assignments at Deloitte & Touche, CPA Chin-shan Wang be replaced by CPA Yung-tu Wei as the accountant in charge of certifying the Company's financial reports starting from the second quarter of 2004 was submitted for a vote by the Board.	1.The attending directors unanimously passed the proposal. 2. Additional resolutions: a.The professional service contract with Deloitte & Touche should be reviewed and prudently reconsidered when the contract is up for renewal upon its expiration. b.The Management shall further explore the issues and concerns raised by the directors and supervisors today as a reference for future decision-making. c.The Board desires to gain further understanding of the extent of Deloitte & Touche's involvement in the corporate fraud matter involving Procomp Informatics Ltd. Such understanding shall be used as reference for the Board's future selection of an auditing firm for the Company.

Date	Meeting	Important issues	Resolutions
8/26/2004	The 2 nd Meeting of the 4 th Term Board of Directors	Summary 2: The company's financial report and the accountant's audit report for the first half of 2004 were submitted for approval by the board and the supervisors in accordance with the company's regulations.	1. The attending directors unanimously passed the proposal and requested the management to implement the proposal in accordance with the prescribed procedures. 2. The long-term investment amount reflected on the company's financial report was based on unaudited financial statements of the invested companies from the same period. The accountant thus informed the board of its qualified opinion with regard to this item. The board desires that Deloitte & Touche will provide suggestions for improvement. The Accounting Department and other relevant units shall study this matter further for improvements and list this resolution as an action item to follow-up in the future.
		Summary 3: Audited final report 2003 was presented for ratification.	1. Resolution approved by all the directors present. 2. The resolution will be reported in the 2005 shareholders' meeting.
		Summary 5: Amendment on Article 2 of "Organizational Statute of Chunghwa Telecom" was submitted for approval.	Amendment approved by all the directors present. The management according to applicable regulations should implement this.
		Summary 6: A draft of the "Code of Corporate Governance for Chunghwa Telecom Co., Ltd. " was submitted for a vote by the Board.	1. The attending directors unanimously passed the draft "Code of Corporate Governance for Chunghwa Telecom Co., Ltd. " as revised. 2. Three directors representing labor, Messrs. Tsai Shih-peng, Lin Yueh-hung and Lu Yen-chung, expressed dissenting comments: a. It is recommended that Article 6, Paragraph 2's language "...over one-half of the directors on the board should personally attend the shareholders' meeting" be revised to read "...over one-half of the directors on the board shall personally attend the shareholders' meeting." b.In regard to Article 27: Because certain articles of the draft Establishment Guidelines for the Chunghwa Telecom Co., Ltd. Audit Committee, such as Article 3 (supervisory items) and Article 5 (scope of duties), conflict with the laws and regulations of the Republic of China (i.e. the Company Law), and might possibly infringe upon the board's powers, this matter should be tabled and left pending until such conflicts of the laws of the Republic of China and the applicable securities laws of the United States (i.e. the Sarbanes-Oxley Act)have been resolved. To ensure that the board can fully exercise its powers permitted, the Board shall review this matter again after written inquiries have been made to the relevant competent authorities (such as the Financial Supervisory Commission) and a clear regulatory explanation has been provided by such authorities.

