

# Financial Report

## Financial Status

### Condensed Financial Statements for the Past Five Years

#### 1. Balance sheet

The Company's condensed balance sheet for the past five years and explanation of significant changes are as follows:

##### (1) Funds and long-term investments

Disposal of the Company's stake in Chunghwa Telecom (CHT) in 2005 led to a decrease in long-term investments and an increase in cash for the period 2005 to 2006.

##### (2) Fixed assets

The disposal of obsolete 2G equipment resulted in a decline in fixed assets.

##### (3) Long-term liabilities

Repayment of long-term bank loans as well as settlement and conversion of convertible bonds contributed to the steady decline in long-term liabilities.

##### (4) Stockholders' interests

The conversion of convertible bonds increased capital and capital surplus, while the provision of special reserves leveled up distributable retained earnings.

Unit: NT\$'000

		2002	2003	2004	2005	2006
Current assets		19,093,320	26,069,897	21,449,832	25,779,977	26,113,822
Funds and long-term investments		45,304,537	26,768,421	23,737,612	21,091,320	21,620,736
Fixed assets		63,195,930	62,505,230	60,190,612	57,638,728	57,224,824
Intangible assets		10,281,985	10,281,784	10,281,583	9,720,218	8,972,509
Other assets		5,075,948	4,693,947	5,594,292	3,139,195	3,039,553
Total assets		142,951,720	130,319,279	121,253,931	117,369,438	116,971,444
Current liabilities	Before appropriation	10,541,094	17,189,229	12,611,294	15,477,853	16,564,043
	After appropriation	19,829,902	28,692,202	25,185,664	28,766,184	(Note 1)
Long-term liabilities		64,244,807	43,808,584	27,486,226	14,584,125	10,291,046
Other liabilities		3,930,493	130,700	183,590	318,704	248,561
Total liabilities	Before appropriation	78,716,394	61,128,513	40,281,110	30,380,682	27,103,650
	After appropriation	88,005,202	72,631,486	52,855,480	43,669,013	(Note 1)
Capital stock		45,026,835	46,998,258	48,883,886	49,492,065	49,993,251
Capital surplus		3,004,199	3,366,010	7,258,873	7,905,337	8,748,571
Retained earnings	Before appropriation	19,038,605	21,317,020	26,393,440	29,881,787	32,706,825
	After appropriation	7,983,419	9,814,047	13,819,070	16,593,456	(Note 1)
Unrealized valuation loss on long-term investments		(317,007)	-	-	-	(147,423)
Translation adjustments		7,666	34,450	(1,631)	3,240	3,860
Total stockholders' equity	Before appropriation	64,235,326	69,190,766	80,972,821	86,988,756	89,867,794
	After appropriation	54,946,518	57,687,793	68,398,451	73,700,425	(Note 1)

Note 1: 2006 appropriation proposals have yet to be approved in the shareholders' meeting.

Note 2: 2002-2006 financial information has been duly audited by independent auditors.

## 2. Income Statement

The Company's condensed income statement for the past five years and explanation for significant changes are as follows:

### (1) Non-operating income

In 2003, non-operating income increased due to investment income from TransAsia Telecommunications. In 2004, non-operating income grew 159% due to dividend income of NT\$1.25bn from CHT and gains of NT\$1.04bn from the disposal of CHT shares. In 2006, non-operating income rose

on gains of NT\$2.1bn from the disposal of CHT shares.

### (2) Non-operating expenses

Interest expenses increased in 2003 as a result of an increase in long-term debts in 2002. Unrealized losses of NT\$0.9 billion from the decline in market value of idle assets were recognized in 2003 and 2004. Unrealized losses from asset write-off of obsolete telecom equipment following its technology upgrade and network integration were recognized in 2005 and 2006.

Unit: NT\$'000

	2002	2003	2004	2005	2006
Revenue	45,352,378	44,995,790	44,786,009	47,408,572	47,891,289
Gross profit	28,957,775	27,140,642	26,514,232	28,056,234	27,464,393
Operating income	15,073,699	15,201,619	16,295,485	17,170,785	14,981,243
Non-operating income	1,888,631	2,194,575	5,680,226	3,839,134	6,355,984
Non-operating expenses	1,552,683	2,929,394	2,559,801	2,698,462	3,858,726
Pre-tax income	15,409,647	14,466,800	19,415,910	18,311,457	17,478,501
Net income	14,937,320	13,344,447	16,658,456	16,236,698	16,170,741
EPS (NT\$)	3.20	2.91	3.55	3.31	3.28

Note: 2002-2006 financial information has been duly audited by independent auditors.

### 3. Financial analysis for the past five years

		2002	2003	2004	2005	2006
Financial structure	Debt-to-asset ratio	55.07%	46.91%	33.22%	25.88%	23.17%
	Long-term capital to fixed assets ratio	203.30%	180.78%	180.19%	176.22%	175.03%
Solvency	Current ratio	181.13%	151.66%	170.08%	166.56%	157.65%
	Quick ratio	176.02%	147.86%	166.55%	163.49%	154.05%
	Interest coverage ratio	1,558.41%	1,013.37%	1,866.23%	3,181.80%	4,294.22
Operations	Accounts receivable turnover (x)	6.29	7.57	7.43	7.77	7.36
	Average collection days	58.03	48.22	49.13	46.98	49.59
	Inventory turnover (x)	-	-	-	-	2.53
	Accounts payable turnover (x)	11.63	12.16	12.81	13.57	14.03
	Average sales days	-	-	-	-	144.27
	Fixed asset turnover (x)	0.72	0.72	0.74	0.82	0.84
	Total asset turnover (x)	0.37	0.33	0.37	0.40	0.41
Profitability	Return on assets	12.67%	10.64%	13.90%	13.98%	14.07%
	Return on equity	24.15%	20.00%	22.19%	19.33%	18.29%
	% of paid-in capital					
	Operating profit	33.48%	32.35%	33.15%	34.67%	29.97%
	Income before tax	34.22%	30.78%	39.49%	36.98%	34.96%
	Net profit margin	32.94%	29.66%	37.20%	34.25%	33.77%
Cash flow	EPS (NT\$)	3.20	2.91	3.55	3.31	3.28
	Cash flow ratio	130.17%	155.00%	179.26%	174.16%	69.93%
	Cash flow adequacy ratio	73.30%	107.95%	132.52%	162.30%	126.44%
Leverage	Cash reinvestment rate	4.93%	15.17%	9.89%	13.02%	-
	Operating leverage	1.36	1.48	1.42	1.43	1.64
	Financial leverage	1.08	1.12	1.07	1.04	1.03
Others	EBITDA (NT\$'000)	19,292,830	20,060,377	21,192,488	22,576,687	21,385,641
	EBITDA margin	42.54%	44.58%	47.32%	47.62%	44.65%
	ARPU (NT\$)	651	582	693	846	831
	MOU ('000)	10,920,288	11,612,586	11,720,178	12,213,446	12,903,920

Note: 2002-2006 financial information has been duly audited by independent auditors.

Explanation for items with deviation exceeding 20% over the past two years:

- Interest coverage ratio improved in 2006 due to a significant decrease in interest expenses, which resulted from the repayment of all remaining long-term bank loans in 2005, conversion of convertible bonds to common shares, and buyback of outstanding convertible bonds before maturity in 2006.
- Expansion of the Company's handset procurement and sales business in 2006 led to an inventory turnover ratio of 2.53 and average sales days of 144.27.
- Cash flow ratio and cash flow adequacy ratio decreased due to the reclassification of bond purchases as operating activity in conformity with revisions to the Financial Accounting Standard in 2006, resulting in a large decline in cash inflow from operating activity.

Formulas for the above table:

Financial Structure

(1) Debt to Asset Ratio = Total Liabilities / Total Assets

(2) Long-term Capital to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

Solvency

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets – Inventory – Prepaid Expenses) / Current Liabilities

(3) Interest Cover = Income before Interest and Tax / Interest Expense

Operations

(1) Accounts Receivable Turnover = Net Revenue / Average Accounts Receivable

(2) Average Collection Days = 365 / AR Turnover Ratio

(3) Inventory Turnover = COGS / Average Inventory

(4) Accounts Payable Turnover = COGS / Average Accounts Payable

(5) Average Sales Days = 365 / Inventory Turnover Ratio

(6) Fixed Assets Turnover = Net Revenue / Net Fixed Assets

(7) Total Assets Turnover = Net Revenue / Total Assets

#### Profitability

- (1) Return on Assets = (Net Income + Interest Expense \* (1 – Tax Rate)) / Average Assets
- (2) Return on Equity = Net Income / Average Equity
- (3) Net Profit Margin = Net Income / Net Sales
- (4) EPS = (Net Income – Preferred Stock Dividend) / Weighted Average Outstanding Shares

#### Cash Flow

- (1) Cash Flow Ratio = Cash Flow from Operating Activities / Current Liabilities
- (2) Cash Flow Adequacy Ratio = Net Cash Flow from Operating Activities of the Past 5 Years / (Capital Expenditures + Increases in Inventory + Cash Dividend) of the Past 5 Years
- (3) Cash Reinvestment Rate = (Cash Flow from Operating Activities – Cash Dividends) / (Gross Fixed Assets + Long-term Investments + Other Assets + Working Capital)

#### Leverage

- (1) Operating Leverage = (Net Revenue – Variable Operating Costs and Expenses) / Operating Income
- (2) Financial Leverage = Operating Income / (Operating Income – Interest Expense)

#### Others

- (1) EBITDA = Operating Income + Depreciation & Amortization
- (2) EBITDA Margin = EBITDA/Net Revenue
- (3) ARPU = Net Telecom Service Revenue / Average Number of Subscribers
- (4) MOU = Outgoing & Incoming Minutes

## Financial and Operating Results Analysis

### Financial results

1. Explanation of significant changes – i.e., at least a 10% change amounting to more than NT\$10 million – in the past two years' assets, liabilities and shareholders' equity:

uity:

- (1) Long-term liabilities decreased due to conversion, repayment and buyback of convertible bonds.
- (2) Capital surplus increased on account of conversion

#### Balance Sheet (2006 versus 2005)

Unit: NT\$'000, %

	2006	2005	YoY change	
			Amount	%
Current assets	26,113,822	25,779,977	333,845	1.29
Fixed assets	57,224,824	57,638,728	(413,904)	(0.72)
Other assets	3,039,553	3,139,195	(99,642)	(3.17)
Total assets	116,971,444	117,369,438	(397,994)	(0.34)
Current liabilities	16,564,043	15,477,853	1,086,190	7.02
Long-term liabilities	10,291,046	14,584,125	(4,293,079)	(29.44)
Total liabilities	27,103,650	30,380,682	(3,277,032)	(10.79)
Paid-in capital	49,993,251	49,492,065	501,186	1.01
Capital surplus	8,748,571	7,905,337	843,234	10.67
Retained earnings	32,706,825	29,881,787	2,825,038	9.45
Total shareholders' equity	89,867,794	86,988,756	2,879,038	3.31

2. Impact of changes on financial results: No significant impact

3. Preventative plans: Not applicable

## Operating results

1. Explanation of significant changes in the past two years' revenue, operating income, and income before tax:

(1) Increase in operating expenses: Marketing expense increased relative to acquisition of new subscribers.

(2) Increase in non-operating income: Gains on disposal of CHT shares recognized in 2006.

(3) Increase in non-operating expenses: Unrealized losses from asset write-off of obsolete telecom equipment following its technology upgrade and network integration were recognized in 2006.

Income Statement (2006 versus 2005)

Unit: NT\$'000, %

	2006	2005	YoY change	
			Amount	%
Revenue	47,891,289	47,408,572	482,717	1.02
Operating costs	(20,426,896)	(19,352,338)	1,074,558	5.55
Gross profit	27,464,393	28,056,234	(591,841)	(2.11)
Operating expenses	(12,483,150)	(10,885,449)	1,597,701	14.68
Operating income	14,981,243	17,170,785	(2,189,542)	(12.75)
Non-operating income	6,355,984	3,839,134	2,516,850	65.56
Non-operating expenses	(3,858,726)	(2,698,462)	1,160,264	43.00
Income before tax	17,478,501	18,311,457	(832,956)	(4.55)
Net income	16,170,741	16,236,698	(65,957)	(0.41)

2. Sales forecast, background, potential impact on the Company's business, and corresponding proposal:

With majority of the telecom operators shifting their focus from quantity to quality, new subscriber additions are expected to decrease in 2007. The Company will

nonetheless continue to pursue market leadership in acquiring new subscribers while focusing on improving its customer profile to raise its ARPU and benefits/costs ratio in order to meet its target.

## Consolidated Financial Analysis (2006 versus 2005)

		2006	2005
Financial structure	Debt-to-asset ratio	24.09	26.73
	Long-term capital to fixed assets ratio	164.48	158.67
Solvency	Current ratio	191.50	194.69
	Quick ratio	187.99	191.31
	Interest coverage ratio	4580.67	3266.95
Operations	Accounts receivable turnover (x)	7.48	7.62
	Average collection days	48.80	47.90
	Inventory turnover (x)	2.72	25.09
	Accounts payable turnover (x)	13.39	12.62
	Average sales days	134.19	14.55
	Fixed asset turnover (x)	0.97	0.93
	Total asset turnover (x)	0.50	0.50
Profitability	Return on assets	13.88	13.82
	Return on equity	18.25	19.37
	Operating profit	38.67	41.01
	% of paid-in capital	37.82	38.13
	Income before tax	37.82	38.13
	Net profit margin	27.53	27.47
	EPS (NT\$)	3.28	3.31
Cash flow	Cash flow ratio	75.16	191.51
	Cash flow adequacy ratio	139.76	160.25
	Cash reinvestment rate	0.58	16.95
Leverage	Operating leverage	1.60	1.61
	Financial leverage	1.02	1.03

Note 1: Interest coverage ratio improved in 2006 due to a substantial decrease in interest expense resulting from repayment of all remaining long-term bank loans, conversion of convertible bonds to common shares, and buyback of outstanding convertible bonds before maturity in 2006.

Note 2: Inventory turnover ratio decreased and average sales days increased due to Mobitai's closure of its handset sales operation.

Note 3: Cash flow ratio and cash flow adequacy ratio decreased due to the reclassification of purchase of bonds as operating activity in accordance with revisions to the Financial Accounting Standard in 2006, resulting in a large decline in cash inflow from operating activity.

## Cash flow analysis

### 1. 2006 cash flow analysis:

- (1) Cash flow from operating activities: Cash inflow decreased compared with 2005 due to the reclassification of bond purchases.
- (2) Cash flow from investing activities: Cash inflow increased due to the disposal of CHT shares, net of capital expenditures.
- (3) Cash flow from financing activities: Cash outflow decreased due to the repayment of long-term debts in 2005.

### Statement of Cash Flow (2006 versus 2005)

Unit: NT\$'000, %

	2006	2005	YoY Change	
			Amount	%
Cash inflow from operating activities	11,582,921	26,956,328		(57.03)
Cash inflow from investing activities	6,083,347	1,248,367	4,834,980	387.30
Cash outflow from financing activities	(18,561,809)	(22,203,541)	3,641,732	16.40
Net cash	(895,541)	6,001,154	(6,896,695)	(114.92)

### 2. Plans to improve negative liquidity: Not Applicable

### 3. Projected cash flow for 2007:

- (1) Projected cash inflow from operating activities: Projected operating cash inflow in 2007 will increase due to increased bond purchases in 2006. Other than this, the projected cash inflow in 2007 from operating activities shall remain stable.
- (2) Projected cash outflow from investing activities: Due to capital expenditures.
- (3) Projected cash outflow from financing activities: Due to distribution of cash dividends and repayment of long-term debts.

## 2007 Cash Flows Analysis

Unit: NT\$'000

Cash balance, beginning of the year (1)	Forecast net cash inflow from operations (2)	Total cash outflow from investing and financing activities (3)	Cash balance, end of the year (1) +(2) -(3)	Source of funding for negative cash balance	
				Cash inflow from investing activities	Cash inflow from financing activities
8,202,463	21,409,169	23,950,259	5,661,373	-	-

### 4. Source of funding for negative cash flow in 2007: Not Applicable

Due to excellent operations and cash flows in 2006, the Company was able to fund all major capital expenditures using internal capital; as such, no effect on the Company's financials.

### 5. Investments

Investment policies, profitability analyses, and improvement plans: see chart below.

Unit: NT\$'000

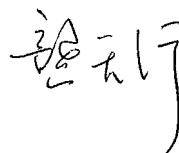
Item	Explanation	Amount	Rationale	Main reasons for gains (losses)	Improvement plans	Other future investment plans
TransAsia Telecommunications, Inc.		12,458,463 (Note)	To simplify investment structure	To increase income from investments in stable performing companies	-	-

Note: Investments made in 2006 exceeded 5% of the Company's paid-in capital.

### 6. Financial turnover difficulties for the Company and its affiliates: None

## Supervisor's Report

The Board of Directors of Taiwan Mobile Co., Ltd. has submitted to the undersigned, the Company's 2006 business reports, financial statements, and proposal for profit distribution. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. I, the undersigned, having further examined said business reports, statements and proposal, attest to the correctness and accuracy of their contents. In accordance with Article 219 of the Company Act, I hereby submit this report.



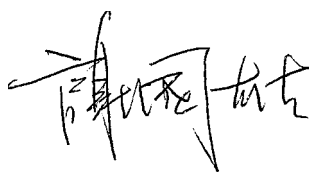
Supervisor  
Victor Kung  
Fu-Chi Venture Corp.

January 31, 2007



## Supervisor's Report

The Board of Directors of Taiwan Mobile Co., Ltd. has submitted to the undersigned, the Company's 2006 business reports, financial statements, and proposal for profit distribution. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. I, the undersigned, having further examined said business reports, statements and proposal, attest to the correctness and accuracy of their contents. In accordance with Article 219 of the Company Act, I hereby submit this report.



Supervisor  
Polar Hsieh  
Taiwan Fixed Network Co., Ltd.

January 31, 2007

# INDEPENDENT AUDITORS' REPORT

January 11, 2007

The Board of Directors and Shareholders  
Taiwan Mobile Co., Ltd.

We have audited the accompanying balance sheets of Taiwan Mobile Co., Ltd. (the "Corporation") as of December 31, 2006 and 2005, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation'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 Rules Governing the Audit of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Those rules and standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Mobile Co., Ltd. as of December 31, 2006 and 2005, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Criteria for Handling Business Accounting and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the financial statements, the Corporation adopted the newly issued Statement of Financial Accounting Standards (SFAS) No. 34, "Accounting for Financial Instruments," SFAS No. 36, "Disclosure and Presentation of Financial Instruments," and the revisions on the related SFASs in harmonizing with SFAS No. 34 and 36 on January 1, 2006.

We have also audited the accompanying schedules of significant accounts, provided for supplementary analysis, by applying the same procedures described above. In our opinion, such schedules are consistent, in all material respects, with the financial statements referred to above.

We have also audited the consolidated balance sheets of the Corporation and its subsidiaries as of December 31, 2006 and 2005 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. We have expressed modified unqualified opinions on those consolidated financial statements as of and for the years ended December 31, 2006 and 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.*

**TAIWAN MOBILE CO., LTD.**  
**BALANCE SHEETS**

ASSETS	2006		2005	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2, 4 and 21)	\$8,202,463	7	\$9,098,004	8
Financial assets at fair value through profit or loss - current (Notes 2, 3 and 5)	11,109,207	10	600,000	1
Available-for-sale financial assets - current (Notes 2, 3 and 6)	162,893	-	9,277,177	8
Notes receivable	11,406	-	12,670	-
Accounts receivable - third parties (Notes 2 and 7)	5,067,754	4	5,019,417	4
Accounts receivable - related parties (Notes 2 and 21)	336,550	-	528,691	1
Other receivables - third parties	242,681	-	170,440	-
Other receivables - related parties (Note 21)	254,860	-	497,304	-
Inventories (Note 2)	31,232	-	320	-
Prepayments (Note 21)	565,538	1	475,143	-
Deferred income tax assets - current (Notes 2 and 17)	102,814	-	83,561	-
Pledged time deposits (Notes 21 and 22)	10,000	-	10,000	-
Other current assets	16,424	-	7,250	-
<b>Total current assets</b>	<b>26,113,822</b>	<b>22</b>	<b>25,779,977</b>	<b>22</b>
<b>INVESTMENTS</b>				
Investments accounted for using equity method (Notes 2 and 8)	17,887,632	15	17,233,012	15
Financial assets carried at cost - non-current (Notes 2, 3 and 9)	3,733,104	3	3,858,308	3
<b>Total investments</b>	<b>21,620,736</b>	<b>18</b>	<b>21,091,320</b>	<b>18</b>
<b>PROPERTY AND EQUIPMENT (Notes 2, 10, 21 and 22)</b>				
Cost				
Land	4,845,823	4	3,399,049	3
Buildings	2,753,923	2	2,001,480	2
Telecommunication equipment	68,261,533	58	69,366,884	59
Office equipment	106,824	-	93,138	-
Leased assets	1,276,190	1	1,276,190	1
Miscellaneous equipment	1,832,086	2	928,514	1
<b>Total cost</b>	<b>79,076,379</b>	<b>67</b>	<b>77,065,255</b>	<b>66</b>
Less accumulated depreciation	(25,013,172)	(21)	(21,737,171)	(19)
	54,063,207	46	55,328,084	47
Construction in progress and advance payments	3,161,617	3	2,310,644	2
<b>Net property and equipment</b>	<b>57,224,824</b>	<b>49</b>	<b>57,638,728</b>	<b>49</b>
<b>INTANGIBLE ASSETS (Note 2)</b>	<b>8,972,509</b>	<b>8</b>	<b>9,720,218</b>	<b>8</b>
<b>OTHER ASSETS</b>				
Assets leased to others (Notes 2 and 11 )	698,751	1	1,781,320	2
Idle assets (Notes 2 and 11)	227,921	-	261,429	-
Refundable deposits	274,985	-	261,123	-
Deferred charges (Notes 2 and 12)	344,679	1	331,390	-
Deferred income tax assets - non-current (Notes 2 and 17)	1,446,184	1	470,279	1
Other	47,033	-	33,654	-
<b>Total other assets</b>	<b>3,039,553</b>	<b>3</b>	<b>3,139,195</b>	<b>3</b>
<b>TOTAL</b>	<b>\$116,971,444</b>	<b>100</b>	<b>\$117,369,438</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated January 11, 2007)

DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Par Value)

	LIABILITIES AND SHAREHOLDERS' EQUITY	2006		2005	
		Amount	%	Amount	%
	CURRENT LIABILITIES				
	Accounts payable (Note 21)	\$1,432,563	1	\$1,478,408	1
	Income taxes payable (Notes 2 and 17)	2,106,039	2	1,094,727	1
	Accrued expenses (Note 21)	3,765,661	3	3,385,889	3
	Other payables (Note 21)	3,519,371	3	3,115,999	2
	Advance receipts	994,230	1	1,018,485	1
	Current portion of long-term liabilities (Notes 2, 13 and 21)	3,814,448	3	4,543,020	4
	Guarantee deposits	46,070	-	70,021	-
	Other current liabilities (Note 21)	885,661	1	771,304	1
	Total current liabilities	16,564,043	14	15,477,853	13
	LONG-TERM LIABILITIES				
	Hedging derivative financial liabilities (Notes 2, 3, 20 and 24)	291,046	1	-	-
	Bonds payable (Notes 2, 13 and 21)	10,000,000	9	14,584,125	13
	Total long-term liabilities	10,291,046	9	14,584,125	13
	OTHER LIABILITIES				
	Accrued pension cost (Notes 2 and 15)	-	-	83,615	-
	Guarantee deposits	248,561	-	233,800	-
	Other	-	-	1,289	-
	Total other liabilities	248,561	-	318,704	-
	Total liabilities	27,103,650	23	30,380,682	26
	SHAREHOLDERS' EQUITY (Notes 2 and 16)				
	Capital stock - \$10 par value				
	Authorized: 6,000,000 thousand shares				
	Issued: 4,999,325 thousand shares in 2006 and 4,949,206 thousand shares in 2005	49,993,251	43	49,492,065	42
	Entitlement certificates	-	-	29,871	-
	Capital surplus	8,748,571	7	7,905,337	7
	Retained earnings				
	Legal reserve	10,128,401	9	8,504,731	7
	Special reserve	3,350,000	3	2,201,631	2
	Unappropriated earnings	19,228,424	16	19,175,425	16
	Other equity				
	Cumulative translation adjustments	3,860	-	3,240	-
	Unrealized losses of financial instruments	(147,423)	-	-	-
	Treasury stock	(1,437,290)	(1)	(323,544)	-
	Total shareholders' equity	89,867,794	77	86,988,756	74
	TOTAL	\$116,971,444	100	\$117,369,438	100

**TAIWAN MOBILE CO., LTD.**  
**STATEMENTS OF INCOME**

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 21)				
Telecommunication service revenue	\$47,692,697	100	\$47,216,688	100
Other revenue	198,592	-	191,884	-
Total operating revenues	47,891,289	100	47,408,572	100
OPERATING COSTS (Notes 2, 19 and 21)	20,426,896	42	19,352,338	41
GROSS PROFIT	27,464,393	58	28,056,234	59
OPERATING EXPENSES (Notes 2, 19 and 21)				
Marketing	9,054,285	19	8,037,368	17
Administrative	3,428,865	7	2,848,081	6
Total operating expenses	12,483,150	26	10,885,449	23
OPERATING INCOME	14,981,243	31	17,170,785	36
NON-OPERATING INCOME AND GAINS				
Investment income recognized under the equity method, net (Notes 2 and 8)	2,743,058	6	2,150,967	5
Gain on disposal of investments, net (Note 2)	2,129,507	5	-	-
Dividend income	643,816	1	940,000	2
Penalty income	170,667	-	157,616	-
Interest income	158,282	-	56,954	-
Rental income (Note 21)	64,751	-	163,996	-
Foreign exchange gain, net (Note 2)	60,008	-	4,495	-
Revaluation gain on financial assets (Note 2)	53,737	-	-	-
Gain on disposal of property and equipment (Notes 2 and 21)	7,752	-	115,925	-
Other (Note 7)	324,406	1	249,181	1
Total non-operating income and gains	6,355,984	13	3,839,134	8
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal and retirement of property and equipment (Notes 2 and 21)	3,339,303	7	1,638,074	3
Interest expenses (Notes 2 and 10)	416,729	1	594,181	1
Impairment loss (Notes 2 and 11)	2,005	-	105,870	-
Loss on disposal of investment, net (Note 2)	-	-	20,535	-
Other (Notes 2 and 11)	100,689	-	339,802	1
Total non-operating expenses and losses	3,858,726	8	2,698,462	5

(Continued)

	2006		2005	
	Amount	%	Amount	%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	\$17,478,501	36	\$18,311,457	39
INCOME TAX EXPENSE (Notes 2 and 17)	1,307,795	2	2,074,759	5
INCOME FROM CONTINUING OPERATIONS	16,170,706	34	16,236,698	34
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3)	35	-	-	-
NET INCOME	\$16,170,741	34	\$16,236,698	34

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 18)				
Basic	\$3.54	\$3.28	\$3.74	\$3.31
Diluted	\$3.53	\$3.26	\$3.68	\$3.26

The pro forma net income and earnings per share had Statements of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" been adopted retroactively are as follows:

	2006	2005
NET INCOME	\$16,170,706	\$16,292,233
EARNINGS PER SHARE		
Basic	\$3.28	\$3.33
Diluted	\$3.26	\$3.27

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

(With Deloitte & Touche audit report dated January 11, 2007)

**TAIWAN MOBILE CO., LTD.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Capital Stock			Capital Surplus	
	Capital Stock	Entitlement Certificates	Total		
BALANCE, JANUARY 1, 2005	\$48,883,886	\$279,670	\$49,163,556	\$7,258,873	
Appropriation of 2004 earnings					
Legal reserve	-	-	-	-	
Special reserve	-	-	-	-	
Remuneration to directors and supervisors	-	-	-	-	
Bonus to employees - cash	-	-	-	-	
Cash dividends - \$2.47302 per share	-	-	-	-	
Balance after appropriation	48,883,886	279,670	49,163,556	7,258,873	
Translation adjustments on long-term investments	-	-	-	-	
Transfer of treasury stock to employees	-	-	-	-	
Conversion of convertible bonds to capital stock and entitlement certificates	608,179	(249,799)	358,380	646,464	
Buyback of treasury stock	-	-	-	-	
Net income in 2005	-	-	-	-	
BALANCE, DECEMBER 31, 2005	49,492,065	29,871	49,521,936	7,905,337	
Appropriation of 2005 earnings					
Legal reserve	-	-	-	-	
Special reserve	-	-	-	-	
Reversal of special reserve	-	-	-	-	
Remuneration to directors and supervisors	-	-	-	-	
Bonus to employees - cash	-	-	-	-	
Cash dividends - \$2.61677 per share	-	-	-	-	
Balance after appropriation	49,492,065	29,871	49,521,936	7,905,337	
Translation adjustments on long-term investments	-	-	-	-	
Transfer of treasury stock to employees	-	-	-	-	
Conversion of convertible bonds to capital stock and entitlement certificates	501,186	(29,871)	471,315	843,234	
Buyback of treasury stock	-	-	-	-	
Net income in 2006	-	-	-	-	
Effect of the first time adoption of new issued SFASs	-	-	-	-	
Unrealized losses on financial instruments, net	-	-	-	-	
BALANCE, DECEMBER 31, 2006	\$49,993,251	\$-	\$49,993,251	\$8,748,571	

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

(With Deloitte & Touche audit report dated January 11, 2007)

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	Retained Earnings				Cumulative Translation Adjustments	Unrealized Gains of Financial	Treasury Stock	Total Sharehold-
	Legal Reserve	Special Reserve	Unappropriated	Total				
	\$6,839,315	\$-	\$19,554,125	\$26,393,440	\$(1,631)	\$-	\$(1,841,417)	\$80,972,821
	1,665,416	-	(1,665,416)	-	-	-	-	-
	-	2,201,631	(2,201,631)	-	-	-	-	-
	-	-	(63,936)	(63,936)	-	-	-	(63,936)
	-	-	(383,613)	(383,613)	-	-	-	(383,613)
	-	-	(12,126,821)	(12,126,821)	-	-	-	(12,126,821)
	8,504,731	2,201,631	3,112,708	13,819,070	(1,631)	-	(1,841,417)	68,398,451
	-	-	-	-	4,871	-	-	4,871
	-	-	(173,981)	(173,981)	-	-	1,837,663	1,663,682
	-	-	-	-	-	-	-	1,004,844
	-	-	-	-	-	-	(319,790)	(319,790)
	-	-	16,236,698	16,236,698	-	-	-	16,236,698
	8,504,731	2,201,631	19,175,425	29,881,787	3,240	-	(323,544)	86,988,756
	1,623,670	-	(1,623,670)	-	-	-	-	-
	-	1,150,000	(1,150,000)	-	-	-	-	-
	-	(1,631)	1,631	-	-	-	-	-
	-	-	(40,394)	(40,394)	-	-	-	(40,394)
	-	-	(403,940)	(403,940)	-	-	-	(403,940)
	-	-	(12,843,997)	(12,843,997)	-	-	-	(12,843,997)
	10,128,401	3,350,000	3,115,055	16,593,456	3,240	-	(323,544)	73,700,425
	-	-	-	-	620	-	-	620
	-	-	(57,372)	(57,372)	-	-	704,624	647,252
	-	-	-	-	-	-	-	1,314,549
	-	-	-	-	-	-	(1,818,370)	(1,818,370)
	-	-	16,170,741	16,170,741	-	-	-	16,170,741
	-	-	-	-	-	1,834,639	-	1,834,639
	-	-	-	-	-	(1,982,062)	-	(1,982,062)
	<u>\$10,128,401</u>	<u>\$3,350,000</u>	<u>\$19,228,424</u>	<u>\$32,706,825</u>	<u>\$3,860</u>	<u>\$(147,423)</u>	<u>\$(1,437,290)</u>	<u>\$89,867,794</u>



