

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

**Consolidated Financial Statements as of
December 31, 2020 and 2021 and for
Each of the Three Years in the
Period Ended December 31, 2021 and
Report of Independent Registered Public
Accounting Firm**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of Chunghwa Telecom Co., Ltd.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Chunghwa Telecom Co., Ltd. and subsidiaries (the “Company”) as of December 31, 2020 and 2021, the related consolidated statements of comprehensive income, changes in equity, and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 6 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside the Republic of China.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 15, 2022, expressed an unqualified opinion on the Company’s internal control over financial reporting.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Revenue Recognition on Mobile Service – Refer to Notes 3 and 31 to the consolidated financial statements

Critical Audit Matter Description

The Company's mobile service revenue consists of subscriber-based charges made up of a significant volume of low-dollar transactions. Because of the complexity and a variety of subscriber-based charges as well as a large number of transactions, the Company uses highly automated systems to process and record its revenue transactions.

Given the Company's systems to process and record revenue are highly automated, auditing revenue was complex and challenging due to the extent of audit effort required and involvement of professionals with expertise in information technology (IT) necessary for us to identify, test, and evaluate the Company's IT systems.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's systems to process revenue transactions included the following, among others:

- With the assistance of our IT specialists, we:
 - Identified the significant systems used to process revenue transactions and tested the general IT controls over each of these systems, including testing of user access controls and change management controls.
 - Performed testing of system interface controls and automated controls within the relevant revenue streams, as well as the controls designed to ensure the accuracy and completeness of revenue.
- We tested internal controls within the relevant revenue business processes, including those in place to reconcile the various systems to the Company's accounting system.
- We selected samples from mobile service revenue and agreed to customer contracts and records of cash receipts.

Deloitte & Touche
Taipei, Taiwan
Republic of China

April 15, 2022

We have served as the Company's auditor since 1998.

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

December 31, 2020 and 2021

(In Millions of New Taiwan or U.S. Dollars)

ASSETS	Notes	2020			2021		
		NT\$	NT\$	US\$ (Note 6)	NT\$	NT\$	US\$ (Note 6)
CURRENT ASSETS							
Cash and cash equivalents	3, 7	\$ 30,420	\$ 39,779	\$ 1,434			
Financial assets at fair value through profit or loss	3, 4, 8	10	3	-			
Hedging financial assets	3, 21	2	-	-			
Contract assets	3, 31	5,331	5,554	200			
Trade notes and accounts receivable, net	3, 4, 10, 14, 31	22,622	23,947	863			
Receivables from related parties	40	230	41	1			
Inventories	3, 4, 11, 41	12,409	11,327	408			
Prepayments	12	2,306	2,330	84			
Other current monetary assets	13, 29, 36	6,124	5,061	183			
Other current assets	20, 33, 41	<u>2,349</u>	<u>2,979</u>	<u>108</u>			
Total current assets		<u>81,803</u>	<u>91,021</u>	<u>3,281</u>			
NONCURRENT ASSETS							
Financial assets at fair value through profit or loss	3, 4, 8	677	909	33			
Financial assets at fair value through other comprehensive income	3, 4, 9, 36	7,193	3,616	130			
Investments accounted for using equity method	3, 15, 36	6,695	7,137	257			
Contract assets	3, 31	2,495	2,608	94			
Property, plant and equipment	3, 4, 14, 16, 36, 40, 41	281,416	289,100	10,423			
Right-of-use assets	3, 4, 17, 40	11,009	11,051	398			
Investment properties	3, 4, 18, 36, 40	9,621	9,663	348			
Intangible assets	3, 4, 14, 19, 36	90,285	83,945	3,026			
Deferred income tax assets	3, 14, 33	3,133	2,785	100			
Incremental costs of obtaining a contract	3, 31	1,000	988	36			
Net defined benefit assets	3, 4, 14, 29	3,373	3,391	122			
Prepayments	12	2,214	1,798	65			
Other noncurrent assets	20, 36, 41, 42	<u>5,266</u>	<u>4,863</u>	<u>176</u>			
Total noncurrent assets		<u>424,377</u>	<u>421,854</u>	<u>15,208</u>			
LIABILITIES AND EQUITY							
CURRENT LIABILITIES							
Short-term loans	22	\$ 67	\$ 65	\$ 2			
Short-term bills payable	23	6,999	-	-			
Financial liabilities at fair value through profit or loss	3, 4, 8	-	6	-			
Hedging financial liabilities	3, 21	-	8	-			
Contract liabilities	3, 31, 40	13,437	12,234	441			
Trade notes and accounts payable	26	15,591	18,063	651			
Payables to related parties	40	646	392	14			
Current tax liabilities	3, 33	6,157	6,530	235			
Lease liabilities	3, 4, 17, 36, 40	3,382	3,211	116			
Other payables	27, 36	23,988	24,437	881			
Provisions	3, 14, 28	314	285	10			
Current portion of long-term loans	24, 41	1,600	-	-			
Other current liabilities		<u>1,042</u>	<u>998</u>	<u>37</u>			
Total current liabilities		<u>73,223</u>	<u>66,229</u>	<u>2,387</u>			
NONCURRENT LIABILITIES							
Long-term loans	24, 41	-	1,600	58			
Bonds payable	25	19,980	26,977	972			
Contract liabilities	3, 31	7,289	6,840	247			
Deferred income tax liabilities	3, 14, 33	1,967	2,189	79			
Provisions	3, 14, 28	101	142	5			
Lease liabilities	3, 4, 17, 36, 40	6,215	7,062	255			
Customers' deposits	40	4,827	5,336	192			
Net defined benefit liabilities	3, 4, 14, 29	3,415	2,288	82			
Other noncurrent liabilities		<u>1,890</u>	<u>5,082</u>	<u>184</u>			
Total noncurrent liabilities		<u>45,684</u>	<u>57,516</u>	<u>2,074</u>			
Total liabilities		<u>118,907</u>	<u>123,745</u>	<u>4,461</u>			
EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT							
Common stocks		<u>77,574</u>	<u>77,574</u>	<u>2,796</u>			
Additional paid-in capital		<u>149,790</u>	<u>149,810</u>	<u>5,401</u>			
Retained earnings							
Legal reserve		77,574	77,574	2,796			
Special reserve		2,676	2,676	97			
Unappropriated earnings		<u>67,574</u>	<u>70,157</u>	<u>2,529</u>			
Total retained earnings		<u>147,824</u>	<u>150,407</u>	<u>5,422</u>			
Others		<u>927</u>	<u>(408)</u>	<u>(15)</u>			
Total equity attributable to stockholders of the parent	14, 30	376,115	377,383	13,604			
NONCONTROLLING INTERESTS							
Total equity	14, 30	<u>11,158</u>	<u>11,747</u>	<u>424</u>			
TOTAL		<u>\$ 506,180</u>	<u>\$ 512,875</u>	<u>\$ 18,489</u>			
TOTAL		<u>\$ 506,180</u>	<u>\$ 512,875</u>	<u>\$ 18,489</u>			

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2019, 2020 and 2021

(In Millions of New Taiwan or U.S. Dollars, Except Earnings Per Share That Are in New Taiwan or U.S. Dollars)

	Notes	2019	2020	2021	
		NT\$	NT\$	NT\$	US\$ (Note 6)
REVENUES	3, 31, 40, 45	\$ 207,520	\$ 207,609	\$ 210,478	\$ 7,588
OPERATING COSTS	3, 11, 29, 31, 32, 40, 45	<u>135,953</u>	<u>137,029</u>	<u>135,111</u>	<u>4,871</u>
GROSS PROFIT		<u>71,567</u>	<u>70,580</u>	<u>75,367</u>	<u>2,717</u>
OPERATING EXPENSES					
Marketing		22,220	20,913	20,944	755
General and administrative		4,758	5,006	5,293	191
Research and development		3,941	3,850	3,688	133
Expected credit loss (reversal of credit loss)		<u>(125)</u>	<u>45</u>	<u>143</u>	<u>5</u>
Total operating expenses	3, 10, 29, 32, 40, 45	<u>30,794</u>	<u>29,814</u>	<u>30,068</u>	<u>1,084</u>
OTHER INCOME AND EXPENSES	16, 17, 18, 19, 20, 32, 45	<u>(127)</u>	<u>1,595</u>	<u>(369)</u>	<u>(13)</u>
INCOME FROM OPERATIONS		<u>40,646</u>	<u>42,361</u>	<u>44,930</u>	<u>1,620</u>
NON-OPERATING INCOME AND EXPENSES					
Interest income	45	251	116	95	3
Other income	9, 32, 40	531	470	378	14
Other gains and losses	15, 32, 38, 40	84	(159)	461	17
Interest expense	17, 32, 40, 45	(104)	(206)	(218)	(8)
Share of profits of associates and joint ventures accounted for using equity method	15, 45	<u>459</u>	<u>244</u>	<u>421</u>	<u>15</u>
Total non-operating income and expenses		<u>1,221</u>	<u>465</u>	<u>1,137</u>	<u>41</u>
INCOME BEFORE INCOME TAX		41,867	42,826	46,067	1,661
INCOME TAX EXPENSE	3, 33	<u>7,946</u>	<u>8,122</u>	<u>9,020</u>	<u>325</u>
NET INCOME		<u>33,921</u>	<u>34,704</u>	<u>37,047</u>	<u>1,336</u>
TOTAL OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified to profit or loss:					
Remeasurements of defined benefit pension plans	29	1,527	1,193	390	14
Unrealized gain or loss on investments in equity instruments at fair value through other comprehensive income	3, 30, 38	171	519	(1,186)	(43)
Gain or loss on hedging instruments subject to basis adjustment	3, 21	(1)	2	(10)	-

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

YEARS ENDED DECEMBER 31, 2019, 2020 and 2021

(In Millions of New Taiwan or U.S. Dollars, Except Earnings Per Share That Are in New Taiwan or U.S. Dollars)

	Notes	2019	2020	2021	
		NT\$	NT\$	NT\$	US\$ (Note 6)
Share of remeasurements of defined benefit pension plans of associates and joint ventures	15	\$ (2)	\$ (4)	\$ (4)	\$ -
Income tax relating to items that will not be reclassified to profit or loss	33	<u>(305)</u>	<u>(239)</u>	<u>(78)</u>	<u>(3)</u>
		<u>1,390</u>	<u>1,471</u>	<u>(888)</u>	<u>(32)</u>
Items that may be reclassified subsequently to profit or loss:					
Exchange differences arising from the translation of the foreign operations		(61)	(177)	(77)	(3)
Share of exchange differences arising from the translation of the foreign operations of associates and joint ventures	15	(1)	(4)	(1)	-
Income tax relating to items that may be reclassified subsequently	33	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
		<u>(62)</u>	<u>(181)</u>	<u>(78)</u>	<u>(3)</u>
Total other comprehensive income (loss), net of income tax		<u>1,328</u>	<u>1,290</u>	<u>(966)</u>	<u>(35)</u>
TOTAL COMPREHENSIVE INCOME		<u>\$ 35,249</u>	<u>\$ 35,994</u>	<u>\$ 36,081</u>	<u>\$ 1,301</u>
NET INCOME ATTRIBUTABLE TO					
Stockholders of the parent		\$ 32,947	\$ 33,419	\$ 35,616	\$ 1,284
Noncontrolling interests		<u>974</u>	<u>1,285</u>	<u>1,431</u>	<u>52</u>
		<u>\$ 33,921</u>	<u>\$ 34,704</u>	<u>\$ 37,047</u>	<u>\$ 1,336</u>
COMPREHENSIVE INCOME ATTRIBUTABLE TO					
Stockholders of the parent		\$ 34,282	\$ 34,713	\$ 34,652	\$ 1,249
Noncontrolling interests		<u>967</u>	<u>1,281</u>	<u>1,429</u>	<u>52</u>
		<u>\$ 35,249</u>	<u>\$ 35,994</u>	<u>\$ 36,081</u>	<u>\$ 1,301</u>
EARNINGS PER SHARE	34				
Basic		<u>\$4.25</u>	<u>\$4.31</u>	<u>\$4.59</u>	<u>\$0.17</u>
Diluted		<u>\$4.24</u>	<u>\$4.30</u>	<u>\$4.59</u>	<u>\$0.17</u>
EARNINGS PER EQUIVALENT ADS					
Basic		<u>\$42.47</u>	<u>\$43.08</u>	<u>\$45.91</u>	<u>\$1.66</u>
Diluted		<u>\$42.42</u>	<u>\$43.03</u>	<u>\$45.86</u>	<u>\$1.65</u>

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

(Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
YEARS ENDED DECEMBER 31, 2019, 2020 and 2021
(In Millions of New Taiwan or U.S. Dollars)

	Equity Attributable to Stockholders of the Parent						Others				Total Equity Attributable to Stockholders of the Parent	Noncontrolling Interests	Total Equity
	Common Stocks	Additional Paid-in Capital	Retained Earnings			Total Retained Earnings	Exchange Differences Arising from the Translation of the Foreign Operations	Unrealized Gain or Loss on Financial Assets at Fair Value through Other Comprehensive Income	Gain or Loss on Hedging Instruments	Total Others			
			Legal Reserve	Special Reserve	Unappropriated Earnings								
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
BALANCE, JANUARY 1, 2019	\$ 77,574	\$ 149,762	\$ 77,574	\$ 2,676	\$ 66,575	\$ 146,825	\$ (79)	\$ 538	\$ 1	\$ 460	\$ 374,621	\$ 9,837	\$ 384,458
Appropriation of 2018 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends distributed by Chunghwa	-	-	-	-	(34,746)	(34,746)	-	-	-	-	(34,746)	-	(34,746)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(710)	(710)
Unclaimed dividend	-	1	-	-	-	-	-	-	-	-	1	-	1
Net income for the year ended December 31, 2019	-	-	-	-	32,947	32,947	-	-	-	-	32,947	974	33,921
Other comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	1,208	1,208	(69)	197	(1)	127	1,335	(7)	1,328
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	34,155	34,155	(69)	197	(1)	127	34,282	967	35,249
Share-based payment transactions of subsidiaries	-	(1)	-	-	-	-	-	-	-	-	(1)	22	21
Net decrease in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	(1)	(1)
BALANCE, DECEMBER 31, 2019	77,574	149,762	77,574	2,676	65,984	146,234	(148)	735	-	587	374,157	10,115	384,272
Appropriation of 2019 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends distributed by Chunghwa	-	-	-	-	(32,783)	(32,783)	-	-	-	-	(32,783)	-	(32,783)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(775)	(775)
Unclaimed dividend	-	2	-	-	-	-	-	-	-	-	2	-	2
Change in additional paid-in capital from investments in associates and joint ventures accounted for using equity method	-	-	-	-	-	-	-	-	-	-	-	(2)	(2)
Change in additional paid-in capital for not proportionately participating in the capital increase of subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-
Net income for the year ended December 31, 2020	-	-	-	-	33,419	33,419	-	-	-	-	33,419	1,285	34,704
Other comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	937	937	(167)	522	2	357	1,294	(4)	1,290
Total comprehensive income (loss) for the year ended December 31, 2020	-	-	-	-	34,356	34,356	(167)	522	2	357	34,713	1,281	35,994
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	17	17	-	(17)	-	(17)	-	-	-
Share-based payment transactions of subsidiaries	-	26	-	-	-	-	-	-	-	-	26	63	89
Net increase in noncontrolling interests	-	-	-	-	-	-	-	-	-	-	-	476	476
BALANCE, DECEMBER 31, 2020	77,574	149,790	77,574	2,676	67,574	147,824	(315)	1,240	2	927	376,115	11,158	387,273
Appropriation of 2020 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash dividends distributed by Chunghwa	-	-	-	-	(33,404)	(33,404)	-	-	-	-	(33,404)	-	(33,404)
Cash dividends distributed by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	(896)	(896)
Unclaimed dividend	-	2	-	-	-	-	-	-	-	-	2	-	2
Change in additional paid-in capital from investments in associates and joint ventures accounted for using equity method	-	1	-	-	-	-	-	-	-	-	1	-	1
Net income for the year ended December 31, 2021	-	-	-	-	35,616	35,616	-	-	-	-	35,616	1,431	37,047
Other comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	311	311	(77)	(1,188)	(10)	(1,275)	(964)	(2)	(966)
Total comprehensive income (loss) for the year ended December 31, 2021	-	-	-	-	35,927	35,927	(77)	(1,188)	(10)	(1,275)	34,652	1,429	36,081
Disposal of investments in equity instruments at fair value through other comprehensive income	-	-	-	-	60	60	-	(60)	-	(60)	-	-	-
Share-based payment transactions of subsidiaries	-	17	-	-	-	-	-	-	-	-	17	56	73
BALANCE, DECEMBER 31, 2021	\$ 77,574	\$ 149,810	\$ 77,574	\$ 2,676	\$ 70,157	\$ 150,407	\$ (392)	\$ (8)	\$ (8)	\$ (408)	\$ 377,383	\$ 11,747	\$ 389,130
BALANCE, DECEMBER 31, 2021 (IN MILLIONS OF US\$ - Note 6)	\$ 2,796	\$ 5,401	\$ 2,796	\$ 97	\$ 2,529	\$ 5,422	\$ (15)	\$ -	\$ -	\$ (15)	\$ 13,604	\$ 424	\$ 14,028

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

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019, 2020 and 2021 (In Millions of New Taiwan or U.S. Dollars)

	2019	2020	2021	
	NT\$	NT\$	NT\$	US\$ (Note 6)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	\$ 41,867	\$ 42,826	\$ 46,067	\$ 1,661
Adjustments for:				
Depreciation	30,923	30,942	31,832	1,148
Amortization	4,253	5,424	6,569	237
Amortization of incremental costs of obtaining contracts	1,173	772	815	29
Expected credit loss (reversal of credit loss)	(125)	45	143	5
Interest expense	104	206	218	8
Interest income	(251)	(116)	(95)	(3)
Dividend income	(296)	(246)	(154)	(6)
Compensation cost of share-based payment transactions	2	8	19	-
Share of profits of associates and joint ventures accounted for using equity method	(459)	(244)	(421)	(15)
Loss (gain) on disposal of property, plant and equipment	38	(1,428)	3	-
Gain on disposal of investment properties	-	(151)	-	-
Loss on disposal of intangible assets	-	2	-	-
Loss (gain) on disposal of financial instruments	(4)	2	-	-
Gain on disposal of investments accounted for using equity method	(151)	(10)	(4)	-
Provision for impairment loss and obsolescence of inventory	475	1,161	207	7
Impairment loss on property, plant and equipment	93	-	-	-
Impairment loss on right-of-use assets	-	-	420	15
Reversal of impairment loss on investment properties	(57)	(27)	(83)	(3)
Impairment loss on intangible assets	9	9	29	1
Impairment loss on other assets	44	-	-	-
Valuation loss (gain) on financial assets and liabilities at fair value through profit or loss, net	38	99	(243)	(9)
Others	(26)	4	(133)	(5)
Changes in operating assets and liabilities:				
Decrease (increase) in:				
Contract assets	173	(203)	(336)	(12)
Trade notes and accounts receivable	4,039	4,071	(1,339)	(48)
Receivables from related parties	7	(214)	189	7
Inventories	(2,698)	3,915	875	32
Prepayments	115	173	392	14
Other current monetary assets	(155)	355	(386)	(14)
Other current assets	146	156	(630)	(23)
Incremental cost of obtaining contracts	(781)	(829)	(803)	(29)
Increase (decrease) in:				
Contract liabilities	6,701	(3,289)	(1,652)	(60)
Trade notes and accounts payable	(5,152)	21	2,468	89
Payables to related parties	(264)	(8)	(255)	(9)
Other payables	697	(924)	248	9
Provisions	97	95	13	-
Other current liabilities	(159)	46	(12)	-
Net defined benefit plans	534	(174)	(756)	(27)
Cash generated from operations	80,950	82,469	83,205	2,999
Interests paid	(104)	(161)	(192)	(6)
Income taxes paid	(8,419)	(7,852)	(8,155)	(294)
Net cash provided by operating activities	72,427	74,456	74,858	2,699

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CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019, 2020 and 2021 (In Millions of New Taiwan or U.S. Dollars)

	2019	2020	2021	
	NT\$	NT\$	NT\$	US\$ (Note 6)
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisition of financial assets at fair value through other comprehensive income	\$ (60)	\$ (85)	\$ (313)	\$ (11)
Proceeds from disposal of financial assets at fair value through other comprehensive income	-	297	2,912	105
Proceeds from return of financial assets at fair value through other comprehensive income	9	-	-	-
Acquisition of financial assets at fair value through profit or loss	(443)	(39)	(44)	(2)
Proceeds from disposal of financial assets at fair value through profit or loss	146	30	25	1
Acquisition of time deposits and negotiable certificates of deposit with maturities of more than three months	(14,381)	(5,216)	(17,369)	(626)
Proceeds from disposal of time deposits and negotiable certificates of deposit with maturities of more than three months	16,520	6,630	18,446	665
Acquisition of repurchase agreements collateralized by bonds with maturities of more than three months	(15)	-	-	-
Proceeds from disposal of repurchase agreements collateralized by bonds with maturities of more than three months	-	15	-	-
Acquisition of investments accounted for using equity method	(4,190)	(10)	(330)	(12)
Proceeds from disposal of investments accounted for using equity method	32	-	9	-
Acquisition of property, plant and equipment	(24,166)	(23,511)	(35,333)	(1,274)
Proceeds from disposal of property, plant and equipment	48	319	27	1
Acquisition of intangible assets	(363)	(47,605)	(256)	(9)
Acquisition of investment properties	(1)	(54)	(1)	-
Proceeds from disposal of investment properties	-	188	-	-
Decrease (increase) in other noncurrent assets	(1,122)	(208)	338	12
Interests received	257	125	95	3
Dividends received	602	516	622	22
Net cash inflow on acquisition of subsidiaries	-	354	-	-
Net cash used in investing activities	<u>(27,127)</u>	<u>(68,254)</u>	<u>(31,172)</u>	<u>(1,125)</u>
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from short-term loans	575	115	154	6
Repayments of short-term loans	(585)	(142)	(156)	(6)
Proceeds from short-term bills payable	-	41,000	5,000	180
Repayments of short-term bills payable	-	(34,000)	(12,000)	(433)
Proceeds from issuance of bonds	-	20,000	7,000	252
Payments for transaction costs attributable to the issuance of bonds	-	(21)	(7)	-
Increase in customers' deposits	8	62	477	17
Payments for the principal of lease liabilities	(3,728)	(3,683)	(3,729)	(134)
Increase in other noncurrent liabilities	233	342	3,191	115
Cash dividends paid	(34,746)	(32,783)	(33,404)	(1,204)
Cash dividends distributed to noncontrolling interests	(710)	(775)	(896)	(32)
Change in other noncontrolling interests	18	81	54	2
Unclaimed dividend	1	2	2	-
Net cash used in financing activities	<u>\$ (38,934)</u>	<u>\$ (9,802)</u>	<u>\$ (34,314)</u>	<u>\$ (1,237)</u>

(Continued)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2019, 2020 and 2021 (In Millions of New Taiwan or U.S. Dollars)

	<u>2019</u>	<u>2020</u>	<u>2021</u>	
	NT\$	NT\$	NT\$	US\$ (Note 6)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	\$ 39	\$ (30)	\$ (13)	\$ -
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,405	(3,630)	9,359	337
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>27,645</u>	<u>34,050</u>	<u>30,420</u>	<u>1,097</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 34,050</u>	<u>\$ 30,420</u>	<u>\$ 39,779</u>	<u>\$ 1,434</u>

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

(Concluded)

CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (In Millions of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL

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

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

Chunghwa together with its subsidiaries are hereinafter referred to collectively as the “Company”.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were authorized for issue by the management on March 28, 2022.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The accompanying consolidated financial statements have been prepared in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board (collectively, “IFRSs”).

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values and net defined benefit liabilities (assets) which are measured at the present value of the defined benefit obligations less the fair value of plan assets.

Current and Noncurrent Assets and Liabilities

Current assets include:

- a. Assets held primarily for the purpose of trading;
- b. Assets expected to be realized within twelve months after the reporting period; and
- c. Cash and cash equivalents unless the asset is restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

Current liabilities include:

- a. Liabilities held primarily for the purpose of trading;
- b. Liabilities due to be settled within twelve months after the reporting period; and
- c. Liabilities for which the Company does not have an unconditional right to defer settlement for at least twelve months after the reporting period.

Assets and liabilities that are not classified as current are classified as noncurrent.

Light Era Development Co., Ltd. (“LED”) engages mainly in development of property for rent and sale. The assets and liabilities of LED related to property development within its operating cycle, which is over one year, are classified as current items.

Basis of Consolidation

- a. Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of Chunghwa and entities controlled by Chunghwa (its subsidiaries).

Income and expenses of subsidiaries acquired are included in the consolidated statement of comprehensive income from the acquisition date.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by the Company.

All inter-company transactions, balances, income and expenses are eliminated in full upon consolidation.

Attribution of total comprehensive income to noncontrolling interests

Total comprehensive income of subsidiaries is attributed to the stockholders of the parent and to the noncontrolling interests even if it results in the noncontrolling interests having a deficit balance.

Changes in the Company’s ownership interests in subsidiaries

Changes in the Company’s ownership interests in subsidiaries that do not result in the Company losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company’s interests and the noncontrolling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the noncontrolling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to stockholders of the parent.

b. The subsidiaries in the consolidated financial statements

The detail information of the subsidiaries at the end of reporting period was as follows:

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership Interests		Note
			December 31		
			2020	2021	
Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd. ("SENAO")	Handset and peripherals retailer, sales of CHT mobile phone plans as an agent	28	28	a)
	Light Era Development Co., Ltd. ("LED")	Planning and development of real estate and intelligent buildings, and property management	100	100	
	Donghwa Telecom Co., Ltd. ("DHT")	International private leased circuit, IP VPN service, and IP transit services	100	100	b)
	Chunghwa Telecom Singapore Pte., Ltd. ("CHTS")	International private leased circuit, IP VPN service, and IP transit services	100	100	
	Chunghwa System Integration Co., Ltd. ("CHSI")	Providing system integration services and telecommunications equipment	100	100	
	Chunghwa Investment Co., Ltd. ("CHI")	Investment	89	89	
	CHIEF Telecom Inc. ("CHIEF")	Network integration, internet data center ("IDC"), communications integration and cloud application services	56	56	c)
	CHYP Multimedia Marketing & Communications Co., Ltd. ("CHYP")	Digital information supply services and advertisement services	100	100	
	Prime Asia Investments Group Ltd. (B.V.I.) ("Prime Asia")	Investment	100	100	
	Spring House Entertainment Tech. Inc. ("SHE")	Software design services, internet contents production and play, and motion picture production and distribution	56	56	
	Chunghwa Telecom Global, Inc. ("CHTG")	International private leased circuit, internet services, and transit services	100	100	
	Chunghwa Telecom Vietnam Co., Ltd. ("CHTV")	Intelligent energy saving solutions, international circuit, and information and communication technology ("ICT") services	100	100	
	Smartfun Digital Co., Ltd. ("SFD")	Providing diversified family education digital services	65	65	
	Chunghwa Telecom Japan Co., Ltd. ("CHTJ")	International private leased circuit, IP VPN service, and IP transit services	100	100	
	Chunghwa Sochamp Technology Inc. ("CHST")	Design, development and production of Automatic License Plate Recognition software and hardware	51	51	
	Honghwa International Co., Ltd. ("HHI")	Telecommunications engineering, sales agent of mobile phone plan application and other business services, etc.	100	100	
	Chunghwa Leading Photonics Tech Co., Ltd. ("CLPT")	Production and sale of electronic components and finished products	75	75	
	Chunghwa Telecom (Thailand) Co., Ltd. ("CHTT")	International private leased circuit, IP VPN service, ICT and cloud VAS services	100	100	
	CHT Security Co., Ltd. ("CHTSC")	Computing equipment installation, wholesale of computing and business machinery equipment and software, management consulting services, data processing services, digital information supply services and internet identify services	80	77	d)
		International Integrated Systems, Inc. ("IISI")	IT solution provider, IT application consultation, system integration and package solution	51	51
Senao International Co., Ltd.	Senao International (Samoa) Holding Ltd. ("SIS")	International investment	100	100	f)
	Youth Co., Ltd. ("Youth")	Sale of information and communication technologies products	96	96	g)

(Continued)

Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership Interests		Note
			December 31		
			2020	2021	
	Aval Technologies Co., Ltd. (“Aval”)	Sale of information and communication technologies products	100	100	
	Senyoung Insurance Agent Co., Ltd. (“SENYOUNG”)	Property and liability insurance agency	100	100	
Youth Co., Ltd.	ISPOT Co., Ltd. (“ISPOT”)	Sale of information and communication technologies products	100	100	
	Youyi Co., Ltd. (“Youyi”)	Maintenance of information and communication technologies products	100	100	
Aval Technologies Co., Ltd.	Wiin Technology Co., Ltd. (“Wiin”)	Sale of information and communication technologies products	100	100	
Senyoung Insurance Agent Co., Ltd.	Senaolife Insurance Agent Co., Ltd. (“Senaolife”)	Life insurance services	100	100	
CHIEF Telecom Inc.	Unigate Telecom Inc. (“Unigate”)	Telecommunications and internet service	100	100	
	Chief International Corp. (“CIC”)	Telecommunications and internet service	100	100	
	Shanghai Chief Telecom Co., Ltd. (“SCT”)	Telecommunications and internet service	49	49	h)
Chunghwa Investment Co., Ltd.	Chunghwa Precision Test Tech. Co., Ltd. (“CHPT”)	Production and sale of semiconductor testing components and printed circuit board	34	34	i)
Chunghwa Precision Test Tech. Co., Ltd.	Chunghwa Precision Test Tech. USA Corporation (“CHPT (US)”)	Design and after-sale services of semiconductor testing components and printed circuit board	100	100	j)
	CHPT Japan Co., Ltd. (“CHPT (JP)”)	Related services of electronic parts, machinery processed products and printed circuit board	100	100	
	Chunghwa Precision Test Tech. International, Ltd. (“CHPT (International)”)	Wholesale and retail of electronic materials, and investment	100	100	k)
Senao International (Samoa) Holding Ltd.	Senao International HK Limited (“SIHK”)	International investment	100	100	l)
Senao International HK Limited	Senao International Trading (Shanghai) Co., Ltd. (“SITS”)	Sale of information and communication technologies products	100	-	m)
Prime Asia Investments Group Ltd. (B.V.I.)	Chunghwa Hsingta Co., Ltd. (“CHC”)	Investment	100	100	
Chunghwa Hsingta Co., Ltd.	Chunghwa Telecom (China) Co., Ltd. (“CTC”)	Integrated information and communication solution services for enterprise clients, and intelligent energy network service	100	100	n)
Chunghwa Precision Test Tech. International, Ltd.	Shanghai Taihua Electronic Technology Limited (“STET”)	Design of printed circuit board and related consultation service	100	100	
	Su Zhou Precision Test Tech. Ltd. (“SZPT”)	Assembly processed of circuit board, design of printed circuit board and related consultation service	100	100	o)

(Continued)

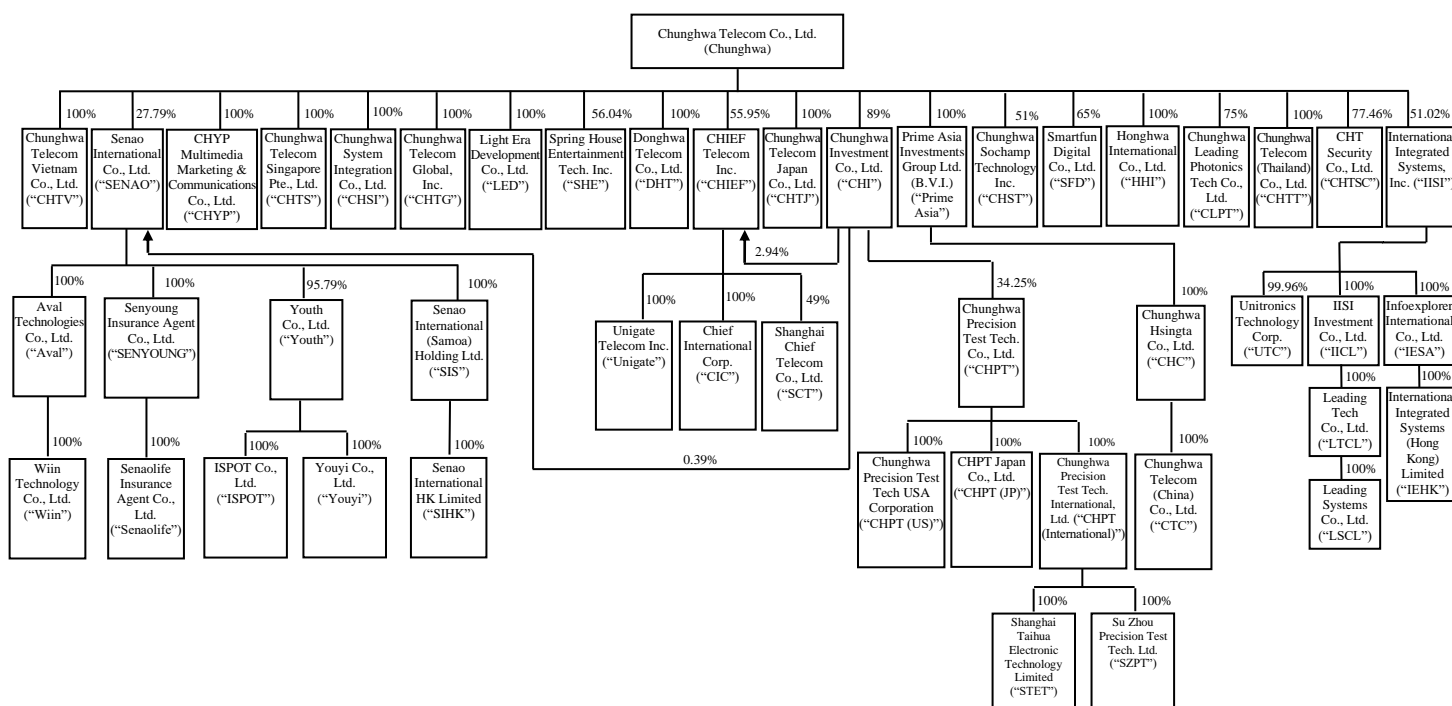
Name of Investor	Name of Investee	Main Businesses and Products	Percentage of Ownership Interests		Note
			December 31		
			2020	2021	
International Integrated Systems, Inc.	Infoexplorer International Co., Ltd. (“IESA”)	Investment	100	100	p)
	IISI Investment Co., Ltd. (“IICL”)	Investment	100	100	p)
	Unitronics Technology Corp. (“UTC”)	Development and maintenance of information system	99.96	99.96	p)
Infoexplorer International Co., Ltd.	International Integrated Systems (Hong Kong) Limited (“IEHK”)	Investment and technical consulting service	100	100	p)
IISI Investment Co., Ltd.	Leading Tech Co., Ltd. (“LTCL”)	Investment	100	100	p)
Leading Tech Co., Ltd.	Leading Systems Co., Ltd. (“LSCL”)	Investment	100	100	p)
Leading Systems Co., Ltd.	International Integrated Systems Inc. (Shanghai) (“IISS”)	Development and maintenance of information system	100	-	p) q)
International Integrated Systems Inc. (Shanghai)	Huiyu Shanghai Management Consultancy Co., Ltd. (“HSMC”)	Development and maintenance of information system	-	-	p) r)

(Concluded)

- a) Chunghwa continues to control six out of eleven seats of the Board of Directors of SENAO through the support of large beneficial stockholders. As a result, the Company treated SENAO as a subsidiary.
- b) DHT reduced and returned its capital to its stakeholders in March 2021. The Company’s ownership interest in DHT remained the same.
- c) CHIEF issued new shares in March 2020, December 2020, March 2021 and December 2021 as its employees exercised options. Therefore, the Company’s ownership interest in CHIEF decreased to 59.08% and 58.89% as of December 31, 2020 and 2021, respectively.
- d) CHTSC issued new shares in February 2021 as its employees exercised options. Therefore, the Company’s ownership interest in CHTSC decreased to 77.46% as of December 31, 2021.
- e) Chunghwa obtained 20.38% ownership interest in IISI in July 2020 and Chunghwa’s ownership interest in IISI increased to 51.54% by considering the previously held ownership interest in IISI. Chunghwa obtained over half of the seats of the Board of Directors of IISI; therefore, Chunghwa gained control over IISI and treated it as a subsidiary. IISI issued new shares in September 2020 and January 2021 as its employees exercised options; therefore, the Company’s ownership interest in IISI decreased to 51.20% and 51.02% as of December 31, 2020 and 2021, respectively.
- f) SIS reduced and returned its capital to its stakeholders in November 2020 and July 2021. SIS reduced 8.14% and 48.15% of its capital to offset accumulated deficits in February and October 2021, respectively. The Company’s ownership interest in SIS remained the same.
- g) SENAO subscribed for all the shares in the capital increase of Youth in April 2020. Therefore, the Company’s ownership interest in Youth increased from 92.89% to 95.79%.

- h) CHIEF has two out of three seats of the Board of Directors of SCT according to the mutual agreements among stockholders and gained control over SCT; hence, SCT is deemed as a subsidiary of the Company.
- i) Though the Company's ownership interest in CHPT is less than 50%, the management considered the absolute and relative size of ownership interest, and the dispersion of shares owned by the other stockholders and concluded that the Company has a sufficiently dominant voting interest to direct the relevant activities; hence, CHPT is deemed as a subsidiary of the Company.
- j) CHPT increased its investment in CHPT (US) proportionally in August 2021 and the Company's ownership interest in CHPT (US) remained the same.
- k) CHPT increased its investment in CHPT (International) proportionally in April 2021 and the Company's ownership interest in CHPT (International) remained the same.
- l) SIHK reduced and returned its capital to its stakeholders in November 2020 and May 2021. SIHK reduced 8.15% and 47.79% of its capital to offset accumulated deficits in January and August 2021, respectively. The Company's ownership interest in SIHK remained the same.
- m) SITS completed its liquidation in April 2021.
- n) CTC was approved to end and dissolve its business in August 2020. The liquidation of CTC is still in process.
- o) CHPT (International) increased its investment in SZPT proportionally in July 2021. The Company's ownership interest in SZPT remained the same.
- p) It is a subsidiary of IISI.
- q) IISS completed its liquidation in August 2021.
- r) HSMC completed its liquidation in December 2020.

The following diagram presented information regarding the relationship and percentages of ownership interests between Chunghwa and its subsidiaries as of December 31, 2021.



Business Combinations

Acquisitions of businesses are accounted for using the acquisition method. Acquisition-related costs are generally recognized in profit or loss as they are incurred.

Goodwill is measured as the excess of the sum of the consideration transferred and the fair value of the acquirer's previously held equity interests in the acquiree over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

Noncontrolling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at the noncontrolling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets.

When a business combination is achieved in stages, the Company's previously held equity interest in an acquiree is remeasured to fair value at the acquisition date and the resulting gain or loss is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are recognized on the same basis as would be required had those interests been directly disposed of by the Company.

Foreign Currencies

In preparing the financial statements of each individual entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined and related exchange differences are recognized in profit or loss. Conversely, when the fair value changes were recognized in other comprehensive income, related exchange difference shall be recognized in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

Chunghwa uses New Taiwan dollars (NT\$) as the functional currency. For the purpose of presenting consolidated financial statements, the assets and liabilities of the Company's foreign operations (including those subsidiaries, associates and joint ventures in other countries or currencies used different with Chunghwa) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognized in other comprehensive income and attributed to stockholders of the parent and noncontrolling interests as appropriate.

Cash Equivalents

Cash equivalents include those maturities within three months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value such as commercial papers, negotiable certificates of deposit, time deposits, repurchase agreements collateralized by bonds and stimulus vouchers. These cash equivalents are held for the purpose of meeting short-term cash commitments.

Inventories

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

Buildings and Land Consigned to Construction Contractors

Inventories of LED are stated at the lower of cost or net realizable value item by item, except for those that may be appropriate to group as similar items or related inventories. Land acquired before construction is classified as land held for development and then reclassified as land held under development after LED begins its construction project.

Upon the completion of the construction project, LED recognizes revenues in the amount of proceeds from customers for land and buildings and related costs when ownership is transferred to the customers. The unsold portion of the completed construction project is transferred to land and building held for sale.

Investments in Associates and Joint Ventures

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. A joint venture is a joint arrangement whereby the Company and other parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investments accounted for using the equity method include investments in associates and interests in joint ventures. Under the equity method, an investment in an associate and a joint venture is initially recognized at cost and adjusted thereafter to recognize the Company's share of profit or loss and other comprehensive income of the associate and joint venture as well as the distribution received. The Company also recognizes its share in changes in the associates and joint ventures.

When the Company subscribes for new shares of an associate and a joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate and joint venture. The Company records such a difference as an adjustment to investments with the corresponding amount charged or credited to additional paid-in capital. When the adjustment should be debited to additional paid-in capital but the additional paid-in capital recognized from investments accounted for using equity method is insufficient, the shortage is debited to retained earnings.

Any excess of the cost of acquisition over the Company's share of the fair value of the identifiable net assets and liabilities of an associate and a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and shall not be amortized. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognized immediately in profit or loss.

The entire carrying amount of an investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Company discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date, and the fair value is regarded as the investment's fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and joint venture attributable to the

retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and joint venture. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate and joint venture on the same basis as would be required had that associate and joint venture directly disposed of the related assets or liabilities.

When the Company transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Company's consolidated financial statements only to the extent of interests in the associate and joint venture that are not related to the Company.

Property, Plant and Equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. Freehold land is not depreciated. The estimated useful lives, residual values and depreciation method are reviewed at the end of each year, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period in which the property is derecognized.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

For a transfer from the investment properties to property, plant and equipment, the deemed cost of the property, plant and equipment for subsequent accounting is its carrying amount at the commencement of owner-occupation.

For a transfer from the property, plant and equipment to investment properties, the deemed cost of the investment properties for subsequent accounting is its carrying amount at the end of owner-occupation.

For a contract where a land owner provides land for the construction of buildings by a property developer in exchange for a certain percentage of the buildings, any exchange gain or loss is recognized when the exchange transaction occurs if the exchange transaction has commercial substance.

On derecognition of the investment properties, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period in which the property is derecognized.

Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units or groups of cash-generating units (referred to as "cash-generating unit") that are expected to benefit from the synergies of the business combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

Intangible Assets Other Than Goodwill

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Company expects to dispose of the intangible asset before the end of its economic life.

Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, they are measured on the same basis as intangible assets that are acquired separately.

Gains or losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognized in profit or loss in the period in which the asset is derecognized.

Impairment of Property, Plant and Equipment, Right-of-use Assets, Investment Properties, Intangible Assets Other Than Goodwill and Incremental Costs of Obtaining Contracts

At the end of each reporting period, the Company reviews the carrying amounts of its property, plant and equipment, right-of-use assets, investment properties and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

Impairment loss from the assets related to incremental cost of obtaining contracts is recognized to the extent that the carrying amount of the assets exceeds the remaining amount of consideration that the Company expects to receive in exchange for related goods or services less the costs which relate directly to providing those goods or services.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the Company becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. The regular way of transaction means the purchase or sale of financial assets delivered within the time frame established by regulation or convention in the marketplace.

1) Measurement category

a) Financial assets at fair value through profit or loss (FVTPL)

Financial asset is classified as at FVTPL when the financial asset is mandatorily classified as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at fair value through other comprehensive income (FVOCI).

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividend earned on the financial asset. Fair value is determined in the manner described in Note 38.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss, except for short-term receivables as the effect of discounting is immaterial. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such financial assets.

c) Investments in equity instruments at FVOCI

On initial recognition, the Company may make an irrevocable election to designate investments in equity instruments as at FVOCI. Designation at FVOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments. Instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Company's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2) Impairment of financial assets and contract assets

The Company recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including accounts receivable) and contract assets.

The Company recognizes lifetime Expected Credit Loss (ECL) for accounts receivable and contract assets. For all other financial instruments, the Company recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Company measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Company recognizes an impairment loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

3) Derecognition of financial assets

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset measured at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

On derecognition of investments in equity instruments at FVOCI in its entirety, the cumulative gain or loss is directly transferred to retained earnings, and it is not reclassified to profit or loss.

b. Financial liabilities

1) Subsequent measurement

Except for financial liabilities at FVTPL, all the financial liabilities are subsequently measured at amortized cost using the effective interest method.

2) Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

c. Derivative financial instruments

The Company enters into derivative financial instruments to manage its exposure to foreign exchange rate risks, including forward exchange contracts.

Derivatives are initially measured at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Hedge Accounting

The Company designates some derivatives instruments as cash flow hedges. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

The associated gains or losses that were recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment in the line item relating to the hedged item in the same period when the hedged item affects profit or loss. If a hedge of a forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the associated gains and losses that were recognized in other comprehensive income are removed from equity and are included in the initial cost of the non-financial asset or non-financial liability.

The Company discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss on the hedging instrument that has been previously recognized in other comprehensive income from the period when the hedge was effective remains separately in equity until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Provisions

Provisions are measured at the best estimate of the expenditure required to settle the Company's obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. The provisions for warranties claims are made by management according to the sales agreements which represent the management's best estimate of the future outflow of economic benefits. The provisions of warranties claims are recognized as operating cost in the period in which the goods are sold. The provision for onerous contracts represents the present obligation resulting from the measurement for the unavoidable costs of meeting the Company's contractual obligations exceed the economic benefits expected to be received from the contracts.

Revenue Recognition

The Company identifies the performance obligations in the contract with the customers, allocates transaction price to each performance obligation and recognizes revenue when performance obligations are satisfied.

Sales of products are recognized as revenue when the Company delivers products and the customer accepts and controls the product. Except for consumer electronic products such as mobile devices sold in channel stores usually in the form of cash, the Company recognizes revenues for sale of other electronic devices and corresponding trade notes and accounts receivable.

Usage revenues from fixed-line services (including local, domestic long distance and international long distance telephone services), mobile services, internet and data services, and interconnection and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based upon seconds or minutes of traffic processed when the services are provided in accordance with contract terms. The usage revenues and corresponding trade notes and accounts receivable are recognized monthly.

Other revenues are recognized as follows: (a) one-time subscriber connection fees (on fixed-line services) are first recognized as contract liabilities and revenues are recognized subsequently over the average expected customer service periods, (b) monthly fees (on fixed-line services, mobile, internet and data services) and related receivables are accrued monthly, and (c) prepaid services (fixed-line, mobile, internet and data services) are recognized as contract liabilities upon collection considerations from customers and are recognized as revenues subsequently based upon actual usage by customers.

Where the Company enters into transactions which involve both the provision of telecommunications service bundled with products such as handsets, total consideration received from products and telecommunications service in these arrangements are allocated based on their relative standalone selling price. The amount of sales revenue recognized for products is not limited to the amount paid by the customer for the products. When the amount of sales revenue recognized for products exceeded the amount paid by the customer for the products, the difference is recognized as contract assets. Contract assets are reclassified to accounts receivable when the amounts become collectible from customers subsequently. When the amount of sales revenue recognized for products was less than the amount paid by the customer for the products, the difference is recognized as contract liabilities and revenues are recognized subsequently when the telecommunications services are provided.

For project business contracts, if a substantial part of the Company's promise to customers is to manage and coordinate the various tasks and assume the risks of those tasks to ensure the individual goods or services are incorporated into the combined output, they are treated as a single performance obligation since the Company provides a significant integration service. The Company recognizes revenues and corresponding accounts receivable when the project business contract is completed and accepted by customers. For some project contracts, the Company does not create an asset with an alternative use to the Company and has an enforceable right to payment for performance completed to date; therefore, performance obligations are satisfied and revenues are recognized over time.

For service contracts such as maintenance and warranties, customers simultaneously receive and consume the benefits provided by the Company; thus, revenues and corresponding accounts receivable of service contracts are recognized over the related service period.

When another party is involved in providing goods or services to a customer, the Company is acting as a principal if it controls the specified good or service before that good or service is transferred to a customer; otherwise, the Company is acting as an agent. When the Company is acting as a principal, gross inflow of economic benefits arising from transactions is recognized as revenue. When the Company is acting as an agent, revenue is recognized as its share of transaction.

Incremental Costs of Obtaining Contracts

Commissions and equipment subsidy related to telecommunications service as a result of obtaining contracts are recognized as an asset under the incremental costs of obtaining contracts to the extent the costs are expected to be recovered and are amortized over the contract period. However, the Company elects not to capitalize the incremental costs of obtaining contracts if the amortization period of the assets that the Company otherwise would have recognized is expected to be one year or less.

Leasing

At inception of a contract, the Company assesses whether the contract is, or contains, a lease.

a. The Company as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

b. The Company as lessee

The Company recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for lease payments for low-value assets are recognized as expenses on a straight-line basis over the lease terms accounted for applying recognition exemption.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities and for lease payments made at or before the commencement date. Right-of-use assets are subsequently measured at cost less accumulated depreciation and accumulated impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented separately on the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line basis from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms.

Lease liabilities were initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If such rate cannot be readily determined, the lessee's incremental borrowing rate is used.

Lease liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Company remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. The Company accounts for the remeasurement of the lease liability as a result of the decrease of lease scope by decreasing the carrying amount of the right-of-use assets and recognizes in profit or loss any gain or

loss on the partial or full termination of the lease. Lease liabilities are presented separately on the consolidated balance sheets.

Variable lease payments not depending on an index or a rate are recognized as expenses in the periods in which they are incurred.

Borrowing Costs

All borrowing costs are recognized in profit or loss in the period in which they are incurred.

Government Grants

Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions attached to government grants and that the grants will be received.

Government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the Company recognizes expenses of the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Company should construct noncurrent assets are recognized as deferred revenue and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that become receivable as compensation for expenses or losses already incurred are recognized in profit or loss in the period in which they become receivable.

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

Defined benefit costs (including service cost, net interest and rereasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost and gains or losses on settlements) and net interest on the net defined benefit liability (asset) are recognized as employee benefits expense in the period they occur. Rereasurement, comprising (a) actuarial gains and losses; and (b) the return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset), is recognized in other comprehensive income in the period in which they occur. Rereasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

Net defined benefit liability (asset) represents the actual deficit (surplus) in the Company's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Other long-term employee benefits

Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plan except that rereasurement is recognized in profit or loss.

Share-based Payment Arrangements - Employee Stock Options

The fair value determined at the grant date of the employee share options is expensed on a straight-line basis over the vesting period, based on the Company's estimate of employee stock options that are expected to ultimately vest, with a corresponding increase in additional paid-in capital - employee stock options. If the equity instruments granted vest immediately at the grant date, expenses are recognized in full in profit or loss.

At the end of each reporting period, the Company revises its estimate of the number of employee share options expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to additional paid-in capital - employee stock options.

Income Tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

The current tax is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Income tax on unappropriated earnings is accrued during the period the earnings arise and adjusted to the extent that distributions are approved by the stockholders in the following year.

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. A deferred tax liability is not recognized on taxable temporary difference arising from initial recognition of goodwill.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits from purchases of machinery, equipment and technology and research, and development expenditures, etc. to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, associates, and joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also

reviewed at the end of each reporting period and recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income, in which case, the current and deferred tax are also recognized in other comprehensive income.

Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION, UNCERTAINTY AND ASSUMPTION

In the application of the Company's accounting policies, the management is required to make judgments, estimates and assumptions which are based on historical experience and other factors that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed by the management on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

a. Critical accounting judgments

1) Revenue recognition

The Company's project agreements are mainly to provide one or more customized equipment or services to customers. In order to fulfill the agreements, another party may be involved in some agreements. The Company considers the following factors to determine whether the Company is a principal of the transaction: whether the Company is the primary obligation provider of the agreements, its exposures to inventory risks and the discretion in establishing prices, etc. The determination of whether the Company is a principal or an agent will affect the amount of revenue recognized by the Company. Only when the Company is acting as a principal, gross inflows of economic benefits arising from transactions is recognized as revenue.

2) Control over subsidiaries

As discussed in Note 3, "Summary of Significant Accounting Policies - Basis of Consolidation", some entities are subsidiaries of the Company although the Company only owns less than 50% ownership interests in these entities. After considering the Company's absolute size of holding in the entity and the relative size of and the dispersion of shares owned by the other stockholders, and the contractual arrangements between the Company and other investors, potential voting interests and the written agreement between stockholders, the management concluded that the Company has a sufficiently dominant voting interest to direct the relevant activities of the entity and to have control over the governance of the entity and therefore the Company has control over these entities.

b. Key sources of estimation uncertainty and assumption

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period. Actual results may differ from these estimates.

1) Impairment of trade notes and accounts receivable

The provision for impairment of trade notes and accounts receivable is based on assumptions on probability of default and expected credit loss rates. The Company uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Company's past experience, current market conditions as well as forward looking information at the end of each reporting period. For details of the key assumptions and inputs used, see Note 10. Where the actual future cash flows are less than expected, a material impairment loss may arise.

2) Fair value measurements and valuation processes

For the assets and liabilities measured at fair value without quoted prices in active markets, the Company's management determines the appropriate valuation techniques for the fair value measurements and whether to engage third party qualified appraisers based on the related regulations and professional judgments.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities was disclosed in Note 38. If the actual changes of inputs in the future differ from expectation, the fair value may vary accordingly. The Company updates inputs periodically to monitor the appropriateness of the fair value measurement.

3) Provision for inventory valuation and obsolescence

Inventories are stated at the lower of cost or net realizable value. Estimates of net realizable value are based on the most reliable evidence available at the time the estimates are made at the end of reporting period. These estimates take into consideration fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. Inventory write-downs are determined on an item by item basis, except for those similar items which could be categorized into the same groups. The Company uses the inventory holding period and turnover as the evaluation basis for inventory obsolescence losses.

4) Impairment of property, plant and equipment, right-of-use assets, investment properties and intangible assets

In the process of evaluating the potential impairment of tangible and intangible assets, the Company is required to consider internal and external indicators of impairment and make subjective judgments in determining the independent cash flows, useful lives, expected future revenue and expenses related to the specific asset groups within the context of the telecommunication industry. Any changes in these estimates based on changed economic conditions or business strategies could result in significant impairment charges in future periods.

5) Useful lives of property, plant and equipment

As discussed in Note 3, "Summary of Significant Accounting Policies - Property, Plant and Equipment", the Company reviews estimated useful lives of property, plant and equipment at the end of each year.

6) Recognition and measurement of defined benefit plans

Net defined benefit liabilities (assets) and the resulting pension expense under defined benefit pension plans are calculated using the Projected Unit Credit Method. Actuarial assumptions comprise the discount rate, employee turnover rate, average future salary increase and etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

7) Lessees' incremental borrowing rates

In determining a lessee's incremental borrowing rate used in discounting lease payments, a risk-free rate for relevant duration and the same currency is selected as a reference rate. The lessee's credit spread adjustments and lease specific adjustments are also taken into account.

5. APPLICATION OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Amendments to IFRSs and the New Interpretation That Are Mandatorily Effective for the Current Year

The Company has applied Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16: Interest Rate Benchmark Reform-phase 2. The application of these amendments has had no impact on the disclosures or amounts recognized in the Company's consolidated financial statements.

New and Amended IFRSs in Issue But Not Yet Effective

The Company has not applied the following new and amended IFRSs that have been issued but are not yet effective.

New or Amended Standards and Interpretations		Effective Date Issued by IASB (Note 1)
Amendments to IFRSs	Annual Improvements to IFRS Standards 2018-2020	January 1, 2022 (Note 2)
Amendments to IFRS 3	Reference to the Conceptual Framework	January 1, 2022 (Note 3)
Amendments to IAS 16	Property, Plant and Equipment - Proceeds before Intended Use	January 1, 2022 (Note 4)
Amendments to IAS 37	Onerous Contracts - Cost of Fulfilling a Contract	January 1, 2022 (Note 5)
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture	To be determined by IASB
Amendments to IAS 1	Classification of liabilities as current or noncurrent	January 1, 2023
Amendments to IAS 1	Disclosure of Accounting Policies	January 1, 2023 (Note 6)
Amendments to IAS 8	Definition of Accounting Estimates	January 1, 2023 (Note 7)
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction	January 1, 2023 (Note 8)

- Note 1: The aforementioned new or amended standards or interpretations are effective after fiscal year beginning on or after the effective dates, unless specified otherwise.
- Note 2: The amendments to IFRS 9 are applied prospectively to financial liabilities that are exchanged or modified on or after the annual reporting periods beginning on or after January 1, 2022.
- Note 3: The amendments are applicable to business combinations for which the acquisition date is on or after the annual reporting period beginning on or after January 1, 2022.
- Note 4: The amendments are applicable to property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after January 1, 2021.
- Note 5: The amendments are applicable to contracts for which the entity has not yet fulfilled all its obligations on January 1, 2022.
- Note 6: The amendments will be applied prospectively for annual reporting periods beginning on or after January 1, 2023.
- Note 7: The amendments are applicable to changes in accounting estimates and changes in accounting policies that occur on or after the beginning of the annual reporting period beginning on or after January 1, 2023.
- Note 8: Except that deferred taxes will be recognized for temporary differences associated with leases and decommissioning obligations on January 1, 2022, the amendments will be applied prospectively to transactions that occur on or after January 1, 2022.

The application of “Amendments to IFRSs: Annual Improvements to IFRS Standards 2018-2020”, “Amendments to IFRS 3: Reference to the Conceptual Framework”, “Amendments to IAS 16: Property, Plant and Equipment - Proceeds before Intended Use” and “Amendments to IAS 37: Onerous Contracts - Cost of Fulfilling a Contract” will not have material impact on the Company’s consolidated financial statements.

As of the date the consolidated financial statements were authorized for issue, the Company is continuously assessing whether the application of “Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture”, “Amendments to IAS 1: Classification of liabilities as current or noncurrent”, “Amendments to IAS 1: Definition of Accounting Policies”, “Amendments to IAS 8: Definition of Accounting Estimates”, and “Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction” will have the impact on the Company’s financial position and operating result. The Company will disclose the relevant impact when the assessment is completed.

6. U.S. DOLLAR AMOUNTS

The Company maintains its accounts and expresses its consolidated financial statements in New Taiwan dollars. For readers’ convenience only, U.S. dollar amounts presented in the accompanying consolidated financial statements have been translated from New Taiwan dollars as set forth in the statistical release of the Federal Reserve Board of the United States as of December 30, 2021, which was NT\$27.74 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.