Date	Meeting	Important issues	Resolutions
8/26/2004	The 2 nd Meeting of the 4 th Term Board of Directors	Summary 7: In order to fully implement the principles of corporate governance, improve internal controls and strengthen the degree of disclosure of corporate information, the proposal to establish the Audit Committee was submitted for a vote by the board.	1. The attending directors unanimously passed the proposal and requested that Management implement the proposal in accordance with the prescribed procedures. 2. Additional resolutions: a.Both the Chinese and English versions of such portions of the Sarbanes-Oxley Act related to the audit committees shall be provided to the directors and supervisors together with the meeting minutes. b.With respect to all questions and problems related to the establishment of the Audit Committee, such relevant company units shall follow up each question and problem by collecting applicable information and report such explanation as may be requested by the directors and supervisors from time to time. c.With respect to the reconciliation of such conflicts between Article 5 of the Establishment Guidelines for the Chunghwa Telecom Co., Ltd. Audit Committee and the existing laws and regulations, the operating checklist and schedule shall be presented at the next board meeting. 3. Three directors representing labor, Messrs. Shih-peng Tsai, Yueh-hung Lin, and Yen-chung Lu, expressed dissenting comments: Because certain articles of the draft "Audit Committee Establishment Guidelines," such as Article 3 (supervisory items) and Article 5 (scope of duties), conflict with the Republic of China laws and regulations (i.e. the Company Act), and might possibly infringe upon the board's powers, this matter should be tabled and left pending until such conflicts of the laws of the Republic of China and the applicable securities laws of the United States (i.e. the Sarbanes-Oxley Act) have been resolved. To ensure that the board can fully exercise its permitted powers, the Board shall review this matter again after written inquiries have been made to the relevant competent authorities (such as the Financial Supervisory Commission) and a clear regulatory explanation has been provided by such authorities.
12/28/2004	The 4 th Meeting of 4 th Term Board of Directors	Summary 1 : Completed revisions to Chunghwa Telecom's internal control system were submitted for a vote by the board.	1. The attending directors unanimously passed the proposal and requested that Management implement the proposal in accordance with the prescribed procedures. 2. The revisions to the internal control system were submitted for further review and changes. The internal control system will be submitted once again to the Audit Committee where the directors and supervisors may attend in a non-voting status to review and provide their comments.

Date	Meeting	Important issues	Resolutions
12/28/2004	The 4 th Meeting of 4 th Term Board of Directors	<div>Summary 2: The recommended addition to part of the Article 6 of the Establishment Guidelines for the Chunghwa Telecom Co., Ltd. Audit Committee concerning the committee members' attendance fee was submitted for a vote by the board.</div> <div>Summary 3: A proposal concerning the draft of the company's Independent Director Responsibilities was submitted for a vote by the board.</div>	<div>3. The Audit Department shall oversee self-inspection at all levels of company operations and post-inspection tracking and improvement. These items shall be included as part of the review process and listed as priorities during subsequent reviews; the Audit Department shall be requested to strengthen the practical implementation of this function.</div> <div>1. It is proposed that explanation 2, which states "..., scholars and specialists not from outside this organization who are invited to participate in a meeting, ..." be revised to read "..., scholars and specialists from outside this organization who are invited to participate in a meeting, ...". 2. The attending directors unanimously agreed that Article 6-2, Paragraph 3 of the Establishment Guidelines be revised to read "Members of the committee shall personally attend meetings or participate at meetings via videoconferencing, and supervisors may request to attend in non-voting status; attendance compensation may be paid to those persons attending meetings in voting or non-voting status in accordance with regulations." The board passed this proposal and requested the management implement the proposal in accordance with the prescribed procedures.</div> <div>1. The attending directors unanimously passed Article 3 and 4 of the draft of Independent Director Responsibilities after making revisions, and requested the management implement the proposal in accordance with the prescribed procedures. 2. Article 3 and 4 of the draft of Independent Director Responsibilities were revised as follows: a. Article 3, paragraphs 2 and 3, were revised to read: "(1) Concerning the company's established or revised internal control system. (2) Concerning the company's established or revised handling procedures for major financial affairs such as acquisition or disposal of assets, fund loans, and endorsement guarantees, etc." b. Article 4 was revised to read: "The company shall purchase liability insurance on behalf of the independent directors."</div>

Date	Meeting	Important issues	Resolutions
3/29/2004	The 5 th Meeting of 4 th Term Board of Directors	Summary 1: The proposed revision of Article 22 of the Chunghwa Telecom Co., Ltd. Articles of Incorporation concerning the issuance of employee bonuses was submitted for resolution.	1. The attending directors unanimously approved the proposal and requested the Management to implement the proposal in accordance with the prescribed procedures. 2. The Ministry of Transportation and Communications Representatives Director Oliver F. L. Yu, Director Yu-Huei Jea, Director Jeng-Tsuen Liaw, and Director Yen-Pin Wang together expressed their opinion that in light of the restrictions of current laws and regulations in effect and to avoid other state owned enterprises to follow suit by citing the case of Chunghwa Telecom as an example, this proposal should best be implemented only after this company's privatization within the framework of the current laws.
		Summary 9: The company's 2006 budget was submitted for approval.	The attending directors unanimously approved the proposal and requested that the Management submit the budget to the appropriate regulatory authorities for review in accordance with the prescribed procedures.
		Summary 10: The company's 2004 Annual Report (including the financial statements) was submitted for approval.	1. The attending directors unanimously approved the proposal. 2. The 2004 Annual Report will be submitted to the shareholders at the Annual Shareholders' Meeting. 3. The 2004 Annual Reports shall be submitted to the supervisors for inspection and approval, and an inspection report will be submitted to the 2005 Annual Shareholders Meeting for review. 4. All future proposals of similar subject matter shall include the meeting minutes of the Audit Committee, so the Board is better informed as a matter of record. The Management is hereby requested to implement the aforementioned resolution in accordance with the prescribed procedures.
		Summary 11: The proposal to distribute NT\$45,344,307,030 from the Company's 2004 earnings available for distribution as cash dividends, payable at NT\$4.7 per share and set the record date on July 18, 2005, was submitted for approval.	1. The attending directors unanimously approved the proposal. 2. The cash dividend payment of NT\$4.7 per share shall be revised as may be necessary as determined by the Executive Yuan and the National Audit Office. 3. The record date for dividends distribution is set for July 18, 2005.