**TAIWAN MOBILE CO., LTD.**  
**STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$16,170,741	\$16,236,698
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,495,382	4,680,486
Loss on disposal and retirement of property and equipment, net	3,331,551	1,522,149
Investment income recognized under the equity method, net	(2,743,058)	(2,150,967)
Gains on disposal of available-for-sale financial assets	(2,110,978)	-
Bad debts	962,389	664,296
Deferred income taxes	(922,397)	217,735
Amortization	909,016	725,416
Cash dividends received from equity-method investees	125,204	3,075,042
Pension cost	(83,615)	(50,277)
Loss on buyback of bonds payable	59,982	191,109
Accrued interest compensation	36,247	120,100
Gains on disposal of idle assets, net	(9,681)	(356)
Loss due to market decline of inventory	8,449	-
Impairment loss	2,005	105,870
Gains on disposal of long-term investments	(1)	(5,812)
Net changes in operating assets and liabilities		
Financial assets held for trading	(10,509,207)	2,032,465
Notes receivable	1,264	(12,617)
Accounts receivable - third parties	(1,044,819)	(1,249,751)
Accounts receivable - related parties	192,142	(46,514)
Other receivables - third parties	(73,492)	(137,005)
Other receivables - related parties	242,444	(148,421)
Inventories	(39,361)	-
Prepayments	(90,648)	(29,483)
Other current assets	(9,174)	(1,174)
Accounts payable	(45,845)	104,365
Income taxes payable	1,011,312	(817,071)
Accrued expenses	379,772	618,362
Other payables	247,195	661,493
Advance receipts	(24,255)	166,030
Other current liabilities	114,357	484,160
Net cash provided by operating activities	11,582,921	26,956,328
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of available-for-sale financial assets	11,265,915	-
Acquisition of property and equipment	(7,355,072)	(3,077,727)
Proceeds from disposal of long-term investments	1,499,551	205,924
Capital return of investees	1,119,715	-
Increase in long-term investments accounted for using equity method	(500,000)	(1,457,805)
Proceeds from disposal of property and equipment	180,527	2,148,517

(Continued)

	2006	2005
Increase in deferred charges	\$(158,827)	\$(149,093)
Proceeds from disposal of idle assets	44,633	7,050
Increase in refundable deposits	(13,862)	(6,237)
Decrease in other assets	767	929
Proceeds on investee's liquidation	-	2,970,851
Decrease in pledged time deposits	-	600,000
Cash received from merger with Taiwan Elitec Corporation	-	5,958
Net cash provided by investing activities	6,083,347	1,248,367
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(12,843,925)	(12,146,818)
Decrease in bonds payable	(2,753,300)	(1,500,000)
Buyback of treasury stock	(1,818,370)	(319,790)
Buyback of bonds payable	(1,341,076)	(1,135,009)
Transfer of treasury stock to employees	647,252	1,663,682
Bonus to employees	(403,940)	(394,148)
Remuneration to directors and supervisors	(37,970)	(63,936)
Increase (decrease) in guarantee deposits	(9,190)	93,768
Decrease in other liabilities	(1,290)	(1,290)
Decrease in long-term bank loans	-	(8,400,000)
Net cash used in financing activities	(18,561,809)	(22,203,541)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(895,541)	6,001,154
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,098,004	3,096,850
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$8,202,463	\$9,098,004
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$464,300	\$620,911
Deduct: Interest capitalized	(11,647)	(71,194)
Interest paid - excluding interest capitalized	452,653	549,717
Income taxes paid	\$1,029,886	\$2,235,986
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$3,814,448	\$4,543,020
Conversion of convertible bonds to capital stock and entitlement certificates	\$1,118,100	\$891,800

(Continued)

	2006	2005
CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment	\$7,529,952	\$3,731,962
Increase in other payables	<u>(174,880)</u>	<u>(654,235)</u>
Cash paid for acquisition of property and equipment	<u>\$7,355,072</u>	<u>\$3,077,727</u>

**SUPPLEMENTAL INFORMATION ON SUBSIDIARY:**

Taiwan Elitec Corporation (TEC), the Corporation's subsidiary, merged with the Corporation on March 30, 2005, with the Corporation as the surviving company. The carrying values of TEC's assets and liabilities as of March 30, 2005 were as follows:

Accounts receivable	\$17,015
Other receivables	7,948
Other current assets	35
Property and equipment	2,811
Refundable deposits	<u>554</u>
Assets acquired from TEC	<u>\$28,363</u>
Accrued expenses	\$31,101
Other current liabilities	265
Long-term liabilities	2,578
Guarantee deposits	266
Liabilities assumed from TEC	<u>\$34,210</u>

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

(With Deloitte & Touche audit report dated January 11, 2007)

(Concluded)

## TAIWAN MOBILE CO., LTD. NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

### 1. ORGANIZATION

Taiwan Mobile Co., Ltd. (the "Corporation"; with the English company name of Taiwan Cellular Corporation until the first quarter of 2005) was incorporated in the Republic of China (ROC) on February 25, 1997. The Corporation's shares began to be traded on the ROC Over-the-Counter Securities Exchange (known as GreTai Securities Market) on September 19, 2000. On August 26, 2002, the Corporation's shares were listed on the Taiwan Stock Exchange. The Corporation mainly renders wireless communication services.

The Corporation's services are under the type I license (nation-wide GSM 1800; "GSM" means "global system for mobile communications") issued by the Directorate General of Telecommunications (DGT) of the ROC. The license allows the Corporation to provide services for 15 years from 1997 onwards. It also entails the payment of an annual license fee consisting of 2% of total wireless communication service revenues. On March 24, 2005, the Corporation received the third generation (3G) concession operation license issued by the DGT. The 3G license allows the Corporation to provide services from the issuance date of the license to December 31, 2018.

As of December 31, 2006 and 2005, the Corporation had 2,146 and 2,072 employees, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Basis of Presentation

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Criteria for Handling Business Accounting and accounting principles generally accepted in the ROC. In conformity with these guidelines, laws and principles, the Corporation is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, Provision for losses on decline in value of inventories, depreciation, pension, allowance for

deferred income tax assets, impairment loss on assets, etc. Actual results may differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 financial statements shall prevail.

The Corporation's significant accounting policies are summarized as follows:

#### Current and Non-current Assets and Liabilities

Current assets include cash and cash equivalents, assets held for trading and those expected to be converted to cash, sold or consumed within twelve months from the balance sheet date. Property and equipment, intangible assets and those not classified as current assets are non-current assets. Current liabilities are obligations held for trading and those expected to be due within twelve months from the balance sheet date. All other liabilities not classified as current liabilities are non-current liabilities.

#### Cash Equivalents

Government bonds and short-term bills acquired with resale rights and having maturities of up to three months from the date of purchase are classified as cash equivalents, whose carrying value approximates fair value.

#### Financial Instruments at Fair Value through Profit or Loss

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value with fair value changes recognized in profit or loss. On initial recognition, the financial instruments are recognized at fair value plus transaction costs and are subsequently measured at fair value with fair value changes recognized in profit or loss. Cash dividends received, including those received in the year of investment, are recognized as current income. The purchase or sale of the financial instruments is recognized and derecognized using trade date accounting.

**Available-for-sale Financial Assets**

On initial recognition, available-for-sale financial assets are recognized at fair value plus transaction costs. When subsequently measured at fair value, the fair value changes are recognized directly in equity. The cumulative gain or loss that was recognized in equity is recognized in profit or loss when an available-for-sale financial asset is derecognized from the balance sheet. The purchase or sale of the financial instruments is recognized and derecognized using trade date accounting.

Cash dividends are recognized as dividend income on the ex-dividend date, but are accounted for as reductions to the original cost of investments if such dividends are declared on the earnings of investees attributable to periods prior to the purchase of investments. Stock dividends are not recognized as current income but are accounted for only as an increase in the number of shares held. The cost per share is recalculated based on the new number of shares.

An impairment loss is recognized if there is objective evidence that a financial asset is impaired. If the amount of impairment loss decreases in the subsequent period, such decrease is recognized in equity.

The fair value of listed stocks is based on the closing price on the balance sheet date.

**Allowance for Doubtful Accounts**

Allowance for doubtful accounts is provided on the basis of past experiences and an evaluation of the aging and collectibility of all receivables on the balance sheet date.

**Inventories**

Inventories are stated at the weighted-average method and the lower of cost or market value. Market value are evaluated on the basis of replacement cost or net realizable value.

**Financial Assets Carried at Cost**

If there is no active market for an equity instrument and a reliable fair value can not be estimated, the equity instrument, including unlisted stocks and emerging stocks, etc, is measured at cost. The accounting for the dividends from financial asset carried at cost is the same as that for an available-for-sale financial asset. Impairment losses are recognized if a decrease in the fair value of the instruments can be objectively related

to an event. Reversal of impairment losses is not allowed.

**Investments Accounted for Using Equity Method**

Long-term investments in which the Corporation owns 20% or more of an investee's outstanding voting shares or exercises significant influence on an investee are accounted for under the equity method.

On the acquisition date or the adoption of the equity method for the first time, the difference between the cost of acquisition and the equity in the investee's net asset value was amortized using the straight-line method over 8 to 20 years. Starting January 1, 2006, in accordance with the newly revised Statement of Financial Accounting Standards (SFAS), the cost of acquisition is subjected to an initial analysis, and goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net asset value. Goodwill is no longer amortized but instead tested annually for impairment. An impairment test is also required if there is evidence indicating that goodwill might be impaired as a result of specific events or changes in economic environment. Starting January 1, 2006, the unamortized balance of the excess of the acquisition cost of the long-term investment by the equity method over the equity in the investee's net asset value is also no longer amortized and applies the same accounting treatment as goodwill.

Gains or losses on the Corporation's equity accounted investee's sales to the Corporation are deferred in proportion to the Corporation's ownership percentages in the investees until realized through transactions with third parties.

Gains or losses from transactions between two investees that are both accounted for using equity method are deferred in proportion to the Corporation's equivalent stock ownership in the investees if the Corporation has controlling power over each investee.

If the investor does not have controlling power over both investees that have reciprocal transactions, unrealized gains or losses from reciprocal transactions should be deferred in proportion to the common investor's ownership percentage in one investee multiplied by the ownership percentage in the other investee.

The cost and the resulting gain or loss of an investment sold is determined by the weighted-average method.

### **Property and Equipment and Assets Leased to Others**

Property and equipment and assets leased to others are stated at cost less accumulated depreciation. Significant additions, renewals, betterments, and interest expenses incurred during the construction period are capitalized, while maintenance and repairs are expensed. Property and equipment covered by agreements qualifying as capital leases are carried at the lower of the present value of future minimum lease payments or the market value of the property on the starting dates of the leases.

Depreciation is calculated using the straight-line method over the estimated service lives, which range as follows: buildings - 50 to 55 years; telecommunication equipment - 3 to 15 years; office equipment - 3 to 5 years; leased assets - 20 years; and miscellaneous equipment - 3 to 5 years.

Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to non-operating gain or loss in the period of disposal.

### **Intangible Assets**

Intangible assets refer to the payment for the 3G mobile telecommunication service - License C. The 3G concession is recorded at acquisition cost and is amortized over 13 years and 9 months starting from the license issuance date.

### **Idle Assets**

Idle assets are stated at the lower of book value or fair value, with the difference charged to current income. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets.

### **Deferred Charges**

Deferred charges, which included interior decoration, computer software, bill issuance costs and issuance costs of bonds are amortized by the straight-line method over 3 to 7 years or contract periods.

### **Asset Impairment**

If the carrying value of assets (including property and equipment, intangible assets, idle assets, assets leased to others and investments accounted for using equity method) is less than their recoverable amount, which

indicates that an impairment exists, an impairment loss should be recognized. Any subsequent reversal of the impairment loss for the increase in recoverable amount is recognized as income. The reversal of impairment loss on goodwill is disallowed.

### **Pension Costs**

The pension costs under the defined benefit pension plan are recognized on the basis of actuarial calculations. The contribution amounts of the pension costs under the defined contribution pension plan are recognized as current expenses during the employees' service years.

### **Bonds Payable**

Convertible bonds with redemption rights are classified as current or non-current according to the redemption dates. The redemption price in excess of the face value of the bonds is amortized using the interest method from the issuance date through the maturity date and accounted for as accrued interest compensation. The accrued interest compensation is provided as a valuation account of convertible bonds. The issuance costs are recognized as deferred charges. The issuance costs for the non-convertible bonds are amortized over the term of the bond, and those for the convertible bonds with redemption rights are amortized from the issuance date to the maturity date of redemption rights.

When bondholders exercise their conversion rights, the face value of the bonds and the related accrued interest compensation are both transferred to capital stock or entitlement certificates and capital surplus.

### **Income Taxes**

The inter-period allocation method is used for income taxes. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused tax credits and net operating loss carryforwards. Valuation allowance is provided for deferred income tax assets to the extent that more likely than not such assets will not be realized. Deferred tax assets or liabilities are classified as current or non-current according to the classification of related assets or liabilities for financial reporting. However, if deferred tax assets or liabilities do not relate to assets or liabilities in the financial statements, they are classified as current or non-current on the basis of the expected length of time before realized.

Tax credits for certain purchases of equipment and technology, research and development expenditures and personnel training are recognized by the current method.

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

Income tax of 10% on unappropriated earnings generated is expensed in the year when the shareholders resolve the retention of the earnings.

Income Basic Tax Act has taken effect from January 1, 2006. The amount of basic income shall be the sum of the taxable income as calculated in accordance with the Income Tax Act, plus deductions claimed in regard to investment tax credit granted under the provisions of other laws. The amount of basic tax shall be the amount of basic income multiplied by the tax rate (10%). Between the basic tax under the Income Basic Tax Act and the regular income tax calculated based on the Income Tax Act, the Corporation should pay whichever is the higher amount for the current income tax.

#### **Treasury Stock**

The purchase of issued shares is accounted for by debiting treasury stock, which is a reduction of shareholders' equity.

If the proceeds on the disposal of treasury stock exceed the carrying value of treasury stock, the excess is credited to capital surplus from treasury stock. If the proceeds are less than the carrying value of treasury stock, the difference is debited to capital surplus from treasury stock. If the balance of capital surplus from treasury stock is not sufficient to absorb the difference, the rest is recorded as a reduction of retained earnings.

#### **Foreign-currency Transactions**

Assets, liabilities, revenues or expenses denominated in foreign currencies as a result of foreign-currency transactions of non-derivative financial instruments are recorded in New Taiwan dollars at the exchange rates prevailing on the dates of transactions.

Monetary assets or liabilities denominated in foreign currencies are translated at the exchange rates prevailing on the balance sheet date, and the resulting exchange differences are included in profit or loss for the current period.

Non-monetary assets or liabilities carried at fair value that are denominated in foreign currencies are retrans-

lated at the rates prevailing on the balance sheet date when the fair value was determined, and the resulting exchange differences are included in profit or loss for the current period except for the differences arising on the retranslation of non-monetary assets and liabilities in respect of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component of that gain or loss is also recognized directly in equity. Non-monetary assets or liabilities carried at cost that are denominated in foreign currencies are translated at the historical rates prevailing on the dates of transactions.

The above prevailing exchange rates are based on the average of bid and ask rates of principal banks.

#### **Revenue Recognition**

Revenues are recognized when the service rendering process is completed or virtually completed, and earnings are realizable and measurable. Related costs of providing services are concurrently recognized as incurred.

Service revenues from wireless services and value-added services, net of any applicable discount, are billed at predetermined rates and are recognized on the basis of minutes of usage.

#### **Promotion Expenses**

Commissions and cellular phone subsidy costs pertaining to the Corporation's promotions are recognized as marketing expenses on an accrual basis in the current period.

#### **Hedging Derivative Financial Instruments**

The interest rate swap contracts which the Corporation entered into to manage its exposure to the interest rate risk are designated as a cash flow hedge. The hedging instrument is measured at fair value, and the change of fair value is recognized directly in equity and will be recognized as profit or loss when the hedged forecast transaction affects profit or loss. If the cumulative net loss recognized in equity is regarded as irrecoverable, it is immediately recognized as a loss in the current period.

#### **Reclassification**

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2006.

### 3. REASONS AND EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

Effective January 1, 2006, the Corporation adopted newly issued SFAS No. 34, "Accounting for Financial Instruments," SFAS No. 36, "Disclosure and Presentation of Financial Instruments," and the revisions on the related SFASs.

#### a. Effect of the first time adoption of the newly issued and revised SFASs

Upon adoption of the newly issued and revised SFASs, the Corporation appropriately reclassified the financial assets and liabilities, including derivatives. The adjustments to the carrying values of the financial instruments at fair value through profit or loss were recorded in the cumulative effect of changes in accounting principles, and those of the available-for-sale financial assets measured at fair value and of the derivatives for cash flow hedge were recorded in equity.

The effect of the first time adoption of these SFASs is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized in Equity (Net of Tax)
Financial assets at fair value through profit or loss	\$35	\$-
Available-for-sale financial assets	-	2,082,823
Hedging derivative financial liabilities	-	(248,184)
	<u>\$35</u>	<u>\$1,834,639</u>

The changes in accounting policy resulted in a decrease in income from continuing operations of \$35 thousand for the year ended December 31, 2006, but had no effect on net income and earnings per share (net of tax).

#### b. Reclassifications by the adoption of these SFASs

The accounting policies applied in measuring financial instruments in 2005 that differ from 2006 are described as follows:

##### (a) Short-term investments

Short-term investments are carried at the lower of aggregate cost or market value, and the loss on market value decline is recognized in current

income. The market values of the investment in listed stocks are determined based on the average closing prices in the last month of an accounting period.

##### (b) Long-term investments accounted for using cost method denominated in foreign currencies

The long-term investments accounted for using cost method denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. If the translated amount is less than the original cost amount, the resulting exchange differences are recognized as the cumulative translation adjustments in equity. If the translated amount is higher, no adjustment is made.

##### (c) Interest rate swap contracts

The notional amounts of interest rate swap contracts, which are used for non-trading purposes, are not recognized in the financial statements because these contracts do not require initial settlements. However, a memorandum entry is made to note the transaction.

Due to the adoption of new and amended SFASs starting from January 1, 2006, certain accounts in the financial statements as of and for the six months ended June 30, 2005 have been reclassified as follows to conform to the presentation of the financial statements as of and for the six months ended June 30, 2006.

	Before Reclassification	After Reclassification
Balance sheet		
Short-term investments	\$9,877,177	\$-
Long-term investments	3,858,308	-
Financial assets at fair value through profit or loss	-	600,000
Available-for-sale financial assets	-	9,277,177
Financial assets carried at cost	-	3,858,308

Starting on January 1, 2006, the Corporation adopted newly revised SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5, "Long-term Investments in Equity Securities," and SFAS No. 25, "Business Combinations - Accounting Treatment under Purchase Method." These revisions primarily included that goodwill is no longer amortized and that the difference between the cost of acquisition and the equity in the investee's net asset value is



subjected to an initial analysis. If defined as goodwill, the difference is no longer amortized but instead tested annually for impairment. These adoptions had no effect on the income from continuing operations and the cumulative effect of changes in accounting principle for the year ended December 31, 2006.

#### 4. CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Short-term notes and bills with resale rights	\$5,180,248	\$-
Time deposits	2,306,051	1,213,252
Cash in banks	680,131	336,206
Cash on hand	32,503	28,530
Revolving funds	3,530	3,097
Government bonds with resale rights	-	7,516,919
	<u>\$8,202,463</u>	<u>\$9,098,004</u>

#### 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

Information on the financial assets held for trading is as follows:

	December 31	
	2006	2005
Financial assets held for trading		
Beneficiary certificates		
Cash in banks	\$11,109,207	\$600,000

#### 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	December 31	
	2006	2005
Domestic listed stocks		
Chunghwa Telecom Co., Ltd.	\$162,893	\$9,277,177

In the year ended December 31, 2006, the Corporation recognized a gain of \$2,110,978 thousand from selling 200,000 thousand shares of Chunghwa Telecom Co., Ltd.

#### 7. ACCOUNTS RECEIVABLE - THIRD PARTIES

	December 31	
	2006	2005
Accounts receivable	\$5,529,384	\$5,411,935
Less allowance for doubtful accounts	<u>(461,630)</u>	<u>(392,518)</u>
	<u>\$5,067,754</u>	<u>\$5,019,417</u>

For the third quarter of 2006, the Corporation entered into an accounts receivable factoring contract with HC Asset Management Co., Ltd. The Corporation sold \$5,743,279 thousand of the overdue accounts receivable, which had been written off, to HC Asset Management Co., Ltd. The aggregate selling price was \$229,731 thousand. Under this contract, the Corporation would no longer assume the risk on this receivable.

#### 8. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2006		2005	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
TransAsia Telecommunications Inc. (TAT, formerly TAT International Telecommunications Co., Ltd.)	\$14,009,973	100	\$-	-
Taiwan Cellular Co., Ltd. (TCC, formerly Taihsing Den Syun Co., Ltd.)	3,877,659	100	3,781,996	100.00
TransAsia Telecommunications Inc. (former TAT)	-	-	12,458,466	92.32
Taiwan Cellular Co., Ltd. (former TCC)	-	-	992,550	99.99
	<u>\$17,887,632</u>		<u>\$17,233,012</u>	

**a. TransAsia Telecommunications Inc.**

On January 26, 2006, the Corporation established TAT International Telecommunications Co., Ltd. (TATIT) and acquired 100% equity in TATIT with 328,645 thousand shares of TransAsia Telecommunications Inc. (the former TAT). TATIT's Board of Directors proposed, on January 26, 2006, and decided, on June 15, 2006, to merge the former TAT with TATIT, with TATIT as the surviving company. TATIT thus assumed all the former TAT's rights and obligations and was renamed as TransAsia Telecommunications Inc. (TAT) on the record date, June 27, 2006. TAT mainly provides wireless services.

**b. Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)**

Through a series of share purchases between August 2004 and August 2005, the Corporation acquired 94.28% equity (255,079 thousand shares) in Mobitai Communications Inc. (the former Mobitai) for \$3,440,452 thousand. On September 8, 2005, the Corporation established Taihsing Den Syun Co., Ltd. (TDS) and acquired 100% equity in TDS with 255,079 thousand of the former Mobitai's shares and \$250,000 thousand in cash. TDS mainly provides equipment installation and IT services.

On November 3, 2005, TDS established Tai Ya International Telecommunications Co., Ltd. (TYIT) and acquired 100% equity in TYIT with 255,079 thousand of the former Mobitai's shares. TYIT's Board of Directors decided, on November 3, 2005, to merge the former Mobitai with TYIT, with TYIT as the surviving company. The record date of the merger was January 1, 2006. TYIT thus assumed all Mobitai's rights and obligations and was renamed as Mobitai Communications (Mobitai) on the record date. Mobitai mainly provides wireless services.

To integrate enterprise resources and enhance operating efficiency, TDS's Board of Directors decided, on March 30, 2006, to merge Taiwan Cellular Co., Ltd. (the former TCC) for \$1,527,583 thousand at NT\$33.85 per share, with TDS as the surviving company. TCC, incorporated in November 1997, is engaged in general investing activities. The record date of the merger was May 1, 2006. TDS thus assumed all of TCC's rights and obligations and was renamed as Taiwan Cellular Co., Ltd. (TCC).

On March 30, 2006, TCC's Board of Directors decided to reduce TCC's capital by \$1,119,715 thousand, resulting in the cancellation of 111,972 thousand shares and the return to investors of their cash investments. On the record date (June 1, 2006), the Corporation was entitled to receive \$1,119,715 thousand based on its equity of 100% in TCC.

The board of directors of TCC resolved the stock issuance of 50,000 thousand shares with par value of \$10 dollars each for cash injection on October 26, 2006. On the record date (October 31, 2006), the Corporation subscribed for all the shares and TCC was still wholly-owned subsidiary.

**c. Company liquidated**

The Corporation's subsidiaries, Tai Hung Investment Ltd., Tai Fu Investment Ltd., T.I. Investment Ltd. and Tai Hsuo Investment Ltd., adopted resolutions for their liquidations, which were completed in December 2005.

**d. Taiwan Fixed Network Co., Ltd.**

Previously, although the Corporation's equity ownership in Taiwan Fixed Network Co., Ltd. (TFN) was less than 20%, the equity method was applied because of the Corporation's significant influence over TFN. The investment income or loss was recognized using the treasury stock method for the reciprocal investments between TFN and the Corporation. On July 19, 2005, however, the Corporation lost its significant influence over TFN and thus changed the accounting treatment to the cost method. On January 1, 2006, the Corporation reclassified its equity in TFN under the financial asset carried at cost.

**e. Equity in investees' net gains or losses**

The carrying value of the investments under equity method and the related investment income or losses were determined on the basis of audited financial statements. The Corporation's investment income or losses were as follows:

	2006	2005
TAT	\$1,551,510	\$-
TCC (formerly TDS)	1,160,351	(87,303)
The former TCC (formerly Taihs-ing Den Den Co., Ltd.)	31,198	37,123
The former TAT	(1)	1,998,251
The former Mobitai	-	272,488
TFN	-	(96,979)
Tai Hung Investments Ltd.	-	23,818
T.I. Investment Ltd.	-	20,923
Tai Hsuo Investments Ltd.	-	(19,976)
Tai Fu Investments Ltd.	-	4,439
Taiwan Elitec Corporation	-	(1,817)
	<u>\$2,743,058</u>	<u>\$2,150,967</u>

#### f. Asset impairment

In conformity with the SFAS No. 35 - "Accounting for Asset Impairment," the Corporation and subsidiaries identified the Corporation, the former TAT and the former Mobitai, the subsidiary of TYIT, as the smallest identifiable group of cash-generating units. The former TAT and the former Mobitai mainly provide second-generation GSM wireless communication services. As of December 31, 2005, goodwill amounting to \$5,881,350 thousand and \$532,679 thousand was allocated to the carrying values of the operating assets of the former TAT and the former Mobitai, respectively. The recoverable amounts were measured by the asset values in use under the following critical assumptions, which indicated no asset impairment when the recoverable amounts were compared with the former TAT's and the former Mobitai's carrying values:

(a) Assumptions on operating revenues

After taking changes in the telecom industry and competitive landscape into consideration, operating revenues were estimated based on projected changes in subscriber numbers, minutes of incoming and outgoing calls and average revenue per minute.

(b) Assumptions on operating costs and expenses

The estimates of commissions, customer retention costs, customer service costs and bill processing costs were based on the projected changes in subscriber numbers. The estimates of remaining costs and expenses were based on the proportion of the

actual costs and expenses to operating revenues in the 2005 financial statements.

- (3) The Corporation used the discount rates of 7.63% and 8.72% in calculating the asset recoverable amounts of the former TAT and the former Mobitai, respectively.

## 9. FINANCIAL ASSETS CARRIED AT COST - NON-CURRENT

	December 31	
	2006	2005
Domestic emerging stocks		
TFN	\$3,700,944	\$3,826,148
Foreign unlisted stocks		
Bridge Technologies Mobile Pte Ltd.	32,160	32,160
	<u>\$3,733,104</u>	<u>\$3,858,308</u>

The above investments in stocks are measured at cost because there is no active market and reliable fair value.

## 10. PROPERTY AND EQUIPMENT - ACCUMULATED DEPRECIATION

	December 31	
	2006	2005
Buildings	\$277,685	\$203,180
Telecommunication equipment	23,811,758	20,928,068
Office equipment	42,478	32,228
Leased assets	292,461	228,651
Miscellaneous equipment	<u>588,790</u>	<u>345,044</u>
	<u>\$25,013,172</u>	<u>\$21,737,171</u>

Interest expenses capitalized for the years ended December 31, 2006 and 2005 amounted to \$11,647 thousand and \$71,194 thousand, respectively, with interest rates ranging from 2.28% to 3.12% and from 2.64%-3.60%, respectively.

## 11.ASSETS LEASED TO OTHERS AND IDLE ASSETS

	December 31	
	2006	2005
Assets leased to others		
Cost	\$744,476	\$2,042,895
Less accumulated depreciation	(35,134)	(250,984)
Less accumulated impairment	(10,591)	(10,591)
	<u>\$698,751</u>	<u>\$1,781,320</u>
Idle assets		
Cost	\$2,674,530	\$2,728,439
Less accumulated depreciation	(724,710)	(727,416)
Less accumulated impairment	(1,721,899)	(1,739,594)
	<u>\$227,921</u>	<u>\$261,429</u>

The impairment losses of idle buildings and equipment were determined based on their appraised values and net realizable value, respectively, and the Corporation recognized impairment losses of \$2,005 thousand and \$105,870 thousand for the years ended December 31, 2006 and 2005, respectively.

## 12.DEFERRED CHARGES

	December 31	
	2006	2005
Interior decoration	\$267,738	\$149,018
Computer software	64,187	106,840
Other	12,754	75,532
	<u>\$344,679</u>	<u>\$331,390</u>

## 13.BONDS PAYABLE

	December 31			
	2006		2005	
	Current	Non-current	Current	Non-current
Domestic secured bonds	\$-	\$-	\$1,500,000	\$-
Domestic unsecured bonds	3,750,000	10,000,000	1,250,000	13,750,000
1st domestic unsecured convertible bonds	-	-	1,480,000	-
2nd domestic unsecured convertible bonds	55,900	-	-	747,300
Add accrued interest compensation	<u>8,548</u>	<u>-</u>	<u>313,020</u>	<u>86,825</u>
	<u>\$3,814,448</u>	<u>\$10,000,000</u>	<u>\$4,543,020</u>	<u>\$14,584,125</u>

#### a. Domestic secured bonds

On February 1, 2001, the Corporation issued \$3,000,000 thousand of five-year domestic secured bonds, with each bond having a face value of \$1,000 thousand with a coupon rate of 5.31% per annum. The bonds will be redeemed in the fourth and fifth years after the issuance date at \$1,500,000 thousand for each of those years. Interest is payable annually. The bonds were repaid by the Corporation in February 2006.

