

CHUNGHWA TELECOM CO LTD
Form 6-K
March 31, 2005

1934 Act Registration No. 1-31731

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

**REPORT OF FOREIGN PRIVATE ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

Dated March 31, 2005

Chunghwa Telecom Co., Ltd.

(Translation of Registrant's Name into English)

21-3 Hsinyi Road Sec. 1,

Taipei, Taiwan, 100 R.O.C.

(Address of Principal Executive Office)

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

Form 20-F x Form 40-F "

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

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

Yes No

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant Chunghwa Telecom Co., Ltd. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 2005/03/31

Chunghwa Telecom Co., Ltd.

By: /s/ Tan HoChen
Name: Tan HoChen

Title: Chairman & CEO

Exhibit

| <u>Exhibit</u> | <u>Description</u> |
|----------------|---|
| 1. | Financial Statements for the Years Ended December 31, 2004 and 2003 and Independent Auditors Report -ROC GAAP |
| 2. | Financial Statements for the Years Ended December 31, 2003 and 2004, and for Each of the Years in the Three Year Period Ended December 31, 2004-US GAAP |
| 3. | Press Release on 3/31/2005 |

Chunghwa Telecom Co., Ltd.

Financial Statements for the

Years Ended December 31, 2004 and 2003 and

Independent Auditors Report

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have audited the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of December 31, 2004 and 2003, and the related statements of operations, changes in stockholders' equity and cash flows for the years then ended, all expressed in New Taiwan dollars. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the Regulations for Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those regulations and standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the Company as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with relevant regulations, regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China.

As stated in Notes 2 and 3 to the financial statements, the Company's accounts are subject to examination by the Executive Yuan and by the Ministry of Audit of the Control Yuan. The accounts as of and for the year ended December 31, 2003 have been examined by these government agencies, and adjustments from this examinations have been recognized in the accompanying financial statements.

March 4, 2005

Notice to Readers

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

CHUNGHWA TELECOM CO., LTD.**BALANCE SHEETS****DECEMBER 31, 2004 AND 2003****(Amounts in New Taiwan Thousand Dollars, Except Par Value Data)**

| | 2003 | | | |
|---|--------------------|------------|----------------------|------------|
| | 2004 | | (As Adjusted Note 3) | |
| | Amount | % | Amount | % |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents (Notes 2 and 4) | \$ 29,282,811 | 6 | \$ 13,553,029 | 3 |
| Short-term investments (Notes 2 and 5) | 9,114,513 | 2 | | |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$ 2,585,089 in 2004 and \$2,345,601 in 2003 (Notes 2 and 6) | 13,555,006 | 3 | 13,982,456 | 3 |
| Other current monetary assets | 1,516,204 | 1 | 1,665,917 | |
| Inventories, net (Notes 2 and 7) | 1,438,997 | | 1,219,459 | |
| Deferred income taxes (Notes 2 and 16) | 12,289,961 | 3 | 12,070,690 | 3 |
| Other current assets (Note 8) | 695,533 | | 532,234 | |
| Total current assets | 67,893,025 | 15 | 43,023,785 | 9 |
| INVESTMENTS IN UNCONSOLIDATED COMPANIES AND FUNDS (Notes 2, 9 and 20) | | | | |
| Funds | 2,000,000 | | 2,000,000 | |
| Investments accounted for using the equity method | 1,429,035 | | 1,419,482 | |
| Investments accounted for using the cost method | 2,605,956 | 1 | 2,076,603 | 1 |
| Total investment in unconsolidated companies and funds | 6,034,991 | 1 | 5,496,085 | 1 |
| PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10 and 19) | | | | |
| Cost | | | | |
| Land | 101,835,826 | 22 | 101,756,249 | 22 |
| Land improvements | 1,455,683 | | 1,392,265 | |
| Buildings | 56,050,758 | 12 | 53,750,744 | 12 |
| Machinery and equipment | 21,661,260 | 5 | 22,466,397 | 5 |
| Telecommunications network facilities | 620,949,036 | 133 | 614,501,192 | 133 |
| Miscellaneous equipment | 2,097,365 | | 2,131,065 | 1 |
| Total cost | 804,049,928 | 172 | 795,997,912 | 173 |
| Revaluation increment on land | 5,951,368 | 1 | 5,951,540 | 1 |
| | 810,001,296 | 173 | 801,949,452 | 174 |
| Less: Accumulated depreciation | 461,797,504 | 99 | 447,098,909 | 97 |
| | 348,203,792 | 74 | 354,850,543 | 77 |
| Construction in progress and advances related to acquisitions of equipment | 31,279,696 | 7 | 43,106,304 | 10 |
| Property, plant and equipment, net | 379,483,488 | 81 | 397,956,847 | 87 |
| INTANGIBLE ASSETS | | | | |
| 3G concession (Note 2) | 10,179,000 | 2 | 10,179,000 | 2 |

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

| | | | | |
|--|-----------------------|------------|-----------------------|------------|
| Deferred pension cost (Notes 2 and 18) | 1,243,465 | 1 | 427,551 | |
| Patents and computer software, net (Note 2) | 207,661 | | 251,361 | |
| Total intangible assets | 11,630,126 | 3 | 10,857,912 | 2 |
| OTHER ASSETS | | | | |
| Refundable deposits | 1,357,219 | | 2,018,235 | 1 |
| Overdue receivables, net of allowance for losses of \$ 1,888,344 in 2004 and \$5,440,436 in 2003 (Notes 2 and 6) | 435,363 | | 991,871 | |
| Deferred income taxes non-current (Notes 2 and 16) | | | 14,256 | |
| Other | 334,485 | | 465,650 | |
| Total other assets | 2,127,067 | | 3,490,012 | 1 |
| TOTAL | \$ 467,168,697 | 100 | \$ 460,824,641 | 100 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Trade notes and accounts payable | \$ 14,483,688 | 3 | \$ 11,712,596 | 3 |
| Income tax payable (Notes 2 and 16) | 5,031,996 | 1 | 4,928,052 | 1 |
| Accrued expenses (Note 11 and 19) | 14,353,770 | 3 | 14,162,063 | 3 |
| Accrued pension liabilities (Notes 2 and 18) | 2,016,930 | 1 | 3,608,836 | 1 |
| Dividends payable (Notes 3) | | | 43,414,762 | 9 |
| Long-term loans current portion (Note 13) | 200,000 | | | |
| Other current liabilities (Notes 12 and 19) | 19,126,724 | 4 | 21,181,189 | 5 |
| Total current liabilities | 55,213,108 | 12 | 99,007,498 | 22 |
| LONG-TERM LIABILITIES | | | | |
| Long-term loans (Note 13) | 500,000 | | 700,000 | |
| Deferred income | 361,129 | | 419,037 | |
| Total long-term liabilities | 861,129 | | 1,119,037 | |
| RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 10) | 211,182 | | 211,182 | |
| OTHER LIABILITIES | | | | |
| Customers deposits | 6,176,863 | 1 | 5,606,588 | 1 |
| Other | 203,298 | | 243,115 | |
| Total other liabilities | 6,380,161 | 1 | 5,849,703 | 1 |
| Total liabilities | 62,665,580 | 13 | 106,187,420 | 23 |
| STOCKHOLDERS EQUITY | | | | |
| Capital stock \$10 par value; authorized, issued and outstanding 9,647,725 thousand shares | 96,477,249 | 21 | 96,477,249 | 21 |
| Capital surplus: | | | | |
| Paid-in capital in excess of par value | 214,538,597 | 46 | 214,538,597 | 47 |
| Capital surplus from revaluation of land | 5,740,185 | 1 | 5,740,358 | 1 |
| Donations | 13,170 | | 13,170 | |
| Total capital surplus | 220,291,952 | 47 | 220,292,125 | 48 |
| Retained earnings: | | | | |
| Legal reserve | 34,286,147 | 7 | 34,286,147 | 7 |
| Special reserve | 2,675,941 | 1 | 2,675,941 | 1 |

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

| | | | | |
|------------------------------------|-----------------------|------------|-----------------------|------------|
| Unappropriated earnings | 50,776,593 | 11 | 906,281 | |
| Total retained earnings | 87,738,681 | 19 | 37,868,369 | 8 |
| Cumulative translation adjustments | (4,765) | | (522) | |
| Total stockholders' equity | 404,503,117 | 87 | 354,637,221 | 77 |
| TOTAL | \$ 467,168,697 | 100 | \$ 460,824,641 | 100 |

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

(With Deloitte & Touche audit report dated March 4, 2005)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF OPERATIONS****FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003****(Amounts in New Taiwan Thousand Dollars, Except Basic Net Income Per Share Data)**

| | 2004 | | 2003 | |
|---|----------------------|-----------|--------------------------------|-----------|
| | Amount | % | (As Adjusted Note 3) Amount | % |
| SERVICE REVENUES | \$ 182,562,682 | 100 | \$ 179,148,543 | 100 |
| COSTS OF SERVICES (Note 19) | 92,951,836 | 51 | 90,720,133 | 50 |
| GROSS PROFIT | 89,610,846 | 49 | 88,428,410 | 50 |
| OPERATING EXPENSES | | | | |
| Marketing | 24,035,219 | 13 | 24,282,804 | 14 |
| General and administrative | 2,767,721 | 1 | 2,718,777 | 1 |
| Research and development | 3,145,013 | 2 | 3,093,454 | 2 |
| Total operating expenses | 29,947,953 | 16 | 30,095,035 | 17 |
| INCOME FROM OPERATIONS | 59,662,893 | 33 | 58,333,375 | 33 |
| OTHER INCOME | | | | |
| Penalties income | 1,011,479 | 1 | 1,071,382 | 1 |
| Income from sale of scrap | 576,694 | | 306,774 | |
| Interest income | 223,454 | | 99,800 | |
| Foreign exchange gain, net | 140,542 | | 18,708 | |
| Equity in net income of unconsolidated companies | 69,796 | | 3,403 | |
| Dividends income | 29,357 | | 123,005 | |
| Other income | 691,715 | | 577,449 | |
| Total other income | 2,743,037 | 1 | 2,200,521 | 1 |
| OTHER EXPENSES | | | | |
| Losses on disposal of property, plant and equipment | 186,422 | | 221,603 | |
| Losses arising from natural calamities | 182,981 | | 84,231 | |
| Interest expense | 4,449 | | 43,071 | |
| Other expense | 1,270,196 | 1 | 1,306,329 | 1 |
| Total other expenses | 1,644,048 | 1 | 1,655,234 | 1 |
| INCOME BEFORE INCOME TAX | 60,761,882 | 33 | 58,878,662 | 33 |
| INCOME TAX (Notes 2 and 16) | 10,891,570 | 6 | 10,377,914 | 6 |
| NET INCOME | \$ 49,870,312 | 27 | \$ 48,500,748 | 27 |

