

CHUNGHWA TELECOM CO LTD

Form 6-K

April 28, 2011

1934 Act Registration No. 1-31731

# **SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

## **FORM 6-K**

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

**Dated April 28, 2011**

### **Chunghwa Telecom Co., Ltd.**

**(Translation of Registrant's Name into English)**

**21-3 Hsinyi Road Sec. 1,**

**Taipei, Taiwan, 100 R.O.C.**

**(Address of Principal Executive Office)**

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

Form 20-F  Form 40-F

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

Yes  No

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

SIGNATURE

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

Date: 2011/04/28

Chunghwa Telecom Co., Ltd.

By: /s/ Shu Yeh

Name: Shu Yeh

Title: Senior Vice President CFO

Exhibit

| Exhibit | Description  |
|---------|--|
| 1       | Press Release to Report Operating Results for the first quarter of 2011  |
| 2       | Financial Statements for the Three Months Ended March 31, 2011 and 2010 and Independent Accountants' Review Report (Stand Alone) |
| 3       | Consolidated Financial Statements for the Three Months Ended March 31, 2011 and 2010 and Independent Accountants' Review Report  |
| 4       | GAAP Reconciliations of Consolidated Financial Statements for the Three Months Ended March 31, 2010 and 2011                     |

**Chunghwa Telecom Reports Consolidated Operating Results for the First Quarter 2011**

Taipei, Taiwan, R.O.C. April 28, 2011 - Chunghwa Telecom Co., Ltd. (TAIEX: 2412, NYSE: CHT) ( Chunghwa or the Company ) today reported its operating results for the first quarter of 2011. All figures were prepared in accordance with generally accepted accounting principles in the Republic of China ( ROC GAAP ) on a consolidated basis.

*(Comparisons, unless otherwise stated, are to the prior year period)*

**First Quarter 2011 Financial Highlights**

Total consolidated revenue increased by 5.8% to NT\$52.48 billion

Mobile communications revenue increased by 2.8% to NT\$22.84 billion; mobile value-added services (VAS) revenue increased by 38.6% to NT\$3.52 billion

Internet revenue increased by 3.6% to NT\$6.08 billion; internet VAS revenue increased by 17.1% to NT\$0.57 billion

Domestic fixed communications revenue increased by 11.6% to NT\$19.20 billion

International fixed communications revenue decreased by 4.5% to NT\$3.79 billion

Total operating costs and expenses increased by 10.9% to NT\$38.53 billion

Net income totaled NT\$11.84 billion, representing a 1.9% decrease

Basic earnings per share (EPS) increased by 21% to NT\$1.5

Dr. Shyue-Ching Lu, Chairman and Chief Executive Officer of Chunghwa Telecom, said, "We are pleased to report a solid performance in the first quarter of 2011. Total consolidated revenue reached NT\$52.48 billion, with growth continuing to be driven by higher fixed line revenue resulting from the shift in the pricing right of a fixed to mobile call from mobile operators to fixed network operators, as well as strong mobile value added service ( VAS ) and handset sales. During the quarter, we continued to grow our traditional telecom service business, as well as gaining new Information and Communication Technology ( ICT ) contracts. In order to leverage our strength in ICT, we have established a wholly owned subsidiary in China to function as an ICT solution provider. Looking ahead, we remain focused on pursuing growth by maintaining our operational focus on broadband, VAS, innovation and integration, at the same time as expanding our overseas business."

## Revenue

Chunghwa's total consolidated revenue for the first quarter of 2011 increased by 5.8% year-over-year to NT\$52.48 billion, of which 43.5% was from the mobile business, 11.6% was from the internet business, 36.6% was from the domestic fixed business, 7.2% was from the international fixed business, and the remainder was from others. Despite the National Communications Commission (NCC) tariff reduction that came into effect on April 1, 2010, Chunghwa maintained its growth pattern, due mainly to an increase in mobile VAS, handset sales and internet services.

For the mobile business, total revenue for the first quarter 2011 amounted to NT\$22.84 billion, representing a year-on-year increase of 2.8%, mainly due to growth in mobile VAS revenue relating to smartphone promotions and handset sales which offset the decline in mobile voice revenue. The decline of mobile voice revenue was primarily resulting from the shift of pricing right for fixed to mobile calls from mobile to fixed operators.

Chunghwa's internet business revenue increased by 3.6% year-over-year to NT\$6.08 billion in the first quarter of 2011, mainly attributable to growth in the number of broadband subscribers and the migration of Asymmetric Digital Subscriber Line (ADSL) subscribers to fiber solutions.

For the first quarter of 2011, domestic fixed revenue totaled NT\$19.20 billion, representing an increase of 11.6% year-over-year. Local revenues increased by 24.3% year-over-year, mainly due to the shift in pricing right for fixed to mobile calls. The 13.2% decline in Domestic Long Distance (DLD) revenues was due to mobile and Voice over Internet Protocol (VOIP) substitution, as well as reflecting the mandated tariff reduction.

Broadband access revenue, including ADSL and Fiber to the x (FTTx), increased by 3% year-over-year to NT\$5.23 billion. Although ADSL access revenue decreased as more ADSL subscribers migrated to fiber solutions, the decrease was fully offset by growth in FTTx access revenue.

International fixed revenue decreased by 4.5% to NT\$3.79 billion, primarily due to the decrease in leased line revenue and satellite service revenue resulting from the expiration of the ST-1 contract at the end of January 2011.

Other revenue increased by 58.1% year-over-year to NT\$0.56 billion.

## Costs and Expenses

Total operating costs and expenses for the first quarter of 2011 amounted to NT\$38.53 billion, an increase of 10.9% compared to the same period of 2010. This increase was mainly due to the increase in interconnection costs and transition fees resulting from the shift in pricing right of fixed-to-mobile calls, the higher cost of handsets sold and the early retirement expense.

### **Income Tax**

Income tax expense for the first quarter of 2011 was NT\$2.32 billion, representing a 21.9% decrease compared to NT\$2.97 billion for the same period of 2010. This decline resulted from the lower corporate income tax rate that was applied because the government originally reduced the corporate income tax rate from 25% to 20% in the beginning of 2010, then further reduced it to 17% in the second quarter of 2010.

### **EBITDA and Net Income**

For the first quarter of 2011, EBITDA decreased by 6.6% to NT\$22.00 billion and income from operations decreased by 6.3% to NT\$13.94 billion, reflecting the negative impact on income from operations resulting from the shift in the pricing right of fixed to mobile calls, the increase in cost of handsets sold and the early retirement expense.