7. CASH AND CASH EQUIVALENTS

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Cash		
Cash on hand	\$ 487	\$ 440
Bank deposits	<u>10,961</u>	<u>15,647</u>
	<u>11,448</u>	<u>16,087</u>
Cash equivalents (with maturities of less than three months)		
Commercial papers	14,061	13,530
Negotiable certificates of deposit	2,600	7,500
Time deposits	2,308	2,657
Stimulus vouchers	<u>3</u>	<u>5</u>
	<u>18,972</u>	<u>23,692</u>
	<u>\$ 30,420</u>	<u>\$ 39,779</u>

The annual yield rates of bank deposits, commercial papers, negotiable certificates of deposit and time deposits as of balance sheet dates were as follows:

	December 31	
	2020	2021
Bank deposits	0.00%-0.40%	0.00%-0.45%
Commercial papers	0.14%-0.26%	0.17%-0.30%
Negotiable certificates of deposit	0.24%-0.30%	0.27%-0.30%
Time deposits	0.10%-3.60%	0.01%-3.60%

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
<u>Financial assets-current</u>		
Mandatorily measured at FVTPL		
Derivatives (not designated for hedge)		
Forward exchange contracts	\$ 2	\$ -
Non-derivatives		
Listed stocks - domestic	<u>8</u>	<u>3</u>
	<u>\$ 10</u>	<u>\$ 3</u>

(Continued)

	December 31	
	2020	2021
	NT\$	NT\$
(In Millions)		
<u>Financial assets-noncurrent</u>		
Mandatorily measured at FVTPL		
Non-derivatives		
Non-listed stocks - domestic	\$ 441	\$ 648
Non-listed stocks - foreign	236	237
Limited partnership - domestic	-	24
	<u>\$ 677</u>	<u>\$ 909</u>

Financial liabilities-current

Held for trading		
Derivatives (not designated for hedge)		
Forward exchange contracts	\$ -	\$ 6 (Concluded)

Outstanding forward exchange contracts not designated for hedge as of balance sheet dates were as follows:

	Currency	Maturity Period	Contract Amount (In Millions)
<u>December 31, 2020</u>			
Forward exchange contracts - buy	NT\$/EUR	2021.03	NT\$50/EUR2
Forward exchange contracts - sell	US\$/NT\$	2021.02-03	US\$14/NT\$379
<u>December 31, 2021</u>			
Forward exchange contracts - buy	NT\$/EUR	2022.03	NT\$257/EUR8

The Company entered into the above forward exchange contracts to manage its exposure to foreign currency risk due to fluctuations in exchange rates. However, the aforementioned derivatives did not meet the criteria for hedge accounting.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - NONCURRENT

	December 31	
	2020	2021
	NT\$	NT\$
(In Millions)		
Domestic investments		
Listed stocks	\$ 2,754	\$ 459
Non-listed stocks	4,325	3,030
		(Continued)

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Foreign investments		
Non-listed stocks	<u>\$ 114</u>	<u>\$ 127</u>
	<u>\$ 7,193</u>	<u>\$ 3,616</u>
		(Concluded)

The Company holds the above foreign and domestic stocks for medium to long-term strategic purposes and expects to profit from long-term investment. Accordingly, the management elected to designate these investments in equity instruments at FVOCI as they believe that recognizing short-term fair value fluctuations of these investments in profit or loss is not consistent with the Company's strategy of holding these investments for long-term purposes.

The Company holds Powtec Electro Chemical Corporation ("Powtec") as financial assets at FVOCI. The Board of Directors of Powtec resolved in February 2020 to file a petition with court for the declaration of its bankruptcy which was adjudged by the court in April 2020. The Company evaluated and determined the fair value of such investment was nil after its declaration of bankruptcy and recognized related loss in the consolidated statements of comprehensive income for the year ended December 31, 2019.

The Company disposed of its investment in China Airlines, Ltd. starting from December 2020 and sold all its shares by February 2021. The total fair value of the disposed investment were \$568 million and \$2,636 million in 2020 and 2021, respectively. The Company disposed of its investments in UUPON Inc. (UUPON) and Cotech Engineering Fuzhou Corp. in October and December 2021 and the fair value of the disposed investment were \$1 million and \$4 million, respectively.

CHI obtained significant influence over AgriTalk Technology Inc. ("ATT") and Imedtac Co., Ltd. ("IME") in July 2021 and August 2021, respectively. Therefore, the aforementioned investments were reclassified from financial asset at FVOCI to associates at fair value of \$19 million and \$45 million, respectively. (Please refer to Note 15 (a)).

The related unrealized gain on financial assets at FVOCI of \$17 million and \$60 million were transferred from other equity to retained earnings upon the aforementioned disposals in 2020 and 2021, respectively.

CHI participated in the private placement of PChome Online Inc. in the amount of \$200 million in October 2021.

The Company recognized dividend income of \$296 million and \$246 million for the years ended December 31, 2019 and 2020, respectively, from the investments still held on December 31, 2019 and 2020.

The Company recognized dividend income of \$154.0 million for the year ended December 31, 2021, from the investments still held on December 31, 2021, of which \$153.9 million was from the outstanding investments on December 31, 2021.

10. TRADE NOTES AND ACCOUNTS RECEIVABLE, NET

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Trade notes and accounts receivable	\$ 24,776	\$ 25,552
Less: Loss allowance	<u>(2,154)</u>	<u>(1,605)</u>
	<u>\$ 22,622</u>	<u>\$ 23,947</u>

The main credit terms range from 30 to 90 days.

The Company serves a large consumer base for telecommunications business; therefore, the concentration of credit risk is limited. When having transactions with customers, the Company considers the record of arrears in the past. In addition, the Company may also collect some telecommunication charges in advance to reduce the payment arrears in subsequent periods.

The Company adopted a policy of dealing with counterparties with certain credit ratings for project business and to obtain collateral where necessary to mitigate the risk of loss arising from defaults. Credit rating information is provided by independent rating agencies where available and, if such credit rating information is not available, the Company uses other publicly available financial information and its own historical transaction experience to rate its major customers. The Company continues to monitor the credit exposure and credit ratings of its counterparties and spread the credit risk amongst qualified counterparties.

In order to mitigate credit risk, the management of the Company has delegated a team responsible for determining credit limits, credit approvals and other monitoring procedures to ensure the recoverability of receivables. In addition, the Company reviews the recoverable amount of receivables at balance sheet dates to ensure that adequate allowance is provided for possible irrecoverable amounts. In this regard, the management believes the Company's credit risk could be reasonably reduced.

The Company applies the simplified approach to providing for expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for receivables. The expected credit losses on receivables are estimated using a provision matrix by reference to past default experience of the customers and an analysis of the customers' current financial positions, as well as the forward-looking indicators such as macroeconomic business indicators.

When there is evidence indicating that the counterparty is in evasion, bankruptcy, deregistration of its company or the accounts receivable are over two years past due and the recoverable amount cannot be reasonable estimated, the Company writes off the trade notes and accounts receivable. For accounts receivable that have been written off, the Company continues to engage in enforcement activity to attempt to recover the receivables due. Where recoveries are made, these are recognized in profit or loss.

Except for receivables arising from telecommunications business and project business, the Company's remaining accounts receivable are limited. Therefore, only Chunghwa's provision matrix arising from telecommunications business and project business is disclosed below:

December 31, 2020

	<u>Not Past Due</u>	<u>Past Due</u> <u>Less than</u> <u>30 Days</u>	<u>Pass Due</u> <u>31 to 60 Days</u>	<u>Pass Due</u> <u>61 to 90 Days</u>	<u>Pass Due</u> <u>91 to 120 Days</u>	<u>Pass Due</u> <u>121 to 180 Days</u>	<u>Pass Due over</u> <u>180 Days</u>	<u>Total</u>
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)							
<u>Telecommunications business</u>								
Expected credit loss rate (Note a)	0%-2%	2%-24%	3%-68%	11%-83%	28%-90%	52%-96%	100%	
Gross carrying amount	\$ 15,839	\$ 204	\$ 51	\$ 31	\$ 30	\$ 25	\$ 626	\$ 16,806
Loss allowance (Lifetime ECL)	(56)	(21)	(24)	(25)	(24)	(21)	(626)	(797)
Amortized cost	<u>\$ 15,783</u>	<u>\$ 183</u>	<u>\$ 27</u>	<u>\$ 6</u>	<u>\$ 6</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ 16,009</u>
<u>Project business</u>								
Expected credit loss rate (Note b)	0%-5%	5%	10%	30%	50%	80%	100%	
Gross carrying amount	\$ 3,473	\$ 64	\$ 27	\$ 9	\$ 2	\$ 3	\$ 1,288	\$ 4,866
Loss allowance (Lifetime ECL)	(20)	(3)	(3)	(3)	(1)	(2)	(1,288)	(1,320)
Amortized cost	<u>\$ 3,453</u>	<u>\$ 61</u>	<u>\$ 24</u>	<u>\$ 6</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 3,546</u>

December 31, 2021

	<u>Not Past Due</u>	<u>Past Due</u> <u>Less than</u> <u>30 Days</u>	<u>Pass Due</u> <u>31 to 60 Days</u>	<u>Pass Due</u> <u>61 to 90 Days</u>	<u>Pass Due</u> <u>91 to 120 Days</u>	<u>Pass Due</u> <u>121 to 180 Days</u>	<u>Pass Due over</u> <u>180 Days</u>	<u>Total</u>
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)							
<u>Telecommunications business</u>								
Expected credit loss rate (Note a)	0%-1%	1%-22%	3%-62%	11%-80%	25%-90%	49%-97%	100%	
Gross carrying amount	\$ 16,411	\$ 282	\$ 82	\$ 45	\$ 31	\$ 31	\$ 603	\$ 17,485
Loss allowance (Lifetime ECL)	(51)	(23)	(29)	(30)	(25)	(28)	(603)	(789)
Amortized cost	<u>\$ 16,360</u>	<u>\$ 259</u>	<u>\$ 53</u>	<u>\$ 15</u>	<u>\$ 6</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 16,696</u>
<u>Project business</u>								
Expected credit loss rate (Note b)	0%-5%	5%	10%	30%	50%	80%	100%	
Gross carrying amount	\$ 3,988	\$ -	\$ 7	\$ 14	\$ -	\$ 2	\$ 770	\$ 4,781
Loss allowance (Lifetime ECL)	(8)	-	(1)	(4)	-	(1)	(770)	(784)
Amortized cost	<u>\$ 3,980</u>	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 3,997</u>

Note a: Please refer to Notes 31 and 45 for the information of disaggregation of telecommunications service revenue. The expected credit loss rate applicable to different business revenue varies so as to reflect the risk level indicating by factors like historical experience.

Note b: The project business has different loss types according to the customer types. The expected credit loss rate listed above is for general customers. When the customer is a government-affiliated entity, it is anticipated that there will not be an instance of credit loss. Customers with past history of bounced checks or accounts receivable exceeding six months overdue are classified as high-risk customers, with an expected credit loss rate of 50%, increasing by period as the days overdue increase.

Movements of loss allowance for trade notes and accounts receivable were as follows:

	Year Ended December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Beginning balance	\$ 2,360	\$ 2,154
Add: Provision for credit loss	49	123
Add: Acquired by business combinations (Note 14)	2	-
Less: Amounts written off	<u>(257)</u>	<u>(672)</u>
Ending balance	<u>\$ 2,154</u>	<u>\$ 1,605</u>

11. INVENTORIES

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Merchandise	\$ 3,903	\$ 4,070
Project in process	6,167	4,805
Work in process	126	145
Raw materials	<u>137</u>	<u>224</u>
	10,333	9,244
Land held under development	1,999	1,999
Construction in progress	<u>77</u>	<u>84</u>
	<u>\$ 12,409</u>	<u>\$ 11,327</u>

The operating costs related to inventories were \$49,258 million, \$53,847 million and \$51,180 million for the years ended December 31, 2019, 2020 and 2021, respectively.

For the years ended December 31, 2019, 2020 and 2021, valuation loss on inventories recognized as operating costs included the amounts of \$475 million, \$1,161 million and \$207 million, respectively.

As of December 31, 2020 and 2021, inventories of \$2,076 million and \$2,083 million, respectively, were expected to be recovered for a time period longer than twelve months. The aforementioned amount of inventories is related to property development owned by LED.

Land held under development and construction in progress was mainly developed by LED for Qingshan Sec., Dayuan Dist., Taoyuan City project. The Board of Directors of LED resolved to sign a joint construction and separate sale contract with Farglory Land Development Co., Ltd. in June 2021.

12. PREPAYMENTS

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Prepaid rents	\$ 2,864	\$ 2,349
Others	<u>1,656</u>	<u>1,779</u>
	<u>\$ 4,520</u>	<u>\$ 4,128</u>
Current		
Prepaid rents	\$ 652	\$ 566
Others	<u>1,654</u>	<u>1,764</u>
	<u>\$ 2,306</u>	<u>\$ 2,330</u>
Noncurrent		
Prepaid rents	\$ 2,212	\$ 1,783
Others	<u>2</u>	<u>15</u>
	<u>\$ 2,214</u>	<u>\$ 1,798</u>

Prepaid rents comprised the prepayments from the lease agreements applying the recognition exemption and the prepayments for leases that do not meet the definition of leases under IFRS 16.

13. OTHER CURRENT MONETARY ASSETS

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Time deposits and negotiable certificates of deposit with maturities of more than three months	\$ 4,596	\$ 3,499
Others	<u>1,528</u>	<u>1,562</u>
	<u>\$ 6,124</u>	<u>\$ 5,061</u>

The annual yield rates of time deposits and negotiable certificates of deposit with maturities of more than three months at the balance sheet dates were as follows:

	December 31	
	2020	2021
Time deposits and negotiable certificates of deposit with maturities of more than three months	0.07%-2.25%	0.03%-2.70%

14. SUBSIDIARIES

a. Information on subsidiaries with material noncontrolling interests

The table below shows details of less than wholly owned subsidiaries of the Company that have material noncontrolling interests:

Subsidiaries	Place of Incorporation and Principal Place of Business	Proportion of Ownership Interests and Voting Rights Held by Noncontrolling Interests		
		December 31		
		2020	2021	
SENAO	Taiwan	72%	72%	
CHPT	Taiwan	66%	66%	

Subsidiaries	Profit Allocated to Noncontrolling Interests			Accumulated Noncontrolling Interests	
	Year Ended December 31			December 31	
	2019	2020	2021	2020	2021
	NT\$	NT\$	NT\$	NT\$	NT\$
			(In Millions)		
SENAO	\$ 291	\$ 312	\$ 421	\$ 4,189	\$ 4,337
CHPT	\$ 414	\$ 604	\$ 588	4,606	4,933
Individually immaterial subsidiaries with noncontrolling interests				2,363	2,477
				\$ 11,158	\$ 11,747

Summarized financial information in respect of SENAO and its subsidiaries that has material noncontrolling interests is set out below. The summarized financial information below represented amounts before intercompany eliminations.

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Current assets	\$ 6,834	\$ 7,963
Noncurrent assets	\$ 3,194	\$ 2,981
Current liabilities	\$ 3,854	\$ 4,561
Noncurrent liabilities	\$ 416	\$ 418
Equity attributable to the parent	\$ 1,569	\$ 1,628
Equity attributable to noncontrolling interests	\$ 4,189	\$ 4,337

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Revenues and income	\$ 29,131	\$ 27,232	\$ 31,302
Costs and expenses	<u>28,725</u>	<u>26,797</u>	<u>30,715</u>
Profit for the year	<u>\$ 406</u>	<u>\$ 435</u>	<u>\$ 587</u>
Profit attributable to the parent	\$ 115	\$ 123	\$ 166
Profit attributable to noncontrolling interests	<u>291</u>	<u>312</u>	<u>421</u>
Profit for the year	<u>\$ 406</u>	<u>\$ 435</u>	<u>\$ 587</u>
Other comprehensive income (loss) attributable to the parent	\$ (7)	\$ 1	\$ 2
Other comprehensive income attributable to noncontrolling interests	<u>22</u>	<u>2</u>	<u>5</u>
Other comprehensive income for the year	<u>\$ 15</u>	<u>\$ 3</u>	<u>\$ 7</u>
Total comprehensive income attributable to the parent	\$ 108	\$ 124	\$ 168
Total comprehensive income attributable to noncontrolling interests	<u>313</u>	<u>314</u>	<u>426</u>
Total comprehensive income for the year	<u>\$ 421</u>	<u>\$ 438</u>	<u>\$ 594</u>
Net cash flow from operating activities	\$ 538	\$ 862	\$ 654
Net cash flow from investing activities	235	54	215
Net cash flow from financing activities	(718)	(687)	(690)
Effect of exchange rate changes on cash and cash equivalents	<u>-</u>	<u>-</u>	<u>-</u>
Net cash inflow	<u>\$ 55</u>	<u>\$ 229</u>	<u>\$ 179</u>
Dividends paid to noncontrolling interests	<u>\$ 269</u>	<u>\$ 269</u>	<u>\$ 278</u>

Summarized financial information in respect of CHPT and its subsidiaries that has material noncontrolling interests is set out below. The summarized financial information below represented amounts before intercompany eliminations.

	December 31	
	2020	2021
	NT\$	NT\$
		(In Millions)
Current assets	<u>\$ 4,122</u>	<u>\$ 4,657</u>
Noncurrent assets	<u>\$ 4,013</u>	<u>\$ 4,063</u>
Current liabilities	<u>\$ 1,115</u>	<u>\$ 1,183</u>
Noncurrent liabilities	<u>\$ 12</u>	<u>\$ 32</u>
Equity attributable to CHI	<u>\$ 2,402</u>	<u>\$ 2,572</u>
Equity attributable to noncontrolling interests	<u>\$ 4,606</u>	<u>\$ 4,933</u>

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Revenues and income	\$ 3,404	\$ 4,221	\$ 4,254
Costs and expenses	<u>2,775</u>	<u>3,301</u>	<u>3,360</u>
Profit for the year	<u>\$ 629</u>	<u>\$ 920</u>	<u>\$ 894</u>
Profit attributable to CHI	\$ 215	\$ 316	\$ 306
Profit attributable to noncontrolling interests	<u>414</u>	<u>604</u>	<u>588</u>
Profit for the year	<u>\$ 629</u>	<u>\$ 920</u>	<u>\$ 894</u>
Other comprehensive loss attributable to CHI	\$ (1)	\$ -	\$ (1)
Other comprehensive loss attributable to noncontrolling interests	<u>(2)</u>	<u>-</u>	<u>(2)</u>
Other comprehensive loss for the year	<u>\$ (3)</u>	<u>\$ -</u>	<u>\$ (3)</u>
Total comprehensive income attributable to CHI	\$ 214	\$ 316	\$ 305
Total comprehensive income attributable to noncontrolling interests	<u>412</u>	<u>604</u>	<u>586</u>
Total comprehensive income for the year	<u>\$ 626</u>	<u>\$ 920</u>	<u>\$ 891</u>
Net cash flow from operating activities	\$ 507	\$ 1,483	\$ 1,090
Net cash flow from investing activities	(1,426)	(533)	(519)
Net cash flow from financing activities	(349)	(349)	(414)
Effect of exchange rate changes on cash and cash equivalents	<u>(5)</u>	<u>1</u>	<u>(1)</u>
Net cash inflow (outflow)	<u>\$ (1,273)</u>	<u>\$ 602</u>	<u>\$ 156</u>
Dividends paid to noncontrolling interests	<u>\$ 216</u>	<u>\$ 216</u>	<u>\$ 259</u>

b. Equity transactions with noncontrolling interests

CHIEF issued new shares in March 2019, November 2019, March 2020, December 2020, March 2021 and December 2021, as its employees exercised options. Therefore, the Company's ownership interest in CHIEF decreased to 59.08% and 58.89% as of December 31, 2020 and 2021, respectively. See Note 35(b) for details.

CHTSC issued new shares in February 2021 as its employees exercised options. Therefore, the Company's ownership interest in CHTSC decreased to 77.46% as of December 31, 2021. See Note 35(c) for details.

IISI issued new shares in September 2020 and January 2021 as its employees exercised options. Therefore, the Company's ownership interest in IISI decreased to 51.20% and 51.02% as of December 31, 2020 and 2021, respectively. See Note 35(d) for details.

SENAO subscribed for all the shares in the capital increase of Youth in April 2020; therefore, the Company's ownership interest in Youth increased.

The above transactions were accounted for as equity transactions since the Company did not cease to have control over these subsidiaries.

The detailed information of the equity transactions for the years ended December 31, 2019, 2020 and 2021 was as follows:

	Year Ended December 31, 2019
	CHIEF Share-Based Payment
	NT\$
	(In Millions)
Cash consideration received from noncontrolling interests	\$ 19
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to noncontrolling interests	_____ (20)
Differences arising from equity transactions	\$ _____ (1)
<u>Line items for equity transaction adjustments</u>	
Additional paid-in capital - arising from changes in equities of subsidiaries	\$ _____ (1)

	Year Ended December 31, 2020		
	CHIEF Share-Based Payment	SENAO Not Proportionately Participating in the Capital Increase of Youth	IISI Share-Based Payment
	NT\$	NT\$	NT\$
	(In Millions)		
Cash consideration received from noncontrolling interests	\$ 75	\$ -	\$ 7
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to noncontrolling interests	_____ (49)	_____ -	_____ (7)
Differences arising from equity transactions	\$ _____ 26	\$ _____ -	\$ _____ -
<u>Line items for equity transaction adjustments</u>			
Additional paid-in capital - arising from changes in equities of subsidiaries	\$ _____ 26	\$ _____ -	\$ _____ -

	Year Ended December 31, 2021		
	CHIEF	CHTSC	IISI
	Share-Based	Share-Based	Share-Based
	Payment	Payment	Payment
	NT\$	NT\$	NT\$
	(In Millions)		
Cash consideration received from noncontrolling interests	\$ 29	\$ 21	\$ 4
The proportionate share of the carrying amount of the net assets of the subsidiary transferred to noncontrolling interests	(17)	(19)	(1)
Differences arising from equity transactions	<u>\$ 12</u>	<u>\$ 2</u>	<u>\$ 3</u>
<u>Line items for equity transaction adjustments</u>			
Additional paid-in capital - arising from changes in equities of subsidiaries	<u>\$ 12</u>	<u>\$ 2</u>	<u>\$ 3</u>

c. Business combinations

1) Subsidiary acquired

In order to develop and cultivate the enterprise customer market, Chunghwa obtained 20.38% ownership interest in IISI by cash on July 1, 2020, the acquisition date. (Note) Chunghwa's ownership interest in IISI increased to 51.54% by considering the previously held ownership interest in IISI. Chunghwa obtained over half of the seats of the Board of Directors of IISI; therefore, Chunghwa gained control over IISI and included IISI and its subsidiaries in the consolidated financial statements starting from the acquisition date. IISI mainly engages in information system development and maintenance service business, etc.

Note: IISI issued new shares in April 2020 as its employees exercised options; therefore, the percentage of ownership interest in IISI obtained on the acquisition date is lower than that approved by Chunghwa's Board of Directors in January 2020.

2) Assets acquired and liabilities assumed at acquisition date

	IISI and Its Subsidiaries
Current assets	
Cash and cash equivalents	\$ 588
Contract assets	583
Trade notes and accounts receivable	165
Inventories	141
Prepayments	114
Other current monetary assets	114
Other current assets	75
	(Continued)

	IISI and Its Subsidiaries
Noncurrent assets	
Property, plant and equipment	\$ 48
Right-of-use assets	70
Intangible assets	12
Deferred income tax assets	6
Other noncurrent assets	102
Current liabilities	
Short-term loans	(4)
Contract liabilities	(334)
Trade notes and accounts payable	(257)
Current tax liabilities	(19)
Lease liabilities	(26)
Other payables	(266)
Provisions	(15)
Other current liabilities	(30)
Noncurrent liabilities	
Deferred income tax liabilities	(3)
Lease liabilities	(45)
Net defined benefit liabilities	(32)
Other noncurrent liabilities	<u>(5)</u>
	<u>\$ 982</u>
	(Concluded)

The trade notes and accounts receivable acquired in business combination transactions have a fair value of \$165 million and a gross contractual amount of \$167 million. The best estimate of the contractual cash flows not expected to be collected as of the acquisition date was \$2 million.

3) Goodwill arising from acquisition

	IISI and Its Subsidiaries
Consideration transferred	\$ 234
Add: Fair value of equity interest held before the acquisition date	327
Add: Noncontrolling interest (48.46% of the identifiable net assets of IISI and its subsidiaries)	476
Less: Fair value of identifiable net assets acquired	<u>(982)</u>
Goodwill arising from acquisition	<u>\$ 55</u>

The goodwill arising from the acquisition of IISI mainly represents the control premium. In addition, the consideration paid for the combination included amounts attributed to the benefits of expected synergies and the assembled workforces of IISI. These benefits are not recognized separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

Goodwill arising from business combinations is not deductible for tax purposes.

4) Net cash inflow on acquisition of subsidiaries

	IISI and Its Subsidiaries
Cash and cash equivalents acquired	\$ 588
Less: Consideration paid in cash	<u>(234)</u>
	<u>\$ 354</u>

5) Impact of acquisition on the financial results of the Company

The financial results of the acquiree since the acquisition date to December 31, 2020 included in the consolidated statements of comprehensive income are as follows:

	IISI and Its Subsidiaries
Revenue	<u>\$ 1,348</u>
Profit	<u>\$ 68</u>

Had the business combination been in effect at the beginning of the annual reporting period, the Company's revenue and profit would have been \$208,605 million and \$34,747 million for the year ended December 31, 2020, respectively. This pro-forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Company that actually would have been achieved had the acquisition been completed on January 1, 2020, nor is it intended to be a projection of future results.

In determining the pro-forma revenue and profit of the Company had IISI been acquired at the beginning of the financial year, the management calculated amortization of intangible assets acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognized in the pre-acquisition financial statements.

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Investments in associates	\$ 6,685	\$ 7,127
Investment in joint venture	<u>10</u>	<u>10</u>
	<u>\$ 6,695</u>	<u>\$ 7,137</u>

a. Investments in associates

	Carrying Amount	
	December 31	
	2020	2021
	NT\$	NT\$
(In Millions)		
<u>Material associate</u>		
Next Commercial Bank Co., Ltd. (“NCB”)	\$ 3,777	\$ 3,592
<u>Associates that are not individually material</u>		
<u>Listed</u>		
Senao Networks, Inc. (“SNI”)	841	926
KingwayTek Technology Co., Ltd. (“KWT”)	213	222
<u>Non-listed</u>		
ST-2 Satellite Ventures Pte., Ltd. (“STS”)	488	518
Viettel-CHT Co., Ltd. (“Viettel-CHT”)	363	447
Taiwan International Standard Electronics Co., Ltd. (“TISE”)	324	341
WiAdvance Technology Corporation (“WATC”)	-	254
Chunghwa PChome Fund I Co., Ltd. (“CPFI”)	193	221
So-net Entertainment Taiwan Limited (“So-net”)	225	217
KKBOX Taiwan Co., Ltd. (“KKBOXTW”)	163	157
Taiwan International Ports Logistics Corporation (“TIPL”)	56	70
CHT Infinity Singapore Pte. Ltd. (“CISG”)	-	55
Imedtac Co., Ltd. (“IME”)	-	45
Click Force Co., Ltd. (“CF”)	33	37
AgriTalk Technology Inc. (“ATT”)	-	18
Cornerstone Ventures Co., Ltd. (“CVC”)	6	7
Alliance Digital Tech Co., Ltd. (“ADT”)	3	-
UUPON Inc. (“UUPON”)	-	-
International Integrated Systems, Inc. (“IISI”)	-	-
MeWorks Limited (HK) (“MeWorks”)	-	-
	<u>\$ 6,685</u>	<u>\$ 7,127</u>

The percentages of ownership interests and voting rights in associates held by the Company as of balance sheet dates were as follows:

	% of Ownership Interests and	
	Voting Rights	
	December 31	
	2020	2021
<u>Material associate</u>		
Next Commercial Bank Co., Ltd. (“NCB”)	42	42

(Continued)

**% of Ownership Interests and
Voting Rights**

December 31

2020 **2021**

Associates that are not individually material

Senao Networks, Inc. (“SNI”)	34	34
KingwayTek Technology Co., Ltd. (“KWT”)	23	23
ST-2 Satellite Ventures Pte., Ltd. (“STS”)	38	38
Viettel-CHT Co., Ltd. (“Viettel-CHT”)	30	30
Taiwan International Standard Electronics Co., Ltd. (“TISE”)	40	40
WiAdvance Technology Corporation (“WATC”)	-	20
Chunghwa PChome Fund I Co., Ltd. (“CPFI”)	50	50
So-net Entertainment Taiwan Limited (“So-net”)	30	30
KKBOX Taiwan Co., Ltd. (“KKBOXTW”)	30	30
Taiwan International Ports Logistics Corporation (“TIPL”)	27	27
CHT Infinity Singapore Pte. Ltd. (“CISG”)	-	40
Imedtac Co., Ltd. (“IME”)	-	7
Click Force Co., Ltd. (“CF”)	49	49
AgriTalk Technology Inc. (“ATT”)	-	17
Cornerstone Ventures Co., Ltd. (“CVC”)	49	49
Alliance Digital Tech Co., Ltd. (“ADT”)	14	-
UUPON Inc. (“UUPON”)	-	-
International Integrated Systems, Inc. (“IISI”)	-	-
MeWorks Limited (HK) (“MeWorks”)	-	-
		(Concluded)

Summarized financial information of NCB was set out below:

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Assets	\$ 9,907	\$ 9,197
Liabilities	<u>(789)</u>	<u>(525)</u>
Equity	<u>\$ 9,118</u>	<u>\$ 8,672</u>
The percentage of ownership interest held by the Company	41.9%	41.9%
Equity attributable to the Company	\$ 3,820	\$ 3,634
Unrealized gain or loss from downstream transactions	<u>(43)</u>	<u>(42)</u>
The carrying amount of investment	<u>\$ 3,777</u>	<u>\$ 3,592</u>

	Period from the Beginning Date of Preparation to December 31,		
	2019	Year Ended December 31	
	NT\$	2020	2021
		NT\$	
		(In Millions)	
Revenues	\$ -	\$ -	\$ -
Net loss for the period	\$ (276)	\$ (605)	\$ (446)
Other comprehensive income	-	-	-
Total comprehensive loss for the period	<u>\$ (276)</u>	<u>\$ (605)</u>	<u>\$ (446)</u>

Except for NCB, no associate is considered individually material to the Company. Summarized financial information of associates that are not individually material to the Company was as follows:

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
The Company's share of profits	\$ 575	\$ 540	\$ 607
The Company's share of other comprehensive loss	<u>(3)</u>	<u>(8)</u>	<u>(6)</u>
The Company's share of total comprehensive income	<u>\$ 572</u>	<u>\$ 532</u>	<u>\$ 601</u>

The Level 1 fair values of associates based on the closing market prices as of the balance sheet dates were as follows:

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
SNI	<u>\$ 1,708</u>	<u>\$ 1,699</u>
KWT	<u>\$ 676</u>	<u>\$ 910</u>

The Company invested and obtained 50% ownership interest in CPFI. However, as the Company has only two out of five seats of the Board of Directors of CPFI and has no control but significant influence over CPFI. Therefore, the Company recognized CPFI as an investment in associate.