Date	Meeting	Important issues	Resolutions
3/29/2004	The 5 th Meeting of 4 th Term Board of Directors		4. The dividend payment to each shareholder is rounded to the nearest whole NT Dollar. The Chairman is hereby authorized to make disposition of the remaining balance, if any, in his discretion. 5. This proposal shall be presented to the shareholders for review at the 2005 AGM. 6. The three directors representing labor, Director Shih-Peng Tsai, Director Yauh-Hong Lin, and Director Yen-chung Lu together expressed a differing opinion, recommending dividend payment of NT\$4.7 per share consisting of NT\$3.7 payable in cash and NT\$1.0 payable in stock.
		Summary 12: The proposal to authorize signing and issuance of the Company's Internal Control Statement so as to facilitate publication of the Company's Annual Report and posting of the same on the website of the Securities and Futures Bureau of the Executive Yuan Financial Supervisory Commission before the end of April was submitted for approval.	1. The attending directors approved revisions to Articles 5 and 7 of the Internal Control Statement. The management was requested to implement the revisions in accordance with the prescribed procedures. 2. Articles 5 and 7 of the Internal Control Statement were revised as follows: a. Article 5, which read: "...believe(s) that the company's internal control system of the period stated above (including management of the subsidiaries), including..." was amended to read: "...believe(s) that the company's internal control system of the period stated above, including..." b. Article 7, which read: "As a matter of record, this statement was approved on (Month), (Day), 2005 by the board of directors of which present ___ directors voted against the statement and the remaining directors voted in favor of the statement." was amended to read: "As a matter of record, this statement was approved by the board of directors on March 29, 2005." □3. The three directors representing labor, Director Shih-peng Tsai, Director Yueh-hung Lin, and Director Yen-chung Lu expressed a dissenting opinion against the revisions to the Internal Control Statement. Three out of those directors present voted against the amendment.
		Summary 13: The proposed directors and supervisors compensation structure as more fully explained in the attached Explanatory Notes was submitted for resolution.	1. The attending directors unanimously approved the proposal subject to the revisions to Explanatory Notes 2 and 3 and requested that the management implement the resolution in accordance with the prescribed procedures. 2. The revisions to Explanatory Notes 2 and 3 are as follows: a. Explanatory Note 2, Item 3 "independent directors (those individuals who are not military service men, government employees or teachers)" was revised to read: "independent directors (those individuals who are not military service men, government employees or teachers concurrently serving in an administrative capacity)".

Date	Meeting	Important issues	Resolutions
3/29/2004	The 5 th Meeting of 4 th Term Board of Directors		<input type="checkbox"/> b. The entire Explanatory Note 3 was deleted.
		Summary 14: The proposal of the Company's 2005 AGM be held at the Chunghwa Telecom Training Institute at 9:00 AM on Tuesday, June 21, 2005 and the proposed agenda of 2005 AGM was submitted for approval.	The attending directors unanimously approved the proposal and requested that the Management implement the proposal in accordance with the prescribed procedures.
		Summary 15: The following proposals concerning executive management changes were submitted for approval: <ul style="list-style-type: none">• Proposal to appoint Hank Han-Chao Wang as the company Senior Vice President and concurrently as the Senior Managing Director of the Finance Department;• Proposal to release Lung-Sing Liang from his position as the President of the Telecom Laboratories and to reappoint him as a member of the Company's Research and Planning Committee;• Proposal to assign Yen-Sung Lee as the President of the Telecommunication Laboratories;• Proposal to assign Lang-Chee Chang as the company's Executive Vice President and concurrently as the President of the Data Communication Business Group;• Proposal to assign Shan-Hsin Tsao as the President of the Training Institute.	1. For the purpose of enhancing the Board's role in participation and policy making process in matters involving appointment of high level officers, the Company shall study how other companies provide personnel information to the Board and how other companies nominate and submit candidates to the Board for decision making as reference for improvement in the Company's corporate practice. 2. The attending directors unanimously approved the proposal and requested the management to implement the proposal in accordance with the prescribed procedures.