The EBITDA margin for the first quarter of 2011 was 41.9% compared to 47.5% in the same period of 2010, and the operating margin was 26.6%, compared to 30.0% in the previous year. Net income decreased by 1.9% year-over-year to NT\$11.84 billion. Earnings per share increased by 21% year-over-year to NT\$1.5, primarily because of the capital reduction in January 2011, which reduced the total number of outstanding shares by 20%.

### **Capital Expenditure ( Capex )**

Total capex for the first quarter of 2011 amounted to NT\$4.38 billion, a 5% increase year-over-year. Of the NT\$4.38 billion capex figure, 57.1% was used for the domestic fixed communications business, 21.0% was for the mobile business, 14.3% was for internet business, 5.9% was for international fixed communications business and the remainder was for other uses.

### **Cash Flow**

Cash flow from operating activities for the first quarter of 2011 decreased by 38.2% year-over-year to NT\$9.7 billion, mainly due to Chunghwa's decision to bring its billing period for monthly fees in line with that for communication charges starting from January 2011.

### **Business and Operational Highlights**

#### **Broadband/HiNet**

Total broadband subscribers amounted to 4.4 million as of March 31, 2011. Although broadband subscribers remained relatively flat, the Company's initiatives to encourage FTTx migration yielded solid results, with FTTx subscribers as a percentage of total broadband subscribers increasing from 40.4% at the end of March 2010 to 48.1% at the end of March 2011. In the first quarter of 2011, FTTx revenue reached 63.2% of total broadband access revenue.

HiNet broadband subscribers totaled 3.61 million at the end of March 2011, a year-over-year rise of 1.9%.

**Mobile**

As of March 31, 2011, Chunghwa had 9.78 million mobile subscribers, an increase of 4.5% compared to 9.36 million at the end of March 2010.

Chunghwa gained 177 thousand net additions to its 3G subscriber base during the first quarter of 2011, recording 13.7% year-over-year growth and bringing the total to 5.60 million as of March 31, 2011.

Mobile VAS revenue for the first quarter of 2011 rose 38.6% year-over-year to NT\$3.52 billion, with mobile Internet revenue increasing 88.0% year-over-year, making it the largest contributor to VAS revenue.

**Domestic/International Fixed-line**

As of the end of March 2011, the Company maintained its leading fixed-line market position, with fixed-line subscribers totaling 12.29 million.

**Financial Statements**

Financial statements and additional operational data can be found on the Company's website at [www.cht.com.tw/ir/filedownload](http://www.cht.com.tw/ir/filedownload).

**NOTE CONCERNING FORWARD-LOOKING STATEMENTS**

This press release contains forward-looking statements. These statements constitute forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and as defined in the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as will, expects, anticipates, future, intends, plans, believes, estimates and similar statements. Statements that are not historical facts, including statements about Chunghwa's beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties that could cause actual results to differ materially from the forward-looking statements. A number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Investors are cautioned that actual events and results could differ materially from those statements as a result of a number of factors including, but not limited to the risks outlined in Chunghwa's filings with the U.S. Securities and Exchange Commission on Forms F-1, F-3, 6-K and 20-F, in each case as amended. The forward-looking statements in this press release reflect the current belief of Chunghwa as of the date of this press release and Chunghwa undertakes no obligation to update these forward-looking statements for events or circumstances that occur subsequent to such date, except as required under applicable law.



This press release is not an offer of securities for sale in the United States. Securities may not be offered or sold in the United States absent registration or an exemption from registration. Any public offering of securities to be made in the United States will be made by means of a prospectus that may be obtained from the issuer or selling security holder and that will contain detailed information about the company and management, as well as financial statements.

#### **SPECIAL NOTE REGARDING NON-GAAP FINANCIAL MEASURES**

A body of generally accepted accounting principles is commonly referred to as GAAP. A non-GAAP financial measure is generally defined by the SEC as one that purports to measure historical or future financial performance, financial position or cash flows but excludes or includes amounts that would not be so adjusted in the most comparable U.S. GAAP measure. We disclose in this report certain non-GAAP financial measures, including EBITDA. EBITDA for any period is defined as consolidated net income (loss) excluding (i) depreciation and amortization, (ii) total net comprehensive financing cost (which is comprised of net interest expense, exchange gain or loss, monetary position gain or loss and other financing costs and derivative transactions), (iii) other expenses, net, (iv) income tax, (v) cumulative effect of change in accounting principle, net of tax and (vi) (income) loss from discontinued operations.

In managing our business we rely on EBITDA as a means of assessing our operating performance. We believe that EBITDA can be useful to facilitate comparisons of operating performance between periods and with other companies because it excludes the effect of (i) depreciation and amortization, which represents a non-cash charge to earnings, (ii) certain financing costs, which are significantly affected by external factors, including interest rates, foreign currency exchange rates and inflation rates, which have little or no bearing on our operating performance, (iii) income tax (iv) other expenses or income not related to the operation of the business.

EBITDA is not a measure of financial performance under U.S. GAAP or ROC GAAP. EBITDA should not be considered as an alternate measure of net income or operating income, as determined on a consolidated basis using amounts derived from statements of operations prepared in accordance with U.S. GAAP or ROC GAAP, as an indicator of operating performance or as cash flows from operating activity or as a measure of liquidity. EBITDA has material limitations that impair its value as a measure of a company's overall profitability since it does not address certain ongoing costs of our business that could significantly affect profitability such as financial expenses and income taxes, depreciation, pension plan reserves or capital expenditures and associated charges. These non-GAAP measures are not in accordance with or an alternative for GAAP financial data, the non-GAAP results should be reviewed together with the GAAP results and are not intended to serve as a substitute for results under GAAP, and may be different from non-GAAP measures used by other companies.

**About Chunghwa Telecom**

Chunghwa Telecom (TAIEX 2412, NYSE: CHT) is Taiwan's leading telecom service provider. The Company provides fixed-line, mobile and Internet and data services to residential and business customers in Taiwan.

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**Chunghwa Telecom Co., Ltd.**  
**Financial Statements for the**  
**Three Months Ended March 31, 2011 and 2010 and**  
**Independent Accountants Review Report**

**INDEPENDENT ACCOUNTANTS REVIEW REPORT**

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have reviewed the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of March 31, 2011 and 2010, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to issue a report on these financial statements based on our review.

Except for the matters described in the next paragraph, we conducted our reviews in accordance with the Statement of Auditing Standards No. 36, "Review of Financial Statements", issued by the Auditing Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an audit opinion.

As discussed in Note 12 to the financial statements, we did not review all financial statements of equity-accounted investments, the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The aggregate carrying values of the equity method investees were NT\$9,139,860 thousand and NT\$9,022,021 thousand as of March 31, 2011 and 2010, respectively, and the equity in earnings were NT\$64,119 thousand and NT\$136,174 thousand for the three months ended March 31, 2011 and 2010, respectively.