The Company invested and obtained 49% ownership interest in CVC. However, as the Company has only two out of five seats of the Board of Directors of CVC and has no control but significant influence over CVC. Therefore, the Company recognized CVC as an investment in associate.

The participation of establishing NCB was approved by Chunghwa's Board of Directors in January 2019. The establishment of NCB was approved by the Financial Supervisory Commission in July 2019 and the incorporation of NCB was approved by the ROC's Ministry of Economic Affairs Department of Commerce in January 2020. Chunghwa prepaid investment funds to NCB in February and November 2019 amounting to \$4,190 million, for ownership interest of 41.90%. Although Chunghwa is the single largest stockholder of NCB, it only obtained six out of fifteen

seats of the Board of Directors of NCB. In addition, the management considered the size of ownership interest and the dispersion of shares owned by the other stockholders, other holdings are not extremely dispersed. Chunghwa is not able to direct its relevant activities. Therefore, Chunghwa does not have control over NCB and merely has significant influence over NCB and treats it as an associate. NCB mainly engages in online banking business in Taiwan.

IISI issued new shares in March, September 2019 and April 2020, as its employees exercised options; therefore, the Company's ownership interest in IISI decreased to 31.47% and 31.16% as of December 31, 2019 and June 30, 2020, respectively. Chunghwa's Board of Directors approved the investment of 20.58% ownership interest in IISI in January 2020 and the equity transaction was completed on July 1, 2020 ("acquisition date"). As the business combination was achieved in stages, the Company remeasured the previously held equity interest of IISI and recognized gain on disposal of \$1 million under "other gains and losses" on the consolidated statements of comprehensive income. The Company treated IISI as a subsidiary starting from the acquisition date and included IISI and its subsidiaries in the consolidated financial statements. Please refer to Note 14(c).

The Company disposed some shares of KWT in April 2019 before KWT traded its shares on the General Stock Market of the Taipei Exchange according to the local requirements and recognized gain on disposal of \$151 million. In addition, the Company did not participate in the capital increase of KWT in May 2019 and KWT repurchased its stock from December 2019 to February 2020. Therefore, the Company's ownership interest in KWT changed to 22.72% as of December 31, 2020.

The Company disposed of all shares of MeWorks in September 2020.

UUPON reduced 95.44% of its capital to offset accumulated deficits in September 2020 and the Company did not participate in the capital increase of UUPON in October 2020. Therefore, the Company's ownership interest in UUPON decreased to 5.36% and lost its significant influence over UUPON. Hence the Company discontinued to treat UUPON as an associate. Instead, the Company treated it as a financial asset at fair value through other comprehensive income and recognized gain on disposal of \$15 million under "other gains and losses" on the consolidated statements of comprehensive income.

The Company invested \$274 million and obtained 20.33% ownership interest by participating in the capital increase of WATC in March 2021. WATC mainly engages in software solution integration.

The Company invested \$56 million and obtained 40.00% ownership interest in CISG in June 2021. CISG mainly engages in investment business.

The Company owns 14% equity shares of ADT. Considering the seats that the Company controls in the Board of Directors of ADT and the relative size of ownership interest and the dispersion of shares owned by the other stockholders, the Company has significant influence over ADT. ADT completed its liquidation in August 2021. The Company received the liquidation distribution of \$9 million and recognized gain on disposal of \$4 million under "other gains and losses" on the consolidated statements of comprehensive income.

The Company invested and obtained 17.19% ownership interest in ATT. The Company originally treated it as a financial asset at FVOCI. However, as the Company obtained one out of three seats of the Board of Directors of ATT in July 2021 and has significant influence over ATT, the Company reclassified it as an associate.

The Company invested and obtained 7.54% ownership interest in IME. The Company originally treated it as a financial asset at FVOCI. However, as the Company obtained one out of five seats of the Board of Directors of IME in August 2021 and has significant influence over IME, the Company reclassified it as an associate. IME issued new shares in December 2021 as its employees exercised

options; therefore, the Company's ownership interest in IME decreased to 6.74% as of December 31, 2021.

b. Investment in joint venture

Name of Joint Venture	Carrying Amount		% of Ownership Interests and Voting Rights	
	December 31		December 31	
	2020	2021	2020	2021
<u>Non-listed</u>				
Chunghwa SEA Holdings ("CHT SEA")	\$ <u>10</u>	\$ <u>10</u>	51	51

The Company invested \$10 million to establish a joint venture, CHT SEA, with Delta Electronics, Inc. and Kwang Hsing Industrial Co., Ltd. in December 2020 and obtained 51% ownership interest of CHT SEA. However, according to the mutual agreements among stockholders, the Company does not individually direct CHT SEA's relevant activities and has joint control with the other party; therefore, the Company treated CHT SEA as a joint venture.

The joint venture is not considered individually material to the Company. Summarized financial information of CHT SEA was set out below:

	Year Ended December 31	
	2020	2021
	NT\$	NT\$
(In Millions)		
The Company's share of loss	\$ -	\$ -
The Company's share of other comprehensive income	<u>-</u>	<u>-</u>
The Company's share of total comprehensive loss	\$ <u>-</u>	\$ <u>-</u>

16. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2020	2021
	NT\$	NT\$
(In Millions)		
Assets used by the Company	\$ 273,823	\$ 281,849
Assets subject to operating leases	<u>7,593</u>	<u>7,251</u>
	\$ <u>281,416</u>	\$ <u>289,100</u>

a. Assets used by the Company

	Land	Land	Buildings	Computer	Telecommuni-	Transportation	Miscellaneous	Construction in	Total
	NTS	Improvements	NTS	Equipment	cations	Equipment	Equipment	Progress and	NTS
		NTS		NTS	Equipment	NTS	NTS	Equipment to	NTS
					(In Millions)			be Accepted	
<u>Cost</u>									
Balance on January 1, 2019	\$ 100,355	\$ 1,600	\$ 69,328	\$ 14,258	\$ 711,863	\$ 3,882	\$ 9,874	\$ 18,645	\$ 929,805
Additions	-	-	1,221	57	120	1	149	21,612	23,160
Disposal	(38)	(7)	(3)	(1,916)	(30,417)	(51)	(405)	-	(32,837)
Effect of foreign exchange differences	-	-	-	-	(37)	-	(1)	(6)	(44)
Others	(1,214)	25	455	606	24,503	80	473	(26,499)	(1,571)
Balance on December 31, 2019	\$ 99,103	\$ 1,618	\$ 71,001	\$ 13,005	\$ 706,032	\$ 3,912	\$ 10,090	\$ 13,752	\$ 918,513
<u>Accumulated depreciation and impairment</u>									
Balance on January 1, 2019	\$ -	\$ (1,337)	\$ (26,862)	\$ (12,143)	\$ (596,850)	\$ (3,651)	\$ (7,292)	\$ -	\$ (648,135)
Depreciation expenses	-	(43)	(1,301)	(827)	(23,906)	(91)	(688)	-	(26,856)
Disposal	-	6	3	1,909	30,380	51	402	-	32,751
Impairment losses	-	-	-	-	-	-	-	(29)	(93)
Effect of foreign exchange differences	-	-	-	-	16	-	1	-	17
Others	-	(1)	183	(7)	22	(3)	(21)	-	173
Balance on December 31, 2019	\$ -	\$ (1,375)	\$ (27,977)	\$ (11,068)	\$ (590,338)	\$ (3,694)	\$ (7,662)	\$ (29)	\$ (642,143)
Balance on January 1, 2019, net	\$ 100,355	\$ 263	\$ 42,466	\$ 2,115	\$ 115,013	\$ 231	\$ 2,582	\$ 18,645	\$ 281,670
Balance on December 31, 2019, net	\$ 99,103	\$ 243	\$ 43,024	\$ 1,937	\$ 115,694	\$ 218	\$ 2,428	\$ 13,723	\$ 276,370
<u>Cost</u>									
Balance on January 1, 2020	\$ 99,103	\$ 1,618	\$ 71,001	\$ 13,005	\$ 706,032	\$ 3,912	\$ 10,090	\$ 13,752	\$ 918,513
Additions	67	-	18	55	118	1	150	24,786	25,195
Disposal	(270)	(19)	(49)	(1,245)	(20,619)	(45)	(520)	(29)	(22,796)
Effect of foreign exchange differences	-	-	-	-	(91)	-	-	(7)	(98)
Acquired by business combinations (Note 14)	-	-	-	70	-	-	72	-	142
Others	3,091	31	(81)	521	25,336	26	508	(29,973)	(541)
Balance on December 31, 2020	\$ 101,991	\$ 1,630	\$ 70,889	\$ 12,406	\$ 710,776	\$ 3,894	\$ 10,300	\$ 8,529	\$ 920,415
<u>Accumulated depreciation and impairment</u>									
Balance on January 1, 2020	\$ -	\$ (1,375)	\$ (27,977)	\$ (11,068)	\$ (590,338)	\$ (3,694)	\$ (7,662)	\$ (29)	\$ (642,143)
Depreciation expenses	-	(43)	(1,366)	(770)	(23,994)	(68)	(666)	-	(26,907)
Disposal	-	19	49	1,243	20,600	45	504	29	22,489
Effect of foreign exchange differences	-	-	-	-	41	-	-	-	41
Acquired by business combinations (Note 14)	-	-	-	(40)	-	-	(54)	-	(94)
Others	-	-	47	(4)	28	(1)	(48)	-	22
Balance on December 31, 2020	\$ -	\$ (1,399)	\$ (29,247)	\$ (10,639)	\$ (593,663)	\$ (3,718)	\$ (7,926)	\$ -	\$ (646,592)
Balance on December 31, 2020, net	\$ 101,991	\$ 231	\$ 41,642	\$ 1,767	\$ 117,113	\$ 176	\$ 2,374	\$ 8,529	\$ 273,823
<u>Cost</u>									
Balance on January 1, 2021	\$ 101,991	\$ 1,630	\$ 70,889	\$ 12,406	\$ 710,776	\$ 3,894	\$ 10,300	\$ 8,529	\$ 920,415
Additions	-	-	37	72	84	-	198	35,222	35,613
Disposal	-	(1)	(29)	(1,734)	(27,916)	(84)	(470)	-	(30,234)
Effect of foreign exchange differences	-	-	-	-	(64)	-	(2)	(6)	(72)
Others	654	33	461	473	30,654	117	783	(32,959)	216
Balance on December 31, 2021	\$ 102,645	\$ 1,662	\$ 71,358	\$ 11,217	\$ 713,534	\$ 3,927	\$ 10,809	\$ 10,786	\$ 925,938
<u>Accumulated depreciation and impairment</u>									
Balance on January 1, 2021	\$ -	\$ (1,399)	\$ (29,247)	\$ (10,639)	\$ (593,663)	\$ (3,718)	\$ (7,926)	\$ -	\$ (646,592)
Depreciation expenses	-	(43)	(1,401)	(716)	(24,802)	(65)	(701)	-	(27,728)
Disposal	-	1	29	1,724	27,900	84	466	-	30,204
Effect of foreign exchange differences	-	-	-	-	31	-	1	-	32
Others	-	(1)	41	(1)	1	-	(45)	-	(5)
Balance on December 31, 2021	\$ -	\$ (1,442)	\$ (30,528)	\$ (9,632)	\$ (590,533)	\$ (3,699)	\$ (8,205)	\$ -	\$ (644,089)
Balance on December 31, 2021, net	\$ 102,645	\$ 220	\$ 40,780	\$ 1,585	\$ 123,001	\$ 228	\$ 2,604	\$ 10,786	\$ 281,849

CHPT evaluated that certain miscellaneous equipment, construction in progress and equipment to be accepted used for manufacturing specific PCB will not be used in the future and there was no active market for sale; therefore, CHPT determined that the recoverable amount of such assets was nil and recognized impairment losses of \$89 million for the year ended December 31, 2019. CHSI evaluated that certain miscellaneous equipment will not be used in the future and there was no active market for sale; therefore, CHSI determined that the recoverable amount of such assets was nil and recognized impairment losses of \$4 million for the year ended December 31, 2019. The aforementioned impairment losses were included in other income and expenses of statements of comprehensive income.

There was no indication that property, plant and equipment was impaired; therefore, the Company did not recognize any impairment loss for the years ended December 31, 2020 and 2021.

Chunghwa signed a joint development agreement with the MOTC previously which stated that the MOTC would provide the national land and Chunghwa would be in charge of the planning and construction for the MOTC's office building, Chunghwa's Renai office building, etc. According to the agreement, the MOTC and Chunghwa would each own a certain percentage of the buildings, and Chunghwa is to pay or get the reimbursement for the difference between the assessed value of the land and the construction cost paid by Chunghwa on behalf of the MOTC. The difference amounting to \$1,057 million due to the MOTC was reported to Chunghwa's Board of Directors in May 2020. Chunghwa paid the aforementioned amount in May 2021 and the property registration of the respective asset was completed in July 2021.

The Company participated in the government-led urban renewal project in Xingzheng Section, Xindian District, New Taipei City. The Company provided land as a building lot while Kindom Development Corp., chosen through public selection by the New Taipei City Government, acted as the urban renewal developer. The property registration was completed in 2020. With respect to the Company's trade-in share of land and buildings, only the trade-in buildings had commercial substance. Therefore, the gain on the asset exchange transaction of \$1,268 million (included in "gains and losses on disposal of property, plant and equipment") was recognized at the difference between the carrying amount of the trade-out land of \$37 million and the fair value of trade-in buildings of \$1,305 million (included in "investment properties"). The aforementioned gain on disposal was included under "other income and expenses" in the consolidated statements of comprehensive income.

Depreciation expense for assets used by the Company is computed using the straight-line method over the following estimated service lives:

Land improvements	10-30 years
Buildings	
Main buildings	20-60 years
Other building facilities	3-15 years
Computer equipment	1-8 years
Telecommunications equipment	
Telecommunication circuits	2-30 years
Telecommunication machinery and antennas equipment	2-30 years
Transportation equipment	3-10 years
Miscellaneous equipment	
Leasehold improvements	1-9 years
Mechanical and air conditioner equipment	3-16 years
Others	1-15 years

b. Assets subject to operating leases

	<u>Land</u>	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
	NT\$	Improvements NT\$	NT\$	NT\$
	(In Millions)			
<u>Cost</u>				
Balance on January 1, 2019	\$ 3,617	\$ 1	\$ 3,583	\$ 7,201
Additions	-	-	4	4
Transferred from (to) assets used by the Company	<u>1,362</u>	<u>(1)</u>	<u>255</u>	<u>1,616</u>
Balance on December 31, 2019	<u>\$ 4,979</u>	<u>\$ -</u>	<u>\$ 3,842</u>	<u>\$ 8,821</u>

(Continued)

	<u>Land</u> NT\$	<u>Land</u> <u>Improvements</u> NT\$	<u>Buildings</u> NT\$	<u>Total</u> NT\$
	(In Millions)			
<u>Accumulated depreciation and impairment</u>				
Balance on January 1, 2019	\$ -	\$ (1)	\$ (1,265)	\$ (1,266)
Depreciation expenses	-	-	(74)	(74)
Transferred to (from) assets used by the company	-	1	(158)	(157)
Balance on December 31, 2019	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,497)</u>	<u>\$ (1,497)</u>
Balance on January 1, 2019, net	<u>\$ 3,617</u>	<u>\$ -</u>	<u>\$ 2,318</u>	<u>\$ 5,935</u>
Balance on December 31, 2019, net	<u>\$ 4,979</u>	<u>\$ -</u>	<u>\$ 2,345</u>	<u>\$ 7,324</u>
<u>Cost</u>				
Balance on January 1, 2020	\$ 4,979	\$ -	\$ 3,842	\$ 8,821
Others	(6)	-	394	388
Balance on December 31, 2020	<u>\$ 4,973</u>	<u>\$ -</u>	<u>\$ 4,236</u>	<u>\$ 9,209</u>
<u>Accumulated depreciation and impairment</u>				
Balance on January 1, 2020	\$ -	\$ -	\$ (1,497)	\$ (1,497)
Depreciation expenses	-	-	(82)	(82)
Others	-	-	(37)	(37)
Balance on December 31, 2020	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,616)</u>	<u>\$ (1,616)</u>
Balance on December 31, 2020, net	<u>\$ 4,973</u>	<u>\$ -</u>	<u>\$ 2,620</u>	<u>\$ 7,593</u>
<u>Cost</u>				
Balance on January 1, 2021	\$ 4,973	\$ -	\$ 4,236	\$ 9,209
Others	(164)	-	(102)	(266)
Balance on December 31, 2021	<u>\$ 4,809</u>	<u>\$ -</u>	<u>\$ 4,134</u>	<u>\$ 8,943</u>

(Continued)

	<u>Land</u> NT\$	<u>Land Improvements</u> NT\$	<u>Buildings</u> NT\$	<u>Total</u> NT\$
	(In Millions)			
<u>Accumulated depreciation and impairment</u>				
Balance on January 1, 2021	\$ -	\$ -	\$ (1,616)	\$ (1,616)
Depreciation expenses	-	-	(77)	(77)
Others	-	-	1	1
Balance on December 31, 2021	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,692)</u>	<u>\$ (1,692)</u>
Balance on December 31, 2021, net	<u>\$ 4,809</u>	<u>\$ -</u>	<u>\$ 2,442</u>	<u>\$ 7,251</u> (Concluded)

The Company leases out land and buildings with lease terms between 1 to 20 years. The lessees do not have bargain purchase options to acquire the assets at the expiry of the lease periods.

The future aggregate lease collection under operating lease for the freehold plant, property and equipment was as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2021</u>
	NT\$	NT\$
	(In Millions)	
Year 1	\$ 347	\$ 371
Year 2	288	301
Year 3	231	210
Year 4	164	159
Year 5	125	135
Onwards	<u>1,180</u>	<u>1,177</u>
	<u>\$ 2,335</u>	<u>\$ 2,353</u>

The above items of property, plant and equipment subject to operating leases are depreciated on a straight-line basis over their estimated useful lives as follows:

Land improvements	10-30 years
Buildings	
Main buildings	35-60 years
Other building facilities	3-15 years

17. LEASE ARRANGEMENTS

a. Right-of-use assets

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Land and buildings		
Handsets base stations	\$ 7,096	\$ 6,988
Others	1,708	1,538
Equipment	<u>2,205</u>	<u>2,525</u>
	<u>\$ 11,009</u>	<u>\$ 11,051</u>

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Additions to right-of-use assets	<u>\$ 3,803</u>	<u>\$ 3,796</u>	<u>\$ 4,669</u>
Depreciation charge for right-of-use assets			
Land and buildings			
Handsets base stations	\$ 2,728	\$ 2,729	\$ 2,789
Others	821	786	786
Equipment	<u>419</u>	<u>416</u>	<u>410</u>
	<u>\$ 3,968</u>	<u>\$ 3,931</u>	<u>\$ 3,985</u>

Chunghwa entered into a contract with ST-2 Satellite Ventures Pte., Ltd. to lease capacity on the ST-2 satellite. However, certain frequency that ST-2 satellite originally used was transferred for the use of 5G spectrum to the government, Chunghwa evaluated and determined that the recoverable amount of the related right-of-use assets was nil. Therefore, Chunghwa recognized an impairment loss of \$420 million for the year ended December 31, 2021. The impairment loss was included under “other income and expenses” in the consolidated statement of comprehensive income. The Company did not have impairment of right-of-use assets for the years ended December 31, 2019 and 2020.

The Company did not have significant sublease of right-of-use assets for the years ended December 31, 2019, 2020 and 2021.

b. Lease liabilities

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Lease liabilities		
Current	\$ 3,382	\$ 3,211
Noncurrent	<u>6,215</u>	<u>7,062</u>
	<u>\$ 9,597</u>	<u>\$ 10,273</u>

Ranges of discount rates for lease liabilities were as follows:

	December 31	
	2020	2021
Land and buildings		
Handsets base stations	0.46%-1.18%	0.37%-1.18%
Others	0.46%-9.00%	0.37%-9.00%
Equipment	0.46%-2.99%	0.37%-2.99%

c. Important lease-in activities and terms

The Company mainly enters into lease-in agreements of land and buildings for handsets base stations located throughout Taiwan with lease terms ranging from 1 to 20 years. The lease agreements do not contain bargain purchase options to acquire the assets at the expiration of the respective leases. For majority of the lease-in agreements on handsets base station, the Company has the right to terminate the agreement prior to the expiration date if the Company is unable to build the required telecommunication equipment, either due to legal restrictions, controversial events, or other events.

The Company also leases land and buildings for the use of offices, server rooms, and stores with lease terms from 1 to 30 years. Most of the lease agreements for national land adjust the lease payment according to the changes of the announced land values by the authority. At the expiry of the lease term, the Company does not have bargain purchase options to acquire the assets.

The lease agreements for equipment include a contract between Chunghwa and ST-2 Satellite Ventures Pte., Ltd. to lease capacity on the ST-2 satellite. For the information of lease agreements with related parties, please refer to Note 40 to the consolidated financial statements for details.

d. Other lease information

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Expenses relating to low-value asset leases	<u>\$ 7</u>	<u>\$ 8</u>	<u>\$ 8</u>
Expenses relating to variable lease payments not included in the measurement of lease liabilities	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 7</u>
Total cash outflow for leases	<u>\$ 3,826</u>	<u>\$ 3,776</u>	<u>\$ 3,813</u>

The Company leases certain equipment which qualifies as low-value asset leases. The Company has elected to apply the recognition exemption and, thus, not to recognize right-of-use assets and lease liabilities for these leases.

Lease-out arrangements under operating leases for freehold property, plant, and equipment and investment properties were set out in Notes 16 and 18 to the consolidated financial statements.

18. INVESTMENT PROPERTIES

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Carrying amount		
Investment properties	<u>\$ 9,621</u>	<u>\$ 9,663</u>
		Investment Properties
		NT\$
		(In Millions)
<u>Cost</u>		
Balance on January 1, 2019		\$ 9,392
Additions		1
Disposal		(6)
Reclassification		<u>(173)</u>
Balance on December 31, 2019		<u>\$ 9,214</u>
<u>Accumulated depreciation and impairment</u>		
Balance on January 1, 2019		\$ (1,105)
Depreciation expense		(25)
Disposal		6
Reclassification		22
Reversal of impairment loss		<u>57</u>
Balance on December 31, 2019		<u>\$ (1,045)</u>
Balance on January 1, 2019, net		<u>\$ 8,287</u>
Balance on December 31, 2019, net		<u>\$ 8,169</u>
<u>Cost</u>		
Balance on January 1, 2020		\$ 9,214
Additions (Note 16)		1,359
Disposal		(37)
Reclassification		<u>126</u>
Balance on December 31, 2020		<u>\$ 10,662</u>
<u>Accumulated depreciation and impairment</u>		
Balance on January 1, 2020		\$ (1,045)
Depreciation expense		(22)
Reclassification		(1)
Reversal of impairment loss		<u>27</u>
Balance on December 31, 2020		<u>\$ (1,041)</u>
Balance on December 31, 2020, net		<u>\$ 9,621</u>

(Continued)

	Investment Properties
	NT\$
	(In Millions)
<u>Cost</u>	
Balance on January 1, 2021	\$ 10,662
Additions	<u>1</u>
Balance on December 31, 2021	<u>\$ 10,663</u>
<u>Accumulated depreciation and impairment</u>	
Balance on January 1, 2021	\$ (1,041)
Depreciation expense	(42)
Reversal of impairment loss	<u>83</u>
Balance on December 31, 2021	<u>\$ (1,000)</u>
Balance on December 31, 2021, net	<u>\$ 9,663</u> (Concluded)

After the evaluation of land and buildings, the Company concluded the recoverable amount which represented the fair value less costs to sell of some land and buildings was higher than the carrying amount. Therefore, the Company recognized reversal of impairment losses of \$57 million, \$27 million and \$83 million for the years ended December 31, 2019, 2020 and 2021, respectively, and the amounts were recognized only to the extent of impairment losses that had been recognized in prior years. The reversal of impairment loss was included in other income and expenses in the consolidated statements of comprehensive income.

Depreciation expense is computed using the straight-line method over the following estimated service lives:

Land improvements	10-30 years
Buildings	
Main buildings	35-60 years
Other building facilities	4-10 years

The fair values of the Company's investment properties as of December 31, 2020 and 2021 were determined by Level 3 fair value measurements inputs based on the appraisal reports conducted by independent appraisers. Those appraisal reports are based on the comparison approach, income approach or cost approach. Key assumptions and the fair values were as follows:

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Fair value	<u>\$ 22,644</u>	<u>\$ 25,548</u>
Overall capital interest rate	0.93%-3.03%	0.91%-3.05%
Profit margin ratio	12%-20%	8%-20%
Discount rate	-	-
Capitalization rate	0.73%-2.20%	0.53%-2.11%

All of the Company's investment properties are held under freehold interest.

The future aggregate lease collection under operating lease for investment properties is as follows:

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Year 1	\$ 115	\$ 107
Year 2	95	82
Year 3	75	62
Year 4	53	55
Year 5	38	39
Onwards	<u>58</u>	<u>78</u>
	<u>\$ 434</u>	<u>\$ 423</u>

19. INTANGIBLE ASSETS

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Carrying amount		
Mobile Broadband Concession	\$ 89,019	\$ 82,820
Computer software	788	673
Goodwill	246	217
Others	<u>232</u>	<u>235</u>
	<u>\$ 90,285</u>	<u>\$ 83,945</u>

	Mobile Broadband Concession	Computer Software	Goodwill	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)				
<u>Cost</u>					
Balance on January 1, 2019	\$ 70,144	\$ 3,426	\$ 236	\$ 373	\$ 74,179
Additions-acquired separately	-	358	-	5	363
Disposal	(10,179)	(356)	-	-	(10,535)
Effect of foreign exchange differences	-	-	-	-	-
Others	<u>-</u>	<u>2</u>	<u>-</u>	<u>-</u>	<u>2</u>
Balance on December 31, 2019	<u>\$ 59,965</u>	<u>\$ 3,430</u>	<u>\$ 236</u>	<u>\$ 378</u>	<u>\$ 64,009</u>

(Continued)

	Mobile Broadband Concession	Computer Software	Goodwill	Others	Total
	NT\$	NT\$	NT\$ (In Millions)	NT\$	NT\$
<u>Accumulated amortization and impairment</u>					
Balance on January 1, 2019	\$ (20,632)	\$ (2,467)	\$ (27)	\$ (109)	\$ (23,235)
Amortization expenses	(3,840)	(388)	-	(25)	(4,253)
Disposal	10,179	356	-	-	10,535
Impairment losses	-	-	(9)	-	(9)
Effect of foreign exchange differences	-	-	-	-	-
Balance on December 31, 2019	<u>\$ (14,293)</u>	<u>\$ (2,499)</u>	<u>\$ (36)</u>	<u>\$ (134)</u>	<u>\$ (16,962)</u>
Balance on January 1, 2019, net	<u>\$ 49,512</u>	<u>\$ 959</u>	<u>\$ 209</u>	<u>\$ 264</u>	<u>\$ 50,944</u>
Balance on December 31, 2019, net	<u>\$ 45,672</u>	<u>\$ 931</u>	<u>\$ 200</u>	<u>\$ 244</u>	<u>\$ 47,047</u>
<u>Cost</u>					
Balance on January 1, 2020	\$ 59,965	\$ 3,430	\$ 236	\$ 378	\$ 64,009
Additions-acquired separately	48,373	226	-	6	48,605
Disposal	-	(338)	-	(3)	(341)
Effect of foreign exchange differences	-	-	-	-	-
Acquired by business combinations (Note 14)	-	1	55	11	67
Others	-	1	-	-	1
Balance on December 31, 2020	<u>\$ 108,338</u>	<u>\$ 3,320</u>	<u>\$ 291</u>	<u>\$ 392</u>	<u>\$ 112,341</u>
<u>Accumulated amortization and impairment</u>					
Balance on January 1, 2020	\$ (14,293)	\$ (2,499)	\$ (36)	\$ (134)	\$ (16,962)
Amortization expenses	(5,026)	(371)	-	(27)	(5,424)
Disposal	-	338	-	1	339
Impairment losses	-	-	(9)	-	(9)
Effect of foreign exchange differences	-	-	-	-	-
Acquired by business combinations (Note 14)	-	-	-	-	-
Balance on December 31, 2020	<u>\$ (19,319)</u>	<u>\$ (2,532)</u>	<u>\$ (45)</u>	<u>\$ (160)</u>	<u>\$ (22,056)</u>
Balance on December 31, 2020, net	<u>\$ 89,019</u>	<u>\$ 788</u>	<u>\$ 246</u>	<u>\$ 232</u>	<u>\$ 90,285</u>
<u>Cost</u>					
Balance on January 1, 2021	\$ 108,338	\$ 3,320	\$ 291	\$ 392	\$ 112,341
Additions-acquired separately	-	225	-	31	256
Disposal	-	(344)	-	(10)	(354)
Effect of foreign exchange differences	-	-	-	-	-
Others	-	2	-	-	2
Balance on December 31, 2021	<u>\$ 108,338</u>	<u>\$ 3,203</u>	<u>\$ 291</u>	<u>\$ 413</u>	<u>\$ 112,245</u>

(Continued)

	Mobile Broadband Concession	Computer Software	Goodwill	Others	Total
	NT\$	NT\$	NT\$ (In Millions)	NT\$	NT\$
<u>Accumulated amortization and impairment</u>					
Balance on January 1, 2021	\$ (19,319)	\$ (2,532)	\$ (45)	\$ (160)	\$ (22,056)
Amortization expenses	(6,199)	(341)	-	(29)	(6,569)
Disposal	-	343	-	11	354
Impairment losses	-	-	(29)	-	(29)
Effect of foreign exchange differences	-	-	-	-	-
Others	-	-	-	-	-
Balance on December 31, 2021	<u>\$ (25,518)</u>	<u>\$ (2,530)</u>	<u>\$ (74)</u>	<u>\$ (178)</u>	<u>\$ (28,300)</u>
Balance on December 31, 2021, net	<u>\$ 82,820</u>	<u>\$ 673</u>	<u>\$ 217</u>	<u>\$ 235</u>	<u>\$ 83,945</u> (Concluded)

For long-term business development, Chunghwa participated in the 5G mobile broadband license bidding hosted by the NCC and paid the deposit for 5G spectrum bidding amounting to \$1,000 million (included in other assets) in October 2019. Chunghwa paid \$48,373 million, including the aforementioned deposit, in February 2020 for the aforementioned license to obtain 90MHz in the 3.5GHz spectrum and 600MHz in the 28GHz spectrum.