IV. Directors' Opinions

The different opinions on record made by the three labor union directors on the resolution passed by the Board of Directors meeting on August 26, 2004 and March 29, 2005 are as follows:

Date	Meeting	Important Issues under discussion	Resolutions	Different opinions	Implementation by management
8/26/2004	The 2 nd Meeting of the 4 th Term Board of Directors	Summary 6: A draft of the "Code of Corporate Governance for Chunghwa Telecom Co., Ltd. " was submitted for a vote by the board.	The attending directors unanimously passed the draft "Code of Corporate Governance for Chunghwa Telecom Co., Ltd. " as revised. Names with different opinions were recorded.	Three directors representing labor, Messrs. Shih-peng Tsai, Yueh-hung Lin, and Yen-chung Lu, expressed dissenting comments: 1. It is recommended that Article 6, Paragraph 2's language "...over one-half of the directors on the board shall personally attend the shareholders' meeting" be revised to read "...over one-half of the directors on the board should personally attend the shareholders' meeting." 2. In regard to Article 27: Because certain Articles of the draft Establishment Guidelines for the Chunghwa Telecom Co., Ltd. Audit Committee, such as Article 3 (supervisory items) and Article 5 (scope of duties), conflict with the laws and regulations of the Republic of China (i.e. the Company Act), and might possibly infringe upon the board's powers, this matter should be tabled and left pending until such conflicts of the laws of the Republic of China and the applicable securities laws of the United States (i.e. the Sarbanes-Oxley Act) have been resolved. To ensure that the board can fully exercise its powers permitted, the Board shall review this matter again after written inquiries being made to the relevant competent authorities (such as the Financial Supervisory Commission) and a clear regulatory explanation being provided by such authorities.	In the future, the Company will conduct according to the Code of Corporate Governance for Chunghwa Telecom Co., Ltd.
		Summary 7: In order to fully implement the principles of corporate governance, improve internal control and strengthen the degree of disclosure of corporate information, the proposal to establish the Audit Committee was submitted for a vote by the board.	1. The attending directors unanimously passed the proposal and requested that the Management Department implement the proposal in accordance with the prescribed procedures. 2. Additional resolutions: a. Both the Chinese and English versions of such portions of the Sarbanes-Oxley Act related to the audit committees shall be provided to the directors and supervisors together with the meeting minutes. b. With respect to all questions and problems related to the establishment of the Audit Committee, such relevant company units shall follow up each question and problem by collecting applicable information and report such explanation as may be requested by the directors and supervisors from time to time. c. With respect to reconciliation of such conflicts between Article 5 of the Establishment Guidelines for the Chunghwa Telecom Co., Ltd. Audit Committee and the existing laws and regulations, the operating checklist and schedule shall be presented at the next board meeting.	Three directors representing labor, Messrs. Tsai Shih-peng, Lin Yueh-hung, and Lu Yen-chung, expressed dissenting comments: Because certain articles of the draft "Audit Committee Establishment Guidelines," such as Article 3 (supervisory items) and Article 5 (scope of duties), conflict with the Republic of China laws and regulations (i.e. the Company Act), and might possibly infringe upon the board's powers, this matter should be tabled and left pending until such conflicts of the laws of the Republic of China and the applicable securities laws of the United States (i.e. the Sarbanes-Oxley Act) have been resolved. To ensure that the board can fully exercise its powers permitted, the Board shall review this matter again after written inquiries being made to the relevant competent authorities and clear regulatory explanation being provided by such authorities.	1. In the future the Company will conduct according to the Audit Committee Establishment Guidelines. 2. When the Audit Committee discusses about issues concerning related systems, the directors and supervisors will be invited to participate in the meeting.