Based on our reviews, except for the effects of such adjustments, if any, as might have been determined to be necessary had we reviewed financial statements of and equity method investees referred to in the preceding paragraph, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

We have also reviewed the consolidated financial statements of the Company and its subsidiaries as of and for the three months ended March 31, 2011 and 2010, and have issued a qualified review report.

/s/ DELOITTE & TOUCHE

Deloitte & Touche

Taipei, Taiwan

The Republic of China

April 23, 2011

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 review such financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the accountants' review 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 accountants' review report and financial statements shall prevail.*

**CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS****MARCH 31, 2011 AND 2010****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)****(Reviewed, Not Audited)**

|  | 2011               | %          | 2010               | %          |
|--|--------------------|------------|--------------------|------------|
|  | Amount             |            | Amount             |            |
| <b>ASSETS</b>  |                    |            |                    |            |
| <b>CURRENT ASSETS</b>  |                    |            |                    |            |
| Cash and cash equivalents (Notes 2 and 4)  | \$ 69,829,156      | 16         | \$ 75,244,129      | 17         |
| Financial assets at fair value through profit or loss (Notes 2 and 5)  | 645                |            | 6,841              |            |
| Available-for-sale financial assets (Notes 2 and 6)  | 1,023,820          |            | 7,902,927          | 2          |
| Held-to-maturity financial assets (Notes 2 and 7)  | 2,062,915          | 1          | 1,600,885          | 1          |
| Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,503,340 thousand in 2011 and \$2,726,916 thousand in 2010 (Notes 2 and 8) | 17,945,843         | 4          | 9,983,020          | 2          |
| Receivables from related parties (Note 23)   | 481,313            |            | 416,889            |            |
| Other monetary assets (Note 9)   | 2,552,532          | 1          | 2,751,736          | 1          |
| Inventories (Notes 2 and 10)   | 1,108,945          |            | 710,718            |            |
| Deferred income tax assets (Notes 2 and 20)  | 81,317             |            | 54,638             |            |
| Other current assets (Note 11)   | 5,722,469          | 1          | 5,552,563          | 1          |
| <b>Total current assets</b>  | <b>100,808,955</b> | <b>23</b>  | <b>104,224,346</b> | <b>24</b>  |
| <b>LONG-TERM INVESTMENTS</b>   |                    |            |                    |            |
| Investments accounted for using equity method (Notes 2 and 12)   | 10,582,047         | 3          | 10,352,973         | 2          |
| Financial assets carried at cost (Notes 2 and 13)  | 2,315,474          | 1          | 2,226,048          | 1          |
| Held-to-maturity financial assets (Notes 2 and 7)  | 9,973,059          | 2          | 6,123,566          | 1          |
| Other monetary assets (Notes 14 and 24)  | 1,000,000          |            | 1,000,000          |            |
| <b>Total long-term investments</b>   | <b>23,870,580</b>  | <b>6</b>   | <b>19,702,587</b>  | <b>4</b>   |
| <b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 23)</b>  |                    |            |                    |            |
| <b>Cost</b>  |                    |            |                    |            |
| Land   | 101,401,329        | 23         | 101,269,357        | 23         |
| Land improvements  | 1,551,988          |            | 1,535,066          |            |
| Buildings  | 65,726,304         | 15         | 62,646,557         | 14         |
| Computer equipment   | 15,316,104         | 4          | 15,467,600         | 4          |
| Telecommunications equipment   | 655,840,449        | 151        | 656,619,453        | 149        |
| Transportation equipment   | 2,257,745          | 1          | 1,969,062          |            |
| Miscellaneous equipment  | 6,883,622          | 2          | 6,989,078          | 2          |
| <b>Total cost</b>  | <b>848,977,541</b> | <b>196</b> | <b>846,496,173</b> | <b>192</b> |
| Revaluation increment on land  | 5,762,611          | 1          | 5,800,909          | 1          |
|  | 854,740,152        | 197        | 852,297,082        | 193        |
| Less: Accumulated depreciation   | 569,183,573        | 131        | 560,985,343        | 127        |
|  | 285,556,579        | 66         | 291,311,739        | 66         |
| Construction in progress and advances related to acquisitions of equipment   | 11,037,605         | 2          | 13,913,785         | 3          |

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|   |                |     |                |     |
|---|----------------|-----|----------------|-----|
| Property, plant and equipment, net          | 296,594,184    | 68  | 305,225,524    | 69  |
| INTANGIBLE ASSETS (Note 2)                  |                |     |                |     |
| 3G concession                               | 5,801,718      | 1   | 6,550,327      | 2   |
| Others                                      | 426,327        |     | 371,953        |     |
| Total intangible assets                     | 6,228,045      | 1   | 6,922,280      | 2   |
| OTHER ASSETS                                |                |     |                |     |
| Idle assets (Note 2)                        | 878,896        |     | 925,982        |     |
| Refundable deposits                         | 1,300,964      | 1   | 1,567,448      |     |
| Deferred income tax assets (Notes 2 and 20) | 404,925        |     | 400,150        |     |
| Others (Note 23)                            | 4,457,603      | 1   | 2,565,570      | 1   |
| Total other assets                          | 7,042,388      | 2   | 5,459,150      | 1   |
| TOTAL                                       | \$ 434,544,152 | 100 | \$ 441,533,887 | 100 |

**CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS****MARCH 31, 2011 AND 2010****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)****(Reviewed, Not Audited)**