The concessions are granted and issued by the NCC. The concession fees are amortized using the straight-line method over the period from the date operations commence through the date the license expires or the useful life, whichever is shorter. The 4G concession fees will be fully amortized by December 2030 and December 2033, and 5G concession fees will be fully amortized by December 2040.

The computer software is amortized using the straight-line method over the estimated useful lives of 1 to 10 years. Other intangible assets are amortized using the straight-line method over the estimated useful lives of 1 to 20 years. Goodwill is not amortized.

SENAO evaluated the goodwill, license agreement and the trademark that arose in the acquisition of Youth and its subsidiaries at the end of each year. SENAO determined the smallest identifiable group of assets that generates cash inflows as single cash generating units by business type and evaluated the recoverable amount of those cash generating units by their value in use. The management of SENAO estimated the cash flow projections based on the financial budgets for the following five years. Discount rates were 12.3%, 12.1% and 12.1% as of December 31, 2019, 2020 and 2021, respectively and were used to calculate the recoverable amount of related cash generating units by discounting aforementioned cash flows.

SENAO concluded the recoverable amount of the goodwill was lower than the carrying value and recognized impairment loss of \$9 million, \$9 million and \$29 million for the years ended December 31, 2019, 2020 and 2021, respectively. In addition, SENAO concluded the recoverable amount of the license agreement and the trademark were lower than the carrying value and recognized impairment loss of \$0.2 million for the year ended December 31, 2021. The aforementioned impairment losses were included in other income and expenses of consolidated statements of comprehensive income.

20. OTHER ASSETS

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Spare parts	\$ 2,156	\$ 2,836
Refundable deposits	2,009	1,971
Other financial assets	1,000	1,000
Others	<u>2,450</u>	<u>2,035</u>
	<u>\$ 7,615</u>	<u>\$ 7,842</u>
Current		
Spare parts	\$ 2,156	\$ 2,836
Others	<u>193</u>	<u>143</u>
	<u>\$ 2,349</u>	<u>\$ 2,979</u>
Noncurrent		
Refundable deposits	\$ 2,009	\$ 1,971
Other financial assets	1,000	1,000
Others	<u>2,257</u>	<u>1,892</u>
	<u>\$ 5,266</u>	<u>\$ 4,863</u>

Other financial assets - noncurrent was Piping Fund. As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute to a Piping Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects. Net assets of this fund will be returned proportionately after the project is completed.

Chunghwa evaluated that certain other assets will not be used in the future and there was no active market for sale; therefore, the Company determined that the recoverable amount of such assets was nil and recognized impairment losses of \$44 million for the year ended December 31, 2019. The aforementioned impairment loss was included in other income and expenses in the statements of comprehensive income.

21. HEDGING FINANCIAL INSTRUMENTS

Chunghwa's hedge strategy is to enter into forward exchange contracts - buy to avoid its foreign currency exposure to certain foreign currency denominated equipment payments in the following six months. In addition, Chunghwa's management considers the market condition to determine the hedge ratio and enters into forward exchange contracts with the banks to avoid the foreign currency risk.

Chunghwa signed equipment purchase contracts with suppliers and entered into forward exchange contracts to avoid foreign currency risk exposure to Euro-denominated purchase commitments. Those forward exchange contracts were designated as cash flow hedges. When forecast purchases actually take place, basis adjustments are made to the initial carrying amounts of hedged items.

For the hedges of highly probable forecast sales and purchases, as the critical terms (i.e. the notional amount, life and underlying) of the forward foreign exchange contracts and their corresponding hedged items are the same, the Company performs a qualitative assessment of effectiveness and it is expected that the value of the forward contracts and the value of the corresponding hedged items will systematically change in opposite direction in response to movements in the underlying exchange rates.

The main source of hedge ineffectiveness in these hedging relationships is the effect of credit risks of the Company and the counterparty on the fair value of the forward exchange contracts. Such credit risks do not impact the fair value of the hedged item attributable to changes in foreign exchange rates. No other sources of ineffectiveness emerged from these hedging relationships.

The following tables summarized the information relating to the hedges for foreign currency risk.

December 31, 2019

Hedging Instruments	Currency	Notional Amount (In Millions)	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount		Change in Fair Values of Hedging Instruments Used for Calculating Hedge Ineffectiveness NT\$
						Asset NT\$	Liability NT\$ (In Millions)	
Cash flow hedge Forecast purchases - forward exchange contracts	NT\$/EUR	NT\$ 84/EUR 2	2020.03	\$ 33.66	Hedging financial assets (liabilities)	\$ -	\$ -	\$ (1)

Hedged Items	Change in Value of Hedged Item Used for Calculating Hedge Ineffectiveness NT\$	Accumulated Gain or Loss on Hedging Instruments in Other Equity	
		Continuing Hedges NT\$ (In Millions)	Hedge Accounting No Longer Applied NT\$
Cash flow hedge Forecast equipment purchases	\$ 1	\$ -	\$ -

December 31, 2020

Hedging Instruments	Currency	Notional Amount (In Millions)	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount		Change in Fair Values of Hedging Instruments Used for Calculating Hedge Ineffectiveness NT\$
						Asset NT\$	Liability NT\$ (In Millions)	
Cash flow hedge Forecast purchases - forward exchange contracts	NT\$/EUR	NT\$201/EUR6	2021.03	\$ 34.45	Hedging financial assets (liabilities)	\$ 2	\$ -	\$ 2

Hedged Items	Change in Value of Hedged Item Used for Calculating Hedge Ineffectiveness NT\$	Accumulated Gain or Loss on Hedging Instruments in Other Equity	
		Continuing Hedges NT\$	Hedge Accounting No Longer Applied NT\$
(In Millions)			

Cash flow hedge			
Forecast equipment purchases	\$ (2)	\$ 2	\$ -

December 31, 2021

Hedging Instruments	Currency	Notional Amount (In Millions)	Maturity	Forward Rate	Line Item in Balance Sheet	Carrying Amount		Change in Fair Values of Hedging Instruments Used for Calculating Hedge Ineffectiveness NT\$
						Asset NT\$	Liability NT\$	
(In Millions)								
Cash flow hedge								
Forecast purchases - forward exchange contracts	NT\$/EUR	NT\$228/EUR7	2022.03	\$ 32.54	Hedging financial assets (liabilities)	\$ -	\$ 8	\$ (10)

Hedged Items	Change in Value of Hedged Item Used for Calculating Hedge Ineffectiveness NT\$	Accumulated Gain or Loss on Hedging Instruments in Other Equity	
		Continuing Hedges NT\$	Hedge Accounting No Longer Applied NT\$
(In Millions)			

Cash flow hedge			
Forecast equipment purchases	\$ 10	\$ (8)	\$ -

Year ended December 31, 2019

Hedge Transaction	Comprehensive Income				
	Hedging Gain or Loss Recognized in OCI NT\$	Amount of Hedge Ineffectiveness Recognized in Profit or Loss NT\$	Line Item in Which Hedge Ineffectiveness is Included NT\$	Reclassification from Equity to Profit or Loss and the Adjusted Line Item	
				Amount Reclassified to P/L and the Adjusted Line Item NT\$	Due to Hedged Future Cash Flows No Longer Expected to Occur NT\$
(In Millions)					
Cash flow hedge					
Forecast equipment purchases	\$ (1)	\$ -	-	\$ (2) Construction in progress and equipment to be accepted	\$ - Other gains and losses

Year ended December 31, 2020

<u>Hedge Transaction</u>	<u>Comprehensive Income</u>				
	<u>Hedging Gain or Loss Recognized in OCI</u>	<u>Amount of Hedge Ineffectiveness Recognized in Profit or Loss</u>	<u>Line Item in Which Hedge Ineffectiveness is Included</u>	<u>Reclassification from Equity to Profit or Loss and the Adjusted Line Item</u>	
				<u>Amount Reclassified to P/L and the Adjusted Line Item</u>	<u>Due to Hedged Future Cash Flows No Longer Expected to Occur</u>
NT\$	NT\$	NT\$	NT\$	NT\$	
			(In Millions)		
Cash flow hedge					
Forecast equipment purchases	\$ 2	\$ -	-	\$ 21 Construction in progress and equipment to be accepted	\$ - Other gains and losses

Year ended December 31, 2021

<u>Hedge Transaction</u>	<u>Comprehensive Income</u>				
	<u>Hedging Gain or Loss Recognized in OCI</u>	<u>Amount of Hedge Ineffectiveness Recognized in Profit or Loss</u>	<u>Line Item in Which Hedge Ineffectiveness is Included</u>	<u>Reclassification from Equity to Profit or Loss and the Adjusted Line Item</u>	
				<u>Amount Reclassified to P/L and the Adjusted Line Item</u>	<u>Due to Hedged Future Cash Flows No Longer Expected to Occur</u>
NT\$	NT\$	NT\$	NT\$	NT\$	
			(In Millions)		
Cash flow hedge					
Forecast equipment purchases	\$ (10)	\$ -	-	\$ (43) Construction in progress and equipment to be accepted	\$ - Other gains and losses

22. SHORT-TERM LOANS

	<u>December 31</u>	
	<u>2020</u>	<u>2021</u>
	NT\$	NT\$
	(In Millions)	
Unsecured bank loans	\$ 67	\$ 65

The annual interest rates of bank loans were as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2021</u>
Unsecured bank loans	1.12%-2.33%	1.97%-2.43%

23. SHORT-TERM BILLS PAYABLE

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Commercial paper payable	\$ 7,000	\$ -
Less: Discounts on commercial paper payable	<u>(1)</u>	<u>-</u>
	<u>\$ 6,999</u>	<u>\$ -</u>

The annual interest rates of commercial paper payable were as follows:

	December 31	
	2020	2021
Commercial paper payable	0.34%-0.36%	-

24. LONG-TERM LOANS

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Secured bank loans (Note 41)	\$ 1,600	\$ 1,600
Less: Current portion	<u>(1,600)</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 1,600</u>

The annual interest rates of bank loans were as follows:

	December 31	
	2020	2021
Secured bank loans	0.72%	0.89%

LED obtained a secured loan from Chang Hwa Bank in September 2010. Interest is paid monthly. \$300 million and \$1,350 million were originally due in December 2014 and September 2015, respectively. In October 2014, the bank borrowing mentioned above was extended to September 2018 for one time repayment. LED made an early repayment of \$50 million in April 2015. LED entered into a contract with Chang Hwa Bank to renew the contract upon the maturity of the aforementioned contract in December 2017 and the due date of the renewed contract is September 2021. Furthermore, LED entered into another contract with Chang Hwa Bank to renew the contract upon the maturity of the aforementioned contract in August 2021 and the due date of the renewed contract is September 2024.

25. BONDS PAYABLE

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Unsecured domestic bonds	\$ 20,000	\$ 27,000
Less: Discounts on bonds payable	<u>(20)</u>	<u>(23)</u>
	<u>\$ 19,980</u>	<u>\$ 26,977</u>

The major terms of unsecured domestic bonds issued by Chunghwa were as follows:

Issuance	Tranche	Issuance Period	Total Amount	Coupon Rate	Repayment and Interest Payment
2020-1	A	July 2020 to July 2025	\$ 8,800	0.50%	One-time repayment upon maturity; interest payable annually
	B	July 2020 to July 2027	7,500	0.54%	The same as above
	C	July 2020 to July 2030	3,700	0.59%	The same as above
2021-1	A	April 2021 to April 2026	1,900	0.42%	The same as above
	B	April 2021 to April 2028	4,100	0.46%	The same as above
	C	April 2021 to April 2031	1,000	0.50%	The same as above

26. TRADE NOTES AND ACCOUNTS PAYABLE

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Trade notes and accounts payable	<u>\$ 15,591</u>	<u>\$ 18,063</u>

Trade notes and accounts payable were attributable to operating activities and the trading conditions were agreed separately.

27. OTHER PAYABLES

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Accrued salary and compensation	\$ 9,450	\$ 10,126
Payables to contractors	1,779	3,015
Accrued compensation to employees and remuneration to directors and supervisors	1,691	1,997
Amounts collected for others	1,308	1,426
Payables to equipment suppliers	1,049	1,154
Accrued maintenance costs	1,040	1,011
Payable on land (Note 16)	1,057	-
Others	<u>6,614</u>	<u>5,708</u>
	<u>\$ 23,988</u>	<u>\$ 24,437</u>

28. PROVISIONS

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Warranties	\$ 182	\$ 213
Onerous contracts	171	147
Employee benefits	57	63
Others	<u>5</u>	<u>4</u>
	<u>\$ 415</u>	<u>\$ 427</u>
Current	\$ 314	\$ 285
Noncurrent	<u>101</u>	<u>142</u>
	<u>\$ 415</u>	<u>\$ 427</u>

	Warranties	Onerous Contracts	Employee Benefits	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)				
Balance on January 1, 2019	\$ 132	\$ 19	\$ 51	\$ 5	\$ 207
Additional provisions recognized	127	48	9	-	184
Used / forfeited during the year	<u>(86)</u>	<u>-</u>	<u>(1)</u>	<u>-</u>	<u>(87)</u>
Balance on December 31, 2019	<u>\$ 173</u>	<u>\$ 67</u>	<u>\$ 59</u>	<u>\$ 5</u>	<u>\$ 304</u>
Balance on January 1, 2020	\$ 173	\$ 67	\$ 59	\$ 5	\$ 304
Additional / (reversal of) provisions recognized	131	92	(2)	-	221
Used / forfeited during the year	(122)	(3)	-	-	(125)
Acquired by business combinations (Note 14)	<u>-</u>	<u>15</u>	<u>-</u>	<u>-</u>	<u>15</u>
Balance on December 31, 2020	<u>\$ 182</u>	<u>\$ 171</u>	<u>\$ 57</u>	<u>\$ 5</u>	<u>\$ 415</u>
Balance on January 1, 2021	\$ 182	\$ 171	\$ 57	\$ 5	\$ 415
Additional / (reversal of) provisions recognized	102	(24)	7	(1)	84
Used / forfeited during the year	(71)	-	(1)	-	(72)
Effect of foreign exchange differences	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance on December 31, 2021	<u>\$ 213</u>	<u>\$ 147</u>	<u>\$ 63</u>	<u>\$ 4</u>	<u>\$ 427</u>

- a. The provision for warranty claims represents the present value of the management's best estimate of the future outflow of economic benefits that will be required under the Company's obligation for warranties in sales agreements. The estimate has been made based on historical warranty experience.
- b. The provision for employee benefits represents vested long-term service compensation accrued.
- c. The provision for onerous contracts represents the present obligation resulting from the measurement for the unavoidable costs of meeting the Company's contractual obligations exceed the economic benefits expected to be received from the contracts.

29. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The pension plan under the Labor Pension Act of ROC (the “LPA”) is considered as a defined contribution plan. Based on the LPA, Chunghwa and its domestic subsidiaries make monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages. Its foreign subsidiaries would make monthly contributions based on the local pension requirements.

b. Defined benefit plans

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

Chunghwa and its subsidiaries SENA0, CHIEF, CHSI, SHE, IISI and UTC with the pension mechanism under the Labor Standards Law in the ROC are considered as defined benefit plans. These pension plans provide benefits based on an employee’s length of service and average six-month salary prior to retirement. Chunghwa and its subsidiaries contribute an amount no more than 15% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the names of the Committees in the Bank of Taiwan. The plan assets are held in a commingled fund which is operated and managed by the government’s designated authorities; as such, the Company does not have any right to intervene in the investments of the funds. According to the Article 56 of the Labor Standards Law in the ROC, entities are required to contribute the difference in one appropriation to their pension funds before the end of next March when the balance of the Funds is insufficient to pay the eligible employees who meet the retirement criteria in the following year.

The amounts included in the consolidated balance sheets arising from the Company’s obligation in respect of its defined benefit plans were as follows:

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Present value of funded defined benefit obligations	\$ 39,536	\$ 35,502
Fair value of plan assets	<u>(39,494)</u>	<u>(36,605)</u>
Funded status - deficit (surplus)	<u>\$ 42</u>	<u>\$ (1,103)</u>
Net defined benefit liabilities	\$ 3,415	\$ 2,288
Net defined benefit assets	<u>(3,373)</u>	<u>(3,391)</u>
	<u>\$ 42</u>	<u>\$ (1,103)</u>

Movements in the defined benefit obligations and the fair value of plan assets were as follows:

	Present Value of Funded Defined Benefit Obligations	Fair Value of Plan Assets	Net Defined Benefit Liabilities (Assets)
	<u>NT\$</u>	<u>NT\$</u> (In Millions)	<u>NT\$</u>
Balance on January 1, 2019	\$ 41,397	\$ 39,027	\$ 2,370
Current service cost	2,927	-	2,927
Interest expense/interest income	400	390	10
Amounts recognized in profit or loss	<u>3,327</u>	<u>390</u>	<u>2,937</u>
Remeasurement on the net defined benefit liability			
Return on plan assets (excluding amounts included in net interest)	-	1,338	(1,338)
Actuarial losses recognized from changes in demographic assumptions	6	-	6
Actuarial losses recognized from changes in financial assumptions	647	-	647
Actuarial gains recognized from experience adjustments	<u>(842)</u>	<u>-</u>	<u>(842)</u>
Amounts recognized in other comprehensive income	<u>(189)</u>	<u>1,338</u>	<u>(1,527)</u>
Contributions from employer	-	2,099	(2,099)
Benefits paid	(3,034)	(3,034)	-
Benefits paid directly by the Company	<u>(304)</u>	<u>-</u>	<u>(304)</u>
Balance on December 31, 2019	<u>41,197</u>	<u>39,820</u>	<u>1,377</u>
Current service cost	2,052	-	2,052
Interest expense/interest income	298	297	1
Amounts recognized in profit or loss	<u>2,350</u>	<u>297</u>	<u>2,053</u>
Remeasurement on the net defined benefit liability			
Return on plan assets (excluding amounts included in net interest)	-	1,308	(1,308)
Actuarial losses recognized from changes in financial assumptions	590	-	590
Actuarial gains recognized from experience adjustments	<u>(475)</u>	<u>-</u>	<u>(475)</u>
Amounts recognized in other comprehensive income	<u>115</u>	<u>1,308</u>	<u>(1,193)</u>
Contributions from employer	-	1,964	(1,964)
Benefits paid	(3,919)	(3,919)	-
Benefits paid directly by the Company	(263)	-	(263)
Acquired by business combinations (Note 14)	<u>56</u>	<u>24</u>	<u>32</u>
Balance on December 31, 2020	39,536	39,494	42

(Continued)

	Present Value of Funded Defined Benefit Obligations	Fair Value of Plan Assets	Net Defined Benefit Liabilities (Assets)
	<u>NT\$</u>	<u>NT\$</u> (In Millions)	<u>NT\$</u>
Current service cost	\$ 1,253	\$ -	\$ 1,253
Interest expense/interest income	<u>190</u>	<u>195</u>	<u>(5)</u>
Amounts recognized in profit or loss	<u>1,443</u>	<u>195</u>	<u>1,248</u>
Remeasurement on the net defined benefit liability			
Return on plan assets (excluding amounts included in net interest)	-	501	(501)
Actuarial gain recognized from changes in demographic assumptions	(434)	-	(434)
Actuarial loss recognized from experience adjustments	<u>545</u>	<u>-</u>	<u>545</u>
Amounts recognized in other comprehensive income	<u>111</u>	<u>501</u>	<u>(390)</u>
Contributions from employer	-	1,727	(1,727)
Benefits paid	(5,312)	(5,312)	-
Benefits paid directly by the Company	<u>(276)</u>	<u>-</u>	<u>(276)</u>
Balance on December 31, 2021	<u>\$ 35,502</u>	<u>\$ 36,605</u>	<u>\$ (1,103)</u> (Concluded)

Relevant pension costs recognized in profit and loss for defined benefit plans were as follows:

	Year Ended December 31		
	<u>2019</u>	<u>2020</u>	<u>2021</u>
	<u>NT\$</u>	<u>NT\$</u>	<u>NT\$</u>
	(In Millions)		
Operating costs	\$ 1,726	\$ 1,205	\$ 725
Marketing expenses	866	603	367
General and administrative expenses	164	121	80
Research and development expenses	<u>103</u>	<u>72</u>	<u>44</u>
	<u>\$ 2,859</u>	<u>\$ 2,001</u>	<u>\$ 1,216</u>

The Company is exposed to following risks for the defined benefits plans under the Labor Standards Law in the ROC:

a. Investment risk

Under the Labor Standards Law in the ROC, the rate of return on assets shall not be lower than the average interest rate on a two-year time deposit published by the local banks and the government is responsible for any shortfall in the event that the rate of return is less than the required rate of return. The plan assets are held in a commingled fund mainly invested in foreign and domestic equity and debt securities and bank deposits which is operated and managed by the government's designated authorities; as such, the Company does not have any right to intervene in the investments of the funds.

b. Interest rate risk

The decline in government bond interest rate will increase the present value of the obligation on the defined benefit plan, while the return on plan assets will increase. The net effect on the present value of the obligation on defined benefit plan is partially offset by the return on plan assets.

c. Salary risk

The calculation of the present value of defined benefit obligations is referred to the plan participants' future salary. Hence, the increase in plan participants' salary will increase the present value of the defined benefit obligations.

The most recent actuarial valuation of plan assets and the present value of the defined benefit obligations were carried out by the independent actuary.

The principal assumptions used for the purpose of the actuarial valuations were as follows:

	<u>Measurement Date</u>	
	<u>December 31</u>	
	<u>2020</u>	<u>2021</u>
Discount rates	0.50%	0.50%
Expected rates of salary increase	1.00%-2.25%	1.00%-2.25%

If reasonably possible changes of the respective significant actuarial assumptions occur at the end of reporting periods, while holding all other assumptions constant, the present values of the defined benefit obligations would increase (decrease) as follows:

	<u>December 31</u>	
	<u>2020</u>	<u>2021</u>
	<u>NT\$</u>	<u>NT\$</u>
	(In Millions)	
Discount rates		
0.5% increase	<u>\$ (1,208)</u>	<u>\$ (1,073)</u>
0.5% decrease	<u>\$ 1,284</u>	<u>\$ 1,139</u>
Expected rates of salary increase		
0.5% increase	<u>\$ 1,372</u>	<u>\$ 1,217</u>
0.5% decrease	<u>\$ (1,303)</u>	<u>\$ (1,157)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligations as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligations has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated balance sheets.

There is no change in the methods and assumptions used in preparing the sensitivity analysis from the previous period.

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
The expected contributions to the plan for the next year	<u>\$ 1,932</u>	<u>\$ 1,681</u>
The average duration of the defined benefit obligations	6.4-13 years	6.3-12 years

As of December 31, 2021, the Company's maturity analysis of the undiscounted benefit payments was as follows:

Year	Amount
	NT\$
	(In Millions)
2022	\$ 2,693
2023	6,330
2024	9,721
2025	10,864
2026 and thereafter	<u>36,890</u>
	<u>\$ 66,498</u>

30. EQUITY

a. Share capital

1) Common stocks

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Number of authorized shares	<u>12,000</u>	<u>12,000</u>
Authorized shares	<u>\$ 120,000</u>	<u>\$ 120,000</u>
Number of issued and paid shares	<u>7,757</u>	<u>7,757</u>
Issued and outstanding shares	<u>\$ 77,574</u>	<u>\$ 77,574</u>

Each issued common stock with par value of \$10 entitled the right to vote and receive dividends.

2) Global depositary receipts

The MOTC and some stockholders sold some common stocks of Chunghwa in an international offering of securities in the form of American Depositary Shares ("ADS") (one ADS represents 10 common stocks) in July 2003, August 2005, and September 2006. The ADSs were traded on the New York Stock Exchange since July 17, 2003. As of December 31, 2021, the outstanding ADSs were 202 million common stocks, which equaled 20 million units and represented 2.60% of Chunghwa's total outstanding common stocks.

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

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

b. Additional paid-in capital

The adjustments of additional paid-in capital for the years ended December 31, 2019, 2020 and 2021 were as follows:

	Share Premium	Movements of Additional Paid-in Capital for Associates and Joint Ventures Accounted for Using Equity Method	Movements of Additional Paid-in Capital Arising from Changes in Equities of Subsidiaries	Difference between Consideration Received and Carrying Amount of the Subsidiaries' Net Assets upon Disposal	Donated Capital	Stockholders' Contribution Due to Privatization	Total
	NT\$	NT\$	NT\$	NT\$ (In Millions)	NT\$	NT\$	NT\$
Balance on January 1, 2019	\$ 126,045	\$ -	\$ 2,064	\$ 987	\$ 18	\$ 20,648	\$ 149,762
Unclaimed dividend	-	-	-	-	1	-	1
Share-based payment transactions of subsidiaries	-	-	(1)	-	-	-	(1)
Balance on December 31, 2019	<u>\$ 126,045</u>	<u>\$ -</u>	<u>\$ 2,063</u>	<u>\$ 987</u>	<u>\$ 19</u>	<u>\$ 20,648</u>	<u>\$ 149,762</u>
Balance on January 1, 2020	\$ 126,045	\$ -	\$ 2,063	\$ 987	\$ 19	\$ 20,648	\$ 149,762
Unclaimed dividend	-	-	-	-	2	-	2
Change in additional paid-in capital for not proportionately participating in the capital increase of subsidiaries	-	-	-	-	-	-	-
Share-based payment transactions of subsidiaries	-	-	26	-	-	-	26
Balance on December 31, 2020	<u>\$ 126,045</u>	<u>\$ -</u>	<u>\$ 2,089</u>	<u>\$ 987</u>	<u>\$ 21</u>	<u>\$ 20,648</u>	<u>\$ 149,790</u>
Balance on January 1, 2021	\$ 126,045	\$ -	\$ 2,089	\$ 987	\$ 21	\$ 20,648	\$ 149,790
Unclaimed dividend	-	-	-	-	2	-	2
Change in additional paid-in capital from investments in associates and joint ventures accounted for using equity method	-	1	-	-	-	-	1
Share-based payment transactions of subsidiaries	-	-	17	-	-	-	17
Balance on December 31, 2021	<u>\$ 126,045</u>	<u>\$ 1</u>	<u>\$ 2,106</u>	<u>\$ 987</u>	<u>\$ 23</u>	<u>\$ 20,648</u>	<u>\$ 149,810</u>

Under the R.O.C. relevant laws, additional paid-in capital from share premium, donated capital and the difference between consideration received and the carrying amount of the subsidiaries' net assets upon disposal may be utilized to offset deficits. Furthermore, when Chunghwa has no deficit, it may be distributed in cash or capitalized, which however is limited to a certain percentage of Chunghwa's paid-in capital except the additional paid-in capital arising from unclaimed dividend can only be utilized to offset deficits.

The additional paid-in capital from movements of paid-in capital arising from changes in equities of subsidiaries may only be utilized to offset deficits.

Among additional paid-in capital from movements of investments in associates and joint ventures accounted for using equity method, the portion arising from the difference between consideration received and the carrying amount of the subsidiaries' net assets upon disposal may be utilized to offset deficits; furthermore, when the Company has no deficit, it may be distributed in cash or capitalized. However, other additional paid-in capital recognized in proportion of share ownership may only be utilized to offset deficits.

c. Retained earnings and dividends policy

In accordance with the Chunghwa's Articles of Incorporation, Chunghwa must pay all outstanding taxes, offset deficits in prior years and set aside a legal reserve equal to 10% of its net income before distributing a dividend or making any other distribution to stockholders, except when the accumulated amount of such legal reserve equals to Chunghwa's total issued capital, and depending on its business needs or requirements, may also set aside or reverse special reserves. No less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed as stockholders' dividends, of which cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividend to be distributed is less than \$0.10 per share, such cash dividend shall be distributed in the form of common stocks.