The bond covenant requires the Corporation to maintain its year-end current ratio at above 100%, debt-to-equity ratio at below 100% and solvency ratio  $[(\text{Net income} + \text{Depreciation} + \text{Amortization} + \text{Interest expense})/(\text{Long-term bank loan repayments} + \text{Interest expense})]$  at above 150%.

#### b. Domestic unsecured bonds

On December 13, 2002, the Corporation issued \$15,000,000 thousand of domestic unsecured bonds, with each bond having a face value of \$5,000 thousand. The bonds have four different types based on terms and dates. Types I and II both consist of A to L tranches. Types III and IV both consist of A to M tranches. Types I and II are five-year bonds and Types III and IV are seven-year bond. The interest rates and payment terms are as follows:

	Principal	Rate	Terms
Type I	\$2,500,000	2.60%	Repayment of \$1,250,000 thousand each in the fourth and fifth years, interest payable annually
Type II	2,500,000	5.21%-6M LIBOR	Repayment on maturity date, interest payable semiannually
Type III	5,000,000	2.80%	Repayment of \$2,500,000 thousand each in the sixth and seventh years, interest payable annually
Type IV	<u>5,000,000</u>	5.75%-6M LIBOR	Repayment on maturity date, interest payable semiannually
	<u>\$15,000,000</u>		

#### c. 1st domestic convertible bonds

On August 25, 2001, the Corporation issued \$10,000,000 thousand of five-year domestic convertible bonds, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period, starting from 3 months after the issuance date to the 10th day before maturity, the bondholders may ask for bond conversion into common stocks or entitlement certificates of the Corporation. Cash is paid for those bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$22.2 per share since July 20, 2006. As of August 24, 2006, bonds amounting to \$6,802,300 thousand had been converted to 226,716 thousand of common share. As of August 24 (due date), 2006, bonds amounting to \$3,194,400 thousand were purchased and canceled by the Corporation, and the other \$3,300 thousand was repaid by the Corporation on August 24, 2006.

If the closing price of the Corporation's share is above 50% of the conversion price for 30 consecutive trading days of the Taiwan Stock Exchange from 3 months after bond issuance to the 40th day before maturity, the Corporation has the option to convert the bonds to entitlement certificates at the conversion price or to redeem the bonds by cash at face value. If the total value of outstanding convertible bonds becomes less than 10% of the total principal, the Corporation also has the option, at any time, to convert the bonds to entitlement certificates at the conversion price or to redeem the bonds by cash at face value.

On the third year after the issuance date, the holders may redeem the bonds by cash at face value plus interest accrued, which is 113.3% of face value calculated based on an implied yield rate of 4.25%. Upon maturity, the Corporation will redeem the bonds by cash at face value plus interest accrued, which is 124.62% of face value, calculated based on an implied yield rate of 4.5%.

#### d. 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued \$6,000,000 thousand of five-year domestic convertible bonds, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to the 10th day

before maturity, the bondholders may have the bonds converted into common stocks of the Corporation. Cash is paid for bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$23.6 per share since July 20, 2006. As of December 31, 2006, bonds amounting to \$5,399,400 thousand have been converted to \$209,271 thousand of common shares. Bonds amounting to \$544,700 thousand were purchased and canceled by the Corporation.

If the closing price of the Corporation's share is above 50% of the conversion price for 30 consecutive trading days of the Taiwan Stock Exchange from 3 months after bond issuance to the 40th day before maturity, the Corporation has the option to convert the bonds to common stocks at conversion price or to redeem the bonds by cash at face value. If the total value of outstanding convertible bonds becomes less than 10% of the total principal, the Corporation also has the option - from 3 months after bond issuance to the 40th day before maturity - to convert the bonds to common stocks at the conversion price or to redeem the bonds by cash at face value.

On the third year after the issuance date, the holders may redeem the bonds by cash at face value plus interest accrued, which is 109.59% of face value, calculated based on an implied yield rate of 3.1%. Upon maturity, the Corporation will redeem the bonds by cash at face value plus interest accrued, which is 117.63% of face value, calculated based on implied yield rate of 3.3%.

Future repayments of corporate bonds, excluding convertible bonds, are as follows:

Year	Amount
2007	\$3,750,000
2008	2,500,000
2009	7,500,000
	<u>\$13,750,000</u>

## 14. LONG-TERM BANK LOANS

The loans were to mature on September 1, 2010, with interest payable monthly. The Corporation made an early repayment of all long-term bank loans in the second quarter of 2005.

## 15. PENSION PLAN

The Labor Pension Act (LPA) became effective on July 1, 2005. Employees on board before June 30, 2005 may choose to continue to be subject to the pension plan under the Labor Standards Act (LSA) or be subject to the new pension plan under LPA, with their service years accumulated as of July 1, 2005 to be retained and subject to the pension plan under LSA. Starting from July 1, 2005, new employees may only choose to be subject to the new pension plan under LPA.

The new LPA provides for a defined contribution pension plan. Starting from July 1, 2005, the Corporation should contribute monthly an amount equal to 6% of the employees' monthly wages to the employees' individual pension accounts. The Corporation recognized a pension cost of \$84,629 thousand for the years ended December 31, 2006.

The LSA provides for a defined benefit pension plan. Benefits are based on the length of service and average basic pay of the six months before retirement. The Corporation contributes monthly an amount equal to 2% of the employees' monthly wages to a pension fund. The pension fund is managed by an independently administered pension fund committee and deposited in the committee's name in the Central Trust of China.

Information on the defined benefit pension plan is summarized as follows:

**a. Pension cost**

	Years Ended December 31	
	2006	2005
Service cost	\$2,946	\$19,872
Interest cost	6,520	4,571
Projected return of pension assets	(6,785)	(4,290)
Amortization	(2,868)	(3,486)
Pension cost	<u>\$(187)</u>	<u>\$16,667</u>

**b. Changes in the prepaid (accrued) pension cost**

	Years Ended December 31	
	2006	2005
Benefit obligation		
Vested	\$-	\$-
Non-vested	(165,054)	(157,928)
Accumulated	(165,054)	(157,928)
Additional benefits based on future salaries	(111,718)	(102,878)
Projected benefit obligation	(276,772)	(260,806)
Fair value of plan assets	362,224	258,701
Funded status	85,452	(2,105)
Unrecognized net transition obligation	8,271	8,786
Unrecognized net gain or loss	(92,526)	(102,836)
Prepaid pension cost (accrued pension cost)	<u>\$1,197</u>	<u>\$(96,155)</u>

For the year ended in December 31, 2005, a portion of the above ending balance was recorded as accrued pension cost, and the other portion, as accrued expenses.

**c. A portion of the above ending balance was recorded as accrued pension cost, and the other portion, as accrued expenses.**

	Years Ended December 31	
	2006	2005
Vested benefits	\$-	\$-

**d. Actuarial assumptions**

	Years Ended December 31	
	2006	2005
Discount rate used in determining present values	2.75%	2.50%
Future salary increase rate	2.50%	2.50%
Expected rate of return on plan assets	2.75%	2.50%

**16.SHAREHOLDERS' EQUITY****a. Capital surplus**

Under the Company Law, capital surplus may only be used to offset a deficit. However, capital surplus generated from the excess of the issue price over the par value of capital stock, including the stock issued for new capital and the buyback of treasury stock, may be transferred to capital as stock dividends, and this transfer is restricted to a certain percentage of the capital surplus and may be made only within prescribed limits each time.

**b. Appropriation of earnings and dividend policy**

The Corporation's Articles of Incorporation provide that a 10% legal reserve should be set aside from the annual net income after the reduction of accumulated deficit. The remainder, less special reserve based on relevant laws or regulations or business requirements, should be distributed as follows:

- Dividends and bonus to preferred shareholders
- Remuneration to directors and supervisors - up to 0.3%
- Bonus to employees - 1%-3%
- Remainder, to be appropriated as dividends as determined in the shareholders' meeting.

The Corporation's dividend distribution is based on the availability of excess funds. That is, the Corpora-



tion first projects future capital needs through a capital budgeting process and then provides for the projected capital needs by using retained earnings. Any remainder is available for dividend distribution. However, the amount of stock dividends should not be more than 80% of the total dividends to be distributed in a single year. The final amount, type and percentage of the dividends are subject to the approval by the Board of Directors and shareholders based on actual earnings and capital requirements of the Corporation in a particular year.

A regulation issued by the Securities and Futures Bureau requires a special reserve be made from the unappropriated earnings, equivalent to the debit balance of any account shown in shareholders' equity. The special reserve appropriated to be reversed to the extent that the net debit balance reverses.

The appropriation of earnings should be resolved by the shareholders in the following year and given effect to in the financial statements of that year.

Under the Integrated Income Tax System, ROC resident shareholders are allowed a tax credit for the income tax paid by the Corporation. An imputation credit account (ICA) is maintained by the Corporation for such income tax and the tax credit allocated to each shareholder.

The 2005 and 2004 earnings appropriations resolved by the shareholders in their meeting on June 15, 2006 and June 14, 2005 were as follows:

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	For Fiscal Year 2005	For Fiscal Year 2004	For Fiscal Year 2005	For Fiscal Year 2004
Appropriation of legal reserve	\$1,623,670	\$1,665,416		
Appropriation of special reserve	1,150,000	2,201,631		
Reversal of special reserve	(1,631)	-		
Remuneration to directors and supervisors	40,394	63,936		
Cash bonus to employees	403,940	383,613		
Cash dividends	<u>12,843,997</u>	<u>12,126,821</u>	\$2.61677	\$2.47302
	<u>\$16,060,370</u>	<u>\$16,441,417</u>		

Had the above bonus to employees and remuneration to directors and supervisors been charged against income in 2006 and 2005, the basic earnings per share in that year would have decreased from NT\$3.31 and NT\$3.55 to NT\$3.22 and NT\$3.46 respectively.

The appropriation of the Corporation's 2006 earnings had not been proposed by the Board of Directors as of January 11, 2007, the independent auditors' report date. Information on the appropriation of 2006 earnings proposed by the Board of Directors and resolved by the shareholders can be accessed through the Market Observation Post System on the Taiwan Stock Exchange Corporation's website.

### C. Treasury stock

Shares in Thousands

Purpose of Buyback	Beginning Shares	Increase	Decrease	Ending Shares
Year ended December 31, 2006				
To be transferred to employees	11,551	57,804	22,818	46,537
Year ended December 31, 2005				
To be transferred to employees	65,368	11,551	65,368	11,551



For the year ended December 31, 2006, the Corporation transferred the treasury stock through various tranches to employees at 22,818 thousand shares at NT\$30.47 and 28.17 per share, respectively, resulting in a reduction of retained earnings, amounting to \$57,372 thousands.

For the year ended December 31, 2005, the Corporation transferred 65,368 thousand shares of treasury stock through various tranches to employees at NT\$25.65, \$25.54, \$25.5 and \$25.48 per share, respectively, resulting in a reduction of retained earnings, amounting to \$173,981 thousand.

Under the Securities and Exchange Law, the buyback amount of treasury stock should not exceed 10% of total issued shares, and the buyback cost should not exceed the sum of the retained earnings, additional paid-in capital in excess of par value and realized capital surplus. In addition, the Corporation should not provide treasury stock as collateral and should not exercise shareholders' rights on those shares before transfer.

#### **d. Unrealized gains (losses) on financial instruments**

Unrealized gains or losses on financial instruments for the year ended December 31, 2006 were summarized as follows:

	<b>Year Ended December 31, 2006</b>
Available-for-sale financial assets	
Effect of the first time adoption of new issued SFASs	\$2,082,823
Fair value changes recognized directly in equity	68,807
Transfer to current gains or loss upon sales of financial assets	(2,110,978)
	<u>40,652</u>
Changes in unrealized gains (losses) of cash flow hedge	
Effect of the first time adoption of new issued SFASs	(248,184)
Fair value changes recognized directly in equity	29,900
	<u>(218,284)</u>
Recognition of investees' changes in unrealized gains or losses by the equity method	30,209
	<u>\$(147,423)</u>

## **17. INCOME TAX EXPENSE**

#### **a. The reconciliation of imputed income taxes on pretax income at statutory tax rate to income tax expense was as follows:**

	<b>Years Ended December 31</b>	
	<b>2006</b>	<b>2005</b>
Tax on pretax income at statutory tax rate (25%)	\$4,369,615	\$4,577,854
Add (deduct) tax effects of		
Permanent differences		
Investment income from domestic investees accounted for under the equity method	(685,764)	(537,742)
Tax-exempt dividend income	(160,954)	(235,000)
Gain on disposal of marketable securities	(532,377)	(54,364)
Other	(26,260)	109,500
Temporary differences	471,065	27,238
Tax-exempt income	(402,696)	(2,047,741)
Income tax (10%) on unappropriated earnings	132,470	368,266
Investment tax credits	(1,108,394)	(362,436)
Deferred income tax	(922,397)	217,735
Prior year's adjustment	164,071	11,449
Tax on short-term bills	9,416	-
Income tax expense	<u>\$1,307,795</u>	<u>\$2,074,759</u>

**b. Under Article 8 of the Statute for Upgrading Industries (SUI) before the SUI amendment in 1999, the Corporation is considered an important technology-based enterprise. Thus, the Corporation's net operating income generated from the following expansion of its equipment is exempt from income tax for five years during the period specified, as approved by the Ministry of Finance.**

Equipment Expansion Projects	Tax-Exempt Period
Switches, base transmission station (BTS) and related telecommunication equipment, acquired from July 31, 1999 to December 31, 1999	2001 to 2005
Switches, BTS and related telecommunication equipment, acquired from September 30, 2000 to September 30, 2001	2002 to 2006

**c. Deferred income tax assets and liabilities as of December 31, 2006 and 2005 were as follows:**

	December 31	
	2006	2005
Provision for doubtful accounts	\$719,412	\$623,237
Provision for impairment losses on idle assets	343,792	384,253
Unrealized loss on retirement of property and equipment	714,861	245,321
Unrealized loss on financial liabilities	72,761	-
Accrued interest compensation	2,137	99,962
Accrued pension cost	(273)	16,210
Other	2,112	-
	<u>1,854,802</u>	<u>1,368,983</u>
Less valuation allowance	<u>(305,804)</u>	<u>(815,143)</u>
	<u>\$1,548,998</u>	<u>\$553,840</u>
Deferred income tax assets		
Current	\$102,814	\$83,561
Non-current	1,446,184	470,279
	<u>\$1,548,998</u>	<u>\$553,840</u>
d. Integrated income tax information was as follows:		
Balance of imputation credit account (ICA)	<u>\$1,091,242</u>	<u>\$1,532,065</u>

As of December 31, 2006, there were no unappropriated earnings generated before January 1, 1998. The actual creditable ratio applied to the 2006 and 2005 earnings appropriation were 16.63% and 9.88%, respectively.

The imputation credits allocated to the shareholders are based on the ICA balance as of the date of dividend distribution. The estimated creditable ratio for the 2006 earnings appropriation may be adjusted when the imputation credits are distributed.

**e. Income tax returns through 2001 had been examined by the tax authorities. However, the Corporation disagreed with the examination result of the income tax returns from 1999 to 2001, and filed requests for reexamination.**

## 18. EARNINGS PER SHARE

The numerators and denominators used in calculating earnings per share (EPS) were as follows:

In New Taiwan Dollar

	For the Years Ended December 31			
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS				
Income from continuing operations	\$3.54	\$3.28	\$3.74	\$3.31
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$3.54</u>	<u>\$3.28</u>	<u>\$3.74</u>	<u>\$3.31</u>
Diluted EPS				
Income from continuing operations	\$3.53	\$3.26	\$3.68	\$3.26
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$3.53</u>	<u>\$3.26</u>	<u>\$3.68</u>	<u>\$3.26</u>

	Amounts (Numerator)		Shares (Denominator) (Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
For the year ended December 31, 2006					
Weighted-average number of outstanding shares			4,978,245		
Less buyback of issued shares			<u>(44,531)</u>		
Basic EPS					
Income of common shareholders	\$17,478,536	\$16,170,741	4,933,714	<u>\$3.54</u>	<u>\$3.28</u>
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	22,764	17,073	19,022		
2nd convertible bonds (with implied yield rate of 3.3%)	<u>13,483</u>	<u>10,112</u>	<u>15,298</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$17,514,783</u>	<u>\$16,197,926</u>	<u>4,968,034</u>	<u>\$3.53</u>	<u>\$3.26</u>
For the year ended December 31, 2005					
Weighted-average number of outstanding shares			4,941,187		
Less buyback of issued shares			<u>(42,936)</u>		
Basic EPS					
Income of common shareholders	\$18,311,457	\$16,236,698	4,898,251	<u>\$3.74</u>	<u>\$3.31</u>
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	84,858	63,644	69,753		
2nd convertible bonds (with implied yield rate of 3.3%)	<u>35,242</u>	<u>26,432</u>	<u>39,736</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$18,431,557</u>	<u>\$16,326,774</u>	<u>5,007,740</u>	<u>\$3.68</u>	<u>\$3.26</u>

## 19. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	For the Year Ended December 31					
	2006			2005		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Labor cost						
Salary	\$416,853	\$1,205,679	\$1,622,532	\$326,589	\$950,519	\$1,277,108
Labor and health insurance	25,649	69,301	94,950	22,805	50,347	73,152
Pension	23,769	61,048	84,817	14,939	33,585	48,524
Other	27,567	83,302	110,869	28,034	66,041	94,075
	<u>\$493,838</u>	<u>\$1,419,330</u>	<u>\$1,913,168</u>	<u>\$392,367</u>	<u>\$1,100,492</u>	<u>\$1,492,859</u>
Depreciation	\$5,104,861	\$381,362	\$5,486,223	\$4,372,515	\$259,001	\$4,631,516
Amortization	769,424	132,091	901,515	583,341	108,474	691,815

## 20. FINANCIAL INSTRUMENT TRANSACTIONS

### a. Fair value information

	December 31			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$11,109,207	\$11,109,207	\$600,000	\$600,035
Available-for-sale financial assets	162,893	162,893	9,277,177	11,360,000
Liabilities				
Bonds payable (including current portion)	13,814,448	13,741,839	19,127,145	19,240,182
<u>Derivative financial instruments</u>				
Liabilities				
Interest rate swap contracts	291,046	291,046	-	330,912

Effective January 1, 2006, the Corporation adopted newly issued SFAS No. 34, "Accounting for Financial Instruments," and, therefore, the derivative financial instruments were not recognized in the 2005 financial statements. Please refer to Note 3 for the related description of the cumulative effect of changes in accounting principle and the adjustments in equity as a result of the adoption of newly issued SFASs.

**b. The methods and significant assumptions applied in determining fair values of financial instruments were as follows:**

- (a) Financial assets at fair value through profit or loss and available-for-sale financial assets - based on quoted prices in an active market on the balance sheet date.
- (b) Because there is no active market and a reliable fair value could only be verified at a more than reasonable cost, the fair values of investments in unlisted stocks carried at cost or accounted for using equity method can not be estimated.
- (c) Bonds payable - based on the over-the-counter quotations in December.
- (d) Derivative financial instruments - based on valuation results provided by banks. As of December 31, the financial instrument held by the Corporation turned into financial liability, evaluated by the bid price of counter party.
- (e) The above financial instruments do not include cash and cash equivalents, notes and accounts receivables, pledged time deposits, refundable deposits, notes and accounts payable and guarantee deposits. Because of the short maturities of these instruments, the carrying values represent a reasonable basis to estimate fair values.

**c. The fair values of financial assets and liabilities were not simultaneously determined by quoted prices in active markets and by estimations using valuation technique.**

**d. The financial assets exposed to fair value interest rate risk amounted to \$7,496,299 thousand and \$8,740,171 thousand as of December 31, 2006 and 2005, respectively, and the financial liabilities exposed to fair value interest rate risk amounted to \$6,314,448 thousand and \$11,627,145 thousand as of December 31, 2006 and 2005, respectively. The financial assets exposed to cash flow interest rate risk amounted to \$673,136 thousand and \$309,220 thousand as of December 31, 2006**

**and 2005, respectively, and the financial liabilities exposed to cash flow interest rate risk amounted to \$7,791,046 thousand and \$7,830,912 thousand as of December 31, 2006 and 2005, respectively.**

**e. Information on financial risks:**

**(a) Market risk**

The interest rate swap (IRS) contracts are used to hedge interest rate fluctuation on its liabilities with anti-floating interest rates. Since the interest receivable and payable are settled at net amounts on the settlement date. The market risk is immaterial.

**(b) Credit risk**

Credit risk represents the potential impacts to financial assets that the Corporation might encounter if counter-parties or third parties breach the contracts. Factors that affect the impacts include credit risk concentration, components of financial instruments, contract amount and other receivables. The Corporation's evaluation of credit risk exposure as of December 31, 2006 and 2005 were both zero because all of counter-parties are reputable financial institutions with good credit ratings. The Corporation's maximum credit risk exposure of each financial instrument is the same as its carrying value.

The credit risk amount listed above is an evaluation over the contracts with positive fair value at the balance sheet date and the contracts of off-balance-sheet commitments and guarantees. Significant concentration of credit risk exists when counter-parties in financial instrument transactions significantly concentrate on one individual, or when there are a number of counter-parties in financial instrument transactions, but these counter-parties are engaged in similar business activities and have similar economic characteristics so that their abilities to perform contractual obligations would be concurrently affected in similar economic changes or other situations. The characteristics of credit risk concentration include the nature of the debtors' operating activities. The Corporation does not rely significantly on single transaction and transact with single client or in the same region.

**(c) Liquidity risk**

The Corporation entered into IRS transactions to hedge cash flow risks. Because the IRS contracts are settled at net amounts, the expected cash demand is insignificant. The Corporation has sufficient operating capital to meet cash demand.

**f. The purpose of derivative financial instruments held or issued and the strategies to meet the purpose**

The Corporation uses IRS contracts to hedge fluctuation on its liabilities with anti-floating interest rates.

The overall purpose of these contracts is to hedge the Corporation's exposure to cash flow risks. The Corporation uses interest rate swaps to hedge interest rate fluctuation risk and periodically evaluates the effectiveness of the hedging instruments.

## 21. RELATED-PARTY TRANSACTIONS

**a. The related parties and their relationships with the Corporation were as follows:**

Related Party	Relationship with the Corporation
Taiwan Cellular Co., Ltd. (TCC; formerly Taihsing Den Syun Co., Ltd.)	Subsidiary
TransAsia Telecommunications Inc. (TAT; formerly TAT International Telecommunications Co., Ltd.)	Subsidiary
Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Subsidiary
Mobitai Communications (Mobitai; formerly Tai Ya International Telecommunications Co., Ltd. (TYIT))	Subsidiary (merged with the former Mobitai on January 1, 2006 and renamed as Mobitai Communications)
TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary
TT&T Life Insurance Agency Co., Ltd.	Subsidiary
TWM Holding Co., Ltd. (formerly Simax Investment Holdings Ltd.)	Subsidiary
TT&T Holdings Co., Ltd.	Subsidiary
Dalian Xinkai Teleservices & Technologies Ltd.	Subsidiary (all shares were sold in July 2006)
Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary
Taiwan Mobile Foundation (TWM Foundation)	Over one third of the Foundation's issued fund came from the Corporation
Howin Technologies Co., Ltd. (HTC)	Equity-method investee of TCC (formerly Taihsing Den Syun Co., Ltd.) and the former TAT (all shares were sold in June 2006)
Tai Yi Digital Broadcasting Co., Ltd.	Equity-method investee under control of TCC (formerly Taihsing Den Syun Co., Ltd.)
Fubon Life Assurance Co., Ltd.	Same chairman
Fubon Securities Investment Trust Co., Ltd.	Related party in substance
Chung Hsing Constructions Co., Ltd.	Related party in substance
Taiwan Fixed Network Co., Ltd. (TFN)	Related party in substance
Fubon Land Development Co., Ltd.	Related party in substance

(Continued)

Related Party	Relationship with the Corporation
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	Related party in substance
Fubon Securities Co., Ltd. (FSC)	Related party in substance
Fubon Insurance Co., Ltd. (Fubon Ins.)	Related party in substance
T.I. Investment Ltd.	Subsidiary (liquidated in December 2005)
Tai Hsuo Investment Ltd.	Subsidiary (liquidated in December 2005)
Tai Fu Investment Ltd.	Subsidiary (liquidated in December 2005)
Tai Hung Investment Ltd.	Subsidiary (liquidated in December 2005)
Taiwan Telecom (Aust) Pty Ltd.	Subsidiary (liquidated in November 2005)
The Tele-World Shop Pte Ltd.	Indirect investee under Corporation's control (liquidated in July 2005)
Mobitai Communications (the former Mobitai)	Subsidiary (merged into TYIT on January 1, 2006)
Taiwan Tele-Shop Co., Ltd. (TTS)	Subsidiary (merged into the former TCC on June 30, 2005)
Taiwan Elitec Corporation (TEC)	Subsidiary (merged into the Corporation on March 30, 2005)
Supreme-Tech (Aust) Pty Ltd.	Subsidiary (liquidated in January 2005)
Taiwan Cellular Co., Ltd. (the former TCC)	Subsidiary (merged into TCC (formerly Taihsing Den Syun Co., Ltd.) on May 1, 2006)
TransAsia Telecommunications Inc. (the former TAT)	Subsidiary (merged into TATIT on June 27, 2006)

(Concluded)

**b. Significant transactions with related parties were summarized below:**

(a) Operating revenues

	2006		2005	
	Amount	% of Total Revenues	Amount	% of Total Revenues
TFN	\$1,411,029	3	\$1,330,153	3
TAT (including the former TAT)	693,059	1	1,478,940	3
Mobitai	285,079	1	-	-
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	19,771	-	24,818	-
The former Mobitai	-	-	652,632	1
TT&T	-	-	15,471	-
	<u>\$2,408,938</u>		<u>\$3,502,014</u>	

The Corporation rendered telecommunication services to the above companies. The average collec-

tion period for notes and accounts receivable was approximately two months.

(b) Operating costs

	2006		2005	
	Amount	% of Total Costs	Amount	% of Total Costs
TFN	\$868,958	4	\$854,665	4
TAT (including the former TAT)	341,755	2	633,163	3
Mobitai	193,763	1	-	-
Fubon Ins.	89,322	-	107,429	1
The former Mobitai	-	-	230,314	1
	<u>\$1,493,798</u>		<u>\$1,825,571</u>	

These companies rendered telecommunication and maintenance services to the Corporation. The average payment term for notes and accounts payable was approximately two months.

(c) Property transactions

Acquisition of property and equipment

2006		
	Description	Amount
TFN	Land and buildings	\$1,565,000
TT&T	Office equipment, miscellaneous equipment and deferred charges	59,476
		<u>\$1,624,476</u>

(1) The Corporation bought a real estate from TFN based on the need for base station. Only a natural person could be the owner of the farmland due to the related regulations. The Corporation bought the farmland located in Yang-mei, Taoyuan for the amount of \$12,000 thousand through setting up of a fiduciary contract with the landholder in December 2006 and is applying for the change of the land category. The land was pledged as collateral to the Corporation and the Corporation uses the land for operation purpose.

(2) For the real estate bought from TFN, the transaction amount was based on the appraisal value from the appraisal institution.

2006		
	Description	Amount
TFN	Miscellaneous equipment	\$111,124
TCC (formerly Taihsing Den Den Co., Ltd.)	Land and buildings	73,407
TAT	Direct shops, office equipment and interior decoration	23,471
		<u>\$208,002</u>

The above acquisitions were made at arm's length.

Disposal of property and equipment

2006		
	Description	Amount
TFN	Land and buildings	<u>\$152,000</u>

2006		
	Description	Amount
TFN	Telecommunication equipment, miscellaneous equipment and deferred charges	<u>\$2,093,154</u>

The above disposal was made at arm's length, the transaction amount was based on the appraisal value from the appraisal institution. And it resulted in a disposal loss of \$3,848 thousand and disposal gain of \$70,085 thousand for the years ended December 31, 2006 and 2005, respectively.

(d) Rental income

	Leased Sites Equipment	2006	2005
TFN	Ji-lung Road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc.	\$27,410	\$30,187
TT&T	Tang-Cherng and Tai-Chung offices telecommunication equipment and miscellaneous equipment	34	97,280
		<u>\$27,444</u>	<u>\$127,467</u>

The above lease transactions were based on market price and rent was collected monthly.