|   | 2011               |           | 2010               |           |
|---|--------------------|-----------|--------------------|-----------|
|   | Amount             | %         | Amount             | %         |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                      |                    |           |                    |           |
| <b>CURRENT LIABILITIES</b>  |                    |           |                    |           |
| Financial liabilities at fair value through profit or loss (Notes 2 and 5)      | \$ 6,348           |           | \$                 |           |
| Trade notes and accounts payable  | 6,904,997          | 2         | 5,120,399          | 1         |
| Payables to related parties (Note 23)   | 1,598,191          |           | 1,985,304          | 1         |
| Income tax payable (Notes 2 and 20)   | 6,676,776          | 2         | 7,044,152          | 2         |
| Accrued expenses (Note 16)  | 14,904,629         | 3         | 13,693,200         | 3         |
| Other current liabilities (Notes 2 and 17)                                      | 16,505,403         | 4         | 15,176,827         | 3         |
| <b>Total current liabilities</b>  | <b>46,596,344</b>  | <b>11</b> | <b>43,019,882</b>  | <b>10</b> |
| DEFERRED INCOME   | 2,587,891          |           | 2,508,776          |           |
| RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)                                | 94,986             |           | 94,986             |           |
| <b>OTHER LIABILITIES</b>  |                    |           |                    |           |
| Accrued pension liabilities (Notes 2 and 22)                                    | 1,326,968          |           | 1,222,842          |           |
| Customers deposits (Note 23)  | 5,788,928          | 2         | 5,841,887          | 1         |
| Deferred credit - profit on intercompany transactions (Note 23)                 | 1,426,743          |           | 1,485,916          | 1         |
| Others  | 334,434            |           | 219,912            |           |
| <b>Total other liabilities</b>  | <b>8,877,073</b>   | <b>2</b>  | <b>8,770,557</b>   | <b>2</b>  |
| <b>Total liabilities</b>  | <b>58,156,294</b>  | <b>13</b> | <b>54,394,201</b>  | <b>12</b> |
| <b>STOCKHOLDERS EQUITY (Notes 2, 6, 15 and 18)</b>                              |                    |           |                    |           |
| Common stock - \$10 par value; Authorized: 12,000,000 thousand shares           |                    |           |                    |           |
| Issued: 7,757,447 thousand shares in 2011 and 9,696,808 thousand shares in 2010 | 77,574,465         | 18        | 96,968,082         | 22        |
| Additional paid-in capital  |                    |           |                    |           |
| Capital surplus   | 169,496,289        | 39        | 169,496,289        | 39        |
| Donated capital   | 13,170             |           | 13,170             |           |
| Equity in additional paid-in capital reported by equity-method investees        | 10,675             |           | 3,252              |           |
| <b>Total additional paid-in capital</b>   | <b>169,520,134</b> | <b>39</b> | <b>169,512,711</b> | <b>39</b> |
| Retained earnings:  |                    |           |                    |           |
| Legal reserve   | 61,361,255         | 14        | 56,987,241         | 13        |
| Special reserve   | 2,675,894          | 1         | 2,675,894          |           |
| Unappropriated earnings   | 59,450,673         | 14        | 55,810,363         | 13        |
| <b>Total retained earnings</b>  | <b>123,487,822</b> | <b>29</b> | <b>115,473,498</b> | <b>26</b> |



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|   |                       |            |                       |            |
|---|-----------------------|------------|-----------------------|------------|
| Other adjustments                               |                       |            |                       |            |
| Cumulative translation adjustments              | (87,526)              |            | (8,946)               |            |
| Unrecognized net loss of pension                | (40,182)              |            | (44,105)              |            |
| Unrealized (loss) gain on financial instruments | 167,997               |            | (565,000)             |            |
| Unrealized revaluation increment                | 5,765,148             | 1          | 5,803,446             | 1          |
| <b>Total other adjustments</b>                  | <b>5,805,437</b>      | <b>1</b>   | <b>5,185,395</b>      | <b>1</b>   |
| Total stockholders' equity                      | 376,387,858           | 87         | 387,139,686           | 88         |
| <b>TOTAL</b>                                    | <b>\$ 434,544,152</b> | <b>100</b> | <b>\$ 441,533,887</b> | <b>100</b> |

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

(With Deloitte & Touche review report dated April 23, 2011)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF INCOME****THREE MONTHS ENDED MARCH 31, 2011 AND 2010**

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

(Reviewed, Not Audited)

|  | 2011                 |           | 2010                 |           |
|--|----------------------|-----------|----------------------|-----------|
|  | Amount               | %         | Amount               | %         |
| NET REVENUES (Note 23)                                 | \$ 47,584,160        | 100       | \$ 45,517,837        | 100       |
| OPERATING COSTS (Note 23)                              | 25,931,154           | 54        | 23,631,415           | 52        |
| <b>GROSS PROFIT</b>                                    | <b>21,653,006</b>    | <b>46</b> | <b>21,886,422</b>    | <b>48</b> |
| OPERATING EXPENSES (Note 23)                           |                      |           |                      |           |
| Marketing  | 6,416,336            | 13        | 5,791,371            | 13        |
| General and administrative                             | 871,180              | 2         | 817,002              | 2         |
| Research and development                               | 802,446              | 2         | 745,458              | 1         |
| Total operating expenses                               | 8,089,962            | 17        | 7,353,831            | 16        |
| <b>INCOME FROM OPERATIONS</b>                          | <b>13,563,044</b>    | <b>29</b> | <b>14,532,591</b>    | <b>32</b> |
| NON-OPERATING INCOME AND GAINS                         |                      |           |                      |           |
| Gain on disposal of property, plant and equipment, net | 318,544              | 1         |                      |           |
| Equity in earnings of equity investees, net            | 165,122              |           | 215,163              | 1         |
| Interest income  | 136,457              |           | 80,495               |           |
| Gain on disposal of financial instruments, net         | 36,269               |           | 55,632               |           |
| Foreign exchange gain, net                             |                      |           | 56,192               |           |
| Valuation gain on financial instruments, net           |                      |           | 164                  |           |
| Others   | 28,503               |           | 41,290               |           |
| Total non-operating income and gains                   | 684,895              | 1         | 448,936              | 1         |
| NON-OPERATING EXPENSES AND LOSSES                      |                      |           |                      |           |
| Foreign exchange loss, net                             | 124,908              |           |                      |           |
| Valuation loss on financial instruments, net           | 39,981               |           |                      |           |
| Interest expenses                                      | 60                   |           | 6,692                |           |
| Loss on disposal of property, plant and equipment, net |                      |           | 11,174               |           |
| Others   | 4,096                |           | 7,768                |           |
| Total non-operating expenses and losses                | 169,045              |           | 25,634               |           |
| <b>INCOME BEFORE INCOME TAX</b>                        | <b>14,078,894</b>    | <b>30</b> | <b>14,955,893</b>    | <b>33</b> |
| <b>INCOME TAX EXPENSES (Notes 2 and 20)</b>            | <b>2,244,028</b>     | <b>5</b>  | <b>2,895,492</b>     | <b>7</b>  |
| <b>NET INCOME</b>                                      | <b>\$ 11,834,866</b> | <b>25</b> | <b>\$ 12,060,401</b> | <b>26</b> |

2011

2010

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|                                     | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> | <b>Before<br/>Income<br/>Tax</b> | <b>After<br/>Income<br/>Tax</b> |
|-------------------------------------|----------------------------------|---------------------------------|----------------------------------|---------------------------------|
| <b>EARNINGS PER SHARE (Note 21)</b> |                                  |                                 |                                  |                                 |
| Basic earnings per share            | \$ 1.79                          | \$ 1.50                         | \$ 1.54                          | \$ 1.24                         |
| Diluted earnings per share          | \$ 1.78                          | \$ 1.50                         | \$ 1.54                          | \$ 1.24                         |

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

(With Deloitte & Touche review report dated April 23, 2011)