Date	Meeting	Important Issues under discussion	Resolutions	Different opinions	Implementation by management
3/29/2004	The 5 th Meeting of 4 th Term Board of Directors	Summary 11: The proposal to distribute NT\$45,344,307,030 from the company's 2004 earnings available for distribution as cash dividends, payable at NT\$4.7 per share and set the record date on July 18, 2005, was submitted for approval.	1. The attending directors unanimously approved the proposal. Names with different opinions were recorded. 2. The cash dividend payment of □ NT\$4.7 per share shall be □ revised as may be necessary as determined by the Executive Yuan and the National Audit Office. 3. The record date for dividends distribution is set for July 18, 2005. 4. The dividend payment to each shareholder is rounded to the nearest whole NT Dollar. The Chairman is hereby authorized to make disposition of the remaining balance, if any, in his discretion. 5. This proposal shall be presented to the shareholders for review at the 2005 AGM.	The three directors representing labor, Director Shih-Peng Tsai, Director Yauh-Hong Lin, and Director Yen-chung Lu together expressed a differing opinion, recommending dividend payment of NT\$4.7 per share consisting of NT\$3.7 payable in cash and NT\$1.0 payable in stock.	
		Summary 12: The proposal to authorize signing and issuance of the company's Internal Control Statement so as to facilitate publication of the Company's Annual Report and posting of the same on the website of the Securities and Futures Bureau of the Executive Yuan Financial Supervisory Commission before the end of April was submitted for approval.	1. The attending directors approved revisions to Articles 5 and 7 of the Internal Control Statement. The Management was requested to implement the revisions in accordance with the prescribed procedures. Names with different opinions were recorded. 2. Articles 5 and 7 of the Internal Control Statement were revised as follows: a. Article 5, which read: "believe(s) that the company's internal control system of the period stated above (including management of the subsidiaries), including..." was amended to read: "believe(s) that the company's internal control system of the period stated above, including..." b. Article 7, which read: "As a matter of record, this statement was approved on (Month), (Day), 2005 by the board of directors of which present ___ directors voted against the statement and the remaining directors voted in favor of the statement." was amended to read: "As a matter of record, this statement was approved by the board of directors on Match 29, 2005."	The three directors representing labor, Director Tsai Shih-peng, Director Yueh-hung Lin, and Director Yen-chung Lu expressed a dissenting opinion against the revisions to the Internal Control Statement. Three out of those directors present voted against the amendment.	

V. Private Placement of Securities

None

VI. Shares Held or Released by Subsidiaries □

Not Applicable

VII. Legal Penalties

Information relating to the regulatory authorities' legal penalties levied on the Company and the Company's subsequent punishment of its employees is as follows:

- (I) Concerning the Jing Ju firm's deception case, the Company reported to Department of Investigation in Kaohsiung City in writing. Legal proceeding is still undergoing and the Company bears no penalty up to date. The Company punished the staffs in the Southern Taiwan Business Group that were at fault. To prevent similar cases from happening again, the Company immediately requested all departments to temporarily stop signing contracts with sales partners and seriously reviewed terms and conditions for such contracts to minimize risk. In the future, every contract should include a thorough credibility assessment and contract-fulfilling deposits. The Company has strengthened the control of its operations process.
- (II) Concerning the case of the leaking of customer information to Rong Xiang, an illegal entity, by our staff, the Company punished staffs that were at fault. To prevent a repeat of such incident, the Company took the following measures:
1. Strengthening the internal control system and increasing the frequency of internal checks to ensure the confidentiality of customer information.
 2. To unify the regulations on management of contracted and outsourcing staff and to enhance the communication of legal and ethical policies to them.
 3. Integration of the security control system in all exits.

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 2004 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

Chunghwa Telecom's "Good Neighbor Policy"

As a responsible corporate citizen, Chunghwa Telecom is committed to being involved in community affairs. In response to the Government's calling for using more environmentally-friendly building materials, the Company has launched a green policy for all properties it owns. The "Green Policy" advocates for more planted trees, open space and park area. Meanwhile, the Company also opens up its park areas for community activities while providing training areas for collaboration with community colleges.

Chunghwa Telecom Co., Ltd.

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