(Continued)

| | 2004 | | 2003 (As Adjusted Note 3) | |
|---|--------------------------|------------|------------------------------|------------|
| | Income Before Income Tax | Net Income | Income Before Income Tax | Net Income |
| BASIC NET INCOME PER SHARE (Notes 2 and 17) | \$ 6.30 | \$ 5.17 | \$ 6.10 | \$ 5.03 |

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

(With Deloitte & Touche audit report dated March 4, 2005)

(Concluded)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY****FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003****(Amounts in New Taiwan Thousand Dollars, Except Dividend Per Share Data)**

| | Common Capital Stock | | Capital Surplus (Notes 10 and 14) | | | | Retained Earnings (Note 14) | | | | Cumulative Translation Adjustments | Total Stockholders' Equity |
|--|-----------------------|---------------|---|--|-----------|----------------|-----------------------------|--------------------|----------------------------|---------------|--|----------------------------------|
| | Shares (Thousands) | Amount | Paid-in Capital in Excess of Par Value | Capital Surplus from Revaluation of Land | Donations | Total | Legal Reserve | Special Reserve | Unappropriated Earnings | Total | | |
| BALANCE, JANUARY 1, 2003 (AS ADJUSTED) | 9,647,725 | \$ 96,477,249 | \$ 214,546,263 | \$ 5,749,909 | \$ 13,170 | \$ 220,309,342 | \$ 29,436,072 | \$ 2,675,419 | \$ 670,892 | \$ 32,782,383 | \$ 300 | \$ 349,569,270 |
| reclassification of capital surplus from revaluation upon disposal of land to income | | | | (8,249) | | (8,249) | | | | | | (8,249) |
| net transfer of property, plant and equipment to national properties Bureau and other government agencies | | | (7,666) | (1,302) | | (8,968) | | | | | | (8,968) |
| net income in 2003 | | | | | | | | 48,500,748 | | 48,500,748 | | 48,500,748 |
| appropriation of 2003 earnings | | | | | | | | | | | | |
| legal reserve | | | | | | | 4,850,075 | (4,850,075) | | | | |
| special reserve | | | | | | | | 522 | (522) | | | |
| dividends \$4.5 per share | | | | | | | | | (43,414,762) | (43,414,762) | | (43,414,762) |
| cumulative translation adjustment for foreign-currency investments in unconsolidated companies | | | | | | | | | | | (822) | (822) |
| BALANCE, DECEMBER 31, 2003 (AS ADJUSTED) Note | 9,647,725 | 96,477,249 | 214,538,597 | 5,740,358 | 13,170 | 220,292,125 | 34,286,147 | 2,675,941 | 906,281 | 37,868,369 | (522) | 354,637,220 |
| reclassification of capital surplus from revaluation upon disposal of | | | | (173) | | (173) | | | | | | (173) |

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

| | | | | | | | | | | | | | |
|--------------------|-----------|---------------|----------------|--------------|-----------|----------------|---------------|--------------|---------------|---------------|------------|----------------|---------|
| nd to income | | | | | | | | | | | | | |
| et income in the | | | | | | | | | | | | | |
| 004 | | | | | | | | | | 49,870,312 | 49,870,312 | 49,870,312 | |
| umulative | | | | | | | | | | | | | |
| nslation | | | | | | | | | | | | | |
| justment for | | | | | | | | | | | | | |
| oreign-currency | | | | | | | | | | | | | |
| vestments | | | | | | | | | | | | | |
| unconsolidated | | | | | | | | | | | | | |
| panies | | | | | | | | | | | | (4,243) | (4,243) |
| <hr/> | | | | | | | | | | | | | |
| ALANCE, | | | | | | | | | | | | | |
| ECEMBER 31, | | | | | | | | | | | | | |
| 004 | 9,647,725 | \$ 96,477,249 | \$ 214,538,597 | \$ 5,740,185 | \$ 13,170 | \$ 220,291,952 | \$ 34,286,147 | \$ 2,675,941 | \$ 50,776,593 | \$ 87,738,681 | \$ (4,765) | \$ 404,503,111 | |
| | <hr/> | | | | | | | | | | | | |

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

(With Deloitte & Touche audit report dated March 4, 2005)

CHUNGHWA TELECOM CO., LTD.**STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003****(Amounts in New Taiwan Thousand Dollars)**

| | <u>2004</u> | <u>2003</u> |
|---|---------------------|-------------------------|
| | | (As Adjusted Note 3) |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 49,870,312 | \$ 48,500,748 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for doubtful accounts | 1,564,781 | 3,239,187 |
| Depreciation and amortization | 41,123,162 | 41,980,125 |
| Unrealized loss on reduction of short-term investments to market | 12,416 | |
| Gain on sale of short-term investments | (34,264) | |
| Reversal of allowance for losses on inventories | (1,297) | (15,093) |
| Net loss on disposal of property, plant and equipment | 169,025 | 220,175 |
| Equity in net income of unconsolidated companies | (69,796) | (3,403) |
| Cash dividend received from equity | 56,000 | |
| Deferred income taxes | (205,015) | 387,336 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Trade notes and accounts receivable | 170,489 | 912,682 |
| Other current monetary assets | 106,588 | 105,744 |
| Inventories | (326,357) | (1,704,570) |
| Other current assets | (80,324) | 33,246 |
| Overdue receivables | (708,187) | (1,580,626) |
| Increase (decrease) in: | | |
| Trade notes and accounts payable | 2,879,208 | 2,159,063 |
| Income tax payable | 103,944 | (1,130,430) |
| Accrued expenses | 191,707 | 525,911 |
| Accrued pension liabilities | (2,407,820) | 875,614 |
| Other current liabilities | 925,532 | 1,315,026 |
| Deferred income | (57,908) | 25,855 |
| Net cash provided by operating activities | <u>93,282,196</u> | <u>95,846,590</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisition of short-term investment, net | (9,092,665) | |
| Proceeds from disposal of investments in unconsolidated companies | 10 | 233,700 |
| Acquisitions of investments in unconsolidated companies | (529,363) | |
| Proceeds from disposal of property, plant and equipment | 213,647 | 6,150 |
| Acquisitions of property, plant and equipment | (22,888,985) | (32,247,702) |
| Acquisitions of patents and computer software | (122,028) | (194,344) |
| Decrease (increase) in other assets | 742,578 | (1,224,559) |
| Net cash used in investing activities | <u>(31,676,806)</u> | <u>(33,426,755)</u> |

(Continued)

| | 2004 | 2003 |
|--|----------------------|-------------------------|
| | | (As Adjusted Note 3) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Payment on principal of long-term loans | \$ | \$ (17,000,000) |
| Decrease in customers' deposits | (2,421,029) | (1,017,890) |
| Increase (decrease) in other liabilities | (39,817) | 89,824 |
| Cash dividends paid | (43,414,762) | (38,590,900) |
| Net cash used in financing activities | (45,875,608) | (56,518,966) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | 15,729,782 | 5,900,869 |
| | 13,553,029 | 7,652,160 |
| CASH AND CASH EQUIVALENTS, END OF YEAR | \$ 29,282,811 | \$ 13,553,029 |
| SUPPLEMENTAL INFORMATION | | |
| Interest paid | \$ 4,449 | \$ 112,113 |
| Less: Capitalized interest | | 45,890 |
| Interest paid, excluding capitalized interest | \$ 4,449 | \$ 66,223 |
| Income tax paid | \$ 10,992,642 | \$ 11,121,008 |
| NON-CASH FINANCING ACTIVITIES | | |
| Current portion of long-term loans | \$ 200,000 | \$ |

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

(With Deloitte & Touche audit report dated March 4, 2005)

(Concluded)

CHUNGHWA TELECOM CO., LTD.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003

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

1. GENERAL

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

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

The MOTC is in the process of privatizing the Company by reducing the government ownership to below 50% in various stages. In July 2000, the Company received approval from the Securities and Futures Commission (the SFC) for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the TSE) on October 27, 2000. Certain of the Company s common shares were sold by an auction, in connection with the foregoing privatization plan, in domestic public offerings in June 2001, December 2002, March 2003, April 2003 and July 2003. Certain of the Company s common shares were also sold in an international offering of securities in the form of American Depositary Shares (ADS) in July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE). The MOTC intends to continue to sell certain of the Company s common shares and throughout the privatization process to the Company s employees. The MOTC has sold 35.11% shares of the Company as of December 31, 2004.

The number of employees as of December 31, 2004 and 2003 are 28,526 and 29,070, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with relevant regulations, regulations governing the preparation of financial statements of public companies and accounting principles generally accepted in the Republic of China. The preparation of financial statements requires management to make certain estimates and assumptions that affect the recorded amounts of assets, liabilities, revenues and expenses of the Company. The Company continually evaluates these estimates, including those related to allowances for doubtful accounts, valuation allowances on inventories, useful lives of long term assets, pension plans and income tax. The Company bases its estimates on historical experience and other assumptions, which it believes to be reasonable under the circumstances. Actual results may differ from these estimates. The significant accounting policies are summarized as follows:

Basis of Presentation

As a state-owned company, the Company maintains statutory accounts in accordance with the laws and regulations issued by the Executive Yuan, the MOTC, the Ministry of Audit (the MOA) of the Control Yuan and, in the absence of any specific laws and regulations applicable to a particular transaction or account, the regulations governing the preparation of financial statements of public companies and generally accepted accounting principles in the Republic of China. The accounts are subject to annual

examinations by the Executive Yuan and by the MOA (the Executive Yuan and MOA are hereinafter referred to as government agencies). The objective of these examinations is to evaluate the Company's performance against the budget approved by the Legislative Yuan. The accounts are considered final only after adjustments, if any, based on the annual examinations, are recorded. The accounts for the year ended December 31, 2003 have been examined by these government agencies and the resulting adjustments were recorded retroactively.