(Concluded)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****THREE MONTHS ENDED MARCH 31, 2011 AND 2010****(Amounts in Thousands of New Taiwan Dollars)****(Reviewed, Not Audited)**

|   | <b>2011</b>   | <b>2010</b>   |
|---|---------------|---------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                       |               |               |
| Net income  | \$ 11,834,866 | \$ 12,060,401 |
| Adjustments to reconcile net income to net cash provided by operating activities: |               |               |
| Provision for doubtful accounts   | 42,249        | 113,459       |
| Depreciation and amortization   | 7,957,692     | 8,589,578     |
| Amortization of premium of financial assets                                       | 13,827        | 8,114         |
| Valuation loss (gain) on financial instruments, net                               | 39,981        | (164)         |
| Gain on disposal of financial instruments, net                                    | (36,269)      | (55,632)      |
| Valuation loss on inventories   | 9,930         | 43,939        |
| Loss (gain) on disposal of property, plant and equipment, net                     | (318,544)     | 11,174        |
| Equity in earnings of equity method investees, net                                | (165,122)     | (215,163)     |
| Deferred income taxes   | (34,354)      | 4,335         |
| Changes in operating assets and liabilities:                                      |               |               |
| Financial assets held for trading   | 28,268        | 9,850         |
| Trade notes and accounts receivable   | (5,036,388)   | 973,579       |
| Receivables from related parties  | (14,891)      | (33,671)      |
| Other current monetary assets   | (461,339)     | (984,520)     |
| Inventories   | 1,148         | 431,865       |
| Other current assets  | (1,901,379)   | (2,506,685)   |
| Financial liabilities held for trading  | 6,348         |               |
| Trade notes and accounts payable  | (2,179,294)   | (2,355,561)   |
| Payables to related parties   | (766,702)     | 150,360       |
| Income tax payable  | 2,263,236     | 2,886,166     |
| Accrued expenses  | (2,357,526)   | (2,806,860)   |
| Other current liabilities   | 839,252       | 273,388       |
| Deferred income   | (1,019)       | 25,012        |
| Accrued pension liabilities   | 43,946        | 14,885        |
| Net cash provided by operating activities   | 9,807,916     | 16,637,849    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                       |               |               |
| Acquisition of available-for-sale financial assets                                |               | (1,600,000)   |
| Proceeds from disposal of available-for-sale financial assets                     | 31,640        | 10,328,079    |
| Acquisition of held-to-maturity financial assets                                  | (1,978,103)   | (2,703,308)   |
| Proceeds from disposal of held-to maturity financial assets                       | 300,000       |               |
| Acquisition of investments accounted for using equity method                      | (177,176)     |               |
| Capital reduction of equity investees   | 815,827       |               |
| Acquisition of financial assets carried at cost                                   | (10,120)      |               |
| Acquisition of property, plant and equipment                                      | (4,353,061)   | (4,124,333)   |
| Proceeds from disposal of property, plant and equipment                           | 647,717       | 11,290        |
| Increase in intangible assets   | (39,332)      | (12,242)      |
| Increase in other assets  | (518,242)     | (1,898,633)   |
| Net cash provided by (used in) investing activities                               | (5,280,850)   | 853           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                       |               |               |
| Decrease in customers' deposits   | (59,179)      | (85,942)      |
| Increase (decrease) in other liabilities  | 54,361        | (5,202)       |
| Capital reduction   | (19,393,617)  | (9,696,808)   |

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|   |                      |                      |
|---|----------------------|----------------------|
| Net cash used in financing activities                       | (19,398,435)         | (9,787,952)          |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b> | <b>(14,871,369)</b>  | <b>6,850,750</b>     |
| CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD              | 84,700,525           | 68,393,379           |
| <b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>             | <b>\$ 69,829,156</b> | <b>\$ 75,244,129</b> |
| <b>SUPPLEMENTAL INFORMATION</b>                             |                      |                      |
| Interest paid   | \$ 60                | \$ 14                |
| Income tax paid   | \$ 13,147            | \$ 4,991             |
| <b>CASH AND NON-CASH INVESTING ACTIVITIES</b>               |                      |                      |
| Increase in property, plant and equipment                   | \$ 3,919,466         | \$ 3,041,400         |
| Payables to suppliers                                       | 433,595              | 1,082,933            |
|   | \$ 4,353,061         | \$ 4,124,333         |

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

(With Deloitte & Touche review report dated April 23, 2011)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**THREE MONTHS ENDED MARCH 31, 2011 AND 2010**

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

**(Reviewed, Not Audited)**

**1. GENERAL**

Chunghwa Telecom Co., Ltd. ( Chunghwa ) was incorporated on July 1, 1996 in the Republic of China ( ROC ) pursuant to the Article 30 of the Telecommunications Act. Chunghwa is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications ( MOTC ). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications ( DGT ). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off to as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As the dominate telecommunications service provider of fixed-line and Global System for Mobile Communications ( GSM ) in the ROC, Chunghwa is subject to additional regulations imposed by ROC.

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

As of March 31, 2011 and 2010, the Company had 24,363 and 24,619 employees, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements were prepared in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law, Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC ( ROC GAAP ). The preparation of financial statements requires management to make certain estimates and assumptions on allowances for doubtful accounts, valuation allowances on inventories, depreciation of property, plant and equipment, impairment of assets, bonuses paid to employees, remuneration to board of directors and supervisors, pension plans and income tax, etc. These estimates and assumptions are inherently uncertain and actual results may differ significantly. The significant accounting policies are summarized as follows:

### **Classification of Current and Noncurrent Assets and Liabilities**

Current assets are assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

### **Cash Equivalents**

Cash equivalents are commercial paper purchased with maturities of three months or less from the date of acquisition. The carrying amount approximates fair value.

### **Financial Assets and Liabilities at Fair Value Through Profit or Loss**

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ( FVTPL ) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company loses control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized as expenses as incurred. Financial assets or financial liabilities at FVTPL are remeasured at fair value, with subsequently changes in fair value recognized in earnings. Cash dividends received subsequently (including those received in the period of investment) are recognized as income. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in earnings. A regular way purchases or sale of financial assets is accounted for using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or financial liabilities held for trading. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Swap contracts are estimated by valuation techniques.

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

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of stockholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

The recognition and derecognition of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Fair values are determined as follows: Listed stocks - at closing prices at the balance sheet date; open-end mutual funds - at net asset values at the balance sheet date; bonds - quoted at prices provided by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Cash dividends are recognized in earnings on the ex-dividend date, except for the dividends declared before acquisition are treated as a reduction of investment cost. Stock dividends are recorded as an increase in the number of shares and do not affect investment income. The total number of shares subsequent to the increase of stock dividends is used to recalculate cost per share.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent of the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

#### **Held-to-maturity Financial Assets**

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains and losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

#### **Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables**

Revenues are recognized when they are realized or realizable and earned. Revenues are realized or realizable and earned when the Company has persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectibility is reasonably assured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

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

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

Where the Company enters into transactions which involve both the provision of air time bundled with products such as 3G data card and handset, total consideration received from handsets in these arrangements are allocated and measured using units of accounting within the arrangement based on relative fair values limited to the amount that is not contingent upon the delivery of other items or services.