(e) Cash in banks

December 31				
2006		2005		
Amount	%	Amount	%	

(1) Cash in banks

TFCB	<u>\$58,493</u>	1	<u>\$106,816</u>	1
------	-----------------	---	------------------	---

(2) Pledged time deposits

TFCB	<u>\$10,000</u>	100	<u>\$10,000</u>	100
------	-----------------	-----	-----------------	-----



(f) Receivables and payables

	December 31			
	2006		2005	
	Amount	%	Amount	%
(1) Accounts receivable				
TFN	\$222,747	4	\$141,698	3
TAT	80,210	1	-	-
Mobitai	29,897	1	-	-
The former TAT	-	-	152,427	3
The former Mobitai	-	-	230,606	4
Other	3696	-	3,960	-
	<u>\$336,550</u>		<u>\$528,691</u>	
(2) Other receivables				
TAT	\$139,777	28	\$-	-
Mobitai	99,075	20	-	-
FSC	8	-	43,162	6
The former Mobitai	-	-	263,663	39
The former TAT	-	-	151,629	23
The former TCC	-	-	21,810	3
Other	16,000	3	17,040	3
	<u>\$254,860</u>		<u>\$497,304</u>	
(3) Accounts payable				
TAT	\$23,937	2	\$-	-
The former TAT	-	-	17,050	1
The former Mobitai	-	-	52,478	4
	<u>\$23,937</u>		<u>\$69,528</u>	
(4) Accrued expenses				
TT&T	\$153,397	4	\$206,309	6
TFN	55,074	1	12,771	-
The former TCC	-	-	20,525	1
	<u>\$208,471</u>		<u>\$239,605</u>	
(5) Other payables				
TAT	\$96,570	3	\$-	-
Mobitai	63,717	2	-	-
TFN	44,130	1	88,835	3
The former TAT	-	-	165,360	5
The former Mobitai	-	-	39,276	1
	<u>\$204,417</u>		<u>\$293,471</u>	

(Continued)

	December 31			
	2006		2005	
	Amount	%	Amount	%

(6) Other current liabilities  
- collections and temporary credits for the following

TAT	\$202,048	23	\$-	-
Mobitai	95,468	11	-	-
TFN	34,262	4	32,822	4
TFCB	4,682	1	12,684	2
The former Mobitai	-	-	154,183	20
The former TAT	-	-	161,795	21
	<u>\$336,460</u>		<u>\$361,484</u>	

(7) Prepayments

Fubon Ins.	<u>\$70,985</u>	13	<u>\$7,029</u>	1
------------	-----------------	----	----------------	---

(Concluded)

	For the Years Ended December 31	
	2006	2005

(g) Telecommunication service expenses

TFN	<u>\$66,424</u>	<u>\$20,951</u>
-----	-----------------	-----------------

(h) Commission expenses

TT&T	\$-	\$42,804
TTS	-	29,247
	<u>\$-</u>	<u>\$72,051</u>

(i) Professional service fees

TT&T	\$992,514	\$943,912
TTS	-	156,689
	<u>\$992,514</u>	<u>\$1,100,601</u>

(j) Miscellaneous purchases

TT&T	<u>\$15,300</u>	<u>\$-</u>
------	-----------------	------------

(k) Insurance expenses

Fubon Ins.	<u>\$10,391</u>	<u>\$14,612</u>
------------	-----------------	-----------------

(l) Other expenses

TT&T	<u>\$24,109</u>	<u>\$33</u>
------	-----------------	-------------

(m) Donation

TWM Foundation	<u>\$21,000</u>	<u>\$24,400</u>
----------------	-----------------	-----------------

(o) Other

- (1) On March 8, 2005, the Corporation bought back 750 units of its outstanding 2nd domestic convertible bonds from FSC for NT\$131,800 per unit. The aggregate purchase price amounted to \$98,850 thousand and resulted in a loss of \$17,341 thousand.
- (2) On June 30, 2005, the Corporation sold 11,364 thousand shares of TTS's common shares to the former TCC at NT\$18.12 per share. The aggregate selling price was \$205,924 thousand.
- (3) For the years ended December 31, 2006 and 2005, the Corporation provided business services for service charges, which were recorded as deductions from related costs and expenses. The Corporation's service charges were as follows:

	For the Years Ended	
	December 31	
	2006	2005
The former TAT (including TAT)	\$667,254	\$710,549
The former Mobitai (including Mobitai)	375,292	205,030
	<u>\$1,042,546</u>	<u>\$915,579</u>

## 22.ASSETS PLEDGED

The assets pledged as collaterals for bank loans were as follows:

	December 31	
	2006	2005
Time deposits	\$10,000	\$10,000
Fixed assets, net carrying value	-	10,883,199
	<u>\$10,000</u>	<u>\$10,893,199</u>

## 23.COMMITMENTS AND CONTINGENT EVENTS

- a. To enhance 3G mobile communications, expand network coverage and increase the service functions, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2006. As of December 31, 2006, the above amount has not yet paid.

- b. To enhance the intensity and widen the coverage of the 3G signal and to increase the service functions and items provided by 3G mobile telecommunications, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2004. In accordance with the terms of the contract, as of December 31, 2006, payments of \$3,062,442 thousand has been made.

- c. To provide better communication quality and more diverse service functions, the Corporation entered into agreements for upgrading the existing network equipment and building IT systems with Siemens in September 2004 for US\$17,310 thousand and NT\$67,472 thousand, respectively. In accordance with the terms of the agreements, as of December 31, 2006, payments of US\$17,310 thousand and NT\$66,902 thousand have been made, respectively.

- d. Unused letters of credit for acquisition of equipment were EUR269 thousand as of December 31, 2006.

- e. Future minimum rental payments as of December 31, 2006 for significant operating lease agreements were summarized as follows:

	Amount
2007	\$26,223
2008	30,002

## 24.ADDITIONAL DISCLOSURES

Following were the additional disclosures required by the Securities and Futures Bureau for the Corporation and its investees:

- a. Financing provided: Table 1 (attached).

- b. Endorsement/guarantee provided: None.

- c. Marketable securities held: Table 2 (attached).

- d. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 3 (attached).

- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Table 4 (attached).**
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: Table 5 (attached).**
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 6 (attached).**
- h. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 7 (attached).**
- i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 8 (attached).**

**j. Derivative transactions**

The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on anti-floating interest rates of bonds, which are settled semiannually. Please refer to Note 20 for the related information.

Financial Instrument	Term	Contract Amount
Interest rate swap contracts	Floating interest rate in exchange for fixed interest rates of 2.25%	\$2,500,000
	Floating interest rate in exchange for fixed interest rate of 2.45%	5,000,000

The Corporation entered into IRS contracts to hedge anti-floating interest rate fluctuation. For the years ended December 31, 2006 and 2005, the Corporation recognized losses of \$141,434 thousand and gains of \$4,386 thousand, respectively, recorded as addition to and deduction from interest expense.

TABLE 1

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**FINANCING PROVIDED**

No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate	Type of Financing
1	TransAsia Telecommunications Inc.	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Other receivables	\$300,000	\$-	2.674%	Necessary for short-term financing

Note: The amount of financing provided, including business relationship and short-term financing, shall not exceed 20% of the net worth of the financing company.

**k. Investment in Mainland China:**

- (a) The name of the investee company in Mainland China, the main businesses and products, issued capital, method of investment, information on inflow or outflow of capital, ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Table 9 (attached).
- (b) Significant direct or indirect transactions with the investee company, prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: None.

**25.SEGMENT INFORMATION****a. Industry**

The Corporation is primarily a wireless communication services provider.

**b. Foreign operations**

The Corporation has no revenue-generating unit that operates outside the ROC.

**c. Foreign revenues**

The Corporation has no foreign revenues.

**d. Customers with revenues exceeding 10% of the total net operating revenues were as follows:**

Com- pany	2006		2005	
	Amount	Per- centage of Oper- ating Rev- enue	Amount	Per- centage of Oper- ating Rev- enue
Chunghwa Telecom Co., Ltd.	\$9,122,441	19	\$9,484,888	20

YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars)

Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Financing Limit for Each Borrow- ing Company (Note)	Financing Company's Financing Amount Limits (Note)
			Item	Value		
\$-	Operating capital	\$-	-	\$-	\$2,810,635	\$2,810,635

TABLE 2

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**MARKETABLE SECURITIES HELD**

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	
The Corporation	Beneficiary certificate		
	Fuh-Hwa Bond Fund	-	
	ABN AMRO Income Fund	-	
	ABN AMRO Bond Fund	-	
	ABN AMRO Select Bond Fund	-	
	AIG Taiwan Bond Fund	-	
	Dresdner Bond Dam Fund	-	
	Fubon Jin-Ju-I Fund	-	
	NITC Bond Fund	-	
	Prudential Financial Bond Fund	-	
	JF (Taiwan) Bond Fund	-	
	Stock		
	Chunghwa Telecom Co., Ltd.	-	
	Taiwan Fixed Network Co., Ltd.	Related party in substance	
	Bridge Mobile Pte Ltd.	-	
	TransAsia Telecommunications Inc.	Subsidiary	
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Subsidiary	
TransAsia Telecommunications Inc.	Beneficiary certificate		
	ABN AMRO Bond Fund	-	
	AIG Taiwan Bond Fund	-	
	Prudential Financial Bond Fund	-	
	JF (Taiwan) Bond Fund	-	
	Fubon Jin-Ju-I Fund	-	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Stock		
	Arcoa Communication Co., Ltd.	-	
	Taiwan Fixed Network Co., Ltd.	Related party in substance	
	Parawin Venture Capital Corp.	-	
	Transportation High Tech Inc.	-	
	WEB Point Co., Ltd.	-	
	Sunnet Technologies Co., Ltd.	-	
	Mobitai Communications	Subsidiary	
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	
	Tai Yi Digital Broadcasting Co., Ltd.	Subsidiary	
	TWM Holding Co., Ltd.	Subsidiary	
TWM Holding Co., Ltd.	ADS		
	Hurray! Holding Co., Ltd.	-	
Mobitai Communications	Stock		
	Yes Mobile Holdings Company	-	
Taiwan Teleservices & Technologies Co., Ltd.	Stock		
	TT&T Life Insurance Agency Co., Ltd.	Subsidiary	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary	
	TT & T Holdings Co., Ltd.	Subsidiary	
TT&T Holdings Co., Ltd.	Stock		
	Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary	

Note 1:Based on the investee's net value as shown in its latest financial statements.

Note 2:Based on the net asset value of the fund on December 31, 2006.

Note 3:Based on the closing price on December 31, 2006.

Note 4:As of January 11, 2007, the independent auditors' report date, the investee's net value was unavailable.

Note 5:Deducted impairment loss recognized in 2004.(Concluded)

DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars)

Financial Statement Account	December 31, 2006			
	Shares/ Units (Thousands)	Carrying Value	Percent- age of Ownership	Market Value or Net Asset Value (Note 1)
Financial assets at fair value through profit or loss - current	45,175	\$602,192	-	\$602,192 (Note 2)
Financial assets at fair value through profit or loss - current	25,387	401,917	-	401,917 (Note 2)
Financial assets at fair value through profit or loss - current	126,959	1,913,171	-	1,913,171 (Note 2)
Financial assets at fair value through profit or loss - current	35,432	401,565	-	401,565 (Note 2)
Financial assets at fair value through profit or loss - current	153,928	1,962,733	-	1,962,733 (Note 2)
Financial assets at fair value through profit or loss - current	130,038	1,506,803	-	1,506,803 (Note 2)
Financial assets at fair value through profit or loss - current	81,999	1,002,954	-	1,002,954 (Note 2)
Financial assets at fair value through profit or loss - current	17,122	2,817,260	-	2,817,260 (Note 2)
Financial assets at fair value through profit or loss - current	13,686	200,015	-	200,015 (Note 2)
Financial assets at fair value through profit or loss - current	19,702	300,597	-	300,597 (Note 2)
Available-for-sale financial assets - current	2,688	162,893	0.028	162,893 (Note 3)
Financial assets carried at cost - non-current	637,000	3,700,944	9.87	6,673,229
Financial assets carried at cost - non-current	1,000	32,160	12.50	21,543
Long-term investments - equity method	1,245,846	14,009,973	100.00	14,053,173
Long-term investments - equity method	325,000	3,877,659	100.00	3,894,039
Financial assets at fair value through profit or loss - current	46,758	\$704,606	-	\$704,606 (Note 2)
Financial assets at fair value through profit or loss - current	71,000	905,330	-	905,330 (Note 2)
Financial assets at fair value through profit or loss - current	37,966	554,861	-	554,861 (Note 2)
Financial assets at fair value through profit or loss - current	42,808	653,130	-	653,130 (Note 2)
Financial assets at fair value through profit or loss - current	12,267	150,035	-	150,035 (Note 2)
Financial assets carried at cost - non-current	6,998	67,731	5.21	- (Note 4)
Financial assets carried at cost - non-current	4,900	42,864	0.08	54,089
Financial assets carried at cost - non-current	3,000	25,144	3.00	- (Note 4)
Financial assets carried at cost - non-current	1,200	- (Note 5)	12.00	- (Note 4)
Financial assets carried at cost - non-current	803	7,084	3.17	- (Note 4)
Financial assets carried at cost - non-current	375	3,265	1.51	- (Note 4)
Long-term investments - equity method	200,000	2,499,650	100.00	2,513,562
Long-term investments - equity method	70,000	540,640	100.00	540,640
Long-term investments - equity method	2,495	24,410	49.90	24,410
Long-term investments - equity method	1 share	325,693	100.00	325,693
Available-for-sale financial assets - current	1,080	US\$6,696	5.02	US\$6,696 (Note 3)
Financial assets carried at cost - non-current	74	- (Note 5)	0.19	- (Note 4)
Long-term investments - equity method	300	\$3,021	100.00	\$3,021
Long-term investments - equity method	300	2,703	100.00	2,703
Long-term investments - equity method	1,300	41,565	100.00	41,565
Long-term investments - equity method	-	US\$1,268	100.00	US\$1,268

TABLE 3

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	
The Corporation	<u>Beneficiary certificate</u>				
	Fubon Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	
	Fubon Ju-I II Fund	Financial assets at fair value through profit or loss - current	-	-	
	Fuh-Hwa Albatross Fund	Financial assets at fair value through profit or loss - current	-	-	
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	ABN AMRO Income Fund	Financial assets at fair value through profit or loss - current	-	-	
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	ABN AMRO Select Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	Dresdner Bond Dam Fund	Financial assets at fair value through profit or loss - current	-	-	
	Fubon Chi-Shun III Fund	Financial assets at fair value through profit or loss - current	-	-	
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	
	NITC Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	NITC Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	<u>Stock</u>				
	Chunghwa Telecom Co., Ltd.	Available-for-sale financial assets - current	-	-	
	The former TransAsia Telecommunications Inc.	Long-term investments - equity method	TransAsia Telecommunications Inc.	Subsidiary	
	TransAsia Telecommunications Inc.	Long-term investments - equity method	-	Subsidiary	
	Taiwan Cellular Co., Ltd.	Long-term investments - equity method	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Subsidiary	
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Long-term investments - equity method	-	Subsidiary	

(Continued)

YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

	Beginning Balance		Acquisition		Disposal				Ending Balance	
	Shares/ Units (Thou- sands)	Amount	Shares/ Units (Thou- sands)	Amount	Shares/ Units (Thou- sands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/ Units (Thou- sands)	Amount
	25,522	\$400,000	-	\$-	25,522	\$400,145	\$400,023	\$122	-	\$-
	13,916	200,000	-	-	13,916	200,072	200,012	60	-	-
	-	-	44,641	500,000	44,641	501,202	500,000	1,202	-	-
	-	-	98,134	1,300,000	52,959	702,108	700,000	2,108	45,175	602,192 (Note 1)
	-	-	25,387	400,000	-	-	-	-	25,387	401,917 (Note 1)
	-	-	160,324	2,400,000	33,365	500,000	498,035	1,965	126,959	1,913,171 (Note 1)
	-	-	106,679	1,200,000	71,247	803,071	800,000	3,071	35,432	401,565 (Note 1)
	-	-	189,406	2,400,000	35,478	450,000	448,233	1,767	153,928	1,962,733 (Note 1)
	-	-	217,137	2,500,000	87,099	1,003,660	1,000,000	3,660	130,038	1,506,803 (Note 1)
	-	-	47,546	500,000	47,546	500,000	500,599	599	-	-(Notes 1 and 2)
	-	-	81,999	1,000,000	-	-	-	-	81,999	1,002,954 (Notes 1 and 2)
	-	-	19,872	3,250,000	2,750	450,000	448,262	1,738	17,122	2,817,260 (Note 1)
	-	-	35,789	500,000	35,789	501,496	500,000	1,496	-	-
	-	-	13,686	200,000	-	-	-	-	13,686	200,015 (Note 1)
	-	-	39,521	600,000	19,819	300,739	300,000	739	19,702	300,597 (Note 1)
	200,000	9,277,177	2,688	-	200,000	11,265,915	9,154,936	2,110,979	2,688	162,893 (Note 1)
	328,645	12,458,466	-	-	328,645	3 (Note 3)	12,458,465	1 (Note 3)	-	-(Note 3)
	-	-	1,245,846	12,458,463	-	-	-	-	1,245,846	14,009,973 (Note 4)
	44,300	992,550	-	-	44,300	-	1,504,634 (Note 5)	- (Note 5)	-	-(Note 5)
	386,972	3,781,996	50,000	500,000	-	-	-	-	325,000	3,877,659 (Note 6)



TABLE 3

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	
TransAsia Telecommunications Inc.	Beneficiary certificate				
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	
	Stock				
	The former TransAsia Telecommunications Inc.	Long-term investments - equity method	The Corporation	Ultimate parent	
Mobitai Communications	Stock				
	The former Mobitai Communications	Long-term investments - equity method	-	-	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Stock				
	Taiwan Cellular Co., Ltd.	Long-term investments - equity method	The Corporation	Ultimate parent	
	TWM Holding Co., Ltd.	Long-term investments - equity method	-	-	
TWM Holding Co., Ltd.	ADS				
	Hurray! Holding Co., Ltd.	Available-for-sale financial assets - current	-	-	

Note 1: The amount included the revaluation gain on financial assets.

Note 2: Fubon Chi-Shun III Fund merged into Fubon Jin-Ju-I Fund on October 16, 2006, held 47,331 units on the date of consolidation, and transferred carrying value of \$500,000 thousand into Fubon Jin-Ju-I Fund 41,032 units.

Note 3: The amount included the investment loss adjustment of \$1 thousand. For its reorganization, the Corporation retained 80 shares of the former TransAsia Telecommunications Inc. and established TAT International Telecommunication Co., Ltd. by investing the remaining holding shares of the former TransAsia Telecommunications Inc., with a carrying value of \$12,458,463 thousand. There was no gain or loss on this share disposal. TAT International Telecommunications Co., Ltd. merged with the former TransAsia Telecommunications Inc., with TAT International Telecommunications Co., Ltd. as the surviving company and renamed as "TransAsia Telecommunications Inc." on June 27, 2006. The Corporation received acquisition price amounting to \$3 thousand.

Note 4: The amount included the investment income adjustment of \$1,551,510 thousand.

Note 5: For its reorganization, Taihsing Den Syun Co., Ltd. merged with the Taiwan Cellular Co., Ltd., with Taihsing Den Syun Co., Ltd. as the surviving company and renamed as Taiwan Cellular Co., Ltd. on May 1, 2006. There was no gain or loss on this share disposal. The amount included (a) the investment income adjustment of \$31,199 thousand; (b) the reclassification of unrealized gain from intercompany transactions resulting from the sale of investment of Howin Technologies Co., Ltd. amounting to \$484,380 thousand and (c) cumulative translation adjustments of (\$3,495) thousand.

YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

	Beginning Balance		Acquisition		Disposal				Ending Balance	
	Shares/ Units (Thou- sands)	Amount	Shares/ Units (Thou- sands)	Amount	Shares/ Units (Thou- sands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/ Units (Thou- sands)	Amount
	-	-	46,758	700,000	-	-	-	-	46,758	704,606 (Note 1)
	-	-	94,744	1,200,000	23,744	302,712	300,000	2,712	71,000	905,330 (Note 1)
	-	-	68,924	1,000,000	30,958	450,000	448,437	1,563	37,966	554,861 (Note 4)
	-	-	42,808	650,000	-	-	-	-	42,808	653,130 (Note 4)
	-	-	12,267	150,000	-	-	-	-	12,267	150,035 (Note 4)
	-	\$-	328,645	\$12,458,466	328,645	\$-	\$12,458,466	\$- (Note 3)	-	\$- (Note 3)
	365,078	3,532,794	-	-	365,078	-	3,532,794	- (Note 7)	-	- (Note 7)
	-	-	44,300	-	44,300	-	- (Note 8)	- (Note 8)	-	-
	-	-	1 share	292,961	-	-	-	-	1 share	325,693 (Note 9)
	-	-	1,080	US\$5,771	-	-	-	-	1,080	US\$6,696 (Note 1)

Note 6: The amount included (a) the capital reduction adjustment of \$1,119,715 thousand; (b) the investment income adjustment of \$1,160,351 thousand; (c) the additional paid-in capital 5,083 thousand; (d) the reclassification of unrealized gain from intercompany transactions resulting from the sale of investment of Howin Technologies Co., Ltd. amounting to (\$484,380) thousand; (e) cumulative translation adjustments of \$4,115 thousand and (f) financial asset of unrealized gain \$30,209 thousand.

Note 7: For its reorganization, Mobitai Communications merged with the former Mobitai Communications, with Mobitai Communications as the surviving company. There was no gain or loss on this share disposal.

Note 8: For its reorganization, Taihsing Den Syun Co., Ltd. merged with the Taiwan Cellular Co., Ltd., with Taihsing Den Syun Co., Ltd. as the surviving company and renamed as Taiwan Cellular Co., Ltd. There was no gain or loss on this share disposal.

Note 9: The amount included (a) the investment income adjustment of \$1,552 thousand; (b) the recognition of cumulative translation adjustment of \$971 thousand and unrealized gain of \$30,209 thousand on financial assets.

(Concluded)

TABLE 4

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**Acquisition of individual real estate at costs of**  
**at least \$100 million or 20% of the paid-in capital**

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship	
The Corporation	Land and buildings	2006.12.13	\$1,565,000	Finish payment	Taiwan Fixed Network Co., Ltd.	Related party in substance	

TABLE 5

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**Disposal of individual real estate at prices of**  
**at least \$100 million or 20% of the paid-in capital**

Company Name	Types of Property	Transact-ion Date	Original Acqui-sition Date	Carrying Value	Transaction Amount	Receivable Term	
The Corporation	Land and buildings	2006.12.13	2000.6.30	155,848	152,000	Finish receipts	

YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars)

	Prior transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
	Owner	Relationship	Transfer Date	Amount			
	Crowell Development Corp.	None	2001.2.22	\$1,483,850	Appraisal report (depending on average five appraisal companies)	Operating purpose	-
	Suretone Telecom. Inc.	None	2001.3.16	20,000	Appraisal report	Operating purpose	-

YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars)

	Gain on disposal	Counter-party	Nature of Relationship	Purpose of disposal	Price Reference	Other Terms
	(3,848)	Taiwan Fixed Network Co., Ltd.	Related party in substance	Appropriately use assets to sufficient	Appraisal report	-

TABLE 6

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES**  
**AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

Company Name	Related Party	Nature of Relationship	Transaction Details		
			Purchase/ Sale	Amount	
The Corporation	TransAsia Telecommunications Inc. (including the former TAT)	Subsidiary	Sale	\$(693,059)	
			Purchase	341,755	
	Taiwan Fixed Network Co., Ltd.	Related party in substance	Sale	(1,411,029)	
			Purchase	868,958	
	Mobitai Communications	Subsidiary	Sale	(285,079)	
			Purchase	193,763	
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Purchase	992,514	
TransAsia Telecommunications Inc. (including the former TAT)	The Corporation	Ultimate parent	Sale	(337,170)	
			Purchase	693,026	
Mobitai Communications	The Corporation	Ultimate parent	Sale	(193,537)	
			Purchase	285,050	
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Sale	(989,923)	

Note 1: Disclosed with the ending balance of TransAsia Telecommunications Inc.

Note 2: Recognized as operating expenses.

Note 3: Recognized as accrued expenses.

YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

	Transaction Details		Abnormal Transaction		Note/Accounts Payable or Receivable		Note
	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
	(1)	Based on contract terms	-	-	\$80,210 (Note 1)	1	
	2	Based on contract terms	-	-	(23,937)	(2)	
	(3)	Based on contract terms	-	-	222,747	4	
	4	Based on contract terms	-	-	54,674 (Note 3)	1	
	(1)	Based on contract terms	-	-	29,897	-	
	1	Based on contract terms	-	-	(644)	-	
	(Note 2)	Based on contract terms	-	-	(153,397) (Note 3)	-	
	(4)	Based on contract terms	-	-	23,937	2	
	20	Based on contract terms	-	-	(83,496)	(28)	
	(4)	Based on contract terms	-	-	644	-	
	12	Based on contract terms	-	-	(19,612)	(10)	
	(83)	Based on contract terms	-	-	152,601	91	

TABLE 7

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO**  
**AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

Company Name	Related Party	Nature of Relationship	Ending Balance	
The Corporation	TransAsia Telecommunications Inc.	Subsidiary	Accounts receivable	\$80,210
			Other receivables	139,777
	Mobitai Communications	Subsidiary	Accounts receivable	29,897
			Other receivables	99,075
	Taiwan Fixed Network Co., Ltd.	Related party in substance	Accounts receivable	222,747
			Other receivables	8,265
TransAsia Telecommunications Inc.	The Corporation	Ultimate parent	Accounts receivable	23,937
			Other receivables	297,019
Mobitai Communications	The Corporation	Ultimate parent	Accounts receivable	4,107
			Other receivables	159,229
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Accounts receivable	152,601

Note 1: The calculation included TransAsia Telecommunications Inc. and the former TransAsia Telecommunications Inc.

YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
		Amount	Action Taken		
	5.97 (Note 1)	\$-	-	\$-	\$-
	-	-	-	-	-
	2.19	-	-	-	-
	-	-	-	-	-
	7.74	-	-	21,996	-
	-	-	-	-	-
	16.45	-	-	-	-
	-	-	-	96,570	-
	6.78	-	-	2,713	-
	-	-	-	63,717	-
	5.91	-	-	-	-



TABLE 8

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NAMES, LOCATIONS, AND OTHER INFORMATION OF**  
**INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE**

Investor	Investee	Location	Main Businesses and Products	
The Corporation	Taiwan Cellular Co., Ltd.	Taipei, Taiwan	Telecommunication equipment retailing and wholesale	
	The former TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taipei, Taiwan	Equipment installation and IT service	
	TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taiwan Teleservices & Technologies Co., Ltd.	Taipei, Taiwan	Call center service	
	Mobitai Communications	Taipei, Taiwan	Wireless service provider	
	Tai Yi Digital Broadcasting Co., Ltd.	Taipei, Taiwan	Telecommunication business and cell phone number agency of broadcasts	
	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment	
	TWM Holding Co. Ltd.	British Virgin Islands	Investment	
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	
	TT&T Holdings Co., Ltd.	Samoa	Investment	
TT&T Holdings Co., Ltd.	Dalian Xinkai Teleservices & Technologies Ltd.	Dalian	Call center service	
	Xiamen Taifu Teleservices & Technologies Ltd.	Xiamen	Call center service	
TransAsia Telecommunications Inc.	The former TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	
The former TransAsia Telecommunications Inc.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment	
Mobitai Communications	The former Mobitai Communications	Taichung, Taiwan	Wireless service provider	

YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars or U.S. Dollars and RMB)

	Original Investment Amount		Balance as of December 31, 2006			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
	December 31, 2006	December 31, 2005	Shares (Thousands)	Percentage of Ownership	Carrying Value			
	\$-	\$1,420,017	-	-	\$-	\$7,614	\$31,198	
	-	10,408,388	-	-	-	602,042	(1)	
	3,250,000	3,869,715	325,000	100	3,877,659	692,350	1,160,351	
	12,458,463	-	1,245,846	100	14,009,973	1,594,710	1,551,510	
	91,277	327,146	70,000	100	540,640	96,433	NA	
	2,000,000	3,650,782	200,000	100	2,499,650	631,550	NA	
	24,950	24,950	2,495	49.9	24,410	(646)	NA	
	-	131,700	-	-	-	-	NA	
	US\$9,000	-	1 share	100	325,693	US\$47	NA	
	3,000	3,000	300	100	3,021	9	NA	
	3,000	3,000	300	100	2,703	(62)	NA	
	46,386	83,530	1,300	100	41,565	US\$(85)	NA	
	-	US\$1,511	-	-	-	-	NA	
	US\$1,300	US\$1,000	-	100	US\$1,268	RMB24	NA	
	-	-	-	-	-	602,042	NA	
	-	2,250	-	-	-	-	NA	
	-	3,650,782	-	-	-	-	NA	

TABLE 9

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**INVESTMENT IN MAINLAND CHINA**

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Out-flow of Investment from Taiwan as of December 31, 2005	
Dalian Xinkai Teleservices & Technologies Ltd.	Call center service	RMB25,011 (NT\$104,526)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$666 (NT\$21,752)	
Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	US\$1,300 (NT\$42,458)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$1,000 (NT\$32,660)	

Accumulated Investment in Mainland China as of December 31, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
US\$1,300 (NT\$42,458)	Note 2	Note 2

Note 1: The above amounts were translated into New Taiwan Dollars at the exchange rate of US\$1=NT\$32.66 and RMB1=NT\$4.1792 as of December 31, 2006.

Note 2: The indirect investment made by Taiwan Teleservices & Technologies Co., Ltd., a subsidiary of the Corporation.

YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars or U.S. Dollars and RMB)

	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2006	Accumulated Inward Remittance of Earnings as of December 31, 2006
	Outflow	Inflow					
	\$-	US\$500 (NT\$16,330)	\$-	-	(US\$89) (NT\$2,907)	\$-	\$-
	US\$300 (NT\$9,798)	-	US\$1,300 (NT\$42,458)	100% ownership of indirect investment by the Corporation's subsidiary	US\$3 (NT\$98)	US\$1,268 (NT\$41,413)	-



## INDEPENDENT AUDITORS' REPORT

January 11, 2007

The Board of Directors and Shareholders  
Taiwan Mobile Co., Ltd.

We have audited the accompanying consolidated balance sheets of Taiwan Mobile Co., Ltd. (the "Corporation") and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Taiwan Mobile Co., Ltd. and subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Criteria for Handling Business Accounting and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the consolidated financial statements, the Corporation and subsidiaries adopted on January 1, 2006 the newly issued Statements of Financial Accounting Standards (SFAS) No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" and the revisions of previously issued SFASs, which were amended to harmonize with SFAS Nos. 34 and 36.