Special reserve was appropriated in accordance with the relevant laws and regulations or as requested by local authority. Pursuant to existing regulations, the Company should appropriate a special reserve when the net amount of other equity items is negative at the end of reporting period upon the earnings distribution. Distributions can be made out of any subsequent reversal of the debit to other equity items.

The appropriation for legal reserve shall be made until the accumulated reserve equals the aggregate par value of the outstanding capital stock of Chunghwa. This reserve can only be used to offset a deficit, or when the legal reserve has exceeded 25% of Chunghwa's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of the 2019 and 2020 earnings of Chunghwa approved by the stockholders in their meetings on May 29, 2020 and August 20, 2021, respectively, were as follows:

	Appropriation of Earnings		Dividends Per Share	
	For Fiscal Year 2019	For Fiscal Year 2020	(NT\$)	
			For Fiscal Year 2019	For Fiscal Year 2020
Cash dividends	\$ 32,783	\$ 33,404	\$ 4.226	\$ 4.306

The appropriations of earnings for 2021 had been proposed by Chunghwa's Board of Directors on February 23, 2022. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Special reserve	\$ 408	
Cash dividends	35,746	\$ 4.608

The appropriations of earnings for 2021 are subject to the resolution of the stockholders' meeting planned to be held on May 27, 2022.

d. Others

1) Exchange differences arising from the translation of the foreign operations

The exchange differences arising from the translation of the foreign operations from their functional currency to New Taiwan dollars were recognized as exchange differences arising from the translation of the foreign operations in other comprehensive income.

2) Unrealized gain or loss on financial assets at FVOCI

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Beginning balance	\$ 538	\$ 735	\$ 1,240
Unrealized gain or loss for the year			
Equity instruments	197	522	(1,188)
Transferred accumulated gain or loss to unappropriated earnings resulting from the disposal of equity instruments (Note 9)	-	(17)	(60)
Ending balance	<u>\$ 735</u>	<u>\$ 1,240</u>	<u>\$ (8)</u>

e. Noncontrolling interests

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Beginning balance	\$ 9,837	\$ 10,115	\$ 11,158
Attributable to noncontrolling interests			
Net income for the year	974	1,285	1,431
Exchange differences arising from the translation of the foreign operations	8	(14)	-
Unrealized gain or loss on financial assets at FVOCI	(26)	(3)	2
Remeasurements of defined benefit pension plans	15	17	(5)
Income tax relating to remeasurements of defined benefit pension plans	(3)	(3)	1
Share of other comprehensive loss of associates and joint ventures accounted for using equity method	(1)	(1)	-
Cash dividends distributed by subsidiaries	(710)	(775)	(896)
Share-based payment transactions of subsidiaries	22	63	56
Change in additional paid-in capital for not proportionately participating in the capital increase of subsidiaries	-	-	-
Change in additional paid-in capital from investments in associates and joint ventures accounted for using equity method	-	(2)	-
Net increase (decrease) in noncontrolling interests	<u>(1)</u>	<u>476</u>	<u>-</u>
Ending balance	<u>\$ 10,115</u>	<u>\$ 11,158</u>	<u>\$ 11,747</u>

31. REVENUE

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Revenue from contracts with customers	<u>\$206,360</u>	<u>\$206,396</u>	<u>\$208,412</u>
Other revenues			
Government grants income	205	219	1,037
Rental income	818	843	864
Others	<u>137</u>	<u>151</u>	<u>165</u>
	<u>1,160</u>	<u>1,213</u>	<u>2,066</u>
Total	<u>\$207,520</u>	<u>\$207,609</u>	<u>\$210,478</u>

For the information of performance obligations related to customer contracts, please refer to Note 3 Summary of Significant Accounting Policies for details.

a. Disaggregation of revenue

2019

	Domestic Fixed Communi- cations Business	Mobile Communi- cations Business	Internet Business	International Fixed Communi- cations Business	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)					
<u>Main Products and Service Revenues</u>						
Mobile services revenue	\$ -	\$ 58,703	\$ -	\$ -	\$ -	\$ 58,703
Sales of products	1,957	35,545	41	265	3,785	41,593
Local telephone and domestic long distance telephone services revenue	27,929	-	-	-	-	27,929
Broadband access and domestic leased line services revenue	22,116	-	-	-	-	22,116
Data communications internet services revenue	-	-	21,003	-	-	21,003
International network and leased line services revenue	-	-	-	7,066	-	7,066
Others	<u>13,064</u>	<u>1,142</u>	<u>8,790</u>	<u>4,144</u>	<u>810</u>	<u>27,950</u>
	<u>\$ 65,066</u>	<u>\$ 95,390</u>	<u>\$ 29,834</u>	<u>\$ 11,475</u>	<u>\$ 4,595</u>	<u>\$ 206,360</u>

2020

	Domestic Fixed Communi- cations Business	Mobile Communi- cations Business	Internet Business	International Fixed Communi- cations Business	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)					
<u>Main Products and Service Revenues</u>						
Mobile services revenue	\$ -	\$ 56,724	\$ -	\$ -	\$ -	\$ 56,724
Sales of products	2,214	32,112	107	313	4,645	39,391
Local telephone and domestic long distance telephone services revenue	26,475	-	-	-	-	26,475

(Continued)

	Domestic Fixed Communi- cations Business	Mobile Communi- cations Business	Internet Business	International Fixed Communi- cations Business	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)					
Broadband access and domestic leased line services revenue	\$ 22,420	\$ -	\$ -	\$ -	\$ -	\$ 22,420
Data communications internet services revenue	-	-	21,447	-	-	21,447
International network and leased line services revenue	-	-	-	3,884	-	3,884
Others	<u>17,695</u>	<u>1,307</u>	<u>10,255</u>	<u>4,485</u>	<u>2,313</u>	<u>36,055</u>
	<u>\$ 68,804</u>	<u>\$ 90,143</u>	<u>\$ 31,809</u>	<u>\$ 8,682</u>	<u>\$ 6,958</u>	<u>\$ 206,396</u>

(Concluded)

2021

	Domestic Fixed Communi- cations Business	Mobile Communi- cations Business	Internet Business	International Fixed Communi- cations Business	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)					
<u>Main Products and Service Revenues</u>						
Mobile services revenue	\$ -	\$ 58,048	\$ -	\$ -	\$ -	\$ 58,048
Sales of products	2,173	35,414	128	12	5,180	42,907
Local telephone and domestic long distance telephone services revenue	25,704	-	-	-	-	25,704
Broadband access and domestic leased line services revenue	23,012	-	-	-	-	23,012
Data communications internet services revenue	-	-	22,281	-	-	22,281
International network and leased line services revenue	-	-	-	4,367	-	4,367
Others	<u>13,255</u>	<u>1,222</u>	<u>10,428</u>	<u>4,246</u>	<u>2,942</u>	<u>32,093</u>
	<u>\$ 64,144</u>	<u>\$ 94,684</u>	<u>\$ 32,837</u>	<u>\$ 8,625</u>	<u>\$ 8,122</u>	<u>\$ 208,412</u>

b. Contract balances

	January 1, 2020	December 31	
	NT\$	2020	2021
		NT\$	NT\$
		(In Millions)	
Trade notes and accounts receivable (Note 10)	<u>\$ 26,408</u>	<u>\$ 22,622</u>	<u>\$ 23,947</u>
Contract assets			
Products and service bundling	\$ 6,943	\$ 7,232	\$ 7,197
Others	116	612	983
Less: Loss allowance	<u>(17)</u>	<u>(18)</u>	<u>(18)</u>
	<u>\$ 7,042</u>	<u>\$ 7,826</u>	<u>\$ 8,162</u>

(Continued)

	January 1, 2020	December 31	
		2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Current	\$ 4,441	\$ 5,331	\$ 5,554
Noncurrent	<u>2,601</u>	<u>2,495</u>	<u>2,608</u>
	<u>\$ 7,042</u>	<u>\$ 7,826</u>	<u>\$ 8,162</u>
Contract liabilities			
Telecommunications business	\$ 12,772	\$ 13,602	\$ 13,144
Project business	10,360	6,687	5,435
Products and service bundling	39	16	4
Others	<u>510</u>	<u>421</u>	<u>491</u>
	<u>\$ 23,681</u>	<u>\$ 20,726</u>	<u>\$ 19,074</u>
Current	\$ 16,840	\$ 13,437	\$ 12,234
Noncurrent	<u>6,841</u>	<u>7,289</u>	<u>6,840</u>
	<u>\$ 23,681</u>	<u>\$ 20,726</u>	<u>\$ 19,074</u>

(Concluded)

The changes in the contract asset and the contract liability balances primarily result from the timing difference between the satisfaction of performance obligations and the payments collected from customers. Significant changes of contract assets and liabilities recognized resulting from product and service bundling were as follows:

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Contract assets			
Net increase of customer contracts	\$ 6,066	\$ 5,972	\$ 6,035
Reclassified to trade receivables	<u>(6,405)</u>	<u>(5,681)</u>	<u>(6,039)</u>
	<u>\$ (339)</u>	<u>\$ 291</u>	<u>\$ (4)</u>
Contract liabilities			
Net increase of customer contracts	\$ 22	\$ 7	\$ -
Recognized as revenues	<u>(89)</u>	<u>(30)</u>	<u>(12)</u>
	<u>\$ (67)</u>	<u>\$ (23)</u>	<u>\$ (12)</u>

The Company applies the simplified approach to recognize expected credit losses prescribed by IFRS 9, which permits the use of lifetime expected loss provision for receivables. Contract assets will be reclassified to trade receivables when the corresponding invoice is billed to the client. Contract assets have substantially the same risk characteristics as the trade receivables of the same types of contracts. Therefore, the Company concluded that the expected loss rates for trade receivables can be applied to the contract assets.

Revenue recognized for the period that was included in the contract liability at the beginning of the year was as follows:

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Telecommunications business	\$ 6,186	\$ 5,492	\$ 5,952
Project business	3,973	6,092	4,630
Others	<u>404</u>	<u>512</u>	<u>431</u>
	<u>\$ 10,563</u>	<u>\$ 12,096</u>	<u>\$ 11,013</u>

c. Incremental costs of obtaining contracts

	December 31	
	2020	2021
	NT\$	NT\$
		(In Millions)
Noncurrent		
Incremental costs of obtaining contracts	<u>\$ 1,000</u>	<u>\$ 988</u>

The Company considered the past experience and the default clauses in the telecommunications service contracts and believes the commissions and equipment subsidies paid for obtaining such contracts are expected to be recoverable; therefore, such costs were capitalized. Amortization expenses for the years ended December 31 2019, 2020 and 2021 were \$1,173 million, \$772 million and \$815 million, respectively.

d. Remaining Performance Obligations

As of December 31, 2021, the aggregate amount of transaction price allocated to performance obligations for non-cancellable telecommunications service contracts that are unsatisfied is \$29,380 million. The Company recognizes revenue when service is provided over contract terms. The Company expects to recognize such revenue of \$18,350 million, \$8,603 million and \$2,427 million in 2022, 2023 and 2024, respectively. The variable consideration collected from customers on nonrecurring basis resulting from exceeded usage from monthly fee and revenue recognized for contracts that the Company has a right to consideration from customers in the amount corresponding directly with the value to the customers of the Company's performance completed to date have been excluded from the disclosure of remaining performance obligations.

As of December 31, 2021, the aggregate amount of transaction price allocated to performance obligations for non-cancellable project business contracts that are unsatisfied is \$19,030 million. The Company recognizes revenues when the project business contract is completed and accepted by customers. The Company expects to recognize such revenue of \$9,033 million, \$4,781 million and \$5,216 million in 2022, 2023 and 2024, respectively. Project business contracts whose expected duration are less than a year have been excluded from the aforementioned disclosure.

32. NET INCOME

a. Other income and expenses

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Gain (loss) on disposal of property, plant and equipment	\$ (38)	\$ 1,428	\$ (3)
Impairment loss on property, plant and equipment	(93)	-	-
Impairment loss on right-of-use assets	-	-	(420)
Gain on disposal of investment properties, net	-	151	-
Reversal of impairment loss on investment properties	57	27	83
Loss on disposal of intangible assets	-	(2)	-
Impairment loss on intangible assets	(9)	(9)	(29)
Impairment loss on other assets	(44)	-	-
	<u>\$ (127)</u>	<u>\$ 1,595</u>	<u>\$ (369)</u>

b. Other income

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Dividend income	\$ 296	\$ 246	\$ 154
Rental income	85	70	70
Others	<u>150</u>	<u>154</u>	<u>154</u>
	<u>\$ 531</u>	<u>\$ 470</u>	<u>\$ 378</u>

c. Other gains and losses

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Valuation gain (loss) on financial assets and liabilities at fair value through profit or loss, net	\$ (38)	\$ (99)	\$ 243
Foreign currency exchange gain or loss, net	16	(47)	230
Gain on disposal of investments accounted for using equity method, net	151	10	4
Gain (loss) on disposal of financial instruments, net	4	(2)	-
Others	(49)	(21)	(16)
	<u>\$ 84</u>	<u>\$ (159)</u>	<u>\$ 461</u>

d. Interest expenses

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Interest on bonds payable	\$ -	\$ 46	\$ 132
Interest on lease liabilities	85	80	69
Interest paid to financial institutions	17	79	16
Others	<u>2</u>	<u>1</u>	<u>1</u>
	<u>\$ 104</u>	<u>\$ 206</u>	<u>\$ 218</u>

e. Impairment loss (reversal of impairment loss)

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Contract assets	\$ (2)	\$ 1	\$ -
Trade notes and accounts receivable	\$ (54)	\$ 49	\$ 123
Other receivables	\$ (69)	\$ (5)	\$ 20
Inventories	\$ 475	\$ 1,161	\$ 207
Property, plant and equipment	\$ 93	\$ -	\$ -
Right-of-use assets	\$ -	\$ -	\$ 420
Investment properties	\$ (57)	\$ (27)	\$ (83)
Intangible assets	\$ 9	\$ 9	\$ 29
Other assets	<u>\$ 44</u>	<u>\$ -</u>	<u>\$ -</u>

f. Depreciation and amortization expenses

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Property, plant and equipment	\$ 26,930	\$ 26,989	\$ 27,805
Right-of-use assets	3,968	3,931	3,985
Investment properties	25	22	42
Intangible assets	4,253	5,424	6,569
Incremental costs of obtaining contracts	<u>1,173</u>	<u>772</u>	<u>815</u>
Total depreciation and amortization expenses	<u>\$ 36,349</u>	<u>\$ 37,138</u>	<u>\$ 39,216</u>
Depreciation expenses summarized by functions			
Operating costs	\$ 28,957	\$ 29,056	\$ 30,021
Operating expenses	<u>1,966</u>	<u>1,886</u>	<u>1,811</u>
	<u>\$ 30,923</u>	<u>\$ 30,942</u>	<u>\$ 31,832</u>

(Continued)

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Amortization expenses summarized by functions			
Operating costs	\$ 5,196	\$ 5,971	\$ 7,172
Marketing expenses	96	100	93
General and administrative expenses	95	82	75
Research and development expenses	<u>39</u>	<u>43</u>	<u>44</u>
	<u>\$ 5,426</u>	<u>\$ 6,196</u>	<u>\$ 7,384</u>
			(Concluded)

g. Employee benefit expenses

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Post-employment benefit			
Defined contribution plans	\$ 654	\$ 708	\$ 784
Defined benefit plans	<u>2,859</u>	<u>2,001</u>	<u>1,216</u>
	<u>3,513</u>	<u>2,709</u>	<u>2,000</u>
Share-based payment			
Equity-settled share-based payment	2	8	19
Other employee benefit	<u>42,640</u>	<u>42,246</u>	<u>42,654</u>
Total employee benefit expenses	<u>\$ 46,155</u>	<u>\$ 44,963</u>	<u>\$ 44,673</u>
Summary by functions			
Operating costs	\$ 23,587	\$ 23,005	\$ 22,734
Operating expenses	<u>22,568</u>	<u>21,958</u>	<u>21,939</u>
	<u>\$ 46,155</u>	<u>\$ 44,963</u>	<u>\$ 44,673</u>

Chunghwa distributes employees' compensation at the rates from 1.7% to 4.3% and remuneration to directors not higher than 0.17%, respectively, of pre-tax income. As of December 31, 2021, the payables of the employees' compensation and the remuneration to directors were \$1,429 million and \$39 million, respectively. Such amounts have been approved by the Chunghwa's Board of Directors on February 23, 2022 and will be reported to the stockholders in their meeting planned to be held on May 27, 2022.

If there is a change in the proposed amounts after the annual consolidated financial statements are authorized for issue, the difference is recorded as a change in accounting estimate.

The compensation to the employees and remuneration to the directors of 2019 and 2020 approved by the Board of Directors on February 26, 2020 and February 23, 2021, respectively, were as follows:

	<u>2019</u>	<u>2020</u>
	<u>Cash</u>	<u>Cash</u>
	NT\$	NT\$
	(In Millions)	
Compensation distributed to the employees	\$ 1,126	\$ 1,202
Remuneration paid to the directors	35	36

There was no difference between the initial accrual amounts and the amounts proposed in the Board of Directors in 2020 and 2021 of the aforementioned compensation to employees and the remuneration to directors.

33. INCOME TAX

a. Income tax recognized in profit or loss

The major components of income tax expense were as follows:

	<u>Year Ended December 31</u>		
	<u>2019</u>	<u>2020</u>	<u>2021</u>
	NT\$	NT\$	NT\$
	(In Millions)		
Current tax			
Current tax expenses recognized for the year	\$ 8,109	\$ 8,172	\$ 8,490
Income tax on unappropriated earnings	(20)	8	181
Income tax adjustments on prior years	(91)	(22)	(150)
Others	<u>12</u>	<u>19</u>	<u>7</u>
	<u>8,010</u>	<u>8,177</u>	<u>8,528</u>
Deferred tax			
Deferred tax expenses (benefits) recognized for the year	(63)	(81)	489
Income tax adjustments on prior years	<u>(1)</u>	<u>26</u>	<u>3</u>
	<u>(64)</u>	<u>(55)</u>	<u>492</u>
Income tax recognized in profit or loss	<u>\$ 7,946</u>	<u>\$ 8,122</u>	<u>\$ 9,020</u>

Reconciliation of accounting profit and income tax expense was as follows:

	<u>Year Ended December 31</u>		
	<u>2019</u>	<u>2020</u>	<u>2021</u>
	NT\$	NT\$	NT\$
	(In Millions)		
Income before income tax	<u>\$ 41,867</u>	<u>\$ 42,826</u>	<u>\$ 46,067</u>
Income tax expense calculated at the statutory rate	\$ 8,373	\$ 8,565	\$ 9,213
Nondeductible income and expenses in determining taxable income	18	15	8

(Continued)

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Unrecognized loss carryforwards	\$ 7	\$ 4	\$ (1)
Tax-exempt income	(148)	(367)	(30)
Income tax on unappropriated earnings	(20)	8	181
Investment credits	(203)	(131)	(217)
Effect of different tax rates of group entities operating in other jurisdictions	(9)	10	(10)
Income tax adjustments on prior years	(92)	4	(147)
Others	<u>20</u>	<u>14</u>	<u>23</u>
Income tax expense recognized in profit or loss	<u>\$ 7,946</u>	<u>\$ 8,122</u>	<u>\$ 9,020</u> (Concluded)

The applicable tax rate used by the entities subject to the Income Tax Act of the Republic of China is 20%, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other entities of the Company operating in other jurisdictions are based on the tax laws in those jurisdictions.

In July 2019, the President of the ROC announced the amendments to the Statute of Industrial Innovation, which stipulate that the unappropriated earnings in 2018 and thereafter that are used to build or acquire certain assets or technologies are allowed as deduction when computing the income tax on unappropriated earnings. The Company has deducted the reinvested capital expenditure while calculating income tax on unappropriated earnings.

b. Income tax recognized in other comprehensive income

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Deferred tax			
Remeasurement on defined benefit pension plans	\$ 305	\$ 239	\$ 78
Exchange differences arising from the translation of the foreign operations	<u>-</u>	<u>-</u>	<u>-</u>
Total income tax expense recognized in other comprehensive income	<u>\$ 305</u>	<u>\$ 239</u>	<u>\$ 78</u>

c. Current tax assets and liabilities

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Current tax assets		
Tax refund receivable (included in other current assets - others)	<u>\$ 1</u>	<u>\$ 5</u>

(Continued)

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Current tax liabilities		
Income tax payable	<u>\$ 6,157</u>	<u>\$ 6,530</u> (Concluded)

d. Deferred income tax assets and liabilities

The movements of deferred income tax assets and liabilities were as follows:

For the year ended December 31, 2019

	January 1,	Recognized in	Recognized in	December 31,
	2019	Profit or Loss	Other	2019
	NT\$	NT\$	Comprehensive	NT\$
	(In Millions)			
<u>Deferred income tax</u>				
<u>assets</u>				
Temporary differences				
Defined benefit pension plans	\$ 2,307	\$ 32	\$ (305)	\$ 2,034
Share of profit or loss of associates and joint ventures accounted for using equity method	389	13	-	402
Allowance for doubtful receivables over quota	435	(31)	-	404
Valuation loss on inventory	88	53	-	141
Deferred revenue	111	(13)	-	98
Estimated warranty liabilities	26	8	-	34
Valuation loss on financial instruments	5	8	-	13
Others	<u>178</u>	<u>(73)</u>	<u>-</u>	<u>105</u>
	3,539	(3)	(305)	3,231
Loss carryforwards	<u>41</u>	<u>(13)</u>	<u>-</u>	<u>28</u>
	<u>\$ 3,580</u>	<u>\$ (16)</u>	<u>\$ (305)</u>	<u>\$ 3,259</u> (Continued)

	January 1, 2019	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2019
	NT\$	NT\$	NT\$	NT\$
	(In Millions)			
<u>Deferred income tax liabilities</u>				
Temporary differences				
Defined benefit pension plans	\$ (1,832)	\$ 74	\$ -	\$ (1,758)
Land value incremental tax	(95)	-	-	(95)
Deferred revenue for award credits	(31)	2	-	(29)
Unrealized foreign exchange gain, net	(1)	-	-	(1)
Intangible assets	(32)	3	-	(29)
Others	(1)	1	-	-
	<u>\$ (1,992)</u>	<u>\$ 80</u>	<u>\$ -</u>	<u>\$ (1,912)</u>
				(Concluded)

For the year ended December 31, 2020

	January 1, 2020	Acquired by Business Combinations (Note 14)	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2020
	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)				
<u>Deferred income tax assets</u>					
Temporary differences					
Defined benefit pension plans	\$ 2,034	\$ 1	\$ 20	\$ (239)	\$ 1,816
Share of profit or loss of associates and joint ventures accounted for using equity method	402	-	(1)	-	401
Allowance for doubtful receivables over quota	404	-	(39)	-	365
Valuation loss on inventory	141	3	155	-	299
Deferred revenue	98	-	(25)	-	73
Estimated warranty liabilities	34	-	2	-	36
Valuation loss on financial instruments	13	-	20	-	33
Others	105	2	(17)	-	90
	<u>3,231</u>	<u>6</u>	<u>115</u>	<u>(239)</u>	<u>3,113</u>
Loss carryforwards	28	-	(8)	-	20
	<u>\$ 3,259</u>	<u>\$ 6</u>	<u>\$ 107</u>	<u>\$ (239)</u>	<u>\$ 3,133</u>
<u>Deferred income tax liabilities</u>					
Temporary differences					
Defined benefit pension plans	\$ (1,758)	\$ -	\$ (54)	\$ -	\$ (1,812)
Land value incremental tax	(95)	-	-	-	(95)
Deferred revenue for award credits	(29)	-	(1)	-	(30)
Unrealized foreign exchange gain, net	(1)	-	1	-	-
Intangible assets	(29)	-	2	-	(27)
Others	-	(3)	-	-	(3)
	<u>\$ (1,912)</u>	<u>\$ (3)</u>	<u>\$ (52)</u>	<u>\$ -</u>	<u>\$ (1,967)</u>

For the year ended December 31, 2021

	January 1, 2021	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	December 31, 2021
	NT\$	NT\$	NT\$	NT\$
	(In Millions)			
<u>Deferred income tax assets</u>				
Temporary differences				
Defined benefit pension plans	\$ 1,816	\$ 6	\$ (78)	\$ 1,744
Share of profit or loss of associates and joint ventures accounted for using equity method	401	-	-	401
Allowance for doubtful receivables over quota	365	(100)	-	265
Valuation loss on inventory	299	(102)	-	197
Deferred revenue	73	(24)	-	49
Estimated warranty liabilities	36	7	-	43
Valuation loss on financial instruments	33	(33)	-	-
Others	90	(15)	-	75
	<u>3,113</u>	<u>(261)</u>	<u>(78)</u>	<u>2,774</u>
Loss carryforwards	<u>20</u>	<u>(9)</u>	<u>-</u>	<u>11</u>
	<u>\$ 3,133</u>	<u>\$ (270)</u>	<u>\$ (78)</u>	<u>\$ 2,785</u>
<u>Deferred income tax liabilities</u>				
Temporary differences				
Defined benefit pension plans	\$ (1,812)	\$ (157)	\$ -	\$ (1,969)
Land value incremental tax	(95)	-	-	(95)
Deferred revenue for award credits	(30)	(25)	-	(55)
Unrealized foreign exchange gain, net	-	(26)	-	(26)
Intangible assets	(27)	3	-	(24)
Valuation gain on financial instruments	-	(16)	-	(16)
Others	<u>(3)</u>	<u>(1)</u>	<u>-</u>	<u>(4)</u>
	<u>\$ (1,967)</u>	<u>\$ (222)</u>	<u>\$ -</u>	<u>\$ (2,189)</u>

e. Items for which no deferred income tax assets have been recognized

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Loss carryforwards		
Expire in 2022	\$ 10	\$ -
Expire in 2023	8	-
Expire in 2024	8	1
Expire in 2025	19	15
Expire in 2026	8	8
Expire in 2027	3	3
Expire in 2028	1	1
Expire in 2029	1	1
Expire in 2030	-	-
Expire in 2031	-	-
	<u>\$ 58</u>	<u>\$ 29</u>

f. Information about unused loss carryforwards

As of December 31, 2021 unused loss carryforwards were as follows:

Remaining Creditable Amount	Expiry Year
NT\$ (In Millions)	
\$ 1	2022
1	2023
1	2024
18	2025
10	2026
3	2027
1	2028
2	2029
2	2030
<u>2</u>	2031
<u>\$ 41</u>	

g. Income tax examinations

Income tax returns of Chunghwa, SENA0, ISPOT, Youth, Youyi, Aval, Wiin, SENYOUNG, Senaolife, CHYP, CHSI, CHI, CHPT, SFD, CLPT, CHTSC, CHIEF, Unigate, SHE, CHST, HHI, IISI and UTC have been examined by the tax authorities through 2019. Income tax returns of LED has been examined by the tax authorities through 2020.

34. EARNINGS PER SHARE

Net income and weighted average number of common stocks used in the calculation of earnings per share were as follows:

Net Income

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Net income used to compute the basic earnings per share			
Net income attributable to the parent	\$ 32,947	\$ 33,419	\$ 35,616
Assumed conversion of all dilutive potential common stocks			
Employee stock options and employee compensation of subsidiaries	<u>(4)</u>	<u>(7)</u>	<u>(6)</u>
Net income used to compute the diluted earnings per share	<u>\$ 32,943</u>	<u>\$ 33,412</u>	<u>\$ 35,610</u>

Weighted Average Number of Common Stocks

(Millions Shares)

	Year Ended December 31		
	2019	2020	2021
Weighted average number of common stocks used to compute the basic earnings per share	7,757	7,757	7,757
Assumed conversion of all dilutive potential common stocks			
Employee compensation	<u>8</u>	<u>8</u>	<u>8</u>
Weighted average number of common stocks used to compute the diluted earnings per share	<u>7,765</u>	<u>7,765</u>	<u>7,765</u>

As Chunghwa may settle the employee compensation in shares or cash, Chunghwa shall presume that it will be settled in shares and take those shares into consideration when calculating the weighted average number of outstanding shares used in the calculation of diluted EPS if the shares have a dilutive effect. The dilutive effect of the shares needs to be considered until the approval of the number of shares to be distributed to employees as compensation in the following year.

35. SHARE-BASED PAYMENT ARRANGEMENT

- a. SENAO share-based compensation plan (“SENAO Plan”) described as follows:

Effective Date	Grant Date	Stock Options Units (In Thousands)	Exercise Price NT\$
2012.05.28	2013.05.07	10,000	\$66.20 (Original price \$93.00)

Each option is eligible to subscribe for one common share when exercisable. Under the terms of the SENAO Plan, the options are granted at an exercise price equal to the closing price of the SENAO’s common stocks listed on the TWSE on the higher of closing price or par value. The SENAO Plan has an exercise price adjustment formula upon the changes in common stocks equity (including cash capital increase, new share issue through capitalization of earnings and additional paid-in capital, merger, spin off and new share issue for Global Depository Shares, and so on) or distribution of cash dividends. The options of the SENAO Plan are valid for six years and the graded vesting schedule for which 50% of options granted will vest two years after the grant date and another two tranches of 25%, each will vest three and four years after the grant date respectively.

Information about SENAO’s outstanding stock options for the year ended December 31, 2019 was as follows:

	Year Ended December 31, 2019	
	Granted on May 7, 2013	
	Number of Options (In Thousands)	Weighted Average Exercise Price NT\$
<u>Employee stock options</u>		
Options outstanding at beginning of the year	5,318	\$ 66.20
Options forfeited	<u>(5,318)</u>	-
Options outstanding at end of the year	<u>-</u>	-
Options exercisable at end of the year	<u>-</u>	-

As of December 31, 2019, 2020 and 2021, there were no outstanding stock options.

No compensation cost was recognized for the years ended December 31, 2019, 2020 and 2021.