Where the Company sells products to third party cellular phone stores the Company records the direct sale of the products, typically handsets, as gross revenue when the Company is the primary obligor in the arrangement and when title is passed and the products are accepted by the stores.

Accounts receivable are assessed for impairment at the end of each reporting period and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the accounts receivable, the estimated future cash flows of the asset have been affected.

The amount of the impairment loss recognized is the difference between the asset carrying amount and the present value of estimated future cash flows, after taking into account the related collateral and guarantees, discounted at the receivable's original effective interest rate. The carrying amount of the accounts receivable is reduced through the use of an allowance account.

### **Inventories**

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

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

Investments in companies in which the Company exercises significant influence over the operating and financial policy decisions are accounted for by the equity method. Under the equity method, the investment is initially stated at cost and subsequently adjusted for its proportionate share in the net earnings of the investee companies. Any cash dividends received are recognized as a reduction in the carrying value of the investments.

Gains or losses on sales from the Company to equity method investees wherein Chunghwa exercises significant influence over these equity investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties. Gains or losses on sales from equity method investees to Chunghwa are deferred in proportion to Chunghwa's ownership percentages in the investees until they are realized through transactions with third parties.

When the Company subscribes for additional investees shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to additional paid-in capital to the extent available, with the balance charged to retained earnings.

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

Investments in equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured such as non-publicly traded stocks are measured at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

### **Property, Plant and Equipment**

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

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized.

An impairment loss on a revalued asset is charged to unrealized revaluation increment under equity to the extent available, with the balance is recognized as a loss in earnings. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment loss could be reversed and recognized as a gain, with the remaining credited to unrealized revaluation increment .

Depreciation expense is computed using the straight-line method over the following estimated service lives: land improvements - 10 to 30 years; buildings - 10 to 60 years; computer equipment - 2 to 10 years; telecommunications equipment - 6 to 15 years; transportation equipment - 5 to 10 years; and miscellaneous equipment - 3 to 12 years.

Upon sale or disposal of property, plant and equipment, the related cost, accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment are deducted from the corresponding accounts, and any gain or loss is recorded as non-operating gains or losses in the period of sale or disposal.

#### **Intangible Assets**

Intangible assets mainly include 3G Concession, computer software and patents.

The 3G Concession is valid through December 31, 2018. The 3G Concession is amortized on a straight-line basis from the date operations commence through the date the license expires. Computer software costs and patents are amortized using the straight-line method over the estimated useful lives of 2-20 years.

Expenditure on research shall be expensed as incurred. Development Costs are capitalized when those costs meet relative criteria and are amortized using the straight-line method over estimated useful lives. Development costs do not meet relative criteria shall be expensed as incurred.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, as if no impairment loss had been recognized.

#### **Idle Assets**

Idle assets are carried at the lower of recoverable amount or carrying amount.

#### **Pension Costs**

For defined benefit pension plans, net periodic pension benefit cost is recorded in the statement of income and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs, amortization of pension gains (losses) and curtailment or settlement gains (losses).

The Company recognizes into income, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the corridor. Amounts inside this 10% corridor are amortized over the average remaining service life of active plan participants. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the plans. Differences between the expected and actual returns on plan assets and changes in interest rate, which affect the discount rate used to value projected plan obligations, can have a significant impact on the calculation of pension net gains and losses from year to year.

The curtailments and settlement gains (losses) resulted from the Chunghwa's early retirement programs. Curtailment/settlement gains or losses are equal to the changes of underfunded status plus a pro rata portion of the unrecognized prior service cost, unrecognized net gains (losses), and unrecognized transition obligations/assets, before the settlement/curtailment event multiplied by the percentage reduction in projected benefit obligation.

The projected benefit obligation represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels.

The carrying amount of accrued pension liability should be the sum of the following amounts when the calculation is positive: (a) projected benefit obligation as of balance sheet date, (b) minus (plus) unamortized actuarial loss (gain), (c) minus unamortized prior service cost, and (d) minus the fair value of plan assets. If the amount determined by above calculation is negative, it is viewed as prepaid pension cost. The prepaid pension cost is measured at the lower of: (a) the amount determined above, and (b) the sum of the following amounts: (i) unamortized actuarial loss, (ii) unamortized prior service cost, and (iii) the present value of refunds from the plan or reductions in future contributions to the plan.

The measurement of benefit obligations and net periodic cost (income) is based on estimates and assumptions approved by the company's management such as compensation, age and seniority, as well as certain assumptions, including estimates of discount rates, expected return on plan assets and rate of compensation increases.

For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees individual pension accounts during their service periods.

### **Expense Recognition**

The costs of providing services are recognized as incurred. The cost includes incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract.

### **Income Tax**

The Company applies inter-period allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from research and development expenditures are recognized using the flow-through method.

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

Income taxes (10%) on undistributed earnings is recorded in the year of stockholders approval which are the year subsequent to the year the earnings are generated.

**Foreign-currency Transactions**

Foreign-currency transactions other than derivative contracts are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates. When a gain or loss on a nonmonetary item is recognized in stockholders' equity, any exchange component of that gain or loss shall be recognized in stockholders' equity. Conversely, when a gain or loss on a non-monetary item is recognized in earnings, any exchange component of that gain or loss shall be recognized in earnings.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

The financial statements of foreign equity investees and consolidated subsidiaries are translated into New Taiwan dollars at the following exchange rates. Assets and liabilities - spot rates at year-end; stockholders' equity - historical rates, income and expenses - average rates during the year.

The resulting translation adjustments of financial statements shall be recorded as cumulative translation adjustments, a separate component of stockholders' equity.

**3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES**

The Company adopted the newly-revised Statements of Financial Accounting Standards No. 34, Financial Instruments, ( SFAS No. 34 ) beginning from January 1, 2011. When an enterprise adopts the revised provisions, the initial recognition of loans and receivables shall be accounted for under SFAS No. 34. There is no effect on the net income and after-tax basic earnings per share for the three months ended March 31, 2011.