### Notice to Readers

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

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

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

ASSETS	2006		2005	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2, 4 and 22)	\$12,415,725	11	\$14,791,543	12
Financial assets at fair value through profit or loss - current (Notes 2, 3 and 5)	14,077,168	12	600,000	1
Available-for-sale financial assets - current (Notes 2, 3 and 6)	381,569	-	9,277,177	8
Notes receivable	11,833	-	14,048	-
Accounts receivable - third parties (Notes 2 and 7)	6,167,474	5	6,483,452	5
Accounts receivable - related parties (Notes 2 and 22)	249,938	-	187,072	-
Other receivables - third parties	263,048	-	236,274	-
Other receivables - related parties (Note 22)	15,941	-	47,045	-
Inventories (Note 2)	31,232	-	6,051	-
Prepayments (Note 22)	600,914	1	556,668	1
Deferred income tax assets - current (Notes 2 and 18)	185,973	-	177,372	-
Pledged time deposits (Notes 22 and 23)	10,000	-	10,000	-
Other current assets	22,367	-	17,756	-
<b>Total current assets</b>	<b>34,433,182</b>	<b>29</b>	<b>32,404,458</b>	<b>27</b>
<b>INVESTMENTS</b>				
Financial assets carried at cost (Notes 2, 3 and 9)	3,879,192	3	4,006,307	3
Prepayments for long-term investments - non-current	-	-	24,950	-
<b>Total investments</b>	<b>3,879,192</b>	<b>3</b>	<b>4,031,257</b>	<b>3</b>
<b>PROPERTY AND EQUIPMENT (Notes 2, 10, 22 and 23)</b>				
Cost				
Land	5,040,980	4	3,971,337	3
Buildings	3,044,455	3	2,531,057	2
Telecommunication equipment	76,880,533	65	82,017,397	69
Office equipment	191,418	-	373,229	-
Leased assets	1,276,190	1	1,284,961	1
Leasehold improvements	75,228	-	278,510	-
Miscellaneous equipment	1,874,825	2	1,096,358	1
<b>Total cost</b>	<b>88,383,629</b>	<b>75</b>	<b>91,552,849</b>	<b>76</b>
Less accumulated depreciation	(30,640,536)	(26)	(29,454,617)	(24)
	57,743,093	49	62,098,232	52
Construction in progress and advance payments	3,165,816	3	2,427,437	2
<b>Net property and equipment</b>	<b>60,908,909</b>	<b>52</b>	<b>64,525,669</b>	<b>54</b>
<b>INTANGIBLE ASSETS</b>				
3G concession (Note 2)	8,972,509	7	9,720,218	8
Goodwill (Notes 2 and 11)	6,835,370	6	6,414,029	6
<b>Total intangible assets</b>	<b>15,807,879</b>	<b>13</b>	<b>16,134,247</b>	<b>14</b>
<b>OTHER ASSETS</b>				
Assets leased to others (Notes 2 and 12)	722,041	1	927,360	1
Idle assets (Notes 2 and 12)	227,921	-	264,975	-
Refundable deposits	301,960	-	310,034	-
Deferred charges (Notes 2 and 13)	495,868	1	621,298	1
Deferred income tax assets - non-current (Notes 2 and 18)	1,554,290	1	527,751	-
Other (Notes 2, 16, 22 and 23)	81,307	-	80,557	-
<b>Total other assets</b>	<b>3,383,387</b>	<b>3</b>	<b>2,731,975</b>	<b>2</b>
<b>TOTAL</b>	<b>\$118,412,549</b>	<b>100</b>	<b>\$119,827,606</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated January 11, 2007)

DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Par Value)

	LIABILITIES AND SHAREHOLDERS' EQUITY	2006		2005	
		Amount	%	Amount	%
	CURRENT LIABILITIES				
	Notes payable	\$1,084	-	\$9,117	-
	Accounts payable	1,809,069	1	1,872,785	2
	Income taxes payable (Notes 2 and 18)	3,051,840	3	1,172,569	1
	Accrued expenses (Note 22)	4,008,682	3	4,163,571	3
	Other payables (Note 22)	3,482,799	3	2,845,662	2
	Advance receipts	1,015,535	1	1,084,473	1
	Current portion of long-term liabilities (Notes 2, 14 and 23)	3,814,448	3	4,543,020	4
	Guarantee deposits	119,083	-	165,502	-
	Other current liabilities (Note 22)	677,772	1	787,336	1
	Total current liabilities	17,980,312	15	16,644,035	14
	LONG-TERM LIABILITIES				
	Hedging derivative financial liabilities (Notes 3, 21 and 25)	291,046	-	-	-
	Bonds payable (Notes 2, 14 and 23)	10,000,000	9	14,584,125	12
	Total long-term liabilities	10,291,046	9	14,584,125	12
	OTHER LIABILITIES				
	Accrued pension cost (Notes 2 and 16)	-	-	90,580	-
	Guarantee deposits	248,889	-	239,372	-
	Other (Notes 2 and 8)	-	-	473,921	-
	Total other liabilities	248,889	-	803,873	-
	Total liabilities	28,520,247	24	32,032,033	26
	SHAREHOLDERS' EQUITY (Notes 2 and 17)				
	Parent's shareholders' equity				
	Capital stock - \$10 par value				
	Authorized: 6,000,000 thousand shares				
	Issued: 4,999,325 thousand shares in 2006 and 4,949,206				
	□thousand shares in 2005	49,993,251	42	49,492,065	41
	Entitlement certificates	-	-	29,871	-
	Capital surplus	8,748,571	7	7,905,337	7
	Retained earnings				
	Legal reserve	10,128,401	9	8,504,731	7
	Special reserve	3,350,000	3	2,201,631	2
	Unappropriated earnings	19,228,424	16	19,175,425	16
	Other equity				
	Cumulative translation adjustments	3,860	-	3,240	-
	Unrealized losses on financial instruments	(147,423)	-	-	-
	Treasury stock	(1,437,290)	(1)	(323,544)	-
		89,867,794	76	86,988,756	73
	Minority interests	24,508	-	806,817	1
	Total shareholders' equity	89,892,302	76	87,795,573	74
	TOTAL	\$118,412,549	100	\$119,827,606	100



# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 22)				
Telecommunication service revenue	\$58,486,616	99	\$59,196,238	99
Other revenue	419,478	1	856,127	1
Total operating revenues	58,906,094	100	60,052,365	100
OPERATING COSTS (Notes 2, 20 and 22)				
Telecommunication service cost	24,669,382	42	24,214,061	40
Other cost	50,665	-	148,564	-
Total operating costs	24,720,047	42	24,362,625	40
GROSS PROFIT	34,186,047	58	35,689,740	60
OPERATING EXPENSES (Notes 2, 20 and 22)				
Marketing	10,438,834	18	10,663,919	18
Administrative	4,414,925	7	4,719,098	8
Total operating expenses	14,853,759	25	15,383,017	26
OPERATING INCOME	19,332,288	33	20,306,723	34
NON-OPERATING INCOME AND GAIN				
Gain on disposal of investments, net (Note 2)	2,132,972	4	17,920	-
Dividend income	644,323	1	940,000	2
Investment income recognized by the equity method, net (Notes 2 and 8)	554,770	1	-	-
Penalty income	222,637	-	248,256	-
Interest income	214,410	-	105,902	-
Revaluation gain on financial assets (Note 2)	70,135	-	-	-
Rental income (Note 22)	59,887	-	63,863	-
Exchange gain (Note 2)	59,612	-	-	-
Gain on disposal of property and equipment (Notes 2 and 22)	10,976	-	132,297	-
Other (Note 7)	548,864	1	417,119	1
Total non-operating income and gain	4,518,586	7	1,925,357	3
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal of property and equipment (Notes 2 and 22)	4,284,139	7	2,109,113	4
Interest expenses (Notes 2 and 10)	421,958	1	596,217	1

(Continued)

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
Impairment loss (Notes 2 and 12)	\$2,953	-	\$117,989	-
Investment loss recognized by the equity method, net (Notes 2 and 8)	-	-	108,146	-
Other (Notes 2 and 12)	234,066	-	418,739	1
Total non-operating expenses and losses	4,943,116	8	3,350,204	6
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	18,907,758	32	18,881,876	31
INCOME TAX EXPENSE (Notes 2 and 18)	2,692,882	4	2,385,859	4
INCOME FROM CONTINUING OPERATIONS	16,214,876	28	16,496,017	27
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3)	35	-	-	-
CONSOLIDATED NET INCOME	\$16,214,911	28	\$16,496,017	27
ATTRIBUTED TO				
Shareholders of the parent	\$16,170,741	28	\$16,236,698	27
Minority interests	44,170	-	259,319	-
	\$16,214,911	28	\$16,496,017	27

	2006		2005	
	Before In- come Tax	After In- come Tax	Before In- come Tax	After In- come Tax
EARNINGS PER SHARE (Note 19)				
Basic	\$3.54	\$3.28	\$3.74	\$3.31
Diluted	\$3.53	\$3.26	\$3.68	\$3.26

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005  
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

The pro forma net income and earnings per share had Statement of Financial Accounting Standards (SFAS) No. 34, "Accounting for Financial Instruments," and SFAS No. 36, "Disclosure and Presentation of Financial Instruments," been adopted are as follows:

	2006	2005
CONSOLIDATED NET INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	\$16,170,706	\$16,292,233
EARNINGS PER SHARE		
Basic	\$3.28	\$3.33
Diluted	\$3.26	\$3.27

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

(With Deloitte & Touche audit report dated January 11, 2007)

(Concluded)

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

	Capital Stock			Capital Surplus	Retained Earnings
	Capital Stock	Entitlement Certificates	Total		Legal Reserve
BALANCE, JANUARY 1, 2005	\$48,883,886	\$279,670	\$49,163,556	\$7,258,873	\$6,839,315
Appropriation of 2004 earnings					
Legal reserve	-	-	-	-	1,665,416
Special reserve	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-
Bonus to employees - cash	-	-	-	-	-
Cash dividends - \$2.47302 per share	-	-	-	-	-
Balance after appropriation	48,883,886	279,670	49,163,556	7,258,873	8,504,731
Translation adjustments	-	-	-	-	-
Transfer of treasury stock to employees	-	-	-	-	-
Conversion of convertible bonds to capital stock	608,179	(249,799)	358,380	646,464	-
Buyback of treasury stock	-	-	-	-	-
Consolidated net income in 2005	-	-	-	-	-
Decrease in minority interests	-	-	-	-	-
Subsidiaries' capital return and liquidations to minority interests	-	-	-	-	-
Subsidiaries' distribution of cash dividends, remuneration to directors and supervisors and bonus to employees	-	-	-	-	-
Adjustments for the change of consolidated entities	-	-	-	-	-
BALANCE, DECEMBER 31, 2005	49,492,065	29,871	49,521,936	7,905,337	8,504,731
Appropriation of 2005 earnings					
Legal reserve	-	-	-	-	1,623,670
Special reserve	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-
Bonus to employees - cash	-	-	-	-	-
Cash dividends - \$2.61677 per share	-	-	-	-	-
Balance after appropriation	49,492,065	29,871	49,521,936	7,905,337	10,128,401
Translation adjustments	-	-	-	-	-
Transfer of treasury stock to employees	-	-	-	-	-
Conversion of convertible bonds to capital stock and entitlement certificates	501,186	(29,871)	471,315	843,234	-
Buyback of treasury stock	-	-	-	-	-
Consolidated net income in 2006	-	-	-	-	-
Effect of the first time adoption of new issued SFASs	-	-	-	-	-
Unrealized losses on financial assets, net	-	-	-	-	-
Decrease in minority interests	-	-	-	-	-
Adjustments for the change of consolidated entities	-	-	-	-	-
BALANCE, DECEMBER 31, 2006	\$49,993,251	\$-	\$49,993,251	\$8,748,571	\$10,128,401

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

(With Deloitte & Touche audit report dated January 11, 2007)

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	Retained Earnings			Cumulative Translation Adjustments	Unrealized Gains of Financial Instruments	Total Treasury Stock	Minority Interests	Total Sharehold- ers' Equity
	Special Reserve	Unappropri- ated	Total					
	\$-	\$19,554,125	\$26,393,440	\$(1,631)	\$-	\$(1,841,417)	\$1,589,034	\$82,561,855
	-	(1,665,416)	-	-	-	-	-	-
	2,201,631	(2,201,631)	-	-	-	-	-	-
	-	(63,936)	(63,936)	-	-	-	-	(63,936)
	-	(383,613)	(383,613)	-	-	-	-	(383,613)
	-	(12,126,821)	(12,126,821)	-	-	-	-	(12,126,821)
	2,201,631	3,112,708	13,819,070	(1,631)	-	(1,841,417)	1,589,034	69,987,485
	-	-	-	4,871	-	-	(995)	3,876
	-	(173,981)	(173,981)	-	-	1,837,663	-	1,663,682
	-	-	-	-	-	-	-	1,004,844
	-	-	-	-	-	(319,790)	-	(319,790)
	-	16,236,698	16,236,698	-	-	-	259,319	16,496,017
	-	-	-	-	-	-	(1,140,865)	(1,140,865)
	-	-	-	-	-	-	(3,084)	(3,084)
	-	-	-	-	-	-	(295,001)	(295,001)
	-	-	-	-	-	-	398,409	398,409
	2,201,631	19,175,425	29,881,787	3,240	-	(323,544)	806,817	87,795,573
	-	(1,623,670)	-	-	-	-	-	-
	1,150,000	(1,150,000)	-	-	-	-	-	-
	(1,631)	1,631	-	-	-	-	-	-
	-	(40,394)	(40,394)	-	-	-	-	(40,394)
	-	(403,940)	(403,940)	-	-	-	-	(403,940)
	-	(12,843,997)	(12,843,997)	-	-	-	-	(12,843,997)
	3,350,000	3,115,055	16,593,456	3,240	-	(323,544)	806,817	74,507,242
	-	-	-	620	-	-	2,483	3,103
	-	(57,372)	(57,372)	-	-	704,624	-	647,252
	-	-	-	-	-	-	-	1,314,549
	-	-	-	-	-	(1,818,370)	-	(1,818,370)
	-	16,170,741	16,170,741	-	-	-	44,170	16,214,911
	-	-	-	-	1,834,639	-	-	1,834,639
	-	-	-	-	(1,982,062)	-	-	(1,982,062)
	-	-	-	-	-	-	(854,012)	(854,012)
	-	-	-	-	-	-	25,050	25,050
	<u>\$3,350,000</u>	<u>\$19,228,424</u>	<u>\$32,706,825</u>	<u>\$3,860</u>	<u>\$(147,423)</u>	<u>\$(1,437,290)</u>	<u>\$24,508</u>	<u>\$89,892,302</u>

# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$16,214,911	\$16,496,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,779,602	6,408,095
Loss on disposal of property and equipment, net	4,273,163	1,976,816
Gain on disposal of available-for-sale financial assets	(2,110,978)	-
Bad debts	1,196,051	964,166
Amortization	1,044,535	1,428,752
Deferred income taxes	(962,379)	248,086
Investment (gain) loss recognized under the equity method, net	(554,770)	108,146
Cash dividends received from equity-method investees	138,210	456,250
Pension cost	(77,742)	(47,294)
Loss on buyback of bonds payable	59,982	191,109
Accrued interest compensation	36,247	120,100
Gain on disposal of idle assets, net	(9,681)	(356)
Provision (reversal of allowance) for loss on inventories	8,449	(19,275)
Impairment loss	2,953	117,989
Gain on disposal of long-term investments, net	(119)	1,137
Other	15,971	976
Net changes in operating assets and liabilities		
Financial asset held for trading	(13,477,168)	5,598,425
Notes receivable	2,215	11,113
Accounts receivable - third parties	(748,455)	(1,655,205)
Accounts receivable - related parties	(62,866)	110,869
Other receivable - third parties	(220,893)	201,753
Other receivable - related parties	31,104	(35,439)
Inventories	(33,630)	23,073
Prepayments	(29,678)	(41,764)
Other current assets	(6,664)	98,516
Notes payable	(8,033)	(26,310)
Accounts payable	(63,716)	(76,701)
Income taxes payable	1,879,271	(973,991)
Accrued expenses	(154,709)	778,347
Other payables	528,410	(504,467)
Advance receipts	(68,909)	93,494
Other current liabilities	(106,930)	(177,304)
Net cash provided by operating activities	13,513,754	31,875,123
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of available-for-sale financial assets	11,265,915	-
Acquisition of property and equipment	(7,347,586)	(3,220,481)
Increase in goodwill	(421,341)	(176,008)
Proceeds from disposal of property and equipment	188,699	2,175,004
Acquisition of available-for-sale financial assets	(188,468)	-
Increase in deferred charges	(170,943)	(268,168)
Proceeds from disposal of long-term investments	70,268	-

	2006	2005
Proceeds from disposal of idle assets	\$44,633	\$7,050
Decrease in refundable deposits	8,074	12,382
Proceeds from disposal of subsidiary shares	6,447	-
Decrease in pledged time deposits	2,000	599,700
Decrease in other assets	720	2,812
Proceeds on investees' capital return	-	340,444
Increase in long-term investments	-	(40,187)
Net cash provided by (used in) investing activities	3,458,418	(567,452)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(12,843,925)	(12,146,818)
Decrease in bonds payable	(2,753,300)	(1,500,000)
Buyback of treasury stock	(1,818,370)	(319,790)
Buyback of bonds payable	(1,341,076)	(1,135,009)
Decrease in minority interests	(808,663)	(1,132,648)
Transfer of treasury stock to employees	647,252	1,663,682
Bonus to employees	(403,940)	(394,148)
Remuneration to directors and supervisors	(37,970)	(63,936)
Decrease in guarantee deposits	(36,901)	(106,674)
Decrease in other liabilities	(1,290)	(47,554)
Decrease in long-term bank loans	-	(8,400,000)
Decrease in short-term borrowings	-	(450,000)
Capital return and liquidations to minority interests	-	(8,328)
Cash dividends paid to minority interests	-	(295,001)
Net cash used in financing activities	(19,398,183)	(24,336,224)
EFFECT OF EXCHANGE RATE CHANGES	193	3,928
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,425,818)	6,975,375
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 2)	14,841,543	7,816,168
CASH AND CASH EQUIVALENTS, END OF YEAR	\$12,415,725	\$14,791,543
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$469,519	\$626,238
Deduct: Interest paid - interest capitalized	(11,647)	(71,194)
Interest paid - excluding interest capitalized	\$457,872	\$555,044
Income tax paid	\$1,531,391	\$2,279,821
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$3,814,448	\$4,543,020
Conversion of convertible bonds to capital stock and entitlement certificates	\$1,118,100	\$891,800
CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment	\$7,512,091	\$3,872,247
Increase in other payables	(164,505)	(651,766)
Cash paid for acquisition of property and equipment	\$7,347,586	\$3,220,481

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

(With Deloitte & Touche audit report dated January 11, 2007)

(Concluded)

# **TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**

## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

### **1. ORGANIZATION AND OPERATIONS**

Taiwan Mobile Co., Ltd. (the “Corporation”; with the English company name of Taiwan Cellular Corporation until the first quarter of 2005) was incorporated in the Republic of China (ROC) on February 25, 1997. The Corporation’s shares began to be traded on the ROC Over-the-Counter Securities Exchange (known as GreTai Securities Market) on September 19, 2000. On August 26, 2002, the Corporation’s shares were listed on the Taiwan Stock Exchange. The Corporation mainly renders wireless communication services.

The Corporation’s services are under the type I license (nation-wide GSM 1800; “GSM” means “global system for mobile communications”) issued by the Directorate General of Telecommunications (DGT) of the ROC. The license allows the Corporation to provide services for 15 years from 1997 onwards. It also entails the payment of an annual license fee consisting of 2% of total wireless communication service revenues. On March 24, 2005, the Corporation received the third generation (3G) concession operation license issued by the DGT. The 3G license allows the Corporation to provide services from the issuance date of the license to December 31, 2018.

As of December 31, 2006 and 2005, the Corporation and subsidiaries had 3,037 and 3,459 employees, respectively.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC, Business Accounting Law and Criteria for Handling Business Accounting. In conformity with these guidelines, laws and principles, the Corporation and subsidiaries (hereinafter referred to as the “Group”) are required to make certain estimates and assumptions that

could affect the amounts of allowance for doubtful accounts, provision for losses on decline in value of inventories, depreciation, pension, allowance for deferred income tax assets, impairment loss on assets, etc. Actual results may differ from these estimates.

For the convenience of readers, the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the ROC. 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 financial statements shall prevail.

### **Consolidation**

#### **a. Basis of consolidation**

The consolidated financial statements have been prepared in accordance with the revised Statement of Financial Accounting Standards (SFAS) No. 7, “Consolidated Financial Statements,” and included the financial statements of the Corporation, its direct and indirect subsidiaries with at least 50% shareholding and other investees controlled by the Corporation. All significant intercompany transactions and balances are eliminated on consolidation. As obtaining the majority of the shareholder’s equity of the subsidiaries during the year, the company starts to consolidate the related revenues and expenses of the subsidiaries since the date of having the controlling interest.

Due to an increase in the consolidated entities, the beginning balance of the cash and cash equivalents in the consolidated statement of cash flows is presented at the retroactively restated amount, which contains the beginning balance of those subsidiaries included in the current period but failed to meet the consolidation criteria in the prior year.

For foreign subsidiaries using their local currency as their functional currency, assets and liabilities are translated at exchange rates in effect on the balance sheet date; shareholders’ equity accounts are translated using historical exchange rates and income statement accounts are translated using average exchange rates during the year.

All significant intercompany balances and transactions have been eliminated upon consolidation.

**b. Under the above basis of consolidation, the consolidated entities were as follows:**

Investor	Subsidiary	Nature of Business	Percentage of Ownership as of December 31		Note
			2006	2005	
Corporation	TransAsia Telecommunications Inc. (The former TAT)	Wireless service provider	-	92.32	Merged into TAT International Telecommunications Co., Ltd. on June 27, 2006
Corporation	TransAsia Telecommunications Inc. (TAT)	Wireless service provider	100.00	-	Formerly TAT International Telecommunication Co., Ltd.; established on February 8, 2006 by investing the former TAT's shares; merged with the former TAT on June 27, 2006 and renamed as TransAsia Telecommunications Inc.
Corporation	Taiwan Cellular Co., Ltd. (TCC; formerly Taihsing Den Syun Co., Ltd. (TDS))	Equipment installation and IT service	100.00	100.00	Established in 2005 by investing the former Mobitai's shares
Corporation	Tai Fu Investment Ltd. (TFI)	Investment	-	-	Liquidated in December 2005
Corporation	Tai Hsuo Investment Ltd. (Tai Hsuo)	Investment	-	-	Liquidated in December 2005
Corporation	Tai Hung Investment Ltd. (Tai Hung)	Investment	-	-	Liquidated in December 2005
Corporation	T.I. Investment Ltd. (TII)	Investment	-	-	Liquidated in December 2005
Corporation	Taiwan Cellular Co., Ltd. (the former TCC)	Telecommunications equipment retailing and wholesale	-	99.99	Merged into TCC on May 1, 2006
TCC (formerly TDS)	Mobitai Communications (Mobitai)	Wireless service provider	100.00	100.00	Formerly Tai Ya International Telecommunications Co., Ltd.; merged with the former Mobitai on January 1, 2006 and re-named as Mobitai Communications
TCC (formerly TDS)	Mobitai Communications (The former Mobitai)	Wireless service provider	-	94.28	Merged into Tai Ya International Telecommunications Co., Ltd. on January 1, 2006
TCC (formerly TDS)	Tai Yi Digital Broadcasting Co., Ltd. (TYDB)	Digital broadcast service provider	49.90	-	-
TCC (formerly TDS)	TWM Holding Co. Ltd. (formerly Simax Investmet Holdings Ltd.)	Investment	100.00	-	-
TCC (formerly TDS)	Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Call center service	100.00	95.88	-
The former TCC	Taiwan Tele-Shop Co., Ltd. (TTS)	Telecommunications equipment retailing and wholesale	-	-	Merged into the former TCC on June 30, 2005
The former TCC	Taiwan Elitec Corporation	Software solution provider, data processing services	-	-	Merged into the Corporation on March 30, 2005
TT&T	TT&T Casualty & Property Insurance Agency Co., Ltd. (TCPIA)	Insurance agency	100.00	100.00	-
TT&T	TT&T Life Insurance Agency Co., Ltd. (TLIA)	Insurance agency	100.00	100.00	-
TT&T	TT&T Holdings Co., Ltd. (TT&T Holding)	Investment	100.00	100.00	-
TT&T Holding	Dalian Xinkai Teleservices & Technologies Ltd.	Call center service	-	50.00	Sold on July 10, 2006
TT&T Holding	Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	100.00	100.00	-



The Group's significant accounting policies are summarized as follows:

### **Current and Non-current Assets and Liabilities**

Current assets include cash and cash equivalents, assets held for trading and those expected to be converted to cash, sold or consumed within twelve months from the balance sheet date. Property and equipment, intangible assets and those not classified as current assets are non-current assets. Current liabilities are obligations held for trading and those expected to be due within twelve months from the balance sheet date. All other liabilities not classified as current liabilities are non-current liabilities.

### **Cash Equivalents**

Government bonds and short-term bills acquired with resale rights and having maturities of up to three months from the date of purchase are classified as cash equivalents, whose carrying value approximates fair value.

### **Financial Instruments at Fair Value through Profit or Loss**

Financial instruments at fair value through profit or loss include financial assets or liabilities held for trading and those designated on initial recognition to be measured at fair value with fair value changes recognized in profit or loss. On initial recognition, the financial instruments are recognized at fair value plus transaction costs and are subsequently measured at fair value with fair value changes recognized in profit or loss. Cash dividends received, including those received in the year of investment, are recognized as current income. The purchase or sale of the financial instruments is recognized and derecognized using trade date accounting.

### **Available-for-sale Financial Assets**

On initial recognition, available-for-sale financial assets are recognized at fair value plus transaction costs. When subsequently measured at fair value, the fair value changes are recognized directly in equity. The cumulative gain or loss that was recognized in equity is recognized in profit or loss when an available-for-sale financial asset is derecognized from the balance sheet. The purchase or sale of the financial instruments is recognized and derecognized using trade date accounting.

Cash dividends are recognized as dividend income on the ex-dividend date, but are accounted for as reductions to the original cost of investments if such dividends are declared on the earnings of investees attributable to periods

prior to the purchase of investments. Stock dividends are not recognized as current income but are accounted for only as an increase in the number of shares held. The cost per share is re-calculated based on the new number of shares.

An impairment loss is recognized if there is objective evidence that a financial asset is impaired. If the amount of impairment loss decreases in the subsequent period, such decrease is recognized in equity.

The fair value of listed stocks is based on the closing price on the balance sheet date.

### **Allowance for Doubtful Accounts**

Allowance for doubtful accounts is provided on the basis of past experiences and an evaluation of the aging and collectibility of all receivables on the balance sheet date.

### **Inventories**

Inventories are stated at the weighted-average method and the lower of cost or market value. Market value are evaluated on the basis of replacement cost or net realizable value.

### **Financial Assets Carried at Cost**

If there is no active market for an equity instrument and a reliable fair value can not be estimated, the equity instrument, including unlisted stocks and emerging stocks, etc, is measured at cost. The accounting for the dividends from financial asset carried at cost is the same as that for an available-for-sale financial asset. Impairment losses are recognized if a decrease in the fair value of the instruments can be objectively related to an event. Reversal of impairment losses is not allowed.

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

Long-term investments in which the Corporation and subsidiaries owns 20% or more of an investee's outstanding voting shares or exercises significant influence on an investee are accounted for under the equity method.

On the acquisition date or the adoption of the equity method for the first time, the difference between the cost of acquisition and the equity in the investee's net asset value was amortized using the straight-line method over 20 years. Starting January 1, 2006, in accordance with the newly revised Statement of Financial Accounting Standards (SFAS), the cost of acquisition is subjected to an initial analysis, and goodwill represents the excess of

the cost of acquisition over the fair value of the identifiable net asset value. Goodwill is no longer amortized but instead tested annually for impairment. An impairment test is also required if there is evidence indicating that goodwill might be impaired as a result of specific events or changes in economic environment. Starting January 1, 2006, the unamortized balance of the excess of the acquisition cost of the long-term investment by the equity method over the equity in the investee's net asset value is also no longer amortized and applies the same accounting treatment as goodwill.

Gains or losses on the Corporation's equity accounted investee's sales to the Corporation are deferred in proportion to the Corporation's ownership percentages in the investees until realized through transactions with third parties.

Gains or losses from transactions between two investees that are both accounted for using equity method are deferred in proportion to the Corporation's equivalent stock ownership in the investees if the Corporation has controlling power over each investee.

If the investor does not have controlling power over both investees that have reciprocal transactions, unrealized gains or losses from reciprocal transactions should be deferred in proportion to the common investor's ownership percentage in one investee multiplied by the ownership percentage in the other investee.

The cost and the resulting gain or loss of an investment sold is determined by the weighted-average method.

## **Property and Equipment and Assets Leased to Others**

Property and equipment and assets leased to others are stated at cost less accumulated depreciation. Significant additions, renewals, betterments, and interest expenses incurred during the construction period are capitalized, while maintenance and repairs are expensed. Property and equipment covered by agreements qualifying as capital leases are carried at the lower of the present value of future minimum lease payments or the market value of the property on the starting dates of the leases.

Depreciation is calculated using the straight-line method over the estimated service lives, which range as follows: buildings - 50 to 55 years; telecommunication equipment - 3 to 15 years; office equipment - 3 to 6 years; leased assets - 20 years; leasehold improvements - 5 to 10 years;

and miscellaneous equipment - 3 to 8 years.

Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to non-operating gain or loss in the period of disposal.

## **Concession**

Concession refers to the payment for the 3G mobile telecommunication service - License C. The 3G concession is recorded at acquisition cost and is amortized over 13 years and 9 months starting from the license issuance date.

## **Goodwill**

Goodwill is the unidentifiable difference between the cost of acquisition and the equity in the investee's net asset value and was amortized over 8 to 20 years according to individual investee's circumstance. Starting January 1, 2006, in accordance with the newly revised SFAS, goodwill is no longer amortized. Please refer to the accounting policy of investments accounted for using equity method.

## **Idle Assets**

Properties not currently used in operations are stated at the lower of book value or net realizable value, with the difference charged to current income. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets.

## **Deferred Charges**

Deferred charges, which included interior decoration, computer software, bill issuance costs and issuance costs of bonds are amortized by the straight-line method over 2 to 15 years or contract periods.

## **Asset Impairment**

If the carrying value of assets (including property and equipment, intangible assets, idle assets, assets leased to others and investments accounted for using equity method) is less than their recoverable amount, which indicates that an impairment exists, an impairment loss should be recognized. Any subsequent reversal of the impairment loss for the increase in recoverable amount is recognized as income. The reversal of impairment loss on goodwill is disallowed.

## Pension Costs

The pension costs under the defined benefit pension plan are recognized on the basis of actuarial calculations. The contribution amounts of the pension costs under the defined contribution pension plan are recognized as current expenses during the employees' service years.

## Bonds Payable

Convertible bonds with redemption rights are classified as current or non-current according to the redemption dates. The redemption price in excess of the face value of the bonds is amortized using the interest method from the issuance date through the maturity date and accounted for as accrued interest compensation. The accrued interest compensation is provided as a valuation account of convertible bonds. The issuance costs are recognized as deferred charges. The issuance costs for the non-convertible bonds are amortized over the term of the bond, and those for the convertible bonds with redemption rights are amortized from the issuance date to the maturity date of redemption rights.

When bondholders exercise their conversion rights, the face value of the bonds and the related accrued interest compensation are both transferred to capital stock or entitlement certificates and capital surplus.

## Income Taxes

The inter-period and intra-period allocation method is used for income taxes. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused tax credits and net operating loss carryforwards. Valuation allowance is provided for deferred income tax assets to the extent that more likely than not such assets will not be realized. Deferred tax assets or liabilities are classified as current or non-current according to the classification of related assets or liabilities for financial reporting. However, if deferred tax assets or liabilities do not relate to assets or liabilities in the financial statements, they are classified as current or non-current on the basis of the expected length of time before realized.

Tax credits for certain purchases of equipment and technology, research and development expenditures and personnel training are recognized by the current method.

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

Income tax of 10% on unappropriated earnings generated is expensed in the year when the shareholders resolve the retention of the earnings.

Income Basic Tax Act has taken effect from January 1, 2006. The amount of basic income shall be the sum of the taxable income as calculated in accordance with the Income Tax Act, plus deductions claimed in regard to investment tax credit granted under the provisions of other laws. The amount of basic tax shall be the amount of basic income multiplied by the tax rate (10%). Between the basic tax under the Income Basic Tax Act and the regular income tax calculated based on the Income Tax Act, the Corporation should pay whichever is the higher amount for the current income tax.

## Treasury Stock

The purchase of issued shares is accounted for by debiting treasury stock, which is a reduction of shareholders' equity.