Current Assets and Liabilities

Current assets are commonly identified as those which are reasonably expected to be realized in cash, or sold or consumed within one year. Current liabilities are obligations which mature within one year.

Cash Equivalents

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

Short-term Investments

The investments are carried at the lower of cost or market value. An allowance for decline in value is provided when the aggregate carrying value of the investments exceeds the aggregate market value. A reversal of the allowance will result from a subsequent recovery of the carrying value.

The cost of short-term investment sold are determined using the moving weighted-average method.

Allowance for Doubtful Accounts

Allowance for doubtful accounts is provided on the basis of a review of the collectibility of individual receivables.

Inventories

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

Investments in Unconsolidated Companies

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

Investments in shares of stock in companies where the Company exercises significant influence in their operating and financial policy decisions are accounted for using the equity method. Under the equity method, the investment is initially stated at cost and subsequently adjusted for its proportionate share in the net earnings of investee companies. Any cash dividends received are recognized as a reduction in the carrying value of the investments. Unrealized profits arising from downstream transactions to equity investees are deferred in the Company's portion of equity income or loss. Profits and losses arising from equipment purchased from equity investees are eliminated and recognized over the estimated remaining useful life of the equipment.

Investments in shares of stock with no readily determinable market values are accounted for using the cost method when the ownership is less than 20%. Reductions in carrying value of those investments for decline in value are charged to stockholder's equity. Reductions which are determined to be other than temporary are charged to current income. Cash dividends received are recorded as income.

Stock dividends received are accounted for as increases in the number of shares held and are not recognized as income.

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

Property, Plant and Equipment

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

An impairment loss is recognized when the recoverable amount of an asset is less than its carrying amount. A reversal of the impairment loss is recognized if there is a subsequent recovery in the value of the asset. The recoverable amount cannot exceed the original cost less accumulated depreciation. An impairment loss on a revalued asset is recognized directly against capital surplus from revaluation for the asset to the extent that the impairment loss does not exceed the amount in the capital surplus from revaluation for that same asset. A reversal of an impairment loss on a revalued asset is credited directly to capital surplus from revaluation under the heading capital surplus from revaluation. However, to the extent that an impairment loss on the same revalued asset was previously recognized in profit or loss, a reversal of that impairment loss is also recognized in profit or loss.

Depreciation expense is determined based upon the asset's estimated useful life using the straight-line method. The estimated useful lives are as follows: land improvements, 10 to 30 years; buildings, 10 to 60 years; machinery and equipment, 6 to 10 years; telecommunication network facilities, 6 to 15 years; and miscellaneous equipment, 3 to 10 years.

Upon sale or disposal of property, plant and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to income.

Intangible Assets

The amount recorded for the 3G Concession will be amortized upon the MOTC approval of using the straight-line method over the lower of the legal useful life or estimated useful life. Patents are amortized using the straight-line method over the estimated useful lives ranging from 12 to 20 years. Computer software costs are capitalized and amortized using the straight-line method over the estimated useful lives of three years.

An impairment loss is recognized when the recoverable amount of an intangible asset other than goodwill is less than its carrying amount. A reversal of the impairment loss is recognized if there is a subsequent recovery in the value of the asset. The recoverable amount cannot exceed the original cost less accumulated amortization.

Pension Costs

Pension costs are recognized according to the budget approved by the Legislative Yuan and the actuarial report. In addition, the DGBAS issued instructions that the pension costs of all state-owned companies to be privatized should be measured and recognized on the assumption that there is no privatization and that an additional amount should be calculated on the basis of the employees' service years if the additional amount does not reduce the budgeted net income. An additional minimum liability is recognized, if an unfunded accumulated benefit obligation exists, and an equal amount is recognized as an intangible asset, provided that the asset recognized does not exceed the amount of unrecognized net transition

obligation and unrecognized prior service cost.

Revenue Recognition

Revenues are recognized when revenues are realized or realizable and earned. Related costs are expensed as incurred.

Service revenue is based on the fair value of the sales price, after business discount and quantity discount, between the Company and customer. The sales price of service revenue is the amount which matures within one year. The difference between fair value and maturity value is not material and the transactions occur frequently so the interest factor is not included in calculating fair value.

Usage revenues from fixed-line services (including local, domestic long distance and international long distance), cellular services, Internet and data services, and interconnection and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based upon minutes of traffic processed when the services are provided in accordance with contract terms.

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

Expense Recognition

Expenses including commissions paid to agencies and handset subsidy costs paid to vendors that sell handsets to customers who subscribe to the service (as an inducement to enter into a service contract) are charged to income as incurred.

Income Tax

The Company accounts for income tax using the asset and liability method. Under this method, deferred income tax is recognized for investment tax credits and tax consequences of differences between financial statement carrying amounts and their respective tax bases. A valuation allowance is recognized if, available evidence indicates it is more likely than not that a portion or the entire deferred tax asset will not be realized. A deferred tax asset or liability should be classified as current or noncurrent according to the classification of its related asset or liability. However, if a deferred asset or liability cannot be related to an asset or liability in the financial statements, it should be classified as current or non-current depending on the expected reversal date of the temporary difference.

Investment tax credits utilized are recognized as reduction of income tax expense.

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

Income taxes (10%) on undistributed earnings are recorded as expense in the year when the stockholders have resolved that the earnings shall be retained.

Earnings Per Share

Earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding during the period.

Foreign-currency Transactions

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

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

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

Foreign Currency Forward Exchange Contracts

The Company enters into foreign currency forward contracts to manage currency exposures in foreign currency-denominated assets and liabilities. The differences in the New Taiwan dollar amounts translated using the current rate and the amounts translated using the contracted forward rates on the contract date are amortized over the terms of the forward contracts using the straight-line method. At the balance sheet dates, the receivables or payables arising from forward contracts are restated using the prevailing current rate at the balance sheet date and the resulting differences are recognized and charged to income. Also the receivables and payables related to the forward contract are netted with the resulting amount presented as either other current monetary asset or other current liability. Any resulting gain or loss upon settlement is charged to income in the period of settlement.

3. ADJUSTMENTS OF FINANCIAL STATEMENTS

For the Year Ended December 31, 2003

The Company's financial statements for the year ended December 31, 2003 had been examined by the government agencies, and the resulting adjustments had been recorded retroactively as of December 31, 2003. The effects of these adjustments are summarized as follows:

| | As Previously Reported | Adjustment Increase (Decrease) | As Adjusted |
|--|---------------------------|--------------------------------------|-----------------------|
| Balance sheet | | | |
| Assets | | | |
| Current assets | \$ 43,022,523 | \$ 1,262 | \$ 43,023,785 |
| Investments in unconsolidated companies and funds | 5,496,085 | | 5,496,085 |
| Property, plant and equipment, net | 397,956,847 | | 397,956,847 |
| Intangible assets | 10,857,912 | | 10,857,912 |
| Other assets | 3,490,012 | | 3,490,012 |
| Total assets | \$ 460,823,379 | \$ 1,262 | \$ 460,824,641 |
| Liabilities | | | |
| Current liabilities | \$ 55,604,332 | \$ 43,403,166 | \$ 99,007,498 |
| Long-term liabilities | 1,119,037 | | 1,119,037 |
| Reserve for land value incremental tax | 211,182 | | 211,182 |
| Other liabilities | 5,849,703 | | 5,849,703 |
| Total liabilities | 62,784,254 | 43,403,166 | 106,187,420 |
| Total stockholders' equity | 398,039,125 | (43,401,904) | 354,637,221 |
| Total liabilities and stockholders' equity | \$ 460,823,379 | \$ 1,262 | \$ 460,824,641 |

(Continued)

| | <u>As Previously Reported</u> | <u>Adjustment Increase (Decrease)</u> | <u>As Adjusted</u> |
|----------------------------|-----------------------------------|---|--------------------|
| Statement of income | | | |
| Service revenues | \$ 179,148,543 | \$ | \$ 179,148,543 |
| Costs of services | 90,722,628 | (2,495) | 90,720,133 |
| Operating expenses | 30,109,684 | (14,649) | 30,095,035 |
| Other income | 2,200,521 | | 2,200,521 |
| Other expenses | 1,655,234 | | 1,655,234 |
| Income before income tax | 58,861,518 | 17,144 | 58,878,662 |
| Income tax | 10,373,628 | 4,286 | 10,377,914 |
| Net income | 48,487,890 | 12,858 | 48,500,748 |

The adjustments made by the government agencies that increased income before income tax of \$17,144 thousand were due to the different bases of estimates used by the MOA in determining certain accruals. Increased current liabilities of \$43,403,166 thousand and decreased total stockholders' equity of \$43,401,904 thousand were due to the appropriations of 2003 earnings recorded at December 31, 2003 by the MOA.

4. CASH AND CASH EQUIVALENTS

| | <u>December 31</u> | |
|---|----------------------|----------------------|
| | <u>2004</u> | <u>2003</u> |
| Cash | | |
| Cash on hand | \$ 103,415 | \$ 108,905 |
| Cash in banks | 1,854,464 | 2,003,431 |
| Negotiable Certificate of Deposit, annual yield rate ranging from 1.13%-1.27% | 8,900,000 | |
| | <u>10,857,879</u> | <u>2,112,336</u> |
| Cash equivalents | | |
| Commercial paper, annual yield rate ranging from 1.00%-1.10% and 0.83%-0.93% for the years ended December 31, 2004 and 2003, respectively | 18,424,932 | 11,440,693 |
| | <u>\$ 29,282,811</u> | <u>\$ 13,553,029</u> |

5. SHORT-TERM INVESTMENTS

| | <u>December 31,</u> |
|----------------------------|---------------------|
| | <u>2004</u> |
| Open-end bond mutual funds | \$ 8,900,000 |
| Repurchaseable bond | 226,929 |
| | <u>9,126,929</u> |
| Less: Allowance for losses | 12,416 |
| | <u>\$ 9,114,513</u> |

Market value

\$ 9,114,513

The market value of open-end bond mutual funds were based on the net asset value of the funds as of December 31, 2004.