**4. CASH AND CASH EQUIVALENTS**

|   | <b>March 31</b>      |                      |
|---|----------------------|----------------------|
|   | <b>2011</b>          | <b>2010</b>          |
| <b>Cash</b>   |                      |                      |
| Cash on hand  | \$ 78,202            | \$ 84,653            |
| Bank deposits   | 2,467,304            | 3,992,315            |
| Negotiable certificate of deposit, annual yield rate - ranging from 0.63%-0.72% and 0.32%-0.38% for 2011 and 2010, respectively | 53,250,000           | 60,400,000           |
|   | <b>55,795,506</b>    | <b>64,476,968</b>    |
| <b>Cash equivalents</b>   |                      |                      |
| Commercial paper, annual yield rate - ranging from 0.45%-0.49% and 0.19%-0.25% for 2011 and 2010, respectively                  | 14,033,650           | 10,767,161           |
|   | <b>\$ 69,829,156</b> | <b>\$ 75,244,129</b> |

As of March 31, 2011 and 2010, foreign deposits in bank were as following:

|   | March 31  |           |
|---|-----------|-----------|
|   | 2011      | 2010      |
| United States of America - New York (US\$485 thousand and US\$1,103 thousand for 2011 and 2010, respectively) | \$ 14,253 | \$ 35,097 |

## 5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

|  | March 31 |          |
|--|----------|----------|
|  | 2011     | 2010     |
| <b>Derivatives - financial assets</b>      |          |          |
| Currency swap contracts                    | \$ 645   | \$ 6,841 |
| <b>Derivatives - financial liabilities</b> |          |          |
| Currency swap contracts                    | \$ 6,348 | \$       |

Chunghwa entered into currency swap contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates. However, the aforementioned derivatives did not meet the criteria for hedge accounting and were classified as financial assets or financial liabilities held for trading.

Outstanding currency swap contracts as of March 31, 2011 and 2010 were as follows:

|                         | Currency | Maturity Period | Contract Amount<br>(In Thousands) |
|-------------------------|----------|-----------------|-----------------------------------|
| <b>March 31, 2011</b>   |          |                 |                                   |
| Currency swap contracts | USD/NTD  | 2011.04-05      | US\$ 23,000/NT\$670,586           |
|                         | USD/NTD  | 2011.06         | US\$ 5,000/NT\$147,663            |
| <b>March 31, 2010</b>   |          |                 |                                   |
| Currency swap contracts | USD/NTD  | 2010.04         | US\$ 45,000/NT\$1,437,553         |

Net gain (loss) arising from financial assets and liabilities at fair value through profit or loss for the three months ended March 31, 2011 and 2010 were \$(5,365) thousand (including realized settlement gain of \$34,616 thousand and valuation loss of \$39,981 thousand) and \$10,014 thousand (including realized settlement gain of \$9,850 thousand and valuation gain of \$164 thousand), respectively.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                                   | March 31     |              |
|-----------------------------------|--------------|--------------|
|                                   | 2011         | 2010         |
| Open-end mutual funds             | \$ 1,023,820 | \$ 7,720,445 |
| Domestic listed stocks            |              | 142,717      |
| Real estate investment trust fund |              | 39,765       |
|                                   | \$ 1,023,820 | \$ 7,902,927 |

For the three months ended March 31, 2011 and 2010, movements of unrealized gain or loss on financial instruments were as follows:

|                                    | <b>Three Months Ended March 31</b> |              |
|------------------------------------|------------------------------------|--------------|
|                                    | <b>2011</b>                        | <b>2010</b>  |
| Balance, beginning of period       | \$ (20,542)                        | \$ (466,803) |
| Recognized in stockholders' equity | 24,959                             | (144,937)    |
| Transferred to profit or loss      | (1,653)                            | 45,782       |
| Balance, end of period             | \$ 2,764                           | \$ (565,958) |

**7. HELD-TO-MATURITY FINANCIAL ASSETS**

|   | <b>March 31</b> |              |
|---|-----------------|--------------|
|   | <b>2011</b>     | <b>2010</b>  |
| Corporate bonds, nominal interest rate ranging from 1.20%-4.75% and 0.77%-4.75% for 2011 and 2010, respectively; effective interest rate ranging from 1.00%-2.95% and 0.45%-2.95% for 2011 and 2010, respectively | \$ 10,929,432   | \$ 7,226,450 |
| Bank debentures, nominal interest rate ranging from 1.37%-2.11% and 1.87%-2.11% for 2011 and 2010, respectively; effective interest rate ranging from 1.25%-2.45% and 1.14%-2.90% for 2011 and 2010, respectively | 1,106,542       | 498,001      |
|   | 12,035,974      | 7,724,451    |
| Less: Current portion   | 2,062,915       | 1,600,885    |
|   | \$ 9,973,059    | \$ 6,123,566 |

**8. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

|                                 | <b>Three Months Ended March 31</b> |              |
|---------------------------------|------------------------------------|--------------|
|                                 | <b>2011</b>                        | <b>2010</b>  |
| Balance, beginning of period    | \$ 2,528,044                       | \$ 2,774,868 |
| Provision for doubtful accounts | 38,728                             | 108,726      |
| Accounts receivable written off | (63,432)                           | (156,678)    |
| Balance, end of period          | \$ 2,503,340                       | \$ 2,726,916 |

**9. OTHER MONETARY ASSETS - CURRENT**

|  | <b>March 31</b> |             |
|--|-----------------|-------------|
|  | <b>2011</b>     | <b>2010</b> |
| Accrued custodial receipts from other carriers | \$ 21,119       | \$ 387,260  |
| Other receivables                              | 2,531,413       | 2,364,476   |

\$ 2,552,532      \$ 2,751,736

**10. INVENTORIES**

|                 | March 31            |                   |
|-----------------|---------------------|-------------------|
|                 | 2011                | 2010              |
| Merchandise     | \$ 476,734          | \$ 366,222        |
| Work in process | 632,211             | 344,496           |
|                 | <b>\$ 1,108,945</b> | <b>\$ 710,718</b> |

The operating costs related to inventories were \$2,855,165 thousand (including the valuation loss on inventories of \$9,930 thousand) and \$2,166,499 thousand (including the valuation loss on inventories of \$43,949 thousand) for the three months ended March 31, 2011 and 2010, respectively.