SENAO used the fair value method to evaluate the options using the Black-Scholes model and the related assumptions and the fair value of the options were as follows:

	Stock Options Granted on May 7, 2013
Grant-date share price (NT\$)	\$93.00
Exercise price (NT\$)	\$93.00
Dividend yield	-

(Continued)

**Stock Options
Granted on
May 7, 2013**

Risk-free interest rate	0.91%
Expected life	4.375 years
Expected volatility	36.22%
Weighted average fair value of grants (NT\$)	\$28.72
	(Concluded)

Expected volatility was based on the historical share price volatility of SENA O over the period equal to the expected life of the SENA O Plan.

b. CHIEF share-based compensation plan (“CHIEF Plan”) described as follows:

Effective Date	Grant Date	Stock Options Units	Exercise Price NT\$
2015.11.17	2015.10.22	2,000.00	\$34.40 (Original price \$43.00)
2017.12.18	2017.12.19	950.00	128.70 (Original price \$147.00)
	2018.10.31	50.00	134.50 (Original price \$147.00)
2020.09.16	2020.11.13	200.00	199.70 (Original price \$206.00)

Each option is eligible to subscribe for one thousand common stocks when exercisable. The options are granted to specific employees that meet the vesting conditions. The CHIEF Plan has an exercise price adjustment formula upon the changes in common stocks or distribution of cash dividends. The options of the CHIEF Plan are valid for five years and the graded vesting schedule will vest two years after the grant date.

The Board of Directors of CHIEF resolved to issue stock options on October 26, 2020 and authorized the chairman to decide the grant date. Afterwards, the grant date was decided as November 13, 2020.

The compensation costs for stock options for the years ended December 31, 2019, 2020 and 2021 were as follows:

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Granted on October 22, 2015	\$ 0.3	\$ -	\$ -
Granted on December 19, 2017	0.6	0.2	0.1
Granted on October 31, 2018	0.6	0.3	0.2
Granted on November 13, 2020	-	1.3	9.7
	\$ 1.5	\$ 1.8	\$ 10.0

CHIEF modified the plan terms of stock options granted on December 19, 2017 in June 2019, July 2020 and September 2021; therefore, the exercise price changed from \$140.60 to \$135.60, \$132.70 and \$128.70 per share, respectively. The modification did not cause any incremental fair value granted.

CHIEF modified the plan terms of stock options granted on October 31, 2018 in June 2019, July 2020 and September 2021; therefore, the exercise price changed from \$147.00 to \$141.70, \$138.70 and \$134.50 per share, respectively. The modification did not cause any incremental fair value granted.

CHIEF modified the plan terms of stock options granted on November 13, 2020 in September 2021; therefore, the exercise price changed from \$206.00 to \$199.70 per share. The modification did not cause any incremental fair value granted.

Information about CHIEF's outstanding stock options for the years ended December 31, 2019, 2020 and 2021 was as follows:

	Year Ended December 31, 2019					
	Granted on October 22, 2015		Granted on December 19, 2017		Granted on October 31, 2018	
	Number of Options	Weighted Average Exercise Price (NT\$)	Number of Options	Weighted Average Exercise Price (NT\$)	Number of Options	Weighted Average Exercise Price (NT\$)
Options outstanding at beginning of the year	882.75	\$ 34.40	925.00	\$ 140.60	50.00	\$ 147.00
Options exercised	(547.25)	34.40	-	-	-	-
Options forfeited	<u>(21.25)</u>	-	<u>(28.00)</u>	-	<u>(4.00)</u>	-
Options outstanding at end of the year	<u>314.25</u>	34.40	<u>897.00</u>	135.60	<u>46.00</u>	141.70
Options exercisable at end of the year	<u>314.25</u>	34.40	<u>448.50</u>	135.60	<u>-</u>	-

	Year Ended December 31, 2020							
	Granted on October 22, 2015		Granted on December 19, 2017		Granted on October 31, 2018		Granted on November 13, 2020	
	Number of Options	Weighted Average Exercise Price (NT\$)	Number of Options	Weighted Average Exercise Price (NT\$)	Number of Options	Weighted Average Exercise Price (NT\$)	Number of Options	Weighted Average Exercise Price (NT\$)
Options outstanding at beginning of the year	314.25	\$ 34.40	897.00	\$ 135.60	46.00	\$ 141.70	-	\$ -
Options granted	-	-	-	-	-	-	200.00	206.00
Options exercised	(314.25)	34.40	(448.50)	135.60	(21.00)	138.70	-	-
Options forfeited	<u>-</u>	-	<u>(21.00)</u>	-	<u>(4.00)</u>	-	<u>-</u>	-
Options outstanding at end of the year	<u>-</u>	-	<u>427.50</u>	132.70	<u>21.00</u>	138.70	<u>200.00</u>	206.00
Options exercisable at end of the year	<u>-</u>	-	<u>213.75</u>	132.70	<u>-</u>	-	<u>-</u>	-

Year Ended December 31, 2021

	Granted on December 19, 2017		Granted on October 31, 2018		Granted on November 13, 2020	
	Number of Options	Weighted Average Exercise Price (NT\$)	Number of Options	Weighted Average Exercise Price (NT\$)	Number of Options	Weighted Average Exercise Price (NT\$)
Employee stock options						
Options outstanding at beginning of the year	427.50	\$ 132.70	21.00	\$ 138.70	200.00	\$ 206.00
Options exercised	(213.75)	132.70	(10.50)	134.50	-	-
Options forfeited	(0.50)	-	-	-	(6.00)	-
Options outstanding at end of the year	<u>213.25</u>	128.70	<u>10.50</u>	134.50	<u>194.00</u>	199.70
Options exercisable at end of the year	<u>213.25</u>	128.70	<u>-</u>	-	<u>-</u>	-

As of December 31, 2020, information about employee stock options outstanding was as follows:

Granted on December 19, 2017					
Options Outstanding			Options Exercisable		
Range of Exercise Price NT\$	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price NT\$	Number of Options	Weighted Average Exercise Price NT\$
\$132.70	427.50	1.96	\$132.70	213.75	\$132.70
Granted on October 31, 2018					
Options Outstanding			Options Exercisable		
Range of Exercise Price NT\$	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price NT\$	Number of Options	Weighted Average Exercise Price NT\$
\$138.70	21.00	2.83	\$138.70	-	\$ -
Granted on November 13, 2020					
Options Outstanding			Options Exercisable		
Range of Exercise Price NT\$	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price NT\$	Number of Options	Weighted Average Exercise Price NT\$
\$206.00	200.00	4.87	\$206.00	-	\$ -

As of December 31, 2020, all the stock options granted in 2015 were exercised or forfeited.

As of December 31, 2021, information about employee stock options outstanding was as follows:

Granted on December 19, 2017					
Options Outstanding			Options Exercisable		
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
NT\$		(Years)	NT\$		NT\$
\$128.70	213.25	0.96	\$128.70	213.25	\$128.70

Granted on October 31, 2018					
Options Outstanding			Options Exercisable		
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
NT\$		(Years)	NT\$		NT\$
\$134.50	10.50	1.83	\$134.50	-	\$ -

Granted on November 13, 2020					
Options Outstanding			Options Exercisable		
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
NT\$		(Years)	NT\$		NT\$
\$199.70	194.00	3.87	\$199.70	-	\$ -

As of December 31, 2021, all the stock options granted in 2015 were exercised or forfeited.

CHIEF used the fair value method to evaluate the options using the Black-Scholes model and binomial option pricing model and the related assumptions and the fair value of the options were as follows:

	Stock Options Granted on October 22, 2015	Stock Options Granted on December 19, 2017	Stock Options Granted on October 31, 2018	Stock Options Granted on November 13, 2020
Grant-date share price (NT\$)	\$39.55	\$95.92	\$166.00	\$356.00
Exercise price (NT\$)	\$43.00	\$147.00	\$147.00	\$206.00
Dividend yield	-	-	-	-
Risk-free interest rate	0.86%	0.62%	0.72%	0.18%
Expected life	5 years	5 years	5 years	5 years
Expected volatility	21.02%	17.35%	16.60%	34.61%
Weighted average fair value of grants (NT\$)	\$4,863	\$2,318	\$33,540	\$173,893

The expected volatility for the options granted in 2020 was based on CHIEF's average annualized historical share price volatility from June 5, 2018, CHIEF's listing date on Taipei Exchange, to the grant date. The expected volatilities for the options granted from 2015 to 2018 were based on the average annualized historical share price volatility of CHIEF's comparable companies before the grant date.

c. CHTSC share-based compensation plan ("CHTSC Plan") described as follows:

The Board of Directors of CHTSC resolved to issue 4,500 and 3,500 stock options on December 20, 2019 and February 20, 2021, respectively. Each option is eligible to subscribe for one thousand common stocks when exercisable and the exercise price are both \$19.085 per share. The options are granted to specific employees that meet the vesting conditions. The CHTSC Plan has an exercise price adjustment formula upon the changes in common stocks. The options of the CHTSC Plan are valid for five years and the graded vesting schedule will vest one year after the grant date.

The compensation costs for stock options for the years ended December 31, 2019, 2020 and 2021 were as follows:

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Granted on December 20, 2019	\$ 0.2	\$ 5.7	\$ 2.9
Granted on February 20, 2021	<u>-</u>	<u>-</u>	<u>5.5</u>
	<u>\$ 0.2</u>	<u>\$ 5.7</u>	<u>\$ 8.4</u>

Information about CHTSC's outstanding stock options for the years ended December 31, 2019, 2020 and 2021 was as follows:

	Year Ended December 31, 2019	
	Granted on December 20, 2019	
	Number of Options	Weighted Average Exercise Price (NT\$)
<u>Employee stock options</u>		
Options outstanding at beginning of the year	-	\$ -
Options granted	<u>4,500</u>	19.085
Options outstanding at end of the year	<u>4,500</u>	19.085
Options exercisable at end of the year	<u>-</u>	-

	<u>Year Ended December 31, 2020</u>	
	<u>Granted on December 20, 2019</u>	<u>Weighted Average Exercise Price (NT\$)</u>
	<u>Number of Options</u>	
<u>Employee stock options</u>		
Options outstanding at beginning of the year	4,500	\$ 19.085
Options forfeited	<u>(172)</u>	-
Options outstanding at end of the year	<u>4,328</u>	19.085
Options exercisable at end of the year	<u>1,082</u>	19.085

	<u>Year Ended December 31, 2021</u>			
	<u>Granted on December 20, 2019</u>		<u>Granted on February 20, 2021</u>	
	<u>Number of Options</u>	<u>Weighted Average Exercise Price (NT\$)</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price (NT\$)</u>
<u>Employee stock options</u>				
Options outstanding at beginning of the year	4,328	\$ 19.085	-	\$ -
Options granted	-	-	3,500	19.085
Options exercised	(1,082)	19.085	-	-
Options forfeited	<u>(72)</u>	-	<u>(176)</u>	-
Options outstanding at end of the year	<u>3,174</u>	19.085	<u>3,324</u>	19.085
Options exercisable at end of the year	<u>1,058</u>	19.085	<u>-</u>	-

As of December 31, 2020, information about employee stock options outstanding was as follows:

<u>Granted on December 20, 2019</u>					
<u>Options Outstanding</u>			<u>Options Exercisable</u>		
<u>Range of Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Weighted Average Exercise Price</u>	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>
<u>NT\$</u>			<u>NT\$</u>		<u>NT\$</u>
\$19.085	4,328	3.97	\$19.085	1,082	\$19.085

As of December 31, 2021, information about employee stock options outstanding was as follows:

Granted on December 20, 2019					
Options Outstanding				Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
NT\$		(Years)	NT\$		NT\$
\$19.085	3,174	2.97	\$19.085	1,058	\$19.085

Granted on February 20, 2021					
Options Outstanding				Options Exercisable	
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
NT\$		(Years)	NT\$		NT\$
\$19.085	3,324	4.14	\$19.085	-	\$ -

CHTSC used the fair value method to evaluate the options using the Black-Scholes model and the related assumptions and the fair value of the options were as follows:

	Stock Options Granted on December 20, 2019	Stock Options Granted on February 20, 2021
Grant-date share price (NT\$)	\$20.17	\$23.76
Exercise price (NT\$)	\$19.085	\$19.085
Dividend yield	12.49%	15.18%
Risk-free interest rate	0.54%	0.25%
Expected life	5 years	5 years
Expected volatility	42.41%	47.35%
Weighted average fair value of grants (NT\$)	\$2,470	\$3,350

Expected volatility was based on the average annualized historical share price volatility of CHTSC's comparable companies before the grant date.

d. IISI share-based compensation plan ("IISI Plan") described as follows:

IISI issued 1,335 and 1,665 stock options in August 2013 and January 2014, respectively. Each option is eligible to subscribe for one thousand common stocks when exercisable. The options are granted to specific employees of IISI and its subsidiaries that meet the vesting conditions. The options of the IISI Plan are valid for seven years and the graded vesting schedule will vest at certain percentages starting from two years after the grant date. The exercise price of the original options is \$14 per share. After the options are issued, if the common stocks of IISI change, the exercise price of the options should be adjusted according to the prescribed formula.

No compensation cost of stock options granted was recognized for the six months ended December 31, 2020 and the year ended December 31, 2021.

Information about IISI's outstanding stock options for the years ended December 31, 2020 and 2021 was as follows:

	Year Ended December 31, 2020			
	Granted in August 2013		Granted in January 2014	
	Number of Options	Weighted Average Exercise Price (NT\$)	Number of Options	Weighted Average Exercise Price (NT\$)
<u>Employee stock options</u>				
Options outstanding at beginning of the year	-	\$ -	-	\$ -
Options outstanding upon the date of business combination	1,022.96	14.00	580.00	14.00
Options exercised	(432.50)	14.00	(50.00)	14.00
Options forfeited	<u>(590.46)</u>	-	<u>-</u>	-
Options outstanding at end of the year	<u>-</u>	-	<u>530.00</u>	14.00
Options exercisable at end of the year	<u>-</u>	-	<u>530.00</u>	14.00

	Year Ended December 31, 2021	
	Granted in January 2014	
	Number of Options	Weighted Average Exercise Price (NT\$)
<u>Employee stock options</u>		
Options outstanding at beginning of the year	530.00	\$ 14.00
Options exercised	(261.00)	14.00
Options forfeited	<u>(269.00)</u>	-
Options outstanding at end of the year	<u>-</u>	-
Options exercisable at end of the year	<u>-</u>	-

As of December 31, 2020, information about employee stock options outstanding was as follows:

Granted in January 2014					
Options Outstanding			Options Exercisable		
Range of Exercise Price	Number of Options	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
NT\$		(Years)	NT\$		NT\$
\$ 14.00	530.00	0.04	\$ 14.00	530.00	\$ 14.00

As of December 31, 2020, the options granted to employees in 2013 have been fully exercised or forfeited.

As of December 31, 2021, all the stock options granted in 2013 and 2014 were exercised or forfeited.

IISI used the fair value method to evaluate the options using the Black-Scholes model and the related assumptions and the fair value of the options were as follows:

	Stock Options Granted in August 2013	Stock Options Granted in January 2014
Grant-date share price (NT\$)	\$12.51	\$14.51
Exercise price (NT\$)	\$14.00	\$14.00
Dividend yield	6%	6%
Risk-free interest rate	1.20%-1.39%	1.16%-1.32%
Expected life	4.5-5.5 years	4.5-5.5 years
Expected volatility	36.01%-36.62%	35.28%-35.97%
Weighted average fair value of grants (NT\$)	\$1,670	\$2,345

Expected volatility was based on the average annualized historical share price volatility of IISI's comparable companies before the grant date.

e. CLPT share-based compensation plan ("CLPT Plan") described as follows:

The Board of Directors of CLPT resolved to issue 690 stock options on February 26, 2021. Each option is eligible to subscribe for one thousand common stocks when exercisable and the exercise price is \$15.90 per share (original price is \$16.87 per share). The options are granted to specific employees that meet the vesting conditions. The CLPT Plan has an exercise price adjustment formula upon the changes in common stocks or distribution of cash dividends. The options of the CLPT Plan are valid for four years and the graded vesting schedule will vest two years after the grant date.

The compensation cost was \$0.9 million for the year ended December 31, 2021.

CLPT modified the plan terms of stock options granted on February 26, 2021 in September 2021; therefore, the exercise price changed from \$16.87 to \$15.90 per share. The modification did not cause any incremental fair value granted.

Information about CLPT's outstanding stock options for the year ended December 31, 2021 was as follows:

	<u>Year Ended December 31, 2021</u> <u>Granted on February 26, 2021</u>	
	Number of Options	Weighted Average Exercise Price (NT\$)
<u>Employee stock options</u>		
Options outstanding at beginning of the year	-	\$ -
Options granted	690	16.87

(Continued)

	<u>Year Ended December 31, 2021</u> <u>Granted on February 26, 2021</u>	
	Number of Options	Weighted Average Exercise Price (NT\$)
Options forfeited	(140)	\$ -
Options outstanding at end of the year	<u>550</u>	15.90
Options exercisable at end of the year	<u>-</u>	- (Concluded)

As of December 31, 2021, information about employee stock options outstanding was as follows:

<u>Options Outstanding</u>			<u>Options Exercisable</u>		
Range of Exercise Price NT\$	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price NT\$	Number of Options	Weighted Average Exercise Price NT\$
\$ 15.90	550	3.16	\$ 15.90	-	\$ -

CLPT used the fair value method to evaluate the options using the Black-Scholes model and the related assumptions and the fair value of the options were as follows:

	Stock Options Granted on February 26, 2021
Grant-date share price (NT\$)	\$17.63
Exercise price (NT\$)	\$16.87
Dividend yield	-
Risk-free interest rate	0.31%
Expected life	4 years
Expected volatility	35.22%
Weighted average fair value of grants (NT\$)	\$4,750

Expected volatility was based on the average annualized historical share price volatility of CLPT's comparable companies before the grant date.

36. NON-CASH TRANSACTIONS

Except for those disclosed in other notes, the Company entered into the following non-cash investing and financing activities:

Investing activities	Year Ended December 31		
	2019 NT\$	2020 NT\$ (In Millions)	2021 NT\$
Increase in property, plant and equipment	\$ 23,164	\$ 25,195	\$ 35,613
Changes in other payables	<u>1,002</u>	<u>(1,684)</u>	<u>(280)</u>
Acquisition of property, plant and equipment	<u>\$ 24,166</u>	<u>\$ 23,511</u>	<u>\$ 35,333</u>
Increase in investment properties	\$ 1	\$ 1,359	\$ 1
Trade-in investment properties from asset exchange transaction (Note 16)	<u>-</u>	<u>(1,305)</u>	<u>-</u>
Acquisition of investment properties	<u>\$ 1</u>	<u>\$ 54</u>	<u>\$ 1</u>
Increase in intangible assets	\$ 363	\$ 48,605	\$ 256
Changes in other assets	<u>-</u>	<u>(1,000)</u>	<u>-</u>
Acquisition of intangible assets	<u>\$ 363</u>	<u>\$ 47,605</u>	<u>\$ 256</u>
Disposal of property, plant and equipment	\$ 86	\$ 307	\$ 30
Gain (loss) on disposal of property, plant and equipment	(38)	1,428	(3)
Trade-in investment properties from asset exchange transaction (Note 16)	-	(1,305)	-
Changes in other payables	-	(80)	-
Changes in other current monetary assets	<u>-</u>	<u>(31)</u>	<u>-</u>
Proceeds from disposal of property, plant and equipment	<u>\$ 48</u>	<u>\$ 319</u>	<u>\$ 27</u>
Disposal of financial assets at fair value through other comprehensive income	\$ -	\$ 568	\$ 2,705
Changes in other current monetary assets	-	(271)	271
Reclassified to investment accounted for using equity method	<u>-</u>	<u>-</u>	<u>(64)</u>
Proceeds from disposal of financial assets at fair value through other comprehensive income	<u>\$ -</u>	<u>\$ 297</u>	<u>\$ 2,912</u>

38. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

	December 31	
	2020	2021
	NT\$	NT\$
(In Millions)		
<u>Financial assets</u>		
Measured at FVTPL		
Mandatorily measured at FVTPL	\$ 687	\$ 912
Hedging financial assets	2	-
Financial assets at amortized cost (Note a)	62,405	71,799
Financial assets at FVOCI	7,193	3,616
<u>Financial liabilities</u>		
Measured at FVTPL		
Held for trading	-	6
Hedging financial liabilities	-	8
Measured at amortized cost (Note b)	62,557	64,747

Note a: The balances included cash and cash equivalents, trade notes and accounts receivable, receivables from related parties, other current monetary assets and refundable deposits (classified as other noncurrent assets), which were financial assets measured at amortized cost.

Note b: The balances included short-term loans, short-term bills payable, trade notes and accounts payable, payables to related parties, partial other payables, customers' deposits, bonds payable and long-term loans (included current portion) which were financial liabilities carried at amortized cost.

Financial Risk Management Objectives

The main financial instruments of the Company include equity investments, trade notes and accounts receivable, trade notes and accounts payable, lease liabilities, loans, short-term bills payable and bonds payable. The Company's Finance Department provides services to its business units, co-ordinates access to domestic and international capital markets, monitors and manages the financial risks relating to the operations of the Company through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including foreign currency risk, interest rate risk and other price risk), credit risk, and liquidity risk.

The Company seeks to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives is governed by the Company's policies approved by the Board of Directors. Those derivatives are used to hedge the risks of exchange rate fluctuation arising from operating or investment activities. Compliance with policies and risk exposure limits is reviewed by the Company's Finance Department on a continuous basis. The Company does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

Chunghwa reports the significant risk exposures and related action plans timely and actively to the audit committee and if needed to the Board of Directors.

a. Market risk

The Company is exposed to market risks of changes in foreign currency exchange rates and interest rates. The Company uses forward exchange contracts to hedge the exchange rate risk arising from assets and liabilities denominated in foreign currencies.

There were no changes to the Company's exposure to market risks or the manner in which these risks are managed and measured.

1) Foreign currency risk

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the balance sheet dates were as follows:

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Assets		
USD	\$ 2,711	\$ 2,010
EUR	15	49
SGD	170	260
JPY	22	37
RMB	30	89
HKD	69	70
Liabilities		
USD	768	890
EUR	957	861
SGD	1,049	1,964
JPY	10	13
RMB	-	39
HKD	8	16

The carrying amounts of the Company's derivatives with exchange rate risk exposures at the balance sheet dates were as follows:

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Assets		
USD	\$ -	\$ -
EUR	4	-
Liabilities		
USD	-	-
EUR	-	14

Foreign currency sensitivity analysis

The Company is mainly exposed to the fluctuations of the currencies USD, EUR, SGD, JPY, RMB and HKD as listed above.

The following table details the Company's sensitivity to a 5% increase and decrease in the functional currency against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible changes in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and forward exchange contracts. A positive number below indicates an increase in pre-tax profit or equity where the functional currency weakens 5% against the relevant currency.

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Profit or loss			
Monetary assets and liabilities (a)			
USD	\$ 83	\$ 97	\$ 56
EUR	(10)	(47)	(41)
SGD	(52)	(44)	(85)
JPY	-	1	1
RMB	-	1	3
HKD	(1)	3	3
Derivatives (b)			
USD	1	(19)	-
EUR	3	3	13
Equity			
Derivatives (c)			
EUR	4	10	11

- a) This is mainly attributable to the exposure to foreign currency denominated receivables and payables of the Company outstanding at the balance sheet dates.
- b) This is mainly attributable to forward exchange contracts.
- c) This is mainly attributable to the changes in the fair value of derivatives that are designated as cash flow hedges.

For a 5% strengthening of the functional currency against the relevant currencies, there would be an equal and opposite effect on the pre-tax profit or equity for the amounts shown above.

2) Interest rate risk

The carrying amounts of the Company's exposures to interest rates on financial assets and financial liabilities at the balance sheet dates were as follows:

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Fair value interest rate risk		
Financial assets	\$ 24,218	\$ 27,671
Financial liabilities	36,576	37,249
Cash flow interest rate risk		
Financial assets	9,306	14,171
Financial liabilities	1,667	1,665

Interest rate sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. A 25 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 25 basis points higher/lower and all other variables were held constant, the Company's pre-tax income would increase/decrease by \$15 million, \$19 million and \$31 million for the years ended December 31, 2019, 2020 and 2021, respectively. This is mainly attributable to the Company's exposure to floating interest rates on its financial assets, short-term and long-term loans.

3) Other price risk

The Company is exposed to equity price risks arising from holding other company's equity. Equity investments are held for strategic rather than trading purposes. The management managed the risk through holding various risk portfolios. Further, the Company assigned finance and investment departments to monitor the price risk.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the end of the reporting period.

If equity prices had been 5% higher/lower, pre-tax profit and pre-tax other comprehensive income for the year ended December 31, 2019 would have increased/decreased by \$39 million and \$358 million as a result of the changes in fair value of financial assets at FVTPL and financial assets at FVOCI, respectively. If equity prices had been 5% higher/lower, pre-tax profit and pre-tax other comprehensive income for the year ended December 31, 2020 would have increased/decreased by \$34 million and \$360 million as a result of the changes in fair value of financial assets at FVTPL and financial assets at FVOCI, respectively. If equity prices had been 5% higher/lower, pre-tax profit and pre-tax other comprehensive income for the year ended December 31, 2021 would have increased/decreased by \$46 million and \$181 million as a result of the changes in fair value of financial assets at FVTPL and financial assets at FVOCI, respectively.

b. Credit risk

Credit risk refers to the risk that a counterparty would default on its contractual obligations resulting in financial loss to the Company. The maximum credit exposure of the aforementioned financial instruments is equal to their carrying amounts recognized in the consolidated balance sheet as of the balance sheet date.

The Company has large trade receivables outstanding with its customers. A substantial majority of the Company's outstanding trade receivables are not covered by collateral or credit insurance. The Company has implemented ongoing measures including enhancing credit assessments and strengthening overall risk management to reduce its credit risk. While the Company has procedures to monitor and limit exposure to credit risk on trade receivables, there can be no assurance such procedures will effectively limit its credit risk and avoid losses. This risk is heightened during periods when economic conditions worsen.

As the Company serves a large number of unrelated consumers, the concentration of credit risk was limited.

c. Liquidity risk

The Company manages and maintains sufficient cash and cash equivalent position to support the operations and reduce the impact on fluctuation of cash flow.

1) Liquidity and interest risk tables

The following tables detailed the Company's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Company is required to pay.

December 31, 2020

	Weighted Average Effective Interest Rate (%)	Less than	1-3 Months	3 Months to	1-5 Years	More than	Total
		1 Month	NT\$	NT\$	1 Year	NT\$	
(In Millions)							
Non-derivative financial liabilities							
Non-interest bearing	-	\$ 37,749	\$ -	\$ 2,476	\$ 4,827	\$ -	\$ 45,052
Floating interest rate instruments	0.78	-	7	1,660	-	-	1,667
Fixed interest rate instruments	0.50	7,000	-	-	8,800	11,200	27,000
		<u>\$ 44,749</u>	<u>\$ 7</u>	<u>\$ 4,136</u>	<u>\$ 13,627</u>	<u>\$ 11,200</u>	<u>\$ 73,719</u>

Information about the maturity analysis for lease liabilities was as follows:

	Less than	1-3 Years	3-5 Years	More than	Total
	1 Year	NT\$	NT\$	5 Years	
(In Millions)					
Lease liabilities	<u>\$ 3,397</u>	<u>\$ 4,240</u>	<u>\$ 1,691</u>	<u>\$ 409</u>	<u>\$ 9,737</u>

December 31, 2021

	Weighted Average Effective Interest Rate (%)	Less than	1-3 Months	3 Months to	1-5 Years	More than	Total
		1 Month	NT\$	NT\$	1 Year	NT\$	
(In Millions)							
Non-derivative financial liabilities							
Non-interest bearing	-	\$ 40,895	\$ -	\$ 1,997	\$ 5,336	\$ -	\$ 48,228
Floating interest rate instruments	0.95	-	15	50	1,600	-	1,665
Fixed interest rate instruments	0.51	-	-	-	10,700	16,300	27,000
		<u>\$ 40,895</u>	<u>\$ 15</u>	<u>\$ 2,047</u>	<u>\$ 17,636</u>	<u>\$ 16,300</u>	<u>\$ 76,893</u>

Information about the maturity analysis for lease liabilities was as follows:

	<u>Less than 1 Year</u> NT\$	<u>1-3 Years</u> NT\$	<u>3-5 Years</u> NT\$	<u>More than 5 Years</u> NT\$	<u>Total</u> NT\$
			(In Millions)		
Lease liabilities	\$ 3,228	\$ 4,126	\$ 1,808	\$ 1,244	\$ 10,406

The following table detailed the Company's liquidity analysis for its derivative financial instruments. The table had been drawn up based on the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

	<u>Less than 1 Month</u> NT\$	<u>1-3 Months</u> NT\$	<u>3 Months to 1 Year</u> NT\$	<u>1-5 Years</u> NT\$	<u>Total</u> NT\$
			(In Millions)		
<u>December 31, 2020</u>					
<u>Gross settled</u>					
Forward exchange contracts					
Inflows	\$ -	\$ 635	\$ -	\$ -	\$ 635
Outflows	-	631	-	-	631
	<u>\$ -</u>	<u>\$ 4</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4</u>
<u>December 31, 2021</u>					
<u>Gross settled</u>					
Forward exchange contracts					
Inflows	\$ -	\$ 471	\$ -	\$ -	\$ 471
Outflows	-	485	-	-	485
	<u>\$ -</u>	<u>\$ (14)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (14)</u>

2) Financing facilities

	<u>December 31</u>	
	<u>2020</u>	<u>2021</u>
	NT\$	NT\$
	(In Millions)	
Facility of unsecured bank loan and commercial paper payable		
Amount used	\$ 7,068	\$ 65
Amount unused	<u>59,277</u>	<u>61,620</u>
	<u>\$ 66,345</u>	<u>\$ 61,685</u>
Facility of secured bank loan facility		
Amount used	\$ 1,600	\$ 1,600
Amount unused	<u>20</u>	<u>-</u>
	<u>\$ 1,620</u>	<u>\$ 1,600</u>

39. FAIR VALUE INFORMATION

The fair value measurement guidance establishes a framework for measuring fair value and expands disclosure about fair value measurements. The standard describes a fair value hierarchy based on three levels of inputs that may be used to measure fair value. These levels are:

Level 1 fair value measurements: These measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2 fair value measurements: These measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 fair value measurements: These measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

- a. Financial instruments that are not measured at fair value but for which fair value is disclosed

Except those listed in the table below, the Company considers that the carrying amounts of financial assets and liabilities not measured at fair value approximate their fair values or the fair values cannot be reliably estimated.