If the proceeds on the disposal of treasury stock exceed the carrying value of treasury stock, the excess is credited to capital surplus from treasury stock. If the proceeds are less than the carrying value of treasury stock, the difference is debited to capital surplus from treasury stock. If the balance of capital surplus from treasury stock is not sufficient to absorb the difference, the rest is recorded as a reduction of retained earnings.

## Foreign-currency Transactions

Assets, liabilities, revenues or expenses denominated in foreign currencies as a result of foreign-currency transactions of non-derivative financial instruments are recorded in New Taiwan dollars at the exchange rates prevailing on the dates of transactions.

Monetary assets or liabilities denominated in foreign currencies are translated at the exchange rates prevailing on the balance sheet date, and the resulting exchange differences are included in profit or loss for the current period.

Non-monetary assets or liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined, and the resulting exchange differences are included in profit or loss for the current period except for the differences arising on the retranslation of non-monetary assets and liabilities in respect of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component

of that gain or loss is also recognized directly in equity. Non-monetary assets or liabilities carried at cost that are denominated in foreign currencies are translated at the historical rates prevailing on the dates of transactions.

The above prevailing exchange rates are based on the average of bid and ask rates of principal banks.

## Revenue Recognition

Revenues are recognized when the service rendering process is completed or virtually completed, and earnings are realizable and measurable. Related costs of providing services are concurrently recognized as incurred.

Service revenues from wireless services and value-added services, net of any applicable discount, are billed at predetermined rates and are recognized on the basis of minutes of usage.

## Promotion Expenses

Commissions and cellular phone subsidy costs pertaining to the Corporation's promotions are recognized as marketing expenses on an accrual basis in the current period.

## Hedging Derivative Financial Instruments

The interest rate swap contracts which the Corporation entered into to manage its exposure to the interest rate risk are designated as a cash flow hedge. The hedging instrument is measured at fair value, and the change of fair value is recognized directly in equity and will be

recognized as profit or loss when the hedged forecast transaction affects profit or loss. If the cumulative net loss recognized in equity is regarded as irrecoverable, it is immediately recognized as a loss in the current period.

## Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2006.

## 3. REASONS AND EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

Effective January 1, 2006, the Group adopted newly issued SFAS No. 34, "Accounting for Financial Instruments," SFAS No. 36, "Disclosure and Presentation of Financial Instruments," and the revisions on the related SFASs.

### a. Effect of the first time adoption of the newly issued and revised SFASs

Upon adoption of the newly issued and revised SFASs, the Group appropriately reclassified the financial assets and liabilities, including derivatives. The adjustments to the carrying values of the financial instruments at fair value through profit or loss were recorded in the cumulative effect of changes in accounting principles, and those of the available-for-sale financial assets measured at fair value and of the derivatives for cash flow hedge were recorded in equity.

The effect of the first time adoption of these SFASs is summarized as follows:

	Recognized as Cumulative Effect of Changes in Accounting Principles (Net of Tax)	Recognized in Equity (Net of Tax)
Financial assets at fair value through profit or loss	\$35	\$-
Available-for-sale financial assets	-	2,082,823
Hedging derivative financial liabilities	-	(248,184)
	(\$35)	(\$1,834,639)

The changes in accounting policy resulted in a decrease in income from continuing operations of \$35 thousand for the year ended December 31, 2006, but had no effect on net income and earnings per share (net of tax).

#### b. Reclassifications by the adoption of these SFASs

The accounting policies applied in measuring financial instruments in 2005 that differ from 2006 are described as follows:

(a) Short-term investments

Short-term investments are carried at the lower of aggregate cost or market value, and the loss on market value decline is recognized in current income. The market values of the investment in listed stocks are determined based on the average closing prices in the last month of an accounting period.

(b) Long-term investments accounted for using cost method denominated in foreign currencies

The long-term investments accounted for using cost method denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. If the translated amount is less than the original cost amount, the resulting exchange differences are recognized as the cumulative translation adjustments in equity. If the translated amount is higher, no adjustment is made.

(c) Interest rate swap contracts

The notional amounts of interest rate swap contracts, which are used for non-trading purposes, are not recognized in the financial statements because these contracts do not require initial settlements. However, a memorandum entry is made to note the transaction.

Due to the adoption of new and amended SFASs starting from January 1, 2006, certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified as follows to conform to the presentation of the financial statements as of and for the year ended December 31, 2006.

	Before Re-classification	After Reclassification
Balance sheet		
Short-term investments	\$9,877,177	\$-
Long-term investments	4,006,307	-
Financial assets at fair value through profit or loss	-	600,000
Available-for-sale financial assets	-	9,277,177
Financial assets carried at cost	-	4,006,307

Starting on January 1, 2006, the Group adopted newly revised SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5, "Long-term Investments in Equity Securities," and SFAS No. 25, "Business Combinations - Accounting Treatment under Purchase Method." These revisions primarily included that goodwill is no longer amortized and that the difference between the cost of acquisition and the equity in the investee's net asset value is subjected to an initial analysis. If defined as goodwill, the difference is no longer amortized but instead tested annually for impairment. These adoptions increased the income from continuing operations by \$486,667 thousand and had no effect on the cumulative effect of changes in accounting principle for the year ended December 31, 2006.

## 4.CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Short-term notes and bills with resale rights	\$8,328,744	\$ 568,225
Time deposits	2,352,702	1,461,253
Cash in banks	1,220,765	689,306
Government bonds with resale rights	477,460	12,040,813
Cash on hand	32,503	28,530
Revolving funds	3,551	3,416
	<u>(\$12,415,725)</u>	<u>(\$14,791,543)</u>

## 5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS - CURRENT

Information of financial instruments held for trading is summarized as follows:

	December 31	
	2006	2005
Financial assets held for trading		
Beneficiary certificates	\$14,077,168	\$600,000
Open-end funds		

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	December 31	
	2006	2005
Domestic listed stocks		
Chunghwa Telecom Co., Ltd.	\$162,893	\$9,277,177
Overseas listed stocks		
Hurray! Holding Co., Ltd. (NASDAQ listed company)	218,676	-
	<u>\$381,569</u>	<u>\$9,277,177</u>

In the year ended December 31, 2006, the Corporation recognized a gain of \$2,110,978 thousand from selling 200,000 thousand shares of Chunghwa Telecom Co., Ltd.

## 7. ACCOUNTS RECEIVABLE - THIRD PARTIES

	December 31	
	2006	2005
Accounts receivable	\$6,753,110	\$7,041,473
Less allowance for doubtful accounts	(585,636)	(558,021)
	<u>\$6,167,474</u>	<u>\$6,483,452</u>

For the third quarter of 2006, the Corporation entered into an accounts receivable factoring contract with HC Asset Management Co., Ltd. The Corporation sold \$5,743,279 thousand of the overdue accounts receivable, which had been written off, to HC Asset Management Co., Ltd. The aggregate selling price was \$229,731 thousand. Under this contract, the Corporation would no longer assume the risk on this receivable.

## 8. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31 2005	
	Carrying Value	% of Owner-ship
Credit balance (recorded as other liabilities - other) Howin Technologies Co., Ltd.	<u>\$(472,632)</u>	27.5

The investment income in Howin Technologies Co., Ltd. (HTC) was recognized under the equity method by debiting long-term investments. However, the accumulated receipts of cash dividends and capital reduction distributed by HTC and the accumulated profits from intercompany transactions between HTC and the consolidated entities were recognized by crediting long-term investments, which resulted in a credit balance on the long-term investment in HTC. In the year ended December 31, 2006, HTC was divested, and a disposal gain of \$119 thousand was recognized.

Previously, although the Group's equity ownership in Taiwan Fixed Network Co., Ltd. (TFN) was less than 20%, the equity method was applied because of the Group's significant influence over TFN. The investment income or loss was recognized by the treasury stock method for the reciprocal investments between TFN and the Corporation. On July 19, 2005, however, the Group lost its significant influence over TFN and thus changed the accounting treatment to the cost method.

The financial statements used as the bases for calculating carrying value of the investments and the related investment income or loss were audited. The Group's investment income or loss was as follows:

	For the Years Ended December 31	
	2006	2005
HTC	\$554,770	\$(11,430)
TFN	-	(96,716)
	<u>\$554,770</u>	<u>\$(108,146)</u>



In the year ended in December 31, 2006, the investment income under the equity method include the realized \$ 552,725 thousand due to the realization of previous deferred upstream and intercompany transactions between HTC and TWM Group after the sale of HTC.

In the year ended in December 31, 2005, the net investment income recognized under the equity method includes the Corporation's proportional share of TFN's asset impairment loss, totaling \$ 79,102 thousand.

## 9. FINANCIAL ASSETS CARRIED AT COST - NON-CURRENT

	December 31	
	2006	2005
Domestic emerging stocks		
TFN	\$3,743,808	\$3,869,976
Domestic unlisted stocks		
Arcoa Communication Co., Ltd.	67,731	67,731
Parawin Venture Capital Corp.	25,144	25,144
WEB Point Co., Ltd.	7,084	8,031
Sunnet Technologies Co., Ltd.	3,265	3,265
Foreign unlisted stocks		
Bridge Technologies Mobile Pte Ltd.	32,160	32,160
	<u>\$3,879,192</u>	<u>\$4,006,307</u>

Because there is no active market quotation and a reliable fair value can not be estimated, the above investments are measured at cost.

## 10. PROPERTY AND EQUIPMENT - ACCUMULATED DEPRECIATION

	December 31	
	2006	2005
Buildings	\$316,668	\$265,082
Telecommunication equipment	29,279,303	28,088,739
Office equipment	87,238	191,385
Leased assets	292,461	234,958
Leasehold improvements	51,717	218,414
Miscellaneous equipment	613,149	456,039
	<u>\$30,640,536</u>	<u>\$29,454,617</u>

Interest expenses capitalized for the years ended December 31, 2006 and 2005 amounted to \$11,647 thousand and \$71,194 thousand, with interest rates ranging from 2.28% to 3.12% and 2.64% to 3.60%, respectively.

## 11. GOODWILL

In conformity with SFAS No. 35, "Accounting for Asset Impairment," the Group identified the Corporation, TAT and Mobitai in 2006 and the Corporation, the former TAT and the former Mobitai in 2005 as the smallest identifiable group of cash-generating units. TAT (including the former TAT) and Mobitai (including the former Mobitai) mainly provide second-generation GSM wireless communication services. The recoverable amounts TAT (including the former TAT) and Mobitai (including the former Mobitai) were measured by the assets for operating and goodwill values in use under the following critical assumptions:

### a. Assumptions on operating revenues

After taking changes in the telecom industry and competitive landscape into consideration, operating revenues were estimated on the basis of the projected changes in subscriber numbers, minutes of incoming and outgoing calls and average revenue per minute.

### b. Assumptions on operating costs and expenses

The estimates of commissions, customer retention costs, customer service costs and bill processing costs were based on the projected changes in subscriber numbers. The estimates of remaining costs and expenses were based on the proportion of the actual costs and expenses to operating revenues in the 2005 financial statements.

### c. Assumptions on discount rate

In 2006, the Group used the discount rates of 9.84% and 9.70% in calculating the asset recoverable amounts of the TAT and the Mobitai, respectively. In 2005, the discount rates are 7.63% and 8.72% for the former TAT and the former Mobitai, respectively.

On the basis of critical assumptions of each cash-generating unit, the Group's management believes that the carrying amounts of these assets for operating and goodwill will not exceed their recoverable amounts even if there are changes in the critical assumptions used to estimate recoverable amounts as long as these changes are reasonable for the year ended December 31, 2006 and 2005.

## 12. ASSETS LEASED TO OTHERS AND IDLE ASSETS

	December 31	
	2006	2005
Assets leased to others		
Cost	\$776,379	\$990,201
Less accumulated depreciation	(43,747)	(52,250)
Less accumulated impairment	(10,591)	(10,591)
	<u>\$722,041</u>	<u>\$927,360</u>
Idle assets		
Cost	\$2,676,262	\$2,820,980
Less accumulated depreciation	(725,353)	(752,578)
Less accumulated impairment	(1,722,988)	(1,803,427)
	<u>\$227,921</u>	<u>\$264,975</u>

The impairment losses of idle buildings and equipment were determined based on their appraised values and net realizable value, respectively, and the Group recognized impairment losses of \$2,005 thousand and \$112,300 thousand for the years ended December 31, 2006 and 2005, respectively.

## 13. DEFERRED CHARGES

	December 31	
	2006	2005
Interior decoration	\$279,092	\$160,739
Computer software cost	141,504	246,410
Construction expenditures	56,473	113,893
Other	<u>18,799</u>	<u>100,256</u>
	<u>\$495,868</u>	<u>\$621,298</u>

## 14. BONDS PAYABLE

	December 31			
	2006		2005	
	Current	Non-current	Current	Non-current
Domestic secured bonds	\$-	\$-	\$1,500,000	\$-
Domestic unsecured bonds	3,750,000	10,000,000	1,250,000	13,750,000
1st domestic unsecured convertible bonds	-	-	1,480,000	-
2nd domestic unsecured convertible bonds	55,900	-	-	747,300
Add accrued interest compensation	<u>8,548</u>	<u>-</u>	<u>313,020</u>	<u>86,825</u>
	<u>\$3,814,448</u>	<u>\$10,000,000</u>	<u>\$4,543,020</u>	<u>\$14,584,125</u>

### a. Domestic secured bonds

On February 1, 2001, the Corporation issued \$3,000,000 thousand of five-year domestic secured bonds, with each bond having a face value of \$1,000 thousand with a coupon rate of 5.31% per annum. The bonds will be redeemed in the fourth and fifth years after the issuance date at \$1,500,000 thousand for each of those years. Interest is payable annually. The bonds were repaid by the Corporation in February 2006.

The bond covenant requires the Corporation to maintain its year-end current ratio at above 100%, debt-to-equity ratio at below 100% and solvency ratio

$$\frac{[(\text{Net income} + \text{Depreciation} + \text{Amortization} + \text{Interest expense}) / (\text{Long-term bank loan repayments} + \text{Interest expense})]}{\text{at above 150\%}}$$

### b. Domestic unsecured bonds

On December 13, 2002, the Corporation issued \$15,000,000 thousand of domestic unsecured bonds, with each bond having a face value of \$5,000 thousand. The bonds have four different types based on terms and dates. Types I and II both consist of A to L tranches. Types III and IV both consist of A to M tranches. Types I and IV are five-year bonds and Types III and II are seven-year bond. The interest rates and payment terms are as follows:



	Principal	Rate	Terms
Type I	\$2,500,000	2.60%	Repayment of \$1,250,000 thousand each in the fourth and fifth years, interest payable annually
Type II	2,500,000	5.21%-6M LIBOR	Repayment on maturity date, interest payable semi-annually
Type III	5,000,000	2.80%	Repayment of \$2,500,000 thousand each in the sixth and seventh years, interest payable annually
Type IV	<u>5,000,000</u>	5.75%-6M LIBOR	Repayment on maturity date, interest payable semi-annually
	<u>\$15,000,000</u>		

### C. 1st domestic convertible bonds

On August 25, 2001, the Corporation issued \$10,000,000 thousand of five-year domestic convertible bonds, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period, starting from 3 months after the issuance date to the 10th day before maturity, the bondholders may ask for bond conversion into common stocks or entitlement certificates of the Corporation. Cash is paid for those bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$22.2 per share since July 20, 2006. As of August 24, 2006, bonds amounting to \$6,802,300 thousand had been converted to 226,716 thousand of common share. As of August 24, 2006, bonds amounting to \$3,194,400 thousand were purchased and canceled by the Corporation, and the other \$3,300 thousand was repaid by the Corporation on August 24, 2006.

If the closing price of the Corporation's share is above 50% of the conversion price for 30 consecutive trading days of the Taiwan Stock Exchange from 3 months after bond issuance to the 40th day before maturity, the Corporation has the option to convert the bonds to entitlement certificates at the conversion price or to redeem the bonds by cash at face value. If the total value of outstanding convertible bonds becomes less than 10% of the total principal, the Corporation also has the option, at any time, to convert the bonds to entitlement certificates at the conversion price or to redeem the bonds by cash at face value.

On the third year after the issuance date, the holders may redeem the bonds by cash at face value

plus interest accrued, which is 113.3% of face value calculated based on an implied yield rate of 4.25%. Upon maturity, the Corporation will redeem the bonds by cash at face value plus interest accrued, which is 124.62% of face value, calculated based on an implied yield rate of 4.5%.

### d. 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued \$6,000,000 thousand of five-year domestic convertible bonds, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to the 10th day before maturity, the bondholders may have the bonds converted into common stocks of the Corporation. Cash is paid for bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$23.6 per share since July 20, 2006. As of December 31, 2006, bonds amounting to \$5,399,400 thousand have been converted to 209,271 thousand of common shares. Bonds amounting to \$544,700 thousand were purchased and canceled by the Corporation.

If the closing price of the Corporation's share is above 50% of the conversion price for 30 consecutive trading days of the Taiwan Stock Exchange from 3 months after bond issuance to the 40th day before maturity, the Corporation has the option to convert the bonds to common stocks at conversion price or to redeem the bonds by cash at face value. If the total value of outstanding convertible bonds becomes less than 10% of the total principal, the Corporation also has the option - from 3 months after bond issuance to the 40th

day before maturity - to convert the bonds to common stocks at the conversion price or to redeem the bonds by cash at face value.

On the third year after the issuance date, the holders may redeem the bonds by cash at face value plus interest accrued, which is 109.59% of face value, calculated based on an implied yield rate of 3.1%. Upon maturity, the Corporation will redeem the bonds by cash at face value plus interest accrued, which is 117.63% of face value, calculated based on implied yield rate of 3.3%.

Future repayments of corporate bonds, excluding convertible bonds, are as follows:

Year	Amount
2007	\$3,750,000
2008	2,500,000
2009	7,500,000
	<u>\$13,750,000</u>

## 15. LONG-TERM BANK LOANS

The loans were to mature on September 1, 2010, with interest payable monthly. The Corporation made an early repayment of all long-term bank loans in the second quarter of 2005.

## 16. PENSION PLAN

The Labor Pension Act (LPA) became effective on July 1, 2005. Employees on board before June 30, 2005 may choose to continue to be subject to the pension plan under the Labor Standards Act (LSA) or be subject to the new pension plan under LPA, with their service years accumulated as of July 1, 2005 to be retained and subject to the pension plan under LSA. Starting from July 1, 2005, new employees may only choose to be subject to the new pension plan under LPA.

The new LPA provides for a defined contribution pension plan. Starting from July 1, 2005, the Corporation should contribute monthly an amount equal to 6% of the employees' monthly wages to the employees' individual pension accounts. The Group recognized a pension cost

of \$114,814 thousand for the year ended December 31, 2006.

The LSA provides for a defined benefit pension plan. Benefits are based on the length of service and average basic pay of the year before retirement. The Corporation contributes monthly an amount equal to 2% of the employees' monthly wages to a pension fund. The pension fund is managed by an independently administered pension fund committee and deposited in the committee's name in the Central Trust of China.

Information on the defined benefit pension plan is summarized as follows:

### a. Pension cost

	Years Ended December 31	
	2006	2005
Service cost	\$2,946	\$19,872
Interest cost	8,167	4,571
Projected return of pension assets	(8,558)	(4,290)
Amortization	(3,022)	(3,486)
Gain on settlement	(24,026)	-
Pension cost	<u>\$(24,493)</u>	<u>\$16,667</u>

### b. Changes in the prepaid/(accrued) pension cost

	December 31	
	2006	2005
Benefit obligation		
Vested	\$-	\$-
Non-vested	(178,977)	(187,492)
Accumulated	(178,977)	(187,492)
Additional benefits based on future salaries	(121,863)	(123,901)
Projected benefit obligation	(300,840)	(311,393)
Fair value of plan assets	418,142	312,927
Funded status	117,302	1,534
Unrecognized net transition obligation	6,165	5,147
Unrecognized net gain or loss	(97,964)	(102,836)
Prepaid pension cost (accrued pension cost)	<u>\$25,503</u>	<u>\$(96,155)</u>

### C. Actuarial assumptions

	Years Ended December 31	
	2006	2005
Discount rate used in determining present values	2.75%	2.5-3.75%
Future salary increase rate	2.5%	2.5-3.50%
Expected rate of return on plan assets	2.75%	2.5-3.25%

## 17.SHAREHOLDERS' EQUITY

### a. Capital surplus

Under the Company Law, capital surplus may only be used to offset a deficit. However, capital surplus generated from the excess of the issue price over the par value of capital stock, including the stock issued for new capital and the buyback of treasury stock, may be transferred to capital as stock dividends, and this transfer is restricted to a certain percentage of the capital surplus and may be made only within prescribed limits each time.

### b. Appropriation of earnings and dividend policy

The Corporation's Articles of Incorporation provide that a 10% legal reserve should be set aside from the annual net income after the reduction of accumulated deficit. The remainder, less special reserve based on relevant laws or regulations or business requirements, should be distributed as follows:

- (a) Dividends and bonus to preferred shareholders
- (b) Remuneration to directors and supervisors - up to 0.3%
- (c) Bonus to employees - 1%-3%
- (d) Remainder, to be appropriated as dividends as de-

termined in the shareholders' meeting.

The Corporation's dividend distribution is based on the availability of excess funds. That is, the Corporation first projects future capital needs through a capital budgeting process and then provides for the projected capital needs by using retained earnings. Any remainder is available for dividend distribution. However, the amount of stock dividends should not be more than 80% of the total dividends to be distributed in a single year. The final amount, type and percentage of the dividends are subject to the approval by the Board of Directors and shareholders based on actual earnings and capital requirements of the Corporation in a particular year.

A regulation issued by the Securities and Futures Bureau requires a special reserve be made from the unappropriated earnings, equivalent to the debit balance of any account shown in shareholders' equity. The special reserve appropriated to be reversed to the extent that the net debit balance reverses.

The appropriation of earnings should be resolved by the shareholders in the following year and given effect to in the financial statements of that year.

Under the Integrated Income Tax System, ROC resident shareholders are allowed a tax credit for the income tax paid by the Corporation. An imputation credit account (ICA) is maintained by the Corporation for such income tax and the tax credit allocated to each shareholder.

The 2005 and 2004 earnings appropriations resolved by the shareholders in their meeting on June 15, 2006 and June 14, 2005 were as follows:

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	For Fiscal Year 2005	For Fiscal Year 2004	For Fiscal Year 2005	For Fiscal Year 2004
Appropriation of legal reserve	\$1,623,670	\$1,665,416		
Appropriation of special reserve	1,150,000	2,201,631		
Reversal of special reserve	(1,631)	-		
Remuneration to directors and supervisors	40,394	63,936		
Cash bonus to employees	403,940	383,613		
Cash dividends	12,843,997	12,126,821	\$2.61677	\$2.47302
	<u>\$16,060,370</u>	<u>\$16,441,417</u>		

Had the above bonus to employees and remuneration to directors and supervisors been charged against income in 2005 and 2004, the basic earnings per share in that year would have decreased from NT\$3.31 and NT\$3.55 to NT\$3.22 and NT\$3.46 respectively.

The appropriation of the Corporation's 2006 earnings had not been proposed by the Board of Directors as of January 11, 2007, the independent auditors' report date. Information on the appropriation of 2006 earnings proposed by the Board of Directors and resolved by the shareholders can be accessed through the Market Observation Post System on the Taiwan Stock Exchange Corporation's website.

### C. Treasury stock

(Shares in Thousands)

Purpose of Buyback	Beginning Shares	Increase	Decrease	Ending Shares
Year ended December 31, 2006				
To be transferred to employees	11,551	57,804	22,818	46,537
Year ended December 31, 2005				
To be transferred to employees	65,368	11,551	65,368	11,551

For the year ended December 31, 2006, the Corporation transferred the treasury stock through various tranches to employees at 22,818 thousand shares at NT\$30.47 and NT\$28.17 per share, respectively, resulting in a reduction of retained earnings, amounting to \$57,372 thousands.

For the year ended December 31, 2005, the Corporation transferred 65,368 thousand shares of treasury stock through various tranches to employees at NT\$25.65, \$25.54, \$25.5 and \$25.48 per share, respectively, resulting in a reduction of retained earnings, amounting to \$173,981 thousand.

Under the Securities and Exchange Law, the buyback amount of treasury stock should not exceed 10% of total issued shares, and the buyback cost should not exceed the sum of the retained earnings, additional paid-in capital in excess of par value and realized capital surplus. In addition, the Corporation should not provide treasury stock as collateral and should not exercise shareholders' rights on those shares before transfer.

### d. Unrealized gains (losses) on financial instruments

Unrealized gains or losses on financial instruments for the year ended December 31, 2006 were summarized as follows:

	Year Ended December 31, 2006
Available-for-sale financial assets	
Effect of the first time adoption of new issued SFASs	\$2,082,823
Fair value changes recognized directly in equity	68,807
Transfer to current gains or loss upon sales of financial assets	(2,110,978)
	40,652
Changes in unrealized gains (losses) of cash flow hedge	
Effect of the first time adoption of new issued SFASs	(248,184)
Fair value changes recognized directly in equity	29,900
	(218,284)
Recognition of investees' changes in unrealized gains or losses by the equity method	30,209
	\$(147,423)

## 18. INCOME TAX EXPENSE

- a. The reconciliation of imputed income taxes on pretax income at statutory tax rate to current income tax expense was as follows:

	Years Ended December 31	
	2006	2005
Tax on pretax income at statutory tax rate (25%)	\$5,450,976	\$5,431,476
Add (deduct) tax effects of		
Permanent differences		
Investment income from domestic investees accounted for using equity method	(852,655)	(562,626)
Tax-exempt dividend income	(160,954)	(238,408)
Gain on disposal of marketable securities	(536,640)	(54,182)
Other	(39,661)	96,151
Temporary differences	550,250	(93,543)
Tax-exempt income	(402,696)	(2,490,093)
Income tax (10%) on unappropriated earnings	498,050	389,985
Investment tax credits	(1,108,394)	(407,057)
Prior year's loss carryforward	(27,543)	(5,453)
Deferred income taxes	(962,379)	248,086
Prior year's adjustment	269,276	69,567
Tax on short-term bills	15,252	1,956
Income tax expense	<u>\$2,692,882</u>	<u>\$2,385,859</u>

- b. Under Article 8 of the Statute for Upgrading Industries (SUI) before the SUI amendment in 1999, the Corporation is considered an important technology-based enterprise. Thus, the Corporation's net operating income generated from the following expansion of its equipment is exempt from income tax for five years during the period specified, as approved by the Ministry of Finance.

Under Article 8 of SUI before the amendment in 1999, the former TAT, a subsidiary of the Corporation, is also considered an important technology-based enterprise. Thus, the former TAT's net operating income generated from the expansion of its equipment is exempt from income tax for five years from January 1, 2001, as approved by the Ministry of Finance.

Equipment Expansion Projects	Tax-Exempt Period
Switches, base transmission station (BTS) and related telecommunication equipment, acquired from July 31, 1999 to December 31, 1999	2001 to 2005
Switches, BTS and related telecommunication equipment, acquired from September 30, 2000 to September 30, 2001	2002 to 2006

**C. Deferred income tax assets and liabilities were as follows:**

	December 31	
	2006	2005
Provision for doubtful accounts	\$852,665	\$762,114
Provision for impairment losses on idle assets	343,792	389,584
Unrealized loss on retirement of property and equipment	876,933	245,796
Unrealized loss on financial liabilities	72,761	-
Accrued interest compensation	2,137	99,962
Prior year's loss carryforward	39,644	67,180
Amortization of goodwill	(61,776)	-
Accrued pension cost	(273)	18,400
Other	9,570	11,126
	2,135,453	1,594,162
Less valuation allowance	(395,190)	(889,039)
	<u>\$1,740,263</u>	<u>\$705,123</u>
Deferred income tax assets		
Current	\$185,973	\$177,372
Non-current	1,554,290	527,751
	<u>\$1,740,263</u>	<u>\$705,123</u>

**d. Integrated income tax information was as follows:**

Balance of imputation credit account (ICA)		
Corporation	<u>\$1,091,242</u>	<u>\$1,532,065</u>
The former TAT		<u>\$363,905</u>
TAT	<u>\$725,999</u>	
The former Mobitai		<u>\$59,448</u>
Mobitai	<u>\$112,886</u>	<u>\$-</u>
The former TCC		<u>\$359,714</u>
TCC (formerly TDS)	<u>\$6,679</u>	
TFI		<u>\$-</u>
Tai Hsuo		<u>\$6,843</u>
Tai Hung		<u>\$-</u>
TII		<u>\$1,175</u>
TYDB	<u>\$38</u>	
TT&T	<u>\$27,798</u>	<u>\$25,599</u>
TCPIA	<u>\$-</u>	<u>\$352</u>
TLIA	<u>\$8</u>	<u>\$164</u>

As of December 31, 2006, there were no unappropriated earnings generated before January 1, 1998. The estimated creditable ratio for the 2006 earnings appropriation and the actual creditable ratio for the 2005 earnings appropriation were as follows:

	Years Ended December 31	
	2006	2005
Corporation	16.63%	9.88%
The former TAT	Not applicable	-
TAT	33.33%	Not applicable
The former Mobitai	Not applicable	-
Mobitai	33.33%	-
The former TCC	Not applicable	-
TCC (formerly TDS)	1%	-
TFI	Not applicable	Not applicable
Tai Hsuo	Not applicable	Not applicable
Tai Hung	Not applicable	Not applicable
TII	Not applicable	Not applicable
TYDB	-	Not applicable
TTS	Not applicable	Not applicable
TT&T	-	-
TCPIA	-	-
TLIA	33.33%	6.83%

The imputation credits allocated to the shareholders are based on the ICA balance as of the date of dividend distribution. The estimated creditable ratio for the 2006 earnings appropriation may be adjusted when the imputation credits are distributed.

- e. The latest years through which income tax returns had been examined and cleared by the tax authorities were as follows:

	Year
Corporation	2001
The former TAT	2004
TAT	None
The former Mobitai	2004
Mobitai	None
The former TCC	2004
TCC (formerly TDS)	None
TFI	2005
Tai Hsuo	2005
Tai Hung	2005
TII	2005
TYDB	2004
TTS	2004
TEC	2005
TT&T	2003
TCPIA	None
TLIA	2004

The Corporation's income tax returns through 2001 had been examined by the tax authorities. However, the Corporation disagreed with the examination result on the income tax returns from 1999 to 2001, and filed requests for reexamination.

The former TAT's income tax returns through 2004 had been examined by the tax authorities. However, the former TAT disagreed with the examination result on the income tax returns from 2002 to 2004, and filed administrative proceedings to settle this matter for 2002 to 2003 and petition for reexamination in 2004.