**11. OTHER CURRENT ASSETS**

|                  | March 31            |                     |
|------------------|---------------------|---------------------|
|                  | 2011                | 2010                |
| Prepaid expenses | \$ 2,543,218        | \$ 2,436,125        |
| Spare parts      | 2,069,892           | 1,965,942           |
| Prepaid rents    | 853,672             | 879,874             |
| Miscellaneous    | 255,687             | 270,622             |
|                  | <b>\$ 5,722,469</b> | <b>\$ 5,552,563</b> |

**12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**

|  | 2011         | March 31 |              | 2010 | % of |
|--|--------------|----------|--------------|------|------|
|  |              | Carrying | Owner-       |      |      |
|  | Amount       | ship     | Amount       | ship |      |
| <b>Listed</b>  |              |          |              |      |      |
| Senao International Co., Ltd. ( SENAO )                      | \$ 1,532,126 | 28       | \$ 1,418,947 | 29   |      |
| <b>Non-listed</b>  |              |          |              |      |      |
| Light Era Development Co., Ltd. ( LED )                      | 2,912,155    | 100      | 2,915,201    | 100  |      |
| Chunghwa Investment Co., Ltd. ( CHI )                        | 1,932,617    | 89       | 1,672,381    | 89   |      |
| Chunghwa System Integration Co., Ltd. ( CHSI )               | 710,260      | 100      | 712,951      | 100  |      |
| Chunghwa Telecom Singapore Pte., Ltd. ( CHTS )               | 616,537      | 100      | 1,412,966    | 100  |      |
| Taiwan International Standard Electronics Co., Ltd. ( TISE ) | 598,205      | 40       | 484,630      | 40   |      |
| CHIEF Telecom Inc. ( CHIEF )                                 | 552,825      | 69       | 465,800      | 69   |      |
| Donghwa Telecom Co., Ltd. ( DHT )                            | 505,001      | 100      | 234,932      | 100  |      |
| InfoExplorer Co., Ltd. ( IFE )                               | 248,256      | 49       | 265,337      | 49   |      |
| Viettel-CHT Co., Ltd. ( Viettel-CHT )                        | 238,242      | 30       | 261,677      | 30   |      |
| Chunghwa International Yellow Pages Co., Ltd. ( CIYP )       | 197,959      | 100      | 183,688      | 100  |      |
| Prime Asia Investments Group Ltd. (B.V.I.) ( Prime Asia )    | 176,400      | 100      |              |      |      |
| Skysoft Co., Ltd. ( SKYSOFT )                                | 98,101       | 30       | 89,938       | 30   |      |
| Spring House Entertainment Inc. ( SHE )                      | 87,536       | 56       | 60,592       | 56   |      |



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|  |               |     |               |     |
|--|---------------|-----|---------------|-----|
| Chunghwa Telecom Global, Inc. ( CHTG )                           | 67,512        | 100 | 69,562        | 100 |
| KingWaytek Technology Co., Ltd. ( KWT )                          | 63,901        | 33  | 66,220        | 33  |
| So-net Entertainment Taiwan Co., Ltd. ( So-net )                 | 28,620        | 30  | 27,572        | 30  |
| Chunghwa Telecom Japan Co., Ltd. ( CHTJ )                        | 15,794        | 100 | 10,579        | 100 |
| New Prospect Investments Holdings Ltd. (B.V.I.) ( New Prospect ) |               | 100 |               | 100 |
|  | 9,049,921     |     | 8,934,026     |     |
|  | \$ 10,582,047 |     | \$ 10,352,973 |     |

(Concluded)

Chunghwa Telcom Singapore Pte., Ltd. reduces its capital by \$815,827 thousand in March 2011. The reduction amount was received by Chunghwa on March 17, 2011.

Chunghwa increased its investment in Donghwa Telecom Co., Ltd. ( DHT ) for \$320,740 thousand in August 2010. DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services.

The stockholders of IFE, at the special meeting of stockholders held on February 25, 2011, approved the merger with International Integrated System Inc. and e-ToYou International, Inc. in accordance with Business Mergers and Acquisitions Act. After the merger on April 1, 2011, IFE became the surviving company and International Integrated System, Inc. and e-ToYou International, Inc. were dissolved. The name of the surviving company is International Integrated System, Inc. (IISI). Chunghwa decreased its ownership interest in IFE from 49% to 33%.

Chunghwa increased its investment in Prime Asia Investments Group Ltd. (B.V.I.) ( Prime Asia ) by \$177,176 thousand in March 2011. Prime Asia is operating as an investment company.

Chunghwa has established New Prospect Investments Holdings Ltd. (B.V.I.) ( New Prospect ) in March 2006, but not on operation stage yet. The holding company is operating as an investment company and Chunghwa has 100% ownership right in an amount of US\$1 in the holding company as of March 31, 2011.

Market value of the listed investment accounted for using equity method calculated at its closing prices as of March 31, 2011 and 2010 was \$5,533,710 thousand and \$3,542,005 thousand, respectively.

The equity in earnings (losses) of equity investees for the three months ended March 31, 2011 and 2010, are based on unreviewed financial statements except the equity in earnings of SENA0.

The aggregate carrying values of the equity method investments whose financial statements have not been reviewed were \$9,139,860 thousand and \$9,022,021 thousand as of March 31, 2011 and 2010, respectively. The equity in earnings were \$64,119 thousand and \$136,174 thousand for the three months ended March 31, 2011 and 2010, respectively.

All accounts of Chunghwa's subsidiaries were included in Chunghwa's consolidated financial statements.

**13. FINANCIAL ASSETS CARRIED AT COST**

|   | 2011               |                        | March 31           |                        |
|---|--------------------|------------------------|--------------------|------------------------|
|   | Carrying<br>Amount | % of<br>Owner-<br>ship | Carrying<br>Amount | % of<br>Owner-<br>ship |
| <b>Non-listed</b>   |                    |                        |                    |                        |
| Taipei Financial Center ( TFC )                                   | \$ 1,789,530       | 12                     | \$ 1,789,530       | 12                     |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. ( IBT II ) | 200,000            | 17                     | 200,000            | 17                     |
| Global Mobile Corp. ( GMC )                                       | 127,018            | 8                      | 127,018            | 11                     |
| iD Branding Ventures ( iDBV )                                     | 75,000             | 8                      | 75,000             | 8                      |
| Innovation Works Development Fund, L.P. ( IWDF )                  | 38,035             | 7                      |                    |                        |
| RPTI International ( RPTI )                                       | 34,500             | 10                     | 34,500             | 10                     |
| Innovation Works Limited ( IW )                                   | 31,391             | 7                      |                    |                        |
| CQi Energy Infocom Inc. ( CQi )                                   | 20,000             | 18                     |                    |                        |
| Essence Technology Solution, Inc. ( ETS )                         |                    | 7                      |                    | 9                      |
|   | \$ 2,315,474       |                        | \$ 2,226,048       |                        |

Chunghwa invested in IWDF for \$38,035 thousand in June 2010. IWDF invests mainly in start-up companies of E-commerce, mobile internet and cloud computing, etc.

Chunghwa invested in IW for \$10,565 thousand, \$10,706 thousand and \$10,120 thousand in June 2010, July 2010 and January 2011, respectively. IW invests mainly in start-up companies and mentors such companies