	December 31, 2020		December 31, 2021	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Financial liabilities</u>				
Financial liabilities measured at amortized cost				
Bonds payable	\$ 19,980	\$ 20,078	\$ 26,977	\$ 27,082

The fair value of bonds payable is measured using Level 2 inputs. The valuation of fair value is based on the quoted market prices provided by third party pricing services.

- b. Financial instruments that are measured at fair value on a recurring basis

December 31, 2020

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Derivatives	\$ -	\$ 2	\$ -	\$ 2
Listed stocks	8	-	-	8
Non-listed stocks	-	-	677	677
	<u>\$ 8</u>	<u>\$ 2</u>	<u>\$ 677</u>	<u>\$ 687</u>
Hedging financial assets	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 2</u>

(Continued)

	Level 1	Level 2	Level 3	Total
Financial assets at FVOCI				
Listed stocks	\$ 2,754	\$ -	\$ -	\$ 2,754
Non-listed stocks	<u>-</u>	<u>-</u>	<u>4,439</u>	<u>4,439</u>
	<u>\$ 2,754</u>	<u>\$ -</u>	<u>\$ 4,439</u>	<u>\$ 7,193</u>
Financial liabilities at FVTPL				
Derivatives	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u> (Concluded)

December 31, 2021

	Level 1	Level 2	Level 3	Total
Financial assets at FVTPL				
Listed stocks	\$ 3	\$ -	\$ -	\$ 3
Non-listed stocks	-	-	885	885
Limited partnership	<u>-</u>	<u>-</u>	<u>24</u>	<u>24</u>
	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ 909</u>	<u>\$ 912</u>
Financial assets at FVOCI				
Listed stocks	\$ 459	\$ -	\$ -	\$ 459
Non-listed stocks	<u>-</u>	<u>-</u>	<u>3,157</u>	<u>3,157</u>
	<u>\$ 459</u>	<u>\$ -</u>	<u>\$ 3,157</u>	<u>\$ 3,616</u>
Financial liabilities at FVTPL				
Derivatives	<u>\$ -</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ 6</u>
Hedging financial liabilities	<u>\$ -</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 8</u>

There were no transfers between Levels 1 and 2 for the years ended December 31, 2019, 2020 and 2021.

The reconciliations for financial assets measured at Level 3 were listed below:

2019

Financial Assets	Measured at Fair Value through Profit or Loss NT\$	Measured at Fair Value through Other Comprehensive Income NT\$ (In Millions)	Total NT\$
Balance at January 1, 2019	\$ 517	\$ 4,033	\$ 4,550
Acquisition	300	-	300
Recognized in profit or loss under “Other gains and losses”	(39)	-	(39)

(Continued)

Financial Assets	Measured at Fair Value through Profit or Loss NT\$	Measured at Fair Value through Other Comprehensive Income NT\$ (In Millions)	Total NT\$
Recognized in other comprehensive income under “Unrealized gain or loss on financial assets at fair value through other comprehensive income”	\$ -	\$ 676	\$ 676
Proceed from return of investments	<u>-</u>	<u>(9)</u>	<u>(9)</u>
Balance at December 31, 2019	<u>\$ 778</u>	<u>\$ 4,700</u>	<u>\$ 5,478</u>
Unrealized loss in 2019	<u>\$ (39)</u>		

(Concluded)

2020

Financial Assets	Measured at Fair Value through Profit or Loss NT\$	Measured at Fair Value through Other Comprehensive Income NT\$ (In Millions)	Total NT\$
Balance at January 1, 2020	\$ 778	\$ 4,700	\$ 5,478
Reclassified from investments accounted for using equity method	-	2	2
Recognized in profit or loss under “Other gains and losses”	(101)	-	(101)
Recognized in other comprehensive income under “Unrealized gain or loss on financial assets at fair value through other comprehensive income”	<u>-</u>	<u>(263)</u>	<u>(263)</u>
Balance at December 31, 2020	<u>\$ 677</u>	<u>\$ 4,439</u>	<u>\$ 5,116</u>
Unrealized loss in 2020	<u>\$ (101)</u>		

2021

Financial Assets	Measured at Fair Value through Profit or Loss NT\$	Measured at Fair Value through Other Comprehensive Income NT\$ (In Millions)	Total NT\$
Balance at January 1, 2021	\$ 677	\$ 4,439	\$ 5,116
Acquisition	25	81	106
Disposal	-	(5)	(5)
Reclassified to investments accounted for using equity method	-	(64)	(64)
Recognized in profit or loss under “Other gains and losses”	251	-	251
Recognized in other comprehensive income under “Unrealized gain or loss on financial assets at fair value through other comprehensive income”	-	(1,294)	(1,294)
Proceeds from return of capital due to capital reduction from investees	<u>(44)</u>	<u>-</u>	<u>(44)</u>
Balance at December 31, 2021	<u>\$ 909</u>	<u>\$ 3,157</u>	<u>\$ 4,066</u>
Unrealized gain in 2021	<u>\$ 232</u>		

The fair values of financial assets and financial liabilities of Level 2 are determined as follows:

- 1) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market prices.
- 2) For derivatives, fair values are estimated using discounted cash flow model. Future cash flows are estimated based on observable inputs including forward exchange rates at the end of the reporting periods and the forward and spot exchange rates stated in the contracts, discounted at a rate that reflects the credit risk of various counterparties.

The fair values of non-listed domestic and foreign equity investments were Level 3 financial assets and determined using the market approach by reference the Price-to-Book ratios (P/B ratios) of peer companies that traded in active markets, using the income approach, in which the discounted cash flow is used to capture the present value of the expected future economic benefits to be derived from the ownership of these investees, or using assets approach. The Company originally used the market approach to measure the fair value of its investment in Taipei Financial Center Corp.; however, as the stock market was impacted by COVID-19 pandemic, the multiples of the referenced companies were changed significantly. With continuing impact of COVID-19 pandemic, the Company evaluated that the income approach, instead of the former market approach, would better reflect the future cash flows of Taipei Financial Center Corp. Therefore, the Company changed its valuation technique to the income approach starting from the second quarter of 2021. The significant unobservable inputs used were listed in the below table. An increase in growth rate of long-term revenue, a decrease in discount for the lack of marketability or noncontrolling interests discount, or a decrease in the weighted average cost of capital (“WACC”) would result in increases in the fair values.

	December 31	
	2020	2021
Discount for lack of marketability	14.73%-20.00%	16.05%-20.00%
Noncontrolling interests discount	17.29%-25.00%	17.29%-25.00%
Growth rate of long-term revenue	-	0.19%
WACC	-	8.50%

If the inputs to the valuation model were changed to reflect reasonably possible alternative assumptions while all the other variables were held constant, the fair values of equity investments would increase (decrease) as below table.

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Discount for lack of marketability		
5% increase	<u>\$ (320)</u>	<u>\$ (32)</u>
5% decrease	<u>\$ 320</u>	<u>\$ 32</u>
Noncontrolling interests discount		
5% increase	<u>\$ (47)</u>	<u>\$ (19)</u>
5% decrease	<u>\$ 47</u>	<u>\$ 19</u>
Long-term revenue growth rates		
0.1% increase	<u>\$ -</u>	<u>\$ 25</u>
0.1% decrease	<u>\$ -</u>	<u>\$ (25)</u>
WACC		
1% increase	<u>\$ -</u>	<u>\$ (288)</u>
1% decrease	<u>\$ -</u>	<u>\$ 350</u>

40. RELATED PARTIES TRANSACTIONS

The ROC Government, one of Chunghwa's customers, has significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, internet and data and other services to the various departments and institutions of the ROC Government in the normal course of business and at arm's-length prices. Except for those disclosed in other notes or this note, the transactions with the ROC government bodies have not been disclosed because the transactions are not individually or collectively significant. However, the related revenues and operating costs have been appropriately recorded.

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

Company	Relationship
Taiwan International Standard Electronics Co., Ltd.	Associate
So-net Entertainment Taiwan Limited	Associate
KKBOX Taiwan Co., Ltd.	Associate
KingwayTek Technology Co., Ltd.	Associate
UUPON Inc.	Associate (Note 1)
Taiwan International Ports Logistics Corporation	Associate
International Integrated Systems, Inc.	Subsidiary (Note 2)
Senao Networks, Inc.	Associate

(Continued)

Company	Relationship
EnRack Tech. Co., Ltd.	Subsidiary of the Company's associate, Senao Networks, Inc.
Emplus Technologies, Inc.	Subsidiary of the Company's associate, Senao Networks, Inc.
ST-2 Satellite Ventures Pte., Ltd.	Associate
CHT Infinity Singapore Pte. Ltd.	Associate
Viettel-CHT Co., Ltd.	Associate
Click Force Co., Ltd.	Associate
Alliance Digital Tech Co., Ltd.	Associate (Note 3)
Chunghwa PChome Fund I Co., Ltd.	Associate
Cornerstone Ventures Co., Ltd.	Associate
Next Commercial Bank Co., Ltd.	Associate
WiAdvance Technology Corporation	Associate
AgriTalk Technology Inc.	Associate (Note 4)
Imedtac Co., Ltd.	Associate (Note 4)
Chunghwa SEA Holdings	Joint venture
Other related parties	
Chunghwa Telecom Foundation	A nonprofit organization of which the funds donated by Chunghwa exceeds one third of its total funds
Senao Technical and Cultural Foundation	A nonprofit organization of which the funds donated by SENAO exceeds one third of its total funds
Sochamp Technology Co., Ltd.	Investor of significant influence over CHST
E-Life Mall Co., Ltd.	One of the directors of E-Life Mall and a director of SENAO are members of an immediate family
Engenius Technologies Co., Ltd.	Chairman of Engenius Technologies Co., Ltd. is a member of SENAO's management
Cheng Keng Investment Co., Ltd.	Chairman of Cheng Keng Investment Co., Ltd. and SENAO's chief executive officer are members of an immediate family
Cheng Feng Investment Co., Ltd.	Chairman of Cheng Feng Investment Co., Ltd. and SENAO's chief executive officer are members of an immediate family
All Oriented Investment Co., Ltd.	Chairman of All Oriented Investment Co., Ltd. and SENAO's chief executive officer are members of an immediate family
Hwa Shun Investment Co., Ltd.	Chairman of Hwa Shun Investment Co., Ltd. and SENAO's chief executive officer are members of an immediate family
Yu Yu Investment Co., Ltd.	Chairman of Yu Yu Investment Co., Ltd. and SENAO's chief executive officer are members of an immediate family
Divine Fine Foods & Wine Inc.	Chairman of Divine Fine Foods & Wine Inc. and SENAO's chief executive officer are members of an immediate family (Note 5)
United Daily News Co., Ltd.	Investor of significant influence over SFD
Shenzhen Century Communication Co., Ltd.	Investor of significant influence over SCT
Advantech Co., Ltd.	Investor of significant influence over IISI
Chunghwa Post Co., Ltd.	Government-related entity as Chunghwa Telecom

(Concluded)

- Note 1: UUPON was previously an associate. As the Company did not participate in the capital increase of UUPON in October 2020; therefore, the Company lost its significant influence over UUPON. Since then, UUPON was no longer a related party of the Company. Please refer to Note 15.
- Note 2: IISI was an associate and has become a subsidiary starting from July 1, 2020 (“acquisition date”). Please refer to Note 14(c). All transactions within the Company were eliminated upon consolidation since the acquisition date.
- Note 3: ADT completed its liquidation in August 2021. Please refer to Note 15.
- Note 4: ATT and IME were previously treated as financial assets at FVOCI. As the Company acquired seats in the Board of Directors of each company and has significant influence over ATT and IME in July and August 2021, respectively, these investments are reclassified as associates. Please refer to Note 15.
- Note 5: Divine Fine Foods & Wine Inc. replaced its responsible persons in October 2021. Since then, Divine Fine Foods & Wine Inc. is no longer a related party of the Company.
- b. Balances and transactions between Chunghwa and its subsidiaries, which are related parties of Chunghwa, have been eliminated on consolidation and are not disclosed in this note. Terms of the foregoing transactions with related parties were not significantly different from transactions with non-related parties. When no similar transactions with non-related parties can be referenced, terms were determined in accordance with mutual agreements. Details of transactions between the Company and other related parties are disclosed below:

1) Operating transactions

	Revenues		
	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Associates	\$ 274	\$ 1,508	\$ 499
Others	<u>76</u>	<u>66</u>	<u>55</u>
	<u>\$ 350</u>	<u>\$ 1,574</u>	<u>\$ 554</u>
	Operating Costs and Expenses		
	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Associates	\$ 964	\$ 715	\$ 853
Others	<u>76</u>	<u>68</u>	<u>74</u>
	<u>\$ 1,040</u>	<u>\$ 783</u>	<u>\$ 927</u>

2) Non-operating transactions

	Non-operating Income and Expenses		
	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
		(In Millions)	
Associates	\$ 41	\$ 37	\$ 38
Others	<u>4</u>	<u>3</u>	<u>3</u>
	<u>\$ 45</u>	<u>\$ 40</u>	<u>\$ 41</u>

3) Receivables

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Associates	\$ 229	\$ 35
Others	<u>1</u>	<u>6</u>
	<u>\$ 230</u>	<u>\$ 41</u>

4) Contract liabilities-current

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Associates	<u>\$ 183</u>	<u>\$ -</u>

5) Payables

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Associates	\$ 643	\$ 386
Others	<u>3</u>	<u>6</u>
	<u>\$ 646</u>	<u>\$ 392</u>

6) Customers' deposits

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Associates	<u>\$ 5</u>	<u>\$ 16</u>

7) Acquisition of property, plant and equipment

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Associates	<u>\$ 242</u>	<u>\$ 375</u>	<u>\$ 398</u>

8) Disposal of property, plant and equipment and investment properties to Chunghwa Post Co., Ltd.

	Proceeds		
	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Associates	\$ -	\$ -	\$ 10
Others (Chunghwa Post Co., Ltd.)	<u>-</u>	<u>386</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 386</u>	<u>\$ 10</u>

	Gain on Disposal		
	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Associates	\$ -	\$ -	\$ 2
Others (Chunghwa Post Co., Ltd.)	<u>-</u>	<u>310</u>	<u>-</u>
	<u>\$ -</u>	<u>\$ 310</u>	<u>\$ 2</u>

9) Lease-in agreements

Chunghwa entered into a contract with ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. This lease term is for 15 years which should start from the official operation of ST-2 satellite and the total contract value is approximately \$6,000 million (SGD 261 million), including a prepayment of \$3,068 million at the inception of the lease, and the rest of amount should be paid annually when ST-2 satellite starts its official operation. ST-2 satellite was launched in May 2011 and began its official operation in August 2011. As ST-2 satellite is in good operating condition, the useful life is extended for another 3 years and 3 months after evaluation in 2021. The Board of Directors of Chunghwa approved to extend the lease period accordingly with the original contract terms in December 2021; therefore, Chunghwa acquired right-of-use asset of \$1,125 million from the aforementioned lease extension.

The lease liabilities of ST-2 Satellite Ventures Pte., Ltd. as of December 31, 2020 and 2021 were as follows:

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Lease liabilities - current	\$ 182	\$ 173
Lease liabilities - noncurrent	<u>817</u>	<u>1,741</u>
	<u>\$ 999</u>	<u>\$ 1,914</u>

The interest expense recognized for the aforementioned lease liabilities for the years ended December 31, 2019, 2020 and 2021 were \$11 million, \$9 million and \$7 million, respectively.

c. Compensation of key management personnel

The compensation of directors and other key management personnel for the years ended December 31, 2019, 2020 and 2021 were as follows:

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Short-term employee benefits	\$ 263	\$ 290	\$ 321
Post-employment benefits	9	11	7
Share-based payment	<u>-</u>	<u>-</u>	<u>2</u>
	<u>\$ 272</u>	<u>\$ 301</u>	<u>\$ 330</u>

The compensation of directors and key management personnel was mainly determined by the compensation committee having regard to the performances and market trends.

41. PLEDGED ASSETS

The following assets are pledged as collaterals for bank loans, custom duties of the imported materials and warranties of contract performance as well as the bank deposits for the restricted purpose in accordance with The Management, Utilization, and Taxation of Repatriated Offshore Funds Act in the ROC.

	December 31	
	2020	2021
	NT\$	NT\$
	(In Millions)	
Property, plant and equipment	\$ 2,462	\$ 2,432
Land held under development (included in inventories)	1,999	-
Restricted assets (included in other assets - others)	<u>209</u>	<u>163</u>
	<u>\$ 4,670</u>	<u>\$ 2,595</u>

42. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

Except for those disclosed in other notes, the Company's significant commitments and contingent liabilities as of December 31, 2021 were as follows:

- a. Acquisitions of land and buildings of \$572 million.
- b. Acquisitions of telecommunications-related inventory and equipment of \$21,630 million.
- c. Unused letters of credit amounting to \$10 million.
- d. A commitment to contribute \$2,000 million to a Piping Fund administered by the Taipei City Government, of which \$1,000 million was contributed by Chunghwa on August 15, 1996 (classified as other monetary assets - noncurrent). If the fund is not sufficient, Chunghwa will contribute the remaining \$1,000 million upon notification from the Taipei City Government.
- e. Chunghwa committed that when its ownership interest in NCB is greater than 25% and NCB encounters financial difficulty or the capital adequacy ratio of NCB cannot meet the related regulation requirements, Chunghwa will provide financial support to assist NCB in maintaining a healthy financial condition.
- f. Chunghwa's Board of Directors approved the acquisition of the 900MHz frequency band and equipment from Asia Pacific Telecom Co., Ltd. in November 2021. The transaction amount is expected to be in the range from \$1,626 million to \$2,081 million; however, the actual amount will be determined according to the approval date of the related authority and mutual negotiations.

43. SIGNIFICANT SUBSEQUENT EVENTS

- a. Chunghwa's Board of Directors approved the issuance of unsecured domestic bonds in January 2022. The total amount of the bonds will not exceed \$10,000 million and the issuance period will not exceed 10 years. The bonds could be issued at a one-time basis or separately.
- b. Chunghwa's Board of Directors approved an investment in Taiwan Capital Buffalo Fund VI, L.P. at the amount of \$600 million in January 2022.
- c. Chunghwa launched its organizational transformation based on customer-centric structure effective from January 2022.

44. OTHER MATTERS

The Company has assessed the economic impact of COVID-19 pandemic and determined that there were no significant impacts on the Company's consolidated financial statements as of the date the consolidated financial statements were authorized for issue. The Company will continue to monitor developments of the pandemic and assess the related impacts.

45. SEGMENT INFORMATION

The Company has the following reportable segments that provide different products or services. The reportable segments are managed separately because each segment represents a strategic business unit that serves different markets. Segment information is provided to the CEO who allocates resources and assesses segment performance. The Company's measure of segment performance is mainly based on revenues and income before income tax. The Company's reportable segments are as follows:

- a. Domestic fixed communications business - the provision of local telephone services, domestic long distance telephone services, broadband access, and related services;
- b. Mobile communications business - the provision of mobile services, sales of mobile handsets and data cards, and related services;
- c. Internet business - the provision of HiNet services and related services;
- d. International fixed communications business - the provision of international long distance telephone services and related services;
- e. Others - the provision of non-telecom services and the corporate related items not allocated to reportable segments.

Some operating segments have been aggregated into a single operating segment taking into account the following factors: (a) similar economic characteristics such as long-term gross profit margins; (b) the nature of the telecommunications products and services are similar; (c) the nature of production processes of the telecommunications products and services are similar; (d) the type or class of customer for the telecommunications products and services are similar; and (e) the methods used to provide the services to the customers are similar.

The accounting policies of the operating segments are the same as those described in Note 3.

a. Segment revenues and operating results

Analysis by reportable segment of revenues and operating results of continuing operations are as follows:

	Domestic Fixed Communi- cations Business	Mobile Communi- cations Business	Internet Business	International Fixed Communi- cations Business	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)					
<u>Year ended December 31, 2019</u>						
Revenues						
From external customers	\$ 65,728	\$ 95,469	\$ 30,091	\$ 11,485	\$ 4,747	\$ 207,520
Intersegment revenues	<u>16,065</u>	<u>1,564</u>	<u>3,951</u>	<u>2,079</u>	<u>4,914</u>	<u>28,573</u>
Segment revenues	<u>\$ 81,793</u>	<u>\$ 97,033</u>	<u>\$ 34,042</u>	<u>\$ 13,564</u>	<u>\$ 9,661</u>	236,093
Intersegment elimination						<u>(28,573)</u>
Consolidated revenues						<u>\$ 207,520</u>
Segment income (loss) before income tax	<u>\$ 19,537</u>	<u>\$ 11,250</u>	<u>\$ 12,515</u>	<u>\$ 799</u>	<u>\$ (2,234)</u>	<u>\$ 41,867</u>
<u>Year ended December 31, 2020</u>						
Revenues						
From external customers	\$ 69,469	\$ 90,230	\$ 32,115	\$ 8,695	\$ 7,100	\$ 207,609
Intersegment revenues	<u>15,930</u>	<u>1,536</u>	<u>3,966</u>	<u>1,875</u>	<u>5,369</u>	<u>28,676</u>
Segment revenues	<u>\$ 85,399</u>	<u>\$ 91,766</u>	<u>\$ 36,081</u>	<u>\$ 10,570</u>	<u>\$ 12,469</u>	236,285
Intersegment elimination						<u>(28,676)</u>
Consolidated revenues						<u>\$ 207,609</u>
Segment income (loss) before income tax	<u>\$ 22,504</u>	<u>\$ 8,777</u>	<u>\$ 13,120</u>	<u>\$ 829</u>	<u>\$ (2,404)</u>	<u>\$ 42,826</u>

(Continued)

	Domestic Fixed Communi- cations Business	Mobile Communi- cations Business	Internet Business	International Fixed Communi- cations Business	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)					
<u>Year ended December 31, 2021</u>						
Revenues						
From external customers	\$ 64,780	\$ 95,249	\$ 33,082	\$ 9,096	\$ 8,271	\$ 210,478
Intersegment revenues	<u>17,430</u>	<u>1,588</u>	<u>3,869</u>	<u>2,009</u>	<u>6,260</u>	<u>31,156</u>
Segment revenues	<u>\$ 82,210</u>	<u>\$ 96,837</u>	<u>\$ 36,951</u>	<u>\$ 11,105</u>	<u>\$ 14,531</u>	<u>241,634</u>
Intersegment elimination						<u>(31,156)</u>
Consolidated revenues						<u>\$ 210,478</u>
Segment income (loss) before income tax	<u>\$ 26,142</u>	<u>\$ 6,362</u>	<u>\$ 14,512</u>	<u>\$ 1,165</u>	<u>\$ (2,114)</u>	<u>\$ 46,067</u>
						(Concluded)

b. Other segment information

Other information reviewed by the chief operating decision maker or regularly provided to the chief operating decision maker was as follows:

For the year ended December 31, 2019

	Domestic Fixed Communi- cations Business	Mobile Communi- cations Business	Internet Business	International Fixed Communi- cations Business	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)					
Share of profits of associates and joint ventures accounted for using equity method	\$ -	\$ -	\$ -	\$ -	\$ 459	\$ 459
Interest income	\$ 15	\$ 9	\$ 20	\$ 41	\$ 166	\$ 251
Interest expenses	\$ 5	\$ 58	\$ 1	\$ 12	\$ 28	\$ 104
Operating costs and expenses	\$ 56,269	\$ 72,952	\$ 13,850	\$ 11,427	\$ 12,249	\$ 166,747
Depreciation and amortization	\$ 14,842	\$ 16,254	\$ 2,914	\$ 1,547	\$ 792	\$ 36,349
Capital expenditure	\$ 12,071	\$ 7,773	\$ 1,425	\$ 1,117	\$ 1,780	\$ 24,166
Impairment loss on property, plant and equipment	\$ -	\$ -	\$ -	\$ -	\$ 93	\$ 93
Reversal of impairment loss on investment properties	\$ 57	\$ -	\$ -	\$ -	\$ -	\$ 57
Impairment loss on intangible assets	\$ -	\$ 9	\$ -	\$ -	\$ -	\$ 9
Impairment loss on other assets	\$ 13	\$ -	\$ 13	\$ -	\$ 18	\$ 44

For the year ended December 31, 2020

	Domestic Fixed Communi- cations Business	Mobile Communi- cations Business	Internet Business	International Fixed Communi- cations Business	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)					
Share of profits of associates and joint ventures accounted for using equity method	\$ -	\$ -	\$ -	\$ -	\$ 244	\$ 244
Interest income	\$ 13	\$ 5	\$ 17	\$ 22	\$ 59	\$ 116
Interest expenses	\$ 6	\$ 56	\$ 1	\$ 10	\$ 133	\$ 206
Operating costs and expenses	\$ 59,371	\$ 69,211	\$ 15,241	\$ 8,573	\$ 14,447	\$ 166,843
Depreciation and amortization	\$ 14,250	\$ 17,800	\$ 2,669	\$ 1,450	\$ 969	\$ 37,138

(Continued)

	Domestic Fixed Communi- cations Business	Mobile Communi- cations Business	Internet Business	International Fixed Communi- cations Business	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)					
Capital expenditure	\$ 11,483	\$ 8,827	\$ 1,397	\$ 779	\$ 1,025	\$ 23,511
Gain (loss) on disposal of property, plant and equipment	\$ 1,442	\$ (3)	\$ -	\$ -	\$ (11)	\$ 1,428
Gain on disposal of investment properties	\$ 151	\$ -	\$ -	\$ -	\$ -	\$ 151
Reversal of impairment loss on investment properties	\$ 27	\$ -	\$ -	\$ -	\$ -	\$ 27
Impairment loss on intangible assets	\$ -	\$ 9	\$ -	\$ -	\$ -	\$ 9

(Concluded)

For the year ended December 31, 2021

	Domestic Fixed Communi- cations Business	Mobile Communi- cations Business	Internet Business	International Fixed Communi- cations Business	Others	Total
	NT\$	NT\$	NT\$	NT\$	NT\$	NT\$
	(In Millions)					
Share of the profit of associates and joint ventures accounted for using equity method	\$ -	\$ -	\$ -	\$ -	\$ 421	\$ 421
Interest income	\$ 7	\$ 4	\$ 13	\$ 5	\$ 66	\$ 95
Interest expenses	\$ 4	\$ 48	\$ 1	\$ 8	\$ 157	\$ 218
Operating costs and expenses	\$ 51,013	\$ 74,973	\$ 14,150	\$ 8,409	\$ 16,634	\$ 165,179
Depreciation and amortization	\$ 13,978	\$ 20,313	\$ 2,471	\$ 1,417	\$ 1,037	\$ 39,216
Capital expenditure	\$ 13,299	\$ 16,809	\$ 2,943	\$ 445	\$ 1,837	\$ 35,333
Impairment loss on right-of-use assets	\$ -	\$ -	\$ -	\$ 420	\$ -	\$ 420
Reversal of impairment loss on investment properties	\$ 83	\$ -	\$ -	\$ -	\$ -	\$ 83
Impairment loss on intangible assets	\$ -	\$ 29	\$ -	\$ -	\$ -	\$ 29

c. Main products and service revenues

The following is an analysis of the Company's revenue from its major products and services.

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Mobile services revenue	\$ 58,703	\$ 56,724	\$ 58,048
Sales of products	41,593	39,391	42,907
Local telephone and domestic long distance telephone services revenue	27,929	26,475	25,704
Broadband access and domestic leased line services revenue	22,116	22,420	23,012
Data communications internet services revenue	21,003	21,447	22,281
International network and leased line services revenue	7,066	3,884	4,367
Others	29,110	37,268	34,159
	<u>\$ 207,520</u>	<u>\$ 207,609</u>	<u>\$ 210,478</u>

d. Geographic information

The users of the Company's services are mainly from Taiwan, ROC. The revenues it derived outside Taiwan are mainly revenues from international long distance telephone and leased line services. The geographic information for revenues was as follows:

	Year Ended December 31		
	2019	2020	2021
	NT\$	NT\$	NT\$
	(In Millions)		
Taiwan, ROC	\$ 197,895	\$ 200,881	\$ 204,473
Overseas	<u>9,625</u>	<u>6,728</u>	<u>6,005</u>
	<u>\$ 207,520</u>	<u>\$ 207,609</u>	<u>\$ 210,478</u>

The Company has long-lived assets in U.S., Singapore, Hong Kong, China, Vietnam, Japan, and Thailand and except for \$3,746 million and \$3,234 million as of December 31, 2020 and 2021, respectively, in the aforementioned areas, the other long-lived assets are located in Taiwan, ROC.

e. Major customers

As of December 31, 2019, 2020 and 2021, the Company did not have any single customer whose revenue exceeded 10% of the total revenues.