## 19.EARNINGS PER SHARE

(New Taiwan Dollars)

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS				
Income from continuing operations	\$3.54	\$3.28	\$3.74	\$3.31
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$3.54</u>	<u>\$3.28</u>	<u>\$3.74</u>	<u>\$3.31</u>
Diluted EPS				
Income from continuing operations	\$3.53	\$3.26	\$3.68	\$3.26
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$3.53</u>	<u>\$3.26</u>	<u>\$3.68</u>	<u>\$3.26</u>

The numerators and denominators used in calculating earnings per share (EPS) were as follows:

	Amounts (Numerator)		Shares (Denominator)	EPS (NT\$)	
	Before Income Tax	After Income Tax	(Thousands)	Before Income Tax	After Income Tax
2006					
Weighted-average number of outstanding shares			4,978,245		
Less buyback of issued shares			(44,531)		
Basic EPS					
Income of common shareholders	\$17,478,536	\$16,170,741	4,933,714	<u>\$3.54</u>	<u>\$3.28</u>
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	22,764	17,073	19,022		
2nd convertible bonds (with implied yield rate of 3.3%)	<u>13,483</u>	<u>10,112</u>	<u>15,298</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$17,514,783</u>	<u>\$16,197,926</u>	<u>4,968,034</u>	<u>\$3.53</u>	<u>\$3.26</u>
2005					
Weighted-average number of outstanding shares			4,941,187		
Less buyback of issued shares			(42,936)		
Basic EPS					
Income of common shareholders	\$18,311,457	\$16,236,698	4,898,251	<u>\$3.74</u>	<u>\$3.31</u>
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	84,858	63,644	69,753		
2nd convertible bonds (with implied yield rate of 3.3%)	<u>35,242</u>	<u>26,432</u>	<u>39,736</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$18,431,557</u>	<u>\$16,326,774</u>	<u>5,007,740</u>	<u>\$3.68</u>	<u>\$3.26</u>



## 20. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	2006			2005		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Labor cost						
Salary	\$543,085	\$2,211,463	\$2,754,548	\$561,182	\$2,516,616	\$3,077,798
Labor and health insurance	33,549	138,232	171,781	34,093	147,286	181,379
Pension	31,138	108,845	139,983	21,881	82,135	104,016
Other	33,241	133,299	166,540	33,926	118,262	152,188
	<u>\$641,013</u>	<u>\$2,591,839</u>	<u>\$3,232,852</u>	<u>\$651,082</u>	<u>\$2,864,299</u>	<u>\$3,515,381</u>
Depreciation	\$6,307,893	\$458,715	\$6,766,608	\$5,937,780	\$458,222	\$6,396,002
Amortization	856,121	180,912	1,037,033	696,740	709,084	1,405,824

## 21. FINANCIAL INSTRUMENT TRANSACTIONS

### a. Fair value information

	December 31, 2006		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$14,077,168	\$14,077,168	\$600,000	\$600,035
Available-for-sale financial assets	381,569	381,569	9,277,177	11,360,000
Liabilities				
Bonds payable (including current portion)	13,814,448	13,741,839	19,127,145	19,240,182
<u>Derivative financial instruments</u>				
Liabilities				
Interest rate swap contracts	291,046	291,046	-	330,912

Effective January 1, 2006, the Corporation adopted newly issued SFAS No. 34, "Accounting for Financial Instruments," and, therefore, the derivative financial instruments were not recognized in the 2005 financial statements. Please refer to Note 3 for the related description of the cumulative effect of changes in accounting principle and the adjustments in equity as a result of the adoption of newly issued SFASs.

b. The methods and significant assumptions applied in determining fair values of financial instruments were as follows:

- Financial assets at fair value through profit or loss and available-for-sale financial assets - based on quoted prices in an active market on the balance sheet date.

- (b) Because there is no active market and a reliable fair value could only be verified at a more than reasonable cost, the fair values of investments in unlisted stocks carried at cost or accounted for using equity method can not be estimated.
  - (c) Bonds payable - based on the over-the-counter quotations in December;
  - (d) Derivative financial instruments - based on valuation results provided by banks. As of December 31, the financial instrument held by the Corporation turned into financial liability, evaluated by the bid price of counter party.
  - (e) The above financial instruments do not include cash and cash equivalents, notes and accounts receivables, pledged time deposits, refundable deposits, notes and accounts payable and guarantee deposits. Because of the short maturities of these instruments, the carrying values represent a reasonable basis to estimate fair values.
- c. The fair values of financial assets and liabilities were not simultaneously determined by quoted prices in active markets and by estimations using valuation technique.
- d. The financial assets exposed to fair value interest rate risk amounted to \$11,168,906 thousand and \$14,080,291 thousand as of December 31, 2006 and 2005, respectively, and the financial liabilities exposed to fair value interest rate risk amounted to \$6,314,448 thousand and \$11,627,145 thousand as of December 31, 2006 and 2005, respectively. The financial assets exposed to cash flow interest rate risk amounted to \$1,195,118 thousand and \$638,001 thousand as of December 31, 2006 and 2005, respectively, and the financial liabilities exposed to cash flow interest rate risk amounted to \$7,791,046 thousand and \$7,830,912 thousand as of December 31, 2006 and 2005, respectively.
- e. Information on financial risks:
- (a) Market risk
 

The interest rate swap (IRS) contracts are used to hedge interest rate fluctuation on its liabilities with anti-floating interest rates. Since the interest receivable and payable are settled at net amounts on the settlement date. The market risk is immaterial.
  - (b) Credit risk
 

Credit risk represents the potential impacts to financial assets that the Corporation might encounter

if counter-parties or third parties breach the contracts. Factors that affect the impacts include credit risk concentration, components of financial instruments, contract amount and other receivables. The Corporation's evaluation of credit risk exposure as of December 31, 2006 and 2005 were both zero because all of counter-parties are reputable financial institutions with good credit ratings. The Group's maximum credit risk exposure of each financial instrument is the same as its carrying value.

The credit risk amount listed above is an evaluation over the contracts with positive fair value at the balance sheet date and the contracts of off-balance-sheet commitments and guarantees. Significant concentration of credit risk exists when counter-parties in financial instrument transactions significantly concentrate on one individual, or when there are a number of counter-parties in financial instrument transactions, but these counter-parties are engaged in similar business activities and have similar economic characteristics so that their abilities to perform contractual obligations would be concurrently affected in similar economic changes or other situations. The characteristics of credit risk concentration include the nature of the debtors' operating activities. The Corporation does not rely significantly on single transaction and transact with single client or in the same region.

(c) Liquidity risk

The Corporation entered into IRS transactions to hedge cash flow risks. Because the IRS contracts are settled at net amounts, the expected cash demand is insignificant. The Corporation has sufficient operating capital to meet cash demand.

- f. The purpose of derivative financial instruments held or issued and the strategies to meet the purpose
- The Corporation uses IRS contracts to hedge fluctuation on its liabilities with anti-floating interest rates. The overall purpose of these contracts is to hedge the Corporation's exposure to cash flow risks. The Corporation uses interest rate swaps to hedge interest rate fluctuation risk and periodically evaluates the effectiveness of the hedging instruments.

## 22.RELATED-PARTY TRANSACTIONS

### a. The related parties and their relationships with the Group are as follows:

Related Party	Relationship with the Group
Taiwan Mobile Foundation (TWM Foundation)	Over one third of the Foundation's issued fund came from the Corporation
Howin Technologies Co., Ltd. (HTC)	Equity-method investee (sold in June 2006)
Fubon Life Assurance Co., Ltd.	Same chairman as the Corporation
Fubon Securities Investment Trust Co., Ltd.	Related party in substance
Chung Hsing Constructions Co., Ltd.	Related party in substance
Taiwan Fixed Network Co., Ltd. (TFN)	Related party in substance
Fubon Land Development Co., Ltd.	Related party in substance
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	Related party in substance
Fubon Securities Co., Ltd. (FSC)	Related party in substance
Fubon Insurance Co., Ltd. (Fubon Ins.)	Related party in substance
Fubon Multimedia Technology Co., Ltd. (FMT)	Related party in substance

### b. Significant transactions with related parties were summarized below:

#### (a) Operating revenues

	2006		2005	
	Amount	% of Total Revenues	Amount	% of Total Revenues
TFN	\$1,558,544	3	\$1,560,515	3
FMT	77,346	-	122,048	-
TFCB	28,895	-	55,954	-
	<u>\$1,664,785</u>		<u>\$1,738,517</u>	

The Group rendered mainly telecommunication and maintenance services to the above companies. The average collection period for notes and accounts receivable was approximately two months.

#### (b) Operating costs

	2006		2005	
	Amount	% of Total Revenues	Amount	% of Total Revenues
TFN	\$921,696	4	\$922,649	4
Fubon Ins.	99,222	-	132,323	1
	<u>\$1,020,918</u>		<u>\$1,054,972</u>	

The above companies rendered mainly telecommunication, maintenance and insurance services to the Group. The average payment term for notes and accounts payable was approximately two months.

#### (c) Property transactions

Acquisition of property and equipment

	2006	
	Description	Amount
TFN	Land and buildings	<u>\$1,565,000</u>

(1) The Corporation bought a real estate from TFN based on the need for base station. Only a natural person could be the owner of the farmland due to the related regulations. The Corporation bought the farmland located in Yang-mei, Taoyuan for the amount of \$12,000 thousand through setting up of a fiduciary contract with the landholder in December 2006 and is applying for the change of the land category. The land was pledged as collateral to the Corporation and the Corporation uses the land for operation purpose.

(2) For the real estate bought from TFN, the transaction amount was based on the appraisal value from the appraised institution.

	2006	
	Description	Amount
TFN	Miscellaneous equipment	<u>\$111,124</u>

#### Disposal of property and equipment

	2006	
	Description	Amount
TFN	Land and buildings	<u>\$152,000</u>

	2006	
	Description	Amount
TFN	Telecommunication equipment, miscellaneous equipment and deferred charges	<u>\$2,093,154</u>

The above disposals were made at arm's length with the transaction amounts based on the appraisal value from the appraisal institution. And it resulted in a disposal loss of \$3,848 thousand

and disposal gain of \$70,085 thousand for the years ended December 31, 2006 and 2005, respectively.

(d) Rental income

	Description	2006	2005
TFN	Ji-lung Road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc.	\$2,093,154	\$30,187

The above lease transaction was based on market price and rent was collected monthly.

	December 31, 2006		December 31, 2005	
	Amount	%	Amount	%
(e) Cash in banks				
(1) Cash in banks				
TFCB	\$417,924	3	\$234,193	2
(2) Pledged time deposits				
TFCB	\$10,000	100	\$10,000	100
(3) Other assets - pledged time deposits				
TFCB	\$-	-	\$1,700	2
(f) Receivables and payables				
(1) Accounts receivable				
TFN	\$241,998	4	\$180,597	3
Other	7,940	-	6,475	-
	\$249,938		\$187,072	
(2) Other receivables				
TFN	\$10,645	4	\$-	-
TFCB	5,288	2	-	-
FSC	8	-	43,162	15
HTC	-	-	3,883	1
	\$15,941		\$47,045	
(3) Accrued expenses				
TFN	\$58,733	1	\$24,286	1
(4) Other payables				
TFN	\$47,388	1	\$115,844	4
(5) Other current liabilities - collections and temporary credits for the following				
TFN	\$34,279	5	\$32,822	4
TFCB	4,682	1	12,684	2
	\$38,961		\$45,506	
(g) Prepayments				
Fubon Ins.	\$76,450	13	\$8,718	2

	2006	2005
(h) Telecommunication service expenses		
TFN	\$70,387	\$83,818
(i) Insurance expenses		
Fubon Ins.	\$12,766	\$17,984
(j) Donations		
TWM Foundation	\$21,000	\$24,400

(k) Other

On March 8, 2005, the Corporation bought back 750 units of its outstanding 2nd domestic convertible bonds from FSC for NT\$131,800 per unit. The aggregate purchase price amounted to \$98,850 thousand and resulted in a loss of \$17,341 thousand.

## 23.ASSETS PLEDGED

The assets pledged as collaterals for bank loans, bond issuance and credit line of deposit overdraft were as follows:

	December 31	
	2006	2005
Time deposits	\$10,000	\$12,000
Fixed assets, net carrying value	-	10,883,199
	<u>\$10,000</u>	<u>\$10,895,199</u>

## 24. COMMITMENTS AND CONTINGENT EVENTS

- To enhance 3G mobile communications, expand network coverage and increase the service functions, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2006. As of December 31, 2006, the above amount has not yet paid.
- To enhance the intensity and widen the coverage of the 3G signal and to increase the service functions and items provided by 3G mobile telecommunications, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2004. In accordance with the terms of the contract, as of December 31, 2006, payments of \$3,062,442 thousand has been made.
- To provide better communication quality and more diverse service functions, the Corporation entered into agreements for upgrading the existing network equipment and building IT systems with Siemens in September 2004 for US\$17,310 thousand and NT\$67,472 thousand, respectively. In accordance with the terms of the agreements, as of December 31, 2006, payments of US\$17,310 thousand and NT\$66,902 thousand have been made, respectively.

d. Unused letters of credit for acquisition of equipment were EUR269 thousand as of December 31, 2006.

e. Future minimum rental payments as of December 31, 2006 for significant operating lease agreements were summarized as follows:

	Amount
2007	\$26,223
2008	30,002

## 25.ADDITIONAL DISCLOSURES

Following were the additional disclosures required by the Securities and Futures Bureau for the Corporation and its investees:

- Financing provided: Table 1 (attached)
- Endorsement/guarantee provided: None
- Marketable securities held: Table 2 (attached)
- Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 3 (attached)
- Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Table 4 (attached)
- Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: Table 5 (attached)
- Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 6 (attached)
- Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 7 (attached)
- Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 8 (attached)
- Derivative transactions

The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on anti-floating interest rates of bonds, which are settled semiannually. Please refer to Note 21 for the related information.

Financial Instrument	Term	Contract Amount
Interest rate swap contracts	Anti-floating interest rate in exchange for fixed interest rates of 2.25%	\$2,500,000
	Anti-floating interest rate in exchange for fixed interest rate of 2.45%	5,000,000

The Corporation entered into IRS contracts to hedge anti-floating interest rate fluctuation. For the twelve months ended December 31, 2006 and 2005, the Corporation recognized losses of \$141,434 thousand and losses of \$4,386 thousand, respectively, recorded as addition to interest expense.

**k. Investment in Mainland China:**

(a) The name of the investee company in Mainland China, the main businesses and products, issued capital, method of investment, information on in-flow or outflow of capital, ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Table 9 (attached)

(b) Significant direct or indirect transactions with the investee company, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: None

l. Business relationships and significant intercompany transactions: Tables 10 and Table 11 (attached).

## 26. SEGMENT INFORMATION

### a. Industry

The Group is primarily engaged in wireless communication services and wholesale and retailing of telecommunication equipment, which are accordingly classified into a telecommunication segment and a sale segment. Under SFAS No. 20, "Disclosure of Segment Financial Information," industry information need not be disclosed herein because the net income (loss) of the sale segment was less than 10% of the aggregate segment income (loss).

### b. Foreign operations

The Corporation has no revenue-generating unit that operates outside the ROC.

### c. Foreign revenues

The Corporation has no foreign revenues.

**d. Customers with revenues exceeding 10% of the total net operating revenues were as follows:**

Company	2006		2005	
	Amount	Percentage of Operating Revenues (%)	Amount	Percentage of Operating Revenues (%)
Chunghwa Telecom Co., Ltd.	\$11,712,979	20	\$12,453,073	21

TABLE 1

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**FINANCING PROVIDED**

No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate	Type of Financing
1	TransAsia Telecommunications Inc.	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Other receivables	\$300,000	\$-	2.674%	Necessary for short-term financing

Note: The amount of financing provided, including business relationship and short-term financing, shall not exceed 20% of the net worth of the financing company.

YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

	Trans- action Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Financing Limit for Each Borrow- ing Company (Note)	Financing Company's Fi- nancing Amount Limits (Note)
				Item	Value		
	\$-	Operating capital	\$-	-	\$-	\$2,810,635	\$2,810,635



TABLE 2

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**MARKETABLE SECURITIES HELD**

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	
The Corporation	<u>Beneficiary certificate</u>		
	Fuh-Hwa Bond Fund	-	
	ABN AMRO Income Fund	-	
	ABN AMRO Bond Fund	-	
	ABN AMRO Select Bond Fund	-	
	AIG Taiwan Bond Fund	-	
	Dresdner Bond Dam Fund	-	
	Fubon Jin-Ju-I Fund	-	
	NITC Bond Fund	-	
	Prudential Financial Bond Fund	-	
	JF (Taiwan) Bond Fund	-	
	<u>Stock</u>		
	Chunghwa Telecom Co., Ltd.	-	
	Taiwan Fixed Network Co., Ltd.	Related party in substance	
	Bridge Mobile Pte Ltd.	-	
	TransAsia Telecommunications Inc.	Subsidiary	
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Subsidiary	
TransAsia Telecommunications Inc.	<u>Beneficiary certificate</u>		
	ABN AMRO Bond Fund	-	
	AIG Taiwan Bond Fund	-	
	Prudential Financial Bond Fund	-	
	JF (Taiwan) Bond Fund	-	
	Fubon Jin-Ju-I Fund	-	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	<u>Stock</u>		
	Arcoa Communication Co., Ltd.	-	
	Taiwan Fixed Network Co., Ltd.	Related party in substance	

DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

Financial Statement Account	December 31, 2006			
	Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)
Financial assets at fair value through profit or loss - current	45,175	\$602,192	-	\$602,192 (Note 2)
Financial assets at fair value through profit or loss - current	25,387	401,917	-	401,917 (Note 2)
Financial assets at fair value through profit or loss - current	126,959	1,913,171	-	1,913,171 (Note 2)
Financial assets at fair value through profit or loss - current	35,432	401,565	-	401,565 (Note 2)
Financial assets at fair value through profit or loss - current	153,928	1,962,733	-	1,962,733 (Note 2)
Financial assets at fair value through profit or loss - current	130,038	1,506,803	-	1,506,803 (Note 2)
Financial assets at fair value through profit or loss - current	81,999	1,002,954	-	1,002,954 (Note 2)
Financial assets at fair value through profit or loss - current	17,122	2,817,260	-	2,817,260 (Note 2)
Financial assets at fair value through profit or loss - current	13,686	200,015	-	200,015 (Note 2)
Financial assets at fair value through profit or loss - current	19,702	300,597	-	300,597 (Note 2)
Available-for-sale financial assets - current	2,688	162,893	0.028	162,893 (Note 3)
Financial assets carried at cost - non-current	637,000	3,700,944	9.87	6,673,229
Financial assets carried at cost - non-current	1,000	32,160	12.50	21,543
Long-term investments - equity method	1,245,846	14,009,973	100.00	14,053,173
Long-term investments - equity method	325,000	3,877,659	100.00	3,894,039
Financial assets at fair value through profit or loss - current	46,758	704,606	-	704,606 (Note 2)
Financial assets at fair value through profit or loss - current	71,000	905,330	-	905,330 (Note 2)
Financial assets at fair value through profit or loss - current	37,966	554,861	-	554,861 (Note 2)
Financial assets at fair value through profit or loss - current	42,808	653,130	-	653,130 (Note 2)
Financial assets at fair value through profit or loss - current	12,267	150,035	-	150,035 (Note 2)
Financial assets carried at cost - non-current	6,998	67,731	5.21	- (Note 4)
Financial assets carried at cost - non-current	4,900	42,864	0.08	54,089

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Parawin Venture Capital Corp.	-	
	Transportation High Tech Inc.	-	
	WEB Point Co., Ltd.	-	
	Sunnet Technologies Co., Ltd.	-	
	Mobitai Communications	Subsidiary	
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	
	Tai Yi Digital Broadcasting Co., Ltd.	Subsidiary	
	TWM Holding Co. Ltd.	Subsidiary	
TWM Holding Co., Ltd.	<u>ADS</u>		
	Hurray! Holding Co., Ltd.	-	
Mobitai Communications	<u>Stock</u>		
	Yes Mobile Holdings Company	-	
Taiwan Teleservices & Technologies Co., Ltd.	<u>Stock</u>		
	TT&T Life Insurance Agency Co., Ltd.	Subsidiary	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary	
	TT & T Holdings Co., Ltd.	Subsidiary	
TT&T Holdings Co., Ltd.	<u>Stock</u>		
	Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary	

Note 1:Based on the investee's net value as shown in its latest financial statements.

Note 2:Based on the net asset value of the fund on December 31, 2006.

Note 3:Based on the closing price on December 31, 2006.

Note 4:As of January 11, 2007, the independent auditors' report date, the investee's net value was unavailable.

Note 5:Deducted impairment loss recognized in 2004.

	Financial Statement Account	December 31, 2006			
		Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)
	Financial assets carried at cost - non-current	3,000	\$25,144	3.00	- (Note 4)
	Financial assets carried at cost - non-current	1,200	- (Note 5)	12.00	- (Note 4)
	Financial assets carried at cost - non-current	803	7,084	3.17	- (Note 4)
	Financial assets carried at cost - non-current	375	3,265	1.51	- (Note 4)
	Long-term investments - equity method	200,000	2,499,650	100.00	2,513,562
	Long-term investments - equity method	70,000	540,640	100.00	540,640
	Long-term investments - equity method	2,495	24,410	49.90	24,410
	Long-term investments - equity method	1 share	325,693	100.00	325,693
	Available-for-sale financial assets - current	1,080	US\$6,696	5.02	US\$6,696 (Note 3)
	Financial assets carried at cost - non-current	74	- (Note 5)	0.19	- (Note 4)
	Long-term investments - equity method	300	3,021	100.00	3,021
	Long-term investments - equity method	300	2,703	100.00	2,703
	Long-term investments - equity method	1,300	41,565	100.00	41,565
	Long-term investments - equity method	-	US\$1,268	100.00	US\$1,268

(Concluded)

TABLE 3

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF**  
**AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance	
					Shares/Units (Thousands)	
The Corporation	Beneficiary certificate					
	Fubon Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	25,522	
	Fubon Ju-I II Fund	Financial assets at fair value through profit or loss - current	-	-	13,916	
	Fuh-Hwa Albatross Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	ABN AMRO Income Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	ABN AMRO Select Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	Dresdner Bond Dam Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	Fubon Chi-Shun III Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	NITC Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	NITC Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	

(Continued)

YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

	Beginning Balance	Acquisition		Disposal				Ending Balance	
	Amount	Shares/ Units (Thou- sands)	Amount	Shares/ Units (Thou- sands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/ Units (Thou- sands)	Amount
	\$400,000	-	\$-	25,522	\$400,145	\$400,023	\$122	-	\$-
	200,000	-	-	13,916	200,072	200,012	60	-	-
	-	44,641	500,000	44,641	501,202	500,000	1,202	-	-
	-	98,134	1,300,000	52,959	702,108	700,000	2,108	45,175	602,192 (Note 1)
	-	25,387	400,000	-	-	-	-	25,387	401,917 (Note 1)
	-	160,324	2,400,000	33,365	500,000	498,035	1,965	126,959	1,913,171 (Note 1)
	-	106,679	1,200,000	71,247	803,071	800,000	3,071	35,432	401,565 (Note 1)
	-	189,406	2,400,000	35,478	450,000	448,233	1,767	153,928	1,962,733 (Note 1)
	-	217,137	2,500,000	87,099	1,003,660	1,000,000	3,660	130,038	1,506,803 (Note 1)
	-	47,546	500,000	47,546	500,000	500,599	599	-	- (Notes 1 and 2)
	-	81,999	1,000,000	-	-	-	-	81,999	1,002,954 (Notes 1 and 2)
	-	19,872	3,250,000	2,750	450,000	448,262	1,738	17,122	2,817,260 (Note 1)
	-	35,789	500,000	35,789	501,496	500,000	1,496	-	-
	-	13,686	200,000	-	-	-	-	13,686	200,015 (Note 1)
	-	39,521	600,000	19,819	300,739	300,000	739	19,702	300,597 (Note 1)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance	
					Shares/Units (Thousands)	
The Corporation	<u>Stock</u>					
	Chunghwa Telecom Co., Ltd.	Available-for-sale financial assets - current	-	-	200,000	
	The former TransAsia Telecommunications Inc.	Long-term investments - equity method	TransAsia Telecommunications Inc.	Subsidiary	328,645	
	TransAsia Telecommunications Inc.	Long-term investments - equity method	-	Subsidiary	-	
	Taiwan Cellular Co., Ltd.	Long-term investments - equity method	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Subsidiary	44,300	
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Long-term investments - equity method	-	Subsidiary	386,972	
TransAsia Telecommunications Inc.	<u>Beneficiary certificate</u>					
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	-	
	<u>Stock</u>					
	The former TransAsia Telecommunications Inc.	Long-term investments - equity method	The Corporation	Ultimate parent	-	
Mobitai Communications	<u>Stock</u>					
	The former Mobitai Communications	Long-term investments - equity method	-	-	365,078	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	<u>Stock</u>					
	Taiwan Cellular Co., Ltd.	Long-term investments - equity method	The Corporation	Ultimate parent	-	
	TWM Holding Co. Ltd.	Long-term investments - equity method	-	-	-	
TWM Holding Co. Ltd.	<u>ADS</u>					
	Hurray! Holding Co., Ltd.	Available-for-sale financial assets - current	-	-	-	

Note 1: The amount included the revaluation gain on financial assets.

Note 2: Fubon Chi-Shun III Fund merged into Fubon Jin-Ju-I Fund on October 16, 2006, held 47,331 units on the date of consolidation, and transferred carrying value of \$500,000 thousand into Fubon Jin-Ju-I Fund 41,032 units.

Note 3: The amount included the investment loss adjustment of \$1 thousand. For its reorganization, the Corporation retained 80 shares of the former TransAsia Telecommunications Inc. and established TAT International Telecommunication Co., Ltd. by investing the remaining holding shares of the former TransAsia Telecommunications Inc., with a carrying value of \$12,458,463 thousand. There was no gain or loss on this share disposal. TAT International Telecommunications Co. Ltd. merged with the

former TransAsia Telecommunications Inc., with TAT International Telecommunications Co. Ltd. as the surviving company and renamed as "TransAsia Telecommunications Inc." on June 27, 2006. The Corporation received acquisition price amounting to \$3 thousand.

Note 4: The amount included the investment income adjustment of \$1,551,510 thousand.

Note 5: For its reorganization, Taihsing Den Syun Co., Ltd. merged with the Taiwan Cellular Co., Ltd., with Taihsing Den Syun Co., Ltd. as the surviving company and renamed as Taiwan Cellular Co., Ltd. on May 1, 2006. There was no gain or loss on this share disposal. The amount included (a) the investment income adjustment of \$31,199 thousand; (b) the reclassification of unrealized gain

	Beginning Balance	Acquisition		Disposal				Ending Balance	
	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
	\$9,277,177	2,688	\$-	200,000	\$11,265,915	\$9,154,936	\$2,110,979	2,688	\$162,893 (Note 1)
	12,458,466	-	-	328,645	<sup>3</sup> (Note 3)	12,458,465	<sup>1</sup> (Note 3)	-	- (Note 3)
	-	1,245,846	12,458,463	-	-	-	-	1,245,846	14,009,973 (Note 4)
	992,550	-	-	44,300	-	1,504,634 (Note 5)	- (Note 5)	-	- (Note 5)
	3,781,996	50,000	500,000	-	-	-	-	325,000	3,877,659 (Note 6)
	-	46,758	700,000	-	-	-	-	46,758	704,606 (Note 1)
	-	94,744	1,200,000	23,744	302,712	300,000	2,712	71,000	905,330 (Note 1)
	-	68,924	1,000,000	30,958	450,000	448,437	1,563	37,966	554,861 (Note 4)
	-	42,808	650,000	-	-	-	-	42,808	653,130 (Note 4)
	-	12,267	150,000	-	-	-	-	12,267	150,035 (Note 4)
	-	328,645	12,458,466	328,645	-	12,458,466	- (Note 3)	-	- (Note 3)
	3,532,794	-	-	365,078	-	3,532,794	- (Note 7)	-	- (Note 7)
	-	44,300	-	44,300	-	- (Note 8)	- (Note 8)	-	-
	-	1 share	292,961	-	-	-	-	1 share	325,693 (Note 9)
	-	1,080	US\$5,771	-	-	-	-	1,080	US\$6,696 (Note 1)

from intercompany transactions resulting from the sale of investment of Howin Technologies Co., Ltd. amounting to \$484,380 thousand and (c) cumulative translation adjustments of (\$3,495) thousand.

Note 6: The amount included (a) the capital reduction adjustment of \$1,119,715 thousand; (b) the investment income adjustment of \$1,160,351 thousand; (c) the additional paid-in capital 5,083 thousand; (d) the reclassification of unrealized gain from intercompany transactions resulting from the sale of investment of Howin Technologies Co., Ltd. amounting to (\$484,380) thousand ; (e) cumulative translation adjustments of \$4,115 thousand and (f) financial asset of unrealized gain \$30,209 thousand.

Note 7: For its reorganization, Mobitai Communications merged with the

former Mobitai Communications, with Mobitai Communications as the surviving company. There was no gain or loss on this share disposal.

Note 8: For its reorganization, Taihsing Den Syun Co., Ltd. merged with the Taiwan Cellular Co., Ltd., with Taihsing Den Syun Co., Ltd. as the surviving company and renamed as Taiwan Cellular Co., Ltd. There was no gain or loss on this share disposal.

Note 9: The amount included (a) the investment income adjustment of \$1,552 thousand; (b) the recognition of cumulative translation adjustment of \$971 thousand and unrealized gain of \$30,209 thousand on financial assets.(Concluded)



TABLE 4

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**Acquisition of individual real estate at costs of**  
**at least \$100 million or 20% of the paid-in capital**

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship
The Corporation	Land and buildings	2006.12.13	\$1,565,000	Finish payment	Taiwan Fixed Network Co., Ltd.	Related party in substance

TABLE 5

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**Disposal of individual real estate at prices of at least**  
**\$100 million or 20% of the paid-in capital**

Company Name	Types of Property	Transaction Date	Original Acquisition Date	Carrying Value	Transaction Amount	Receivable Term
The Corporation	Land and buildings	2006.12.13	2000.6.30	155,848	152,000	Finish receipts

YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

	Prior transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
	Owner	Relationship	Transfer Date	Amount			
	Crowell Development Corp.	None	2001.2.22	\$1,483,850	Appraisal report (depending on average five appraisal companies)	Operating purpose	-
	Suretone Telecom. Inc.	None	2001.3.16	20,000	Appraisal report	Operating purpose	-

YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

	Gain on Disposal	Counter-party	Nature of Relationship	Purpose of Disposal	Price Reference	Other Terms
	(3,848)	Taiwan Fixed Network Co., Ltd.	Related party in substance	Appropriately use assets to sufficient	Appraisal report	-

TABLE 6

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

Company Name	Related Party	Nature of Relationship	Transaction Details		
			Purchase/Sale	Amount	
The Corporation	TransAsia Telecommunications Inc. (including the former TAT)	Subsidiary	Sale	\$(693,059)	
			Purchase	341,755	
	Taiwan Fixed Network Co., Ltd.	Related party in substance	Sale	(1,411,029)	
			Purchase	868,958	
	Mobitai Communications	Subsidiary	Sale	(285,079)	
			Purchase	193,763	
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Purchase	992,514	
TransAsia Telecommunications Inc. (including the former TAT)	The Corporation	Ultimate parent	Sale	(337,170)	
			Purchase	693,026	
Mobitai Communications	The Corporation	Ultimate parent	Sale	(193,537)	
			Purchase	285,050	
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Sale	(989,923)	

Note 1: Disclosed with the ending balance of TransAsia Telecommunications Inc.