The repurchaseable bond was sold at the amount of US\$6,744 thousand on January 18, 2005.

6. ALLOWANCE FOR DOUBTFUL ACCOUNTS

| | Year Ended December 31 | |
|--------------------------------------|------------------------|---------------------|
| | 2004 | 2003 |
| Notes and accounts receivable | | |
| Balance, beginning of year | \$ 2,345,601 | \$ 1,491,907 |
| Provision for doubtful accounts | 256,961 | 863,197 |
| Accounts receivable written off | (17,473) | (9,503) |
| Balance, end of year | <u>\$ 2,585,089</u> | <u>\$ 2,345,601</u> |
| Overdue receivable | | |
| Balance, beginning of year | \$ 5,440,436 | \$ 6,012,517 |
| Provision for doubtful accounts | 1,264,695 | 2,295,180 |
| Accounts receivable written off | (4,816,787) | (2,867,261) |
| Balance, end of year | <u>\$ 1,888,344</u> | <u>\$ 5,440,436</u> |

7. INVENTORIES, NET

| | December 31 | |
|----------------------------|---------------------|---------------------|
| | 2004 | 2003 |
| Supplies | \$ 1,111,580 | \$ 1,125,333 |
| Work in process | 1,689 | 740 |
| Materials in transit | 325,728 | 94,683 |
| | <u>1,438,997</u> | <u>1,220,756</u> |
| Less: Allowance for losses | | 1,297 |
| | <u>\$ 1,438,997</u> | <u>\$ 1,219,459</u> |

The insurance coverage on inventories as of December 31, 2004 amounted to \$1,146,192 thousand.

8. OTHER CURRENT ASSETS

| | December 31 | |
|------------------|--------------------|-------------------|
| | 2004 | 2003 |
| Prepaid expenses | \$ 602,247 | \$ 494,295 |
| Other | 93,286 | 37,939 |
| | \$ 695,533 | \$ 532,234 |

9. INVESTMENTS IN UNCONSOLIDATED COMPANIES AND FUNDS

| | December 31 | | | |
|--|---------------------|----------------|---------------------|----------------|
| | 2004 | | 2003 | |
| | Carrying Value | % of Ownership | Carrying Value | % of Ownership |
| Funds | | | | |
| Fixed Line Funds | \$ 1,000,000 | | \$ 1,000,000 | |
| Piping Funds | 1,000,000 | | 1,000,000 | |
| | <u>2,000,000</u> | | <u>2,000,000</u> | |
| Investments in unconsolidated companies | | | | |
| Equity investees: | | | | |
| Chunghwa Investment (CHI) | 929,801 | 49 | 986,698 | 49 |
| Taiwan International Standard Electronics (TISE) | 499,234 | 40 | 432,784 | 40 |
| | <u>1,429,035</u> | | <u>1,419,482</u> | |
| Cost investees | | | | |
| Taipei Financial Center (TFC) | 2,529,206 | 12 | 1,999,843 | 12 |
| RPTI International (RPTI) | 71,500 | 12 | 71,500 | 12 |
| Siemens Telecommunication Systems (Siemens) | 5,250 | 15 | 5,250 | 15 |
| International Telecommunication Development (ITD) | | | 10 | |
| | <u>2,605,956</u> | | <u>2,076,603</u> | |
| Total investments in unconsolidated companies | <u>4,034,991</u> | | <u>3,496,085</u> | |
| | <u>\$ 6,034,991</u> | | <u>\$ 5,496,085</u> | |

The carrying values of the investments in unconsolidated companies and the related equity in net income of an equity-accounted unconsolidated company are based on audited financial statements.

The equity ownership in the net assets of investments in unconsolidated companies accounted for using the cost method, which were computed by the percentage of ownership, were \$2,401,412 thousand and \$1,998,567 thousand as of December 31, 2004 and 2003, respectively.

As part of the government's effort to upgrade the existing telecommunications infrastructure, the Company and other public utility companies were required to contribute to a Fixed Line Fund managed by the Ministry of Interior Affairs and a Piping Fund administered by the Taipei City Government. These funds will be used to finance various telecommunications infrastructure projects, and any deficiency of the funds will be reimbursed by the companies.

10. PROPERTY, PLANT AND EQUIPMENT

| | December 31 | |
|-------------------------|--------------------|----------------|
| | 2004 | 2003 |
| Cost | | |
| Land | \$ 101,835,826 | \$ 101,756,249 |
| Land improvements | 1,455,683 | 1,392,265 |
| Buildings | 56,050,758 | 53,750,744 |
| Machinery and equipment | 21,661,260 | 22,466,397 |

(Continued)

| | December 31 | |
|---|-----------------------|-----------------------|
| | 2004 | 2003 |
| Telecommunications network facilities | \$ 620,949,036 | \$ 614,501,192 |
| Miscellaneous equipment | 2,097,365 | 2,131,065 |
| | <u>804,049,928</u> | <u>795,997,912</u> |
| Revaluation increment on land | 5,951,368 | 5,951,540 |
| | <u>810,001,296</u> | <u>801,949,452</u> |
| Accumulated depreciation | | |
| Land improvements | 694,748 | 634,267 |
| Buildings | 12,242,637 | 11,301,777 |
| Machinery and equipment | 15,298,966 | 15,831,266 |
| Telecommunications network facilities | 431,790,829 | 417,573,124 |
| Miscellaneous equipment | 1,770,324 | 1,758,475 |
| | <u>461,797,504</u> | <u>447,098,909</u> |
| Construction in progress and advances related to acquisition of equipment | 31,279,696 | 43,106,304 |
| Property, plant and equipment-net | <u>\$ 379,483,488</u> | <u>\$ 397,956,847</u> |

Pursuant to the related regulation, the Company revalued its land owned as of April 30, 2000 based on the publicly announced value on July 1, 1999. These revaluations which were approved by the MOA resulted in increases in the carrying values of property, plant and equipment of \$5,986,074 thousand, long-term liabilities for land value incremental tax of \$211,182 thousand, and capital surplus of \$5,774,892 thousand.

On July 1, 1996, pursuant to the guidance on the incorporation of the Company and as instructed by the ROC's Executive Yuan (executive branch), the ROC Government (through the MOTC) transferred to the Company certain land and buildings with a carrying value of \$120,957,303 thousand. Those properties, as of that date, were registered in the name of the ROC's National Properties Bureau (NPB). On September, 2004, all the properties had been registered in the name of the Company.

Depreciation on property, plant and equipment for the years ended December 31, 2004 and 2003 amounted to \$40,840,195 thousand and \$41,710,486 thousand, respectively. No interest expense was capitalized for the year ended December 31, 2004. Capitalized interest expense aggregated to \$45,890 thousand for the year ended December 31, 2003. The rate of capitalized interest was from 0.56%-1.67%.

The insurance coverages on property, plant and equipment as of December 31, 2004 aggregated \$1,801,943 thousand.

11. ACCRUED EXPENSES

| December 31 | |
|-------------|------|
| 2004 | 2003 |
| | |

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

| | | |
|------------------------|-----------------------------|-----------------------------|
| Accrued compensation | \$ 9,206,961 | \$ 8,993,797 |
| Accrued franchise fees | 2,500,028 | 2,435,419 |
| Other accrued expenses | 2,646,781 | 2,732,847 |
| | <u> </u> | <u> </u> |
| | \$ 14,353,770 | \$ 14,162,063 |
| | <u> </u> | <u> </u> |

12. OTHER CURRENT LIABILITIES

| | December 31 | |
|--|----------------------|----------------------|
| | 2004 | 2003 |
| Payables to equipment suppliers | \$ 4,150,304 | \$ 3,229,909 |
| Advances from subscribers | 3,896,655 | 3,104,573 |
| Amounts collected from subscribers in trust for others | 3,467,379 | 3,610,204 |
| Deposit from subscribers | 3,085,342 | 6,076,646 |
| Payables to contractors | 2,317,819 | 3,080,981 |
| Miscellaneous | 2,209,225 | 2,078,876 |
| | \$ 19,126,724 | \$ 21,181,189 |

13. LONG-TERM LOANS (INCLUDING CURRENT PORTION)

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

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

14. STOCKHOLDERS EQUITY

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

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

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

- a. Exercise their voting rights;
- b. Sell their ADSs; and

- c. Receive dividends declared and subscribe to the issuance of new shares.

As of December 31, 2004, the outstanding ADSs were 110,975 thousand units, which equaled approximately 1,109,749 thousand common shares and represented 11.50% of the Company's total outstanding common shares.

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

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

Under the ROC Company Law, capital surplus can only be utilized to offset deficits or be declared as stock dividends. Also, such capital surplus and donations can only be declared as a stock dividend by the Company at an amount calculated in accordance with the provisions of existing regulations.

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

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

Furthermore, under the ROC Company Law, the appropriation for legal reserve shall be made until the accumulated reserve equals the aggregate par value of the outstanding capital stock of the Company. This reserve can only be used to offset a deficit, or when the balance is 50% of the aggregate par value of the outstanding capital stock of the Company, the Company may, at its option, declare 50% of the reserve as a stock dividend and transfer the amount to capital.

The appropriations and distributions of the 2004 earnings of the Company have not been approved by the board of directors and stockholders as of March 4, 2005. Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange Corporation. The Company did not distribute bonuses for employees and remunerations of directors and supervisors for the 2003 earnings.

Under the Integrated Income Tax System that became effective on July 1, 1998, non-corporate stockholders are allowed a tax credit for the income tax paid by the Company on earnings generated in 1999 and onwards. An Imputation Credit Account (ICA) is maintained by the Company for such income tax and the tax credit is allocated to each stockholder.

15. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

| | Year Ended December 31, 2004 | | |
|----------------------|------------------------------|----------------------|----------------------|
| | Cost of Services | Operating Expenses | Total |
| Compensation expense | | | |
| Salaries | \$ 14,955,483 | \$ 8,932,878 | \$ 23,888,361 |
| Insurance | 649,713 | 411,242 | 1,060,955 |
| Pension | 2,107,149 | 1,278,560 | 3,385,709 |
| Other compensation | 6,040,523 | 3,536,474 | 9,576,997 |
| | <u>23,752,868</u> | <u>14,159,154</u> | <u>37,912,022</u> |
| Depreciation expense | 38,608,374 | 2,231,821 | 40,840,195 |
| Amortization expense | 153,524 | 121,815 | 275,339 |
| | <u>\$ 62,514,766</u> | <u>\$ 16,512,790</u> | <u>\$ 79,027,556</u> |

| | Year Ended December 31, 2003 | | |
|----------------------|------------------------------|----------------------|----------------------|
| | Cost of Services | Operating Expenses | Total |
| Compensation expense | | | |
| Salaries | \$ 15,034,611 | \$ 8,726,680 | \$ 23,761,291 |
| Insurance | 708,233 | 344,114 | 1,052,347 |
| Pension | 661,707 | 399,385 | 1,061,092 |
| Other compensation | 6,028,593 | 3,377,836 | 9,406,429 |
| | <u>22,433,144</u> | <u>12,848,015</u> | <u>35,281,159</u> |
| Depreciation expense | 39,426,072 | 2,284,414 | 41,710,486 |
| Amortization expense | 145,347 | 124,154 | 269,501 |
| | <u>\$ 62,004,563</u> | <u>\$ 15,256,583</u> | <u>\$ 77,261,146</u> |

16. INCOME TAX

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

| | Year Ended December 31 | |
|---|------------------------|---------------------|
| | 2004 | 2003 |
| Income tax expense computed at statutory income tax rate of 25% to income before income tax | \$ 15,190,461 | \$ 14,719,655 |
| Add (deduct) tax effects of: | | |
| Permanent differences | (78,429) | (49,888) |
| Temporary differences | (724,453) | (460,878) |
| Investment tax credits | (3,378,713) | (4,347,786) |
| | <u>\$ 11,008,866</u> | <u>\$ 9,861,103</u> |

b. Income tax expense consisted of the following:

| | Year Ended December 31 | |
|---------------------------------------|------------------------|----------------------|
| | 2004 | 2003 |
| Income tax payable | \$ 11,008,866 | \$ 9,861,103 |
| Income tax separated | 38,407 | 14,964 |
| Income tax deferred | (205,015) | 387,336 |
| Adjustments of prior years income tax | 49,312 | |
| Income tax on undistributed earnings | | 114,511 |
| | <u>\$ 10,891,570</u> | <u>\$ 10,377,914</u> |

The balance of income tax payable as of December 31, 2004 and 2003 was shown net of prepaid income tax, respectively.

c. Net deferred income tax assets consisted of the following:

| | December 31 | |
|--|----------------------|----------------------|
| | 2004 | 2003 |
| Current | | |
| Deferred income tax assets: | | |
| Provision for doubtful accounts | \$ 684,839 | \$ 1,614,307 |
| Accrued pension cost | 12,203,142 | 12,011,188 |
| Other | 98,844 | 60,133 |
| | <u>12,986,825</u> | <u>13,685,628</u> |
| Less: Valuation allowance | (684,839) | (1,614,307) |
| | <u>12,301,986</u> | <u>12,071,321</u> |
| Deferred income tax liability: | | |
| Unrealized foreign exchange gain | (12,025) | (631) |
| Net deferred income tax assets | <u>\$ 12,289,961</u> | <u>\$ 12,070,690</u> |
| Noncurrent deferred income tax assets: | | |
| Unrealized losses on disposal of property, plant and equipment | \$ | \$ 14,256 |

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

| | December 31 | |
|--|---------------------|---------------------|
| | 2004 | 2003 |
| Balance of Imputation Credit Account (ICA) | <u>\$ 6,324,278</u> | <u>\$ 8,671,428</u> |

The estimated ICA rate for the 2004 earnings as of December 31, 2004 and the actual ICA rate for 2003 earnings were 12.44% and 27.68%, respectively. The credit available for allocation to the stockholders is calculated on the basis of the balance of ICA on the date of distribution of

dividends. Accordingly, the estimated rate as of December 31, 2004 may differ from the actual rate determined based on the balance of the ICA on the dividend distribution date.

e. Undistributed earnings information

As of December 31, 2004 and 2003, the Company's undistributed earnings generated in June 30, 1998 and onward was \$32,336 thousand for 2004 and 2003.

Income tax returns through the year ended December 31, 2003 had been examined by the tax authorities.

17. BASIC NET INCOME PER SHARE

| | Amount (Numerator) | | Weighted- average Number of Common Shares Outstanding | Net Income Per Share (Dollars) | |
|------------------------------|-----------------------------------|---------------|--|-----------------------------------|---------------|
| | Income Before Income Tax | Net Income | | Income Before Income Tax | Net Income |
| Year ended December 31, 2004 | | | | | |
| Net income | \$ 60,761,882 | \$ 49,870,312 | | | |
| Basic net income per share | | | 9,647,725 | \$ 6.30 | \$ 5.17 |
| Year ended December 31, 2003 | | | | | |
| Net income | \$ 58,878,662 | \$ 48,500,748 | | | |
| Basic net income per share | | | 9,647,725 | \$ 6.10 | \$ 5.03 |

18. PENSION PLAN

The Company has different pension plans for its employees depending on their classifications. In general, the employees' pension entitlement is based on MOTC regulations, Labor Standards Law and/or the private pension plan of the Company.

The funding of the pension plan for employees classified as staff is based on the budget approved by the Legislative Yuan and a supplementary budget approved by the Executive Yuan. The staff pension fund is administered by a pension fund committee and deposited in its name in a commercial bank. The pension plan for employees classified as workers is funded monthly at 15% or less of their wages and is also administered by a pension committee and deposited in its name in the Central Trust of China Company.

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

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

-22-

Pension information is summarized as follows:

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

| | December 31 | |
|---|-----------------|-----------------|
| | 2004 | 2003 |
| Staff | | |
| Benefit obligation | | |
| Vested benefit obligation | \$ (53,377,588) | \$ (51,074,298) |
| Non-vested benefit obligation | (33,843,822) | (34,347,712) |
| Accumulated benefit obligation | (87,221,410) | (85,422,010) |
| Additional benefit obligation | (1,816,642) | (427,110) |
| Projected benefit obligation | (89,038,052) | (85,849,120) |
| Fair values of plan assets | 84,924,329 | 81,813,174 |
| Funded status | (4,113,723) | (4,035,946) |
| Unrecognized net transition obligation | 3,060,107 | 854,661 |
| Additional liability (deferred pension costs) | (1,243,465) | (427,551) |
| Accrued pension cost | \$ (2,297,081) | \$ (3,608,836) |
| Worker | | |
| Benefit obligation | | |
| Vested benefit obligation | \$ (338,629) | \$ (207,619) |
| Non-vested benefit obligation | | |
| Accumulated benefit obligation | (338,629) | (207,619) |
| Additional benefit obligation | (10,159) | (1,038) |
| Projected benefit obligation | (348,788) | (208,657) |
| Fair values of plan assets | 946,248 | 765,299 |
| Funded status | 597,460 | 556,642 |
| Unrecognized net transition asset | (317,309) | (556,642) |
| Prepaid pension cost (deducted from accrued pension cost) | \$ 280,151 | \$ |

b. Vested benefit

| | | |
|--------|---------------|---------------|
| Staff | \$ 54,178,252 | \$ 51,840,413 |
| Worker | 343,708 | 209,592 |

c. Actuarial assumptions

| | Before Privatization | After Privatization |
|--------------------------------------|-------------------------|------------------------|
| <u>Years ended December 31, 2004</u> | | |

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

| | | |
|---|------|------|
| Discount rate used in determining present value | 1.5% | 3.2% |
| Rate of compensation increase | | |
| All employees | 3.5% | 2.0% |
| Annuity increase for retirees | 3.0% | 2.0% |
| Rate of return on plan assets | | |
| Staff retirement fund account | 1.5% | |
| Labor retirement fund account | 1.5% | 3.2% |

(Continued)

| | <u>Before Privatization</u> | <u>After Privatization</u> |
|---|---------------------------------|--------------------------------|
| Years ended December 31, 2003 | | |
| Discount rate used in determining present value | 1.5% | 3.2% |
| Rate of compensation increase | | |
| All employees | 0.5% | 3.5% |
| Annuity increase for retirees | | 2.0% |
| Rate of return on plan assets | | |
| Staff retirement fund account | 1.5% | |
| Labor retirement fund account | 1.5% | 3.2% |
| d. Contributions and payments | | |

| | <u>Year Ended December 31</u> | |
|----------------------|-------------------------------|-------------|
| | <u>2004</u> | <u>2003</u> |
| Contributions | | |
| Staff | \$ 5,697,698 | \$ |
| Worker | 224,583 | 222,947 |
| Payments | | |
| Staff | 3,273,261 | 2,553,524 |
| Worker | 53,147 | 31,590 |

Pension costs amounted to \$3,514,461 thousand and \$1,098,561 thousand for the years ended December 31, 2004 and 2003, respectively. The privatization of the Company was not completed on December 31, 2004, and the new target privatization date is expected to be December 31, 2005. Therefore, based on the assumption that the timing of the privatization is December 31, 2005, the accrued pension cost for staff was \$2,297,081 thousand and prepaid pension cost for worker was \$280,151 thousand as of December 31, 2004, as a result of net accrued pension cost of \$2,016,930 thousand.

19. TRANSACTIONS WITH RELATED PARTIES

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

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

| <u>Company</u> | <u>Relationship</u> |
|--|---|
| Taiwan International Standard Electronics (TISE) | Equity-accounted investee |
| Chunghwa System Integration (CSI) | Subsidiary of equity - accounted investee |

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

| | December 31 | | | |
|---|---------------------|----------|---------------------|-----------|
| | 2004 | | 2003 | |
| | Amount | % | Amount | % |
| 1) Payables | | | | |
| Accrued expenses | | | | |
| TISE | \$ 58,219 | | \$ | |
| CSI | | | 29,750 | |
| | <u>\$ 58,219</u> | | <u>\$ 29,750</u> | |
| Payable to construction supplier (included in other current liabilities) | | | | |
| TISE | \$ 76,946 | | \$ 631,799 | 4 |
| CSI | 17,236 | | 21,360 | |
| | <u>\$ 94,182</u> | | <u>\$ 653,159</u> | <u>4</u> |
| Year Ended December 31 | | | | |
| | 2004 | | 2003 | |
| | Amount | % | Amount | % |
| 2) Cost of services | | | | |
| TISE | \$ 192,733 | | \$ | |
| CSI | 120,842 | | 96,158 | |
| | <u>\$ 313,575</u> | | <u>\$ 96,158</u> | |
| 3) Acquisition of properties | | | | |
| TISE | \$ 878,582 | 4 | \$ 4,471,429 | 14 |
| CSI | 155,444 | 1 | 48,439 | |
| | <u>\$ 1,034,026</u> | <u>5</u> | <u>\$ 4,519,868</u> | <u>14</u> |

The foregoing acquisitions were conducted under normal commercial terms.

20. COMMITMENTS AND CONTINGENT LIABILITIES

As of December 31, 2004, the Company's remaining commitments under non-cancelable contracts with various parties were as follows:

a. Acquisitions of buildings of \$3,391,411 thousand.

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

- b. Acquisitions of telecommunications equipment of \$12,125,769 thousand.
- c. Unused letters of credit of about \$6,147,272 thousand.
- d. Contract to print billing, envelopes and telephone directories of approximately \$342,862 thousand.

-25-

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

| Year | Rental Amount |
|---------------------|------------------|
| 2005 | \$ 1,226,033 |
| 2006 | 983,677 |
| 2007 | 636,168 |
| 2008 | 332,509 |
| 2009 and thereafter | 135,922 |

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

21. FAIR VALUE OF FINANCIAL INSTRUMENTS

- a. Derivative financial instruments

The Company entered into derivative financial instrument transactions to manage exposures related to foreign-currency denominated payable fluctuation. There were no foreign currency forward exchange contracts outstanding as of December 31, 2004.

- 1) Transaction risk

- a) Credit risk

The Company is exposed to credit risk in the event of non-performance of the counter parties to forward contracts on maturity. In order to manage this risk, the Company conducts transactions only with financial institutions with good credit ratings. As a result, no material losses resulting from counter party defaults are anticipated.

- b) Market risk

Market risk is the exposure created by potential exposures to changes of foreign exchange rate related to its foreign-currency-denominated assets and/or liabilities and changes on interest rates related to its obligations.

- c) Liquidation risk and cash flow risk

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

The Company entered into foreign currency forward exchange contracts to hedge its exposure to the effect of exchange rate fluctuations on net liabilities. At the maturity of the contracts, the Company has sufficient cash to cover the cash out, therefore the Company believes there are no significant liquidation risk and cash flow risk.

2) Transaction gains and losses

Net foreign exchange loss for the year ended December 31, 2004 was \$26,784 thousand.

b. Fair value of financial instruments:

| | December 31 | | | |
|--|--------------------|---------------|--------------------|---------------|
| | 2004 | | 2003 | |
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <u>Nonderivative financial instruments</u> | | | | |
| Assets | | | | |
| Cash and cash equivalents | \$ 29,282,811 | \$ 29,282,811 | \$ 13,553,029 | \$ 13,553,029 |
| Short-term investments | 9,114,513 | 9,114,513 | | |
| Trade notes and accounts receivable, net | 13,555,006 | 13,555,006 | 13,982,456 | 13,982,456 |
| Other current monetary assets | 1,516,204 | 1,516,204 | 1,665,917 | 1,665,917 |
| Investments in unconsolidated companies and funds | 6,034,991 | 6,168,577 | 5,496,085 | 5,855,359 |
| Overdue receivables, net | 435,363 | 435,363 | 991,871 | 991,871 |
| Refundable deposits (included in other assets others) | 1,357,219 | 1,357,219 | 2,018,235 | 2,018,235 |
| Liabilities | | | | |
| Trade notes and accounts payable | 14,483,688 | 14,483,688 | 11,712,596 | 11,712,596 |
| Accrued expense | 14,353,770 | 14,353,770 | 14,162,063 | 14,162,063 |
| Current portion of long-term loans | 200,000 | 200,000 | | |
| Long-term loans | 500,000 | 500,000 | 700,000 | 700,000 |
| Customers deposits | 6,176,863 | 6,176,863 | 5,606,588 | 5,606,588 |

The Company's basis for determining the fair values is as follows:

- 1) Financial instruments except those mentioned in b) and c) above the carrying values reported in the balance sheet approximate the fair values of these assets.
- 2) Fair values of investments in unconsolidated companies and funds are based on the net asset values of the investments in unconsolidated companies, if quoted market prices are not available.
- 3) Long-term loans (including current portion). The fair value is discounted value based on projected cash flow. The projected cash flows were discounted using the maturity dates of long-term loans.

22. ADDITIONAL DISCLOSURES

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

- a. Financing provided: None.
- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Please see Table 1.

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

- d. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Please see Table 2.
- e. Acquisition of individual real estate of at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- f. Disposal of individual real estate of at least \$100 million or 20% of the paid-in capital: None.

-27-

- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: None.
- h. Receivables from related parties of \$100 million or 20% of the paid-in capital: None.
- i. Names, locations, and other information of investees on which the Company exercises significant influences: Please see Table 4.
- j. Derivative financial transaction: Please see Note 21.
- k. Investment in Mainland China: None.

23. SEGMENT INFORMATION

- a. Industry

The financial information of the Company by industry: Please see Table 5.

- b. Geographic

The Company had no foreign operations as of December 31, 2004.

- c. Foreign revenue

The foreign revenue of the Company is less than 10% of total sales.

- d. Major customers

No single customer accounts for more than 10% of total revenues.

TABLE 1**CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****DECEMBER 31, 2004****(Amounts in Thousands of New Taiwan Dollars)**

| Company | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | December 31, 2004 | | |
|----------|---|----------------------------------|---|-----------------------------------|-------------------|-------------------------------|
| | | | | Shares | Carrying Value | Percentage of Ownership |
| | | | | (Thousands/ Thousand Units) | | |
| ecom | <u>Common stock</u> | | | | | |
| | Chunghwa Investment Co., Ltd. | Equity method investee | Investments in unconsolidated companies | 98,000 | \$ 929,801 | 49 |
| | Taiwan International Standard Electronics | Equity method investee | Investments in unconsolidated companies | 1,760 | 499,234 | 40 |
| | Taipei Financial Center | | Investments in unconsolidated companies | 288,211 | 2,529,206 | 12 |
| | RPTI International | | Investments in unconsolidated companies | 9,234 | 71,500 | 12 |
| | Siemens Telecommunication Systems | | Investments in unconsolidated companies | 75 | 5,250 | 15 |
| | <u>Beneficiary certificates</u> | | | | | |
| | JF (Taiwan) First Bond Fund | | Short-term investment | 43,812 | 600,000 | |
| | JF (Taiwan) Taiwan Bond Fund | | Short-term investment | 33,652 | 500,000 | |
| | Dresdner Bond DAM Fund | | Short-term investment | 79,876 | 900,000 | |
| | Invesco ROC Bond Fund | | Short-term investment | 68,986 | 1,000,000 | |
| | ABN AMRO Bond Fund | | Short-term investment | 47,725 | 700,000 | |
| | ABN AMRO Select Bond Fund | | Short-term investment | 63,451 | 700,000 | |
| | PCA Well Pool Fund | | Short-term investment | 106,401 | 1,300,000 | |
| | HSBC Taiwan Dragon Fund | | Short-term investment | 19,967 | 300,000 | |
| | HSBC NTD Money Management Fund 2 | | Short-term investment | 36,468 | 500,000 | |
| | FUBON Ju-I III Fund | | Short-term investment | 75,498 | 900,000 | |
| | Shinkong Chi-Shin Fund | | Short-term investment | 107,498 | 1,500,000 | |
| vestment | <u>Common stock</u> | | | | | |
| | Chunghwa System Integration Co., Ltd. | Subsidiary | Investments in unconsolidated companies | 60,000 | 623,920 | 100 |
| | Chunghwa Telecom Global | Subsidiary | Investments in unconsolidated companies | 6,000 | 123,627 | 100 |
| | Chunghwa Investment Holding Company | Subsidiary | Investments in unconsolidated companies | 589 | 14,641 | 100 |
| | PandaMonium Company Ltd. | Equity method investee | Investments in unconsolidated companies | 602 | 19,677 | 43 |
| | Wayia Com Inc. | | Investments in unconsolidated companies | 4,000 | 40,000 | 19 |
| | TVbean Co. Ltd. | | Investments in unconsolidated companies | 1,200 | 12,000 | 9 |
| | Vantech Software Company | | Investments in unconsolidated companies | 1,223 | 12,960 | 7 |
| | Digimax Production Center | | Investments in unconsolidated companies | 2,000 | 60,000 | 5 |
| | <u>Beneficiary certification</u> | | | | | |
| | APIT Bond Fund | | Short-term investment | 8,330 | 103,710 | |
| | Homerun Bond Fund | | Short-term investment | 5,199 | 71,064 | |
| | Prudential Bond Fund | | Short-term investment | 6,665 | 101,013 | |
| | The First Global Investment Trust The Duoli-2 Bond Fund | | Short-term investment | 3,510 | 50,000 | |
| | HSBC Taiwan Dragon Fund | | Short-term investment | 3,434 | 51,602 | |

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

Cathay Capital Income Growth Bond Fund

Short-term investment

8,523

90,655

(Continued)

| | | | | | | | December 31, 2004 |
|--|---|----------------------------------|---|-------------------------|-------------------|----------------------------|--|
| | | | | Shares | | | |
| Parent Company Name | Marketable Securities Type and Name | Relationship with the Company | Financial Statement Account | (Thousands/ Thousand | | Percentage of Ownership | Market Value of Net Asset Value |
| | | | | Units) | Carrying Value | | |
| | Cathay Bond Fund | | Short-term investment | 5,339 | \$ 60,000 | | \$ 60,009 |
| | Mega Diamond Bond Fund | | Short-term investment | 13,415 | 150,000 | | 150,031 |
| | SmarTeam ECB1 | | Short-term investment | 374 | 37,400 | | 26,049 |
| Chunghwa System Integration Co., Ltd. | <u>Beneficiary certification</u> Fubon Global Fixed Income Bond Fund | | Short-term investment | 4,430 | 50,776 | | 50,782 |
| | Homerun Bond Fund | | Short-term investment | 6,135 | 83,859 | | 83,873 |
| | Prudential Financial Bond Fund | | Short-term investment | 2,492 | 35,471 | | 35,476 |
| | Cathay Capital Income Growth Bond Fund | | Short-term investment | 5,860 | 62,327 | | 62,337 |
| | APIT Bond Fund | | Short-term investment | 881 | 10,974 | | 10,975 |
| | Albatross Fund | | Short-term investment | 2,830 | 31,000 | | 31,005 |
| | Fuh-Hwa Bond Fund | | Short-term investment | 3,239 | 42,000 | | 42,006 |
| | President James Bond Fund | | Short-term investment | 3,967 | 40,275 | | 40,277 |
| | HSBC Taiwan Dragon Fund | | Short-term investment | 1,997 | 30,000 | | 30,001 |
| Chunghwa Investment Holding Company | <u>Common stock</u> Donghua Telecom Co., Limited | Subsidiary | Investments in unconsolidated companies | 4,590 | 14,729 | 100 | 14,729 |
| | Chunghwa Telecom (ASIA) Company | Subsidiary | Investments in unconsolidated companies | | (54) | 100 | (54) |

Note 1: The net asset values of unconsolidated companies are based on audited financial statements.

Note 2: The net asset values of unconsolidated companies are based on unaudited financial statements.

Note 3: The market value of short-term investments is based on the net asset values of the funds as of December 31, 2004.

Note 4: The market value of short-term investments is based on the monthly average closing price as of December 31, 2004.

TABLE 2**CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2004****(Amounts in Thousands of New Taiwan Dollars)**

| Marketable Securities | Financial Statement Account | Counter-party | Nature of Relationship | Beginning Balance | | Acquisition | | Disposal | | | Gain (Loss) on Disposal | S (Th) |
|--|---|---------------|------------------------|-----------------------------------|---------|-----------------------------------|--------------|-----------------------------------|--------------|----------------|-------------------------|--------|
| | | | | Shares (Thousands/Thousand Units) | Amount | Shares (Thousands/Thousand Units) | Amount | Shares (Thousands/Thousand Units) | Amount | Carrying Value | | |
| Type and Name | | | | | | | | | | | | |
| <u>Beneficiary certificates</u> | | | | | | | | | | | | |
| JF (Taiwan) First Bond Fund | Short-term investment | | | | \$ | 131,804 | \$ 1,800,000 | 87,992 | \$ 1,203,087 | \$ 1,200,000 | \$ 3,087 | |
| JF (Taiwan) Taiwan Bond Fund | Short-term investment | | | | | 101,279 | 1,500,000 | 67,627 | 1,003,165 | 1,000,000 | 3,165 | |
| Dresdner Bond DAM Fund | Short-term investment | | | | | 222,759 | 2,500,000 | 142,883 | 1,606,368 | 1,600,000 | 6,368 | |
| Invesco ROC Bond Fund | Short-term investment | | | | | 172,883 | 2,500,000 | 103,897 | 1,504,397 | 1,500,000 | 4,397 | |
| ABN AMRO Bond Fund | Short-term investment | | | | | 109,288 | 1,600,000 | 61,563 | 902,292 | 900,000 | 2,292 | |
| ABN AMRO Select Bond Fund | Short-term investment | | | | | 172,730 | 1,900,000 | 109,279 | 1,203,843 | 1,200,000 | 3,843 | |
| PCA Well Pool Fund | Short-term investment | | | | | 254,222 | 3,100,000 | 147,821 | 1,804,242 | 1,800,000 | 4,242 | |
| HSBC Taiwan Dragon Fund | Short-term investment | | | | | 53,367 | 800,000 | 33,400 | 501,135 | 500,000 | 1,135 | |
| HSBC NTD Money Management Fund 2 | Short-term investment | | | | | 72,992 | 1,000,000 | 36,524 | 500,760 | 500,000 | 760 | |
| FUBON Ju-I III Fund | Short-term investment | | | | | 151,128 | 1,800,000 | 75,630 | 901,565 | 900,000 | 1,565 | |
| Shinkong Chi-Shin Fund | Short-term investment | | | | | 215,224 | 3,000,000 | 107,726 | 1,503,195 | 1,500,000 | 3,195 | |
| <u>Common stock</u> | | | | | | | | | | | | |
| Taipei Financial Center | Investments in unconsolidated companies | | | | 199,984 | 1,999,843 | 88,227 | 529,363 | | | | |
| <u>Beneficiary certificates</u> | | | | | | | | | | | | |
| APIT Bond Fund | Short-term investment | | | | 8,330 | 100,891 | 8,330 | 103,710 | 8,330 | 103,710 | 100,891 | 2,819 |
| Homerun Bond Fund | Short-term investment | | | | 7,564 | 100,779 | 7,103 | 97,064 | 9,468 | 129,064 | 126,779 | 2,285 |
| Prudential Financial Bond Fund | Short-term investment | | | | 8,704 | 121,040 | 1,416 | 20,000 | 10,120 | 143,739 | 141,040 | 2,699 |
| Cathay Capital Income Growth Bond Fund | Short-term investment | | | | 1,925 | 20,000 | 17,005 | 180,655 | 10,407 | 110,655 | 110,000 | 655 |
| The Forever Fund | Short-term investment | | | | 6,557 | 90,949 | 2,506 | 35,000 | 9,063 | 126,884 | 125,949 | 935 |
| <u>Beneficiary certificates</u> | | | | | | | | | | | | |

| | | | | | | | | | |
|-------------------|-----------------------|-------|--------|-------|--------|-------|---------|---------|-------|
| Homerun Bond Fund | Short-term investment | 7,394 | 99,504 | 6,867 | 93,859 | 8,126 | 110,760 | 109,504 | 1,256 |
|-------------------|-----------------------|-------|--------|-------|--------|-------|---------|---------|-------|

TABLE 3

CHUNGHWA TELECOM CO., LTD.**ACQUISITION OF INDIVIDUAL REAL ESTATES AT COSTS OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL FOR THE YEAR ENDED DECEMBER 31, 2004**

(Amounts in Thousands of New Taiwan Dollars)

| Company Name | Property | Transaction Date | Transaction Amount | Transaction Payment Term | Counter-Party | Nature of Relationship | Prior Transactions with Related Counter-party | | Price Reference |
|-----------------------------|----------|------------------|--------------------|--------------------------|--|------------------------|---|---------------|-----------------|
| | | | | | | | Owner Relationship | Transfer Date | |
| Chunghwa Telecom. Co., Ltd. | Building | 2004.2.25 | \$ 133,611 | Paid | Da-Cheng Construction Co., Ltd. and others | None | | | Bidding |
| | Building | 2004.8.02 | 197,456 | Paid | Guo-Chi Construction Co., Ltd. and others | None | | | Bidding |
| | Building | 2004.10.20 | 1,651,775 | Paid | Kung-Sing Engineering Co., Ltd. and others | None | | | Bidding |

TABLE 4**CHUNGHWA TELECOM CO., LTD.****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****FOR THE YEAR ENDED DECEMBER 31, 2004****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| Investor Company | Investee Company | Location | Main Businesses and Products | Original Investment Amount | | Balance as of December 31, 2004 | | | Net Income (Loss) of the Investee | Recognized Gain (Loss) | Notes |
|-------------------------------------|---|--|---|----------------------------------|----------------------------------|---------------------------------|-----------------------------|----------------------------------|-----------------------------------|--------------------------------|----------------------------|
| | | | | December 31, 2004 | Dec. 31, 2003 | Shares (Thousands) | Percentage of Ownership (%) | Carrying Value | | | |
| Chunghwa Telecom Co., Ltd. | Chunghwa Investment Co., Ltd. | 24F, No. 456, Hsinyi Rd., Sec. 4, Taipei | Investment | \$ 980,000 | \$ 980,000 | 98,000 | 49 | \$ 929,801 | \$ (107,456) | \$ (52,654) | Equity-a investee (Note 1) |
| | Taiwan International Standard Electronics | No. 4, Min Sheng St., Tu-Chen Taipei Hsien | Manufacturing, selling, designing and maintaining of telecommunications systems and equipment | 164,000 | 164,000 | 1,760 | 40 | 499,234 | 58,174 | 122,450 | Equity-a investee (Note 2) |
| Chunghwa Investment Co., Ltd. | Chunghwa System Integration Co., Ltd. | 24F, No. 458, Hsinyi Rd., Sec. 4, Taipei | Integrated communication and information services | 600,000 | 600,000 | 60,000 | 100 | 623,920 | 15,767 | 15,767 | Subsidiary (Note 1) |
| | Chunghwa Telecom Global | United States | Multinational enterprise data service, Internet gateway and voice wholesale, mobile commerce value-added services, and content services | 204,271 (US\$ 6,000 thousand) | 154,086 (US\$ 4,500 thousand) | 6,000 | 100 | 123,627 (US\$ 3,899 thousand) | (62,245) US\$ (1,863 thousand) | (62,245) | Subsidiary (Note 1) |
| | Chunghwa Investment Holding Company | Brunei | Investment | 20,000 (US\$ 589 thousand) | | 589 | 100 | 14,641 (US\$ 462 thousand) | (4,238) US\$ (127 thousand) | (4,238) | Subsidiary |
| | PandaMomum Company | British Virgin Island | Develop PandaMomum project and provide multimedia services | 20,000 (¥\$ 65,094 thousand) | | 602 | 43 | 19,677 (¥\$ 63,617 thousand) | (1,069) ¥\$ (3,470 thousand) | (455) | Equity-a investee |
| Chunghwa Investment Holding Company | Donghua Telecom CO., Ltd | Hong Kong | Engage in telecom related investments, provide international private leased circuits (IPLC), internet protocol virtual private | 20,000 (US\$ 589 thousand) | | 4,590 | 100 | 14,729 (US\$ 465 thousand) | (4,146) HK\$ (1,002 thousand) | (4,146) US\$ (125 thousand) | Subsidiary |

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

| | | network (IPVPN), and internet transit | | | | | |
|--|-----------|--|-----|----------------------|-----------------------|------|----------------------|
| Chunghwa Telecom (ASIA) Company | Hong Kong | (HK\$ 1) | 100 | (54) | (56) | (56) | (56) |
| | | | | US\$ (2 thousand) | HK\$ (14 thousand) | | US\$ (2 thousand) |
| | | | | | | | Subsidiary |

Note 1: The equity in net income (net loss) of unconsolidated companies is based on audited financial statements.

Note 2: The equity in net income of an unconsolidated company amounting to \$23,269 thousand is calculated from the audited financial statements plus a gain on realized upstream transactions of \$141,652 thousand less a gain on unrealized upstream transactions of \$42,471 thousand.

TABLE 5**CHUNGHWA TELECOM CO., LTD.****INDUSTRY FINANCIAL INFORMATION****FOR THE YEARS ENDED DECEMBER 31, 2004 AND 2003****(Amount in Thousands of New Taiwan Dollars)**

| | <u>Local Telephone Service</u> | <u>Domestic Long Distance Call Service</u> | <u>International Long Distance Call Service</u> | <u>Cellular Service</u> | <u>Paging Service</u> | <u>Internet and Data Service</u> | <u>All Other</u> | <u>Adjustment</u> | <u>Total</u> |
|--|--|--|---|-----------------------------|---------------------------|--------------------------------------|---------------------|------------------------|-----------------------|
| <u>Year ended December 31, 2004</u> | | | | | | | | | |
| Service revenues from external customers | \$ 42,517,702 | \$ 11,907,447 | \$ 15,156,121 | \$ 70,135,081 | \$ 297,971 | \$ 39,310,130 | \$ 3,238,230 | \$ | \$ 182,562,682 |
| Intersegment service revenues | 17,451,661 | 2,417,003 | 3,359 | 1,080,766 | 1,348 | 10,842,714 | 16,585 | (31,813,436) | |
| Total service revenues | \$ 59,969,363 | \$ 14,324,450 | \$ 15,159,480 | \$ 71,215,847 | \$ 299,319 | \$ 50,152,844 | \$ 3,254,815 | \$ (31,813,436) | \$ 182,562,682 |
| Segment income before income tax | \$ 4,770,301 | \$ 8,372,056 | \$ 3,760,295 | \$ 32,581,138 | \$ (279,854) | \$ 13,894,708 | \$ 809,636 | \$ | \$ 63,908,280 |
| Interest income | | | | | | | | | 223,454 |
| Equity in net gain of unconsolidated companies | | | | | | | | | 69,796 |
| Other income | | | | | | | | | 2,449,787 |
| Interest expense | | | | | | | | | (4,449) |
| General expense | | | | | | | | | (4,245,387) |
| Other expense | | | | | | | | | (1,639,599) |
| Income before tax | | | | | | | | | \$ 60,761,882 |
| Assets for reportable assets | \$ 199,037,825 | \$ 6,406,768 | \$ 13,834,139 | \$ 65,830,559 | \$ 647,747 | \$ 106,363,871 | \$ 15,375,857 | \$ | \$ 407,496,766 |
| Investment in unconsolidated companies and funds | | | | | | | | | 6,034,991 |
| Other assets | | | | | | | | | 53,636,940 |
| Total assets | | | | | | | | | \$ 467,168,697 |
| Depreciation expenses | \$ 20,167,342 | \$ 834,146 | \$ 668,285 | \$ 5,908,732 | \$ 306,591 | \$ 12,324,660 | \$ 480,469 | | |
| | \$ 4,474,586 | \$ 308,676 | \$ 255,087 | \$ 5,512,310 | \$ | \$ 11,571,760 | \$ 722,421 | | |

Expenditures for
segment assets

(Continued)

Edgar Filing: CHUNGHWA TELECOM CO LTD - Form 6-K

| | Local Telephone Service | Domestic Long Distance Call Service | International Long Distance Call Service | Cellular Service | Paging Service | Internet and Data Service | All Other | Adjustment | Total |
|--|-------------------------|-------------------------------------|--|----------------------|-------------------|---------------------------|---------------------|------------------------|-----------------------|
| Year ended December 31, 2003 | | | | | | | | | |
| Service revenues from external customers | \$ 45,666,183 | \$ 13,399,506 | \$ 15,617,961 | \$ 65,672,112 | \$ 592,216 | \$ 35,577,042 | \$ 2,623,523 | \$ | \$ 179,148,543 |
| Intersegment service revenues | 18,144,578 | 2,599,996 | 1,701 | 987,376 | 3,541 | 8,582,142 | 131,706 | (30,451,040) | |
| Total service revenues | \$ 63,810,761 | \$ 15,999,502 | \$ 15,619,662 | \$ 66,659,488 | \$ 595,757 | \$ 44,159,184 | \$ 2,755,229 | \$ (30,451,040) | \$ 179,148,543 |
| Segment income before income tax | \$ 8,085,257 | \$ 8,143,635 | \$ 3,944,883 | \$ 27,843,865 | \$ (197,855) | \$ 13,333,784 | \$ 1,038,750 | \$ | \$ 62,192,319 |
| Interest income | | | | | | | | | 99,800 |
| Equity in net gain of unconsolidated companies | | | | | | | | | 3,403 |
| Other income | | | | | | | | | 2,097,318 |
| Interest expense | | | | | | | | | (43,071) |
| General expense | | | | | | | | | (3,858,944) |
| Other expense | | | | | | | | | (1,612,163) |
| Income before tax | | | | | | | | | \$ 58,878,662 |
| Assets for reportable assets | \$ 218,735,414 | \$ 8,867,882 | \$ 14,507,202 | \$ 65,295,999 | \$ 1,103,445 | \$ 105,092,500 | \$ 12,814,299 | \$ | \$ 426,416,741 |
| Investment in unconsolidated companies and funds | | | | | | | | | 5,496,085 |
| Other assets | | | | | | | | | 28,911,815 |
| Total assets | | | | | | | | | \$ 460,824,641 |
| Depreciation expenses | \$ 22,232,745 | \$ 1,327,261 | \$ 615,385 | \$ 5,562,378 | \$ 311,033 | \$ 10,803,631 | \$ 708,776 | | |
| Expenditures for segment assets | \$ 7,544,592 | \$ 1,313,891 | \$ 415,098 | \$ 7,937,694 | \$ | \$ 14,302,570 | \$ 666,331 | | |

Note: The Company organizes its business segments based on the various types of telecommunications services provided to customers. The major business segments operated by the Company are local telephone service, domestic long distance call service, international long distance call service, cellular service, paging service, Internet and data service and other service.

Chunghwa Telecom Co., Ltd.

Financial Statements for the

Years Ended December 31, 2003 and 2004, and for

Each of the Years in the Three Year Period Ended

December 31, 2004

CHUNGHWA TELECOM CO., LTD.**BALANCE SHEETS**

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

| | Notes | December 31 | | |
|--|--------|-------------------|-------------------|------------------|
| | | 2003 | 2004 | |
| | | NT\$ | NT\$ | US\$ (Note 3) |
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | 2,4,19 | \$ 13,553 | \$ 29,283 | \$ 923 |
| Short-term investments | 2,5,19 | | 9,115 | 287 |
| Trade notes and accounts receivable, net | 2,6 | 14,813 | 13,673 | 431 |
| Inventories, net | 2,7 | 1,220 | 1,439 | 45 |
| Prepaid expenses | | 494 | 602 | 19 |
| Deferred income taxes | 2,15 | 16,983 | 17,283 | 544 |
| Other current assets | | 1,703 | 1,609 | 51 |
| Total current assets | | 48,766 | 73,004 | 2,300 |
| INVESTMENTS IN UNCONSOLIDATED COMPANIES | 2,8,19 | 3,496 | 4,035 | 127 |
| PROPERTY, PLANT AND EQUIPMENT, NET | 2,9,16 | 329,678 | 311,638 | 9,819 |
| INTANGIBLE ASSETS | | | | |
| Deferred pension cost | 2,14 | 29,940 | 33,222 | 1,047 |
| 3G concession | 2 | 10,179 | 10,179 | 321 |
| Patents and computer software, net | 2 | 251 | 207 | 6 |
| Total intangible assets | | 40,370 | 43,608 | 1,374 |
| OTHER ASSETS | | | | |
| Deferred income taxes non-current | 2,15 | 2,901 | 2,444 | 77 |
| Other | 19 | 4,484 | 3,692 | 116 |
| Total other assets | | 7,385 | 6,136 | 193 |
| TOTAL | | \$ 429,695 | \$ 438,421 | \$ 13,813 |

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

| | Notes | December 31 | | |
|--|-------|-------------|-----------|---------------------|
| | | 2003 | 2004 | |
| | | NT\$ | NT\$ | US\$ (Note 3) |
| LIABILITIES AND STOCKHOLDERS EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Trade notes and accounts payable | | \$ 11,713 | \$ 14,484 | \$ 456 |
| Income tax payable | 2,15 | 4,923 | 5,032 | 159 |
| Accrued expenses | 10 | 14,206 | 14,368 | 453 |
| Accrued pension liabilities | 2,14 | 42,199 | 44,252 | 1,394 |
| Current portion of deferred income | 2 | 3,186 | 2,633 | 83 |
| Current portion of long-term loans | 12,19 | | 200 | 6 |
| Customers deposits | 19 | 10,957 | 9,262 | 292 |
| Other current liabilities | 11,16 | 19,203 | 18,966 | 598 |
| Total current liabilities | | | | |