Note 2: Recognized as operating expenses.

Note 3: Recognized as accrued expenses.

YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

Transaction Details		Abnormal Transaction		Note/Accounts Payable or Receivable	
% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
	(1) Based on contract terms	-	-	\$80,210 (Note 1)	1
	2 Based on contract terms	-	-	(23,937)	(2)
	(3) Based on contract terms	-	-	222,747	4
	4 Based on contract terms	-	-	54,674 (Note 3)	1
	(1) Based on contract terms	-	-	29,897	-
	1 Based on contract terms	-	-	(644)	-
	(Note 2) Based on contract terms	-	-	(153,397) (Note 3)	-
	(4) Based on contract terms	-	-	23,937	2
	20 Based on contract terms	-	-	(83,496)	(28)
	(4) Based on contract terms	-	-	644	-
	12 Based on contract terms	-	-	(19,612)	(10)
	(83) Based on contract terms	-	-	152,601	91

TABLE 7

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO**  
**AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

Company Name	Related Party	Nature of Relationship	
The Corporation	TransAsia Telecommunications Inc.	Subsidiary	
	Mobitai Communications	Subsidiary	
TransAsia Telecommunications Inc.	Taiwan Fixed Network Co., Ltd.	Related party in substance	
Mobitai Communications	The Corporation	Ultimate parent	
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	

Note 1: The calculation included TransAsia Telecommunications Inc. and the former TransAsia Telecommunications Inc.

YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
			Amount	Action Taken		
Accounts receivable	\$80,210	5.97 (Note 1)	\$-	-	\$-	\$-
Other receivables	139,777	-	-	-	-	-
Accounts receivable	29,897	2.19	-	-	-	-
Other receivables	99,075	-	-	-	-	-
Accounts receivable	222,747	7.74	-	-	21,996	-
Other receivables	8,265	-	-	-	-	-
Accounts receivable	23,937	16.45	-	-	-	-
Other receivables	297,019	-	-	-	96,570	-
Accounts receivable	4,107	6.78	-	-	2,713	-
Other receivables	159,229	-	-	-	63,717	-
Accounts receivable	152,601	5.91	-	-	-	-

TABLE 8

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES**  
**ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE**

Investor	Investee	Location	Main Businesses and Products	
The Corporation	Taiwan Cellular Co., Ltd.	Taipei, Taiwan	Telecommunication equipment retailing and wholesale	
	The former TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taipei, Taiwan	Equipment installation and IT service	
	TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taiwan Teleservices & Technologies Co., Ltd.	Taipei, Taiwan	Call center service	
	Mobitai Communications	Taipei, Taiwan	Wireless service provider	
	Tai Yi Digital Broadcasting Co., Ltd.	Taipei, Taiwan	Telecommunication business and cell phone number agency of broadcasts	
	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment	
	TWM Holding Co. Ltd.	British Virgin Islands	Investment	
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	
	TT&T Holdings Co., Ltd.	Samoa	Investment	
TT&T Holdings Co., Ltd.	Dalian Xinkai Teleservices & Technologies Ltd.	Dalian	Call center service	
	Xiamen Taifu Teleservices & Technologies Ltd.	Xiamen	Call center service	
TransAsia Telecommunications Inc.	The former TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	
The former TransAsia Telecommunications Inc.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment	
Mobitai Communications	The former Mobitai Communications	Taichung, Taiwan	Wireless service provider	

YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars or U.S. Dollars and RMB)

	Original Investment Amount		Balance as of December 31, 2006			Net Income (Loss) of the Investee	Investment Income (Loss)
	December 31, 2006	December 31, 2005	Shares (Thousands)	Percentage of Ownership	Carrying Value		
	\$-	\$1,420,017	-	-	\$-	\$7,614	\$31,198
	-	10,408,388	-	-	-	602,042	(1)
	3,250,000	3,869,715	325,000	100	3,877,659	692,350	1,160,351
	12,458,463	-	1,245,846	100	14,009,973	1,594,710	1,551,510
	91,277	327,146	70,000	100	540,640	96,433	NA
	2,000,000	3,650,782	200,000	100	2,499,650	631,550	NA
	24,950	24,950	2,495	49.9	24,410	(646)	NA
	-	131,700	-	-	-	-	NA
	US\$9,000	-	1 share	100	325,693	US\$47	NA
	3,000	3,000	300	100	3,021	9	NA
	3,000	3,000	300	100	2,703	(62)	NA
	46,386	83,530	1,300	100	41,565	US\$(85)	NA
	-	US\$1,511	-	-	-	-	NA
	US\$1,300	US\$1,000	-	100	US\$1,268	RMB24	NA
	-	-	-	-	-	602,042	NA
	-	2,250	-	-	-	-	NA
	-	3,650,782	-	-	-	-	NA



TABLE 9

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**INVESTMENT IN MAINLAND CHINA**

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Out-flow of Investment from Taiwan as of December 31, 2005
Dalian Xinkai Teleservices & Technologies Ltd.	Call center service	RMB25,011 (NT\$104,526)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$666 (NT\$21,752)
Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	US\$1,300 (NT\$42,458)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$1,000 (NT\$32,660)

Accumulated Investment in Mainland China as of December 31, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
US\$1,300 (NT\$42,458)	Note 2	Note 2

Note 1: The above amounts were translated into New Taiwan Dollars at the exchange rate of US\$1=NT\$32.66 and RMB1=NT\$4.1792 as of December 31, 2006.

Note 2: The indirect investment made by Taiwan Teleservices & Technologies Co., Ltd., a subsidiary of the Corporation.

YEAR ENDED DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars or U.S. Dollars and RMB)

	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2006	Accumulated Inward Re-mittance of Earnings as of December 31, 2006
	Outflow	Inflow					
	\$-	US\$500 (NT\$16,330)	\$-	-	(US\$89) (NT\$2,907)	\$-	\$-
	US\$300 (NT\$9,798)	-	US\$1,300 (NT\$42,458)	100% ownership of indirect investment by the Corporation's subsidiary	US\$3 (NT\$98)	US\$1,268 (NT\$41,413)	-

TABLE 10

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**

Number	Company Name	Counterparty	
0	The Corporation	TransAsia Telecommunications Inc.	
		Mobitai Communications	
		Taiwan Teleservices & Technologies Co., Ltd.	
		TransAsia Telecommunications Inc.	
		Mobitai Communications	
		Taiwan Teleservices & Technologies Co., Ltd.	
		TransAsia Telecommunications Inc.	
		TransAsia Telecommunications Inc.	
		Mobitai Communications	
		Taiwan Teleservices & Technologies Co., Ltd.	
		Mobitai Communications	
		Taiwan Teleservices & Technologies Co., Ltd.	
		TransAsia Telecommunications Inc.	
		Mobitai Communications	
		TransAsia Telecommunications Inc.	
		Mobitai Communications	
		TransAsia Telecommunications Inc.	
		Mobitai Communications	
		TransAsia Telecommunications Inc.(including the former TAT)	
		Mobitai Communications	
		Taiwan Teleservices & Technologies Co., Ltd.	
		TransAsia Telecommunications Inc.(including the former TAT)	
		Mobitai Communications	
		TransAsia Telecommunications Inc.(including the former TAT)	
		Taiwan Teleservices & Technologies Co., Ltd.	
		Taiwan Teleservices & Technologies Co., Ltd.	
		TransAsia Telecommunications Inc.(including the former TAT)	
		Mobitai Communications	
		Taiwan Teleservices & Technologies Co., Ltd.	

(Continued)

YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

	Transaction Details				
	Nature of Relationship	Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
	1	Accounts receivable	\$80,210	Based on regular terms	-
	1	Accounts receivable	29,897	Based on regular terms	-
	1	Accounts receivable	1	Based on regular terms	-
	1	Other receivables	139,777	Based on regular terms	-
	1	Other receivables	99,075	Based on regular terms	-
	1	Other receivables	1,505	Based on regular terms	-
	1	Prepayments	70	Based on regular terms	-
	1	Accounts payable	23,937	Based on regular terms	-
	1	Accounts payable	644	Based on regular terms	-
	1	Accounts payable	2	Based on regular terms	-
	1	Accrued expenses	3,426	Based on regular terms	-
	1	Accrued expenses	153,397	Based on regular terms	-
	1	Other payables	96,570	Based on regular terms	-
	1	Other payables	63,717	Based on regular terms	-
	1	Advance receipts	251	Based on regular terms	-
	1	Advance receipts	56	Based on regular terms	-
	1	Other current liabilities	202,048	Based on regular terms	-
	1	Other current liabilities	95,391	Based on regular terms	-
	1	Operating revenues	693,065	Based on regular terms	1%
	1	Operating revenues	285,050	Based on regular terms	-
	1	Operating revenues	6,921	Based on regular terms	-
	1	Operating costs	341,631	Based on regular terms	1%
	1	Operating costs	193,763	Based on regular terms	-
	1	Marketing expenses	(5)	Based on regular terms	-
	1	Marketing expenses	855,316	Based on regular terms	1%
	1	Administrative expenses	147,713	Based on regular terms	-
	1	Rental income	5,625	Based on regular terms	-
	1	Rental income	890	Based on regular terms	-
	1	Rental income	34	Based on regular terms	-

Number	Company Name	Counterparty	
1	TransAsia Telecommunications Inc. (including the former TAT)	The Corporation	
		Mobitai Communications	
		The Corporation	
		The Corporation	
		The Corporation	
		Mobitai Communications	
		Taiwan Teleservices & Technologies Co., Ltd.	
		The Corporation	
		Mobitai Communications	
		The Corporation	
		The Corporation	
		The Corporation	
		The Corporation	
		Mobitai Communications	
		The Corporation	
		Mobitai Communications	
		The Corporation	
		Taiwan Teleservices & Technologies Co., Ltd.	
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	
		The Corporation	
2	Mobitai Communications	The Corporation	
		TransAsia Telecommunications Inc.	
		The Corporation	
		The Corporation	
		The Corporation	
		TransAsia Telecommunications Inc.	
		The Corporation	
		The Corporation	
		The Corporation	
		TransAsia Telecommunications Inc.	
		The Corporation	
		TransAsia Telecommunications Inc.	
3	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taiwan Teleservices & Technologies Co., Ltd.	
		Xiamen Taifu Teleservices & Technologies Ltd.	
		TT&T Holdings Co., Ltd.	
		TransAsia Telecommunications Inc.	

(Continued)

	Transaction Details				
	Nature of Relationship	Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
	2	Accounts receivable	23,937	Based on regular terms	-
	3	Accounts receivable	1,282	Based on regular terms	-
	2	Other receivables	297,019	Based on regular terms	-
	2	Prepayments	261	Based on regular terms	-
	2	Accounts payable	42,095	Based on regular terms	-
	3	Accounts payable	12	Based on regular terms	-
	3	Accounts payable	9	Based on regular terms	-
	2	Accrued expenses	170,432	Based on regular terms	-
	3	Accrued expenses	6	Based on regular terms	-
	2	Other payables	6,063	Based on regular terms	-
	2	Advance receipts	70	Based on regular terms	-
	2	Other current liabilities	7	Based on regular terms	-
	2	Operating revenues	337,170	Based on regular terms	1%
	3	Operating revenues	13,123	Based on regular terms	-
	2	Operating costs	698,651	Based on regular terms	1%
	3	Operating costs	7,454	Based on regular terms	-
	2	Marketing expenses	39	Based on regular terms	-
	3	Marketing expenses	(1,755)	Based on regular terms	-
	3	Interest income	3,209	Based on regular terms	-
	2	Rental income	4,456	Based on regular terms	-
				Based on regular terms	-
	2	Accounts receivable	\$4,107	Based on regular terms	-
	3	Accounts receivable	18	Based on regular terms	-
	2	Other receivables	159,229	Based on regular terms	-
	2	Prepayments	67	Based on regular terms	-
	2	Accounts payable	19,612	Based on regular terms	-
	3	Accounts payable	1,282	Based on regular terms	-
	2	Other payables	95,053	Based on regular terms	-
	2	Accrued expenses	14,312	Based on regular terms	-
	2	Operating revenues	193,763	Based on regular terms	-
	3	Operating revenues	7,454	Based on regular terms	-
	2	Operating costs	285,940	Based on regular terms	-
	3	Operating costs	13,123	Based on regular terms	-
	1	Other receivables	593	Based on regular terms	-
	1	Other receivables	100	Based on regular terms	-
	1	Other receivables	100	Based on regular terms	-
	3	Interest expence	3,209	Based on regular terms	-

Number	Company Name	Counterparty	
4	Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	
		TransAsia Telecommunications Inc.	
		The Corporation	
		The Corporation	
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	
		TT&T Holdings Co., Ltd.	
		Xiamen Taifu Teleservices & Technologies Ltd.	
		The Corporation	
		TransAsia Telecommunications Inc.	
		TT&T Life Insurance Agency Co., Ltd.	
		The Corporation	
		The Corporation	
		TT&T Holdings Co., Ltd.	
		The Corporation	
		The Corporation	
		TT&T Life Insurance Agency Co., Ltd	
		TT&T Casualty & Property Insurance Agency Co., Ltd	
		The Corporation	
5	TT&T Life Insurance Agency Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	
		Taiwan Teleservices & Technologies Co., Ltd.	
6	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	
7	TT&T Holdings Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	
		Taiwan Teleservices & Technologies Co., Ltd.	
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	
		Taiwan Teleservices & Technologies Co., Ltd.	
		Xiamen Taifu Teleservices & Technologies Ltd.	
8	Xiamen Taifu Teleservices & Technologies Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	
		Taiwan Teleservices & Technologies Co., Ltd.	
		Taiwan Teleservices & Technologies Co., Ltd.	
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	
		TT&T Holdings Co., Ltd.	

Note 1: Parent to subsidiary.

Note 2: Subsidiary to parent.

Note 3: Between subsidiaries.(Concluded)

	Transaction Details				
	Nature of Relationship	Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
	2	Accounts receivable	152,601	Based on regular terms	-
	3	Accounts receivable	9	Based on regular terms	-
	2	Other receivables	841	Based on regular terms	-
	2	Accrued expenses	1,513	Based on regular terms	-
	2	Accrued expenses	593	Based on regular terms	-
	1	Accrued expenses	4,785	Based on regular terms	-
	1	Accrued expenses	2,799	Based on regular terms	-
	2	Operating revenues	989,361	Based on regular terms	2
	3	Operating revenues	(1,755)	Based on regular terms	-
	1	Operating revenues	298	Based on regular terms	-
	2	Operating costs	6,920	Based on regular terms	-
	2	Marketing expenses	10,441	Based on regular terms	-
	1	Marketing expenses	58,244	Based on regular terms	-
	2	Administrative expenses	1	Based on regular terms	-
	2	Administrative expenses	34	Based on regular terms	-
	1	Rental income	4	Based on regular terms	-
	1	Rental income	4	Based on regular terms	-
	2	Miscellaneous revenue	24,109	Based on regular terms	-
	2	Marketing expenses	298	Based on regular terms	-
	2	Rental expense	4	Based on regular terms	-
	2	Rental expense	4	Based on regular terms	-
	2	Accounts receivable	908	Based on regular terms	-
	2	Accounts payable	3,708	Based on regular terms	-
	2	Accrued expenses	100	Based on regular terms	-
	2	Operating revenues	58,244	Based on regular terms	-
	1	Marketing expenses	14,542	Based on regular terms	-
	2	Accounts receivable	10,391	Based on regular terms	-
	2	Other receivables	2	Based on regular terms	-
	2	Accrued expenses	10	Based on regular terms	-
	2	Accrued expenses	100	Based on regular terms	-
	2	Operating revenues	14,542	Based on regular terms	-



TABLE 11

**TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES**  
**BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**

Number	Company Name	Counterparty
0	The Corporation	The former TransAsia Telecommunications Inc.
		The former Mobitai Communications
		Taiwan Teleservices & Technologies Co., Ltd.
		The former TransAsia Telecommunications Inc.
		The former Mobitai Communications
		Taiwan Cellular Co., Ltd.
		The former TransAsia Telecommunications Inc.
		The former Mobitai Communications
		The former TransAsia Telecommunications Inc.
		The former Mobitai Communications
		Taiwan Cellular Co., Ltd.
		Taiwan Teleservices & Technologies Co., Ltd.
		The former TransAsia Telecommunications Inc.
		The former Mobitai Communications
		The former TransAsia Telecommunications Inc.
		The former Mobitai Communications
		Taiwan Teleservices & Technologies Co., Ltd.
		The former TransAsia Telecommunications Inc.
		The former Mobitai Communications
		Taiwan Tele-Shop Co., Ltd.
		Taiwan Teleservices & Technologies Co., Ltd.
		Taiwan Tele-Shop Co., Ltd.
		Taiwan Teleservices & Technologies Co., Ltd.
1	The former TransAsia Telecommunications Inc.	The Corporation
		The former Mobitai Communications
		The Corporation
		The Corporation
		The former Mobitai Communications
		The Corporation
		Taiwan Teleservices & Technologies Co., Ltd.
		The Corporation
		The former Mobitai Communications
		The Corporation
		The former Mobitai Communications
		Taiwan Tele-Shop Co., Ltd.
		Taiwan Teleservices & Technologies Co., Ltd.
2	The former Mobitai Communications	The Corporation
		The former TransAsia Telecommunications Inc.
		The Corporation

(Continued)

YEAR ENDED DECEMBER 31, 2005  
(In Thousands of New Taiwan Dollars)

	Transaction Details					Percentage of Consolidated Total Operating Revenues or Total Assets
	Nature of Relationship	Account	Amount	Transaction Terms		
	1	Accounts receivable	\$152,427	Based on regular terms		-
	1	Accounts receivable	230,606	Based on regular terms		-
	1	Accounts receivable	2,667	Based on regular terms		-
	1	Other receivables	151,629	Based on regular terms		-
	1	Other receivables	263,663	Based on regular terms		-
	1	Other receivables	21,810	Based on regular terms		-
	1	Accounts payable	17,050	Based on regular terms		-
	1	Accounts payable	52,478	Based on regular terms		-
	1	Other payables	165,360	Based on regular terms		-
	1	Other payables	39,276	Based on regular terms		-
	1	Accrued expenses	20,525	Based on regular terms		-
	1	Accrued expenses	206,309	Based on regular terms		-
	1	Other current liabilities	161,795	Based on regular terms		-
	1	Other current liabilities	154,183	Based on regular terms		-
	1	Operating revenues	1,478,877	Based on regular terms		2%
	1	Operating revenues	652,582	Based on regular terms		1%
	1	Operating revenues	21,751	Based on regular terms		-
	1	Operating costs	629,487	Based on regular terms		1%
	1	Operating costs	230,314	Based on regular terms		-
	1	Marketing expenses	185,936	Based on regular terms		-
	1	Marketing expenses	986,716	Based on regular terms		2%
	1	Rental income	7,398	Based on regular terms		-
	1	Rental income	97,280	Based on regular terms		-
	2	Accounts receivable	329,489	Based on regular terms		-
	3	Accounts receivable	1,279	Based on regular terms		-
	2	Other receivables	10,418	Based on regular terms		-
	2	Accounts payable	152,204	Based on regular terms		-
	3	Accounts payable	161	Based on regular terms		-
	2	Other payables	148,700	Based on regular terms		-
	3	Other payables	15,067	Based on regular terms		-
	2	Operating revenues	629,564	Based on regular terms		1%
	3	Operating revenues	44,854	Based on regular terms		-
	2	Operating costs	1,452,425	Based on regular terms		2%
	3	Operating costs	37,865	Based on regular terms		-
	3	Marketing expenses	4,584	Based on regular terms		-
	3	Marketing expenses	233,676	Based on regular terms		-
	2	Accounts receivable	52,992	Based on regular terms		-
	3	Accounts receivable	161	Based on regular terms		-
	2	Other receivables	194,033	Based on regular terms		-

Number	Company Name	Counterparty	
		The Corporation	
		The Corporation	
		The former TransAsia Telecommunications Inc.	
		The Corporation	
		Taiwan Teleservices & Technologies Co., Ltd.	
		The Corporation	
		The former TransAsia Telecommunications Inc.	
		The Corporation	
		The former TransAsia Telecommunications Inc.	
		Taiwan Teleservices & Technologies Co., Ltd.	
3	Taiwan Cellular Co., Ltd.	The Corporation	
4	Taiwan Tele-Shop Co., Ltd	The Corporation	
		The Corporation	
5	Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	
		The former TransAsia Telecommunications Inc.	
		The former Mobitai Communications	
		TT&T Life Insurance Agency Co., Ltd.	
		The Corporation	
		TT&T Holdings Co., Ltd.	
		The Corporation	
		Xiamen Taifu Teleservices& Technologies Ltd.	
		The Corporation	
		The former TransAsia Telecommunications Inc.	
		The former Mobitai Communications	
		The Corporation	
		Xiamen Taifu Teleservices& Technologies Ltd.	
		The Corporation	
6	TT&T Life Insurance Agency Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	
7	TT&T Holdings Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	
8	Xiamen Taifu Teleservices & Technologies Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	

Note 1: Parent to subsidiary.

Note 2: Subsidiary to parent.

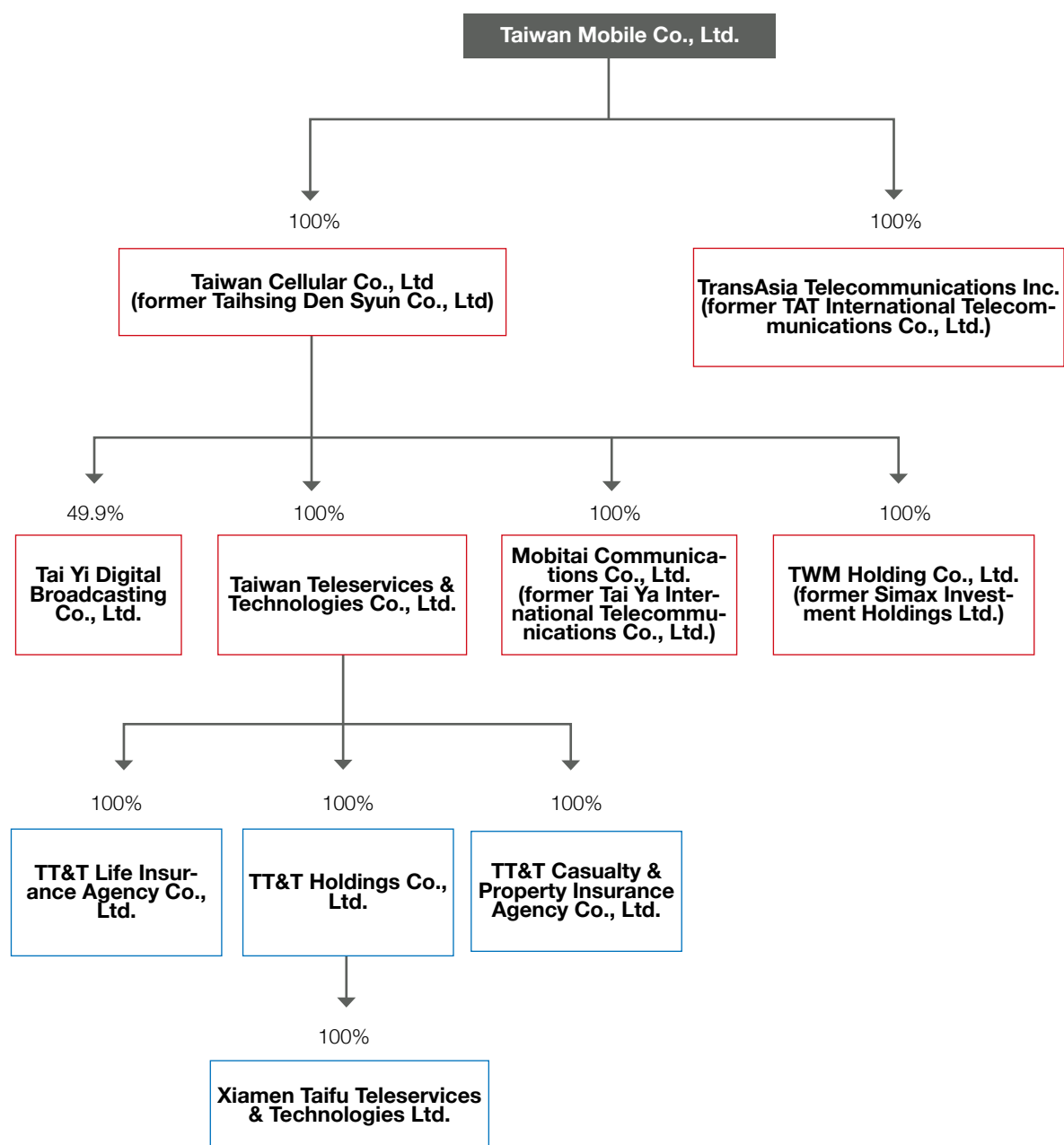
Note 3: Between subsidiaries.(Concluded)

	Transaction Details					Percentage of Consolidated Total Operating Revenues or Total Assets
	Nature of Relationship	Account	Amount	Transaction Terms		
	2	Prepayments	\$224	Based on regular terms		-
	2	Accounts payable	230,606	Based on regular terms		-
	3	Accounts payable	1,288	Based on regular terms		-
	2	Other payables	263,440	Based on regular terms		-
	3	Other payables	28,046	Based on regular terms		-
	2	Operating revenues	230,328	Based on regular terms		-
	3	Operating revenues	37,865	Based on regular terms		-
	2	Operating costs	596,683	Based on regular terms		1%
	3	Operating costs	39,291	Based on regular terms		-
	3	Marketing expenses	57,849	Based on regular terms		-
	2	Other payables	18,774	Based on regular terms		-
	2	Operating revenues	185,936	Based on regular terms		-
	2	Administrative expenses	7,398	Based on regular terms		-
	2	Accounts receivable	182,624	Based on regular terms		-
	3	Accounts receivable	40,976	Based on regular terms		-
	3	Accounts receivable	28,046	Based on regular terms		-
	1	Accounts receivable	2,692	Based on regular terms		-
	2	Accounts payable	2,667	Based on regular terms		-
	1	Other payables	30,686	Based on regular terms		-
	2	Accrued expenses	4,826	Based on regular terms		-
	1	Accrued expenses	7,250	Based on regular terms		-
	2	Operating revenues	986,716	Based on regular terms		2%
	3	Operating revenues	233,676	Based on regular terms		-
	3	Operating revenues	57,849	Based on regular terms		-
	2	Operating costs	6,284	Based on regular terms		-
	1	Marketing expenses	8,270	Based on regular terms		-
	2	Administrative expenses	112,751	Based on regular terms		-
	2	Accrued expenses	2,692	Based on regular terms		-
	2	Other receivables	30,686	Based on regular terms		-
	2	Accounts receivable	6,561	Based on regular terms		-

## Affiliates

### 1. Investment Holding Structure

As of December 31, 2006



## 2. Affiliates' Profile

Unit: NT\$/000/US\$/000

Name	Date of incorporation	Address	Paid-in capital	Main business
TransAsia Telecommunications Inc. (former TAT International Telecommunications Co., Ltd.)	2006.02 .08	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	12,458,463	Mobile phone service provider
Taiwan Cellular Co., Ltd. (former Taishing Den Syun Co., Ltd.)	2005.09.20	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	3,250,000	Telecom engineering and IT service
Mobitai Communications Co., Ltd. (former Tai Ya International Telecommunications Co., Ltd.)	2005.11.17	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	2,000,000	Mobile phone service provider
Tai Yi Digital Broadcasting Co., Ltd	2006.01.03	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	50,000	Broadcasting business and agency of mobile phone service subscription
TWM Holding Co., Ltd.	2006.06.09	c/o ARIAS, FABREGA & FABREGA TRUST CO. BVI LIMITED, 325 Waterfront Drive, Road Town, Tortola, British Virgin Islands	US\$ 1	Investment
Taiwan Teleservices & Technologies Co., Ltd.	2001.09.05	15F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	700,000	Call center service
TT&T Life Insurance Agency Co., Ltd.	2004.12.16	15F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	3,000	Insurance Agency
TT&T Casualty & Property Insurance Agency Co., Ltd.	2005.03.22	15F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	3,000	Insurance Agency
TT&T Holdings Co., Ltd.	2004.10.18	TrustNet Chambers., P.O. Box 1225, Apia, Samoa.	US\$1,300	Investment
Xiamen Taifu Teleservices & Technologies Ltd.	2005.04.05	3F,NO.2,XIAMEN Software Park, Xianmen City, P.R. China	US\$1,300	Call center service

### 3. Affiliates' Operating Highlights

Unit: NT\$'000

Company Name	Paid-in capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Net income	EPS (NT\$)
TransAsia Telecommunications Inc. (former TAT International Telecommunications Co., Ltd.)	12,458,463	15,323,055	1,269,882	14,053,173	3,717,874	1,677,862	1,594,710	1.28
Taiwan Cellular Co., Ltd. (former Taishing Den Syun Co., Ltd.)	3,250,000	3,909,722	15,684	3,894,038	-	(3,795)	692,350	2.10
Mobitai Communications Co., Ltd. (former Tai Ya International Telecommunications Co., Ltd.)	2,000,000	3,250,385	736,823	2,513,562	4,435,577	1,156,854	631,550	2.62
Tai Yi Digital Broadcasting Co., Ltd	50,000	50,456	1,538	48,918	-	(877)	(646)	(0.13)
TWM Holding Co., Ltd.	0.033	325,742	49	325,693	-	(651)	1,538	1,537,648
Taiwan Teleservices & Technologies Co., Ltd.	700,000	848,293	307,653	540,640	1,196,427	144,143	96,433	1.21
TT&T Life Insurance Agency Co., Ltd.	3,000	3,021	-	3,021	331	(15)	9	0.03
TT&T Casualty & Property Insurance Agency Co., Ltd.	3,000	2,703	-	2,703	-	(65)	(62)	(0.21)
TT&T Holdings Co., Ltd.	42,458	46,287	4,722	41,565	32,138	3,090	(2,771)	-
Xiamen Taifu Teleservices & Technologies Ltd.	42,458	50,674	9,264	41,410	46,214	2,212	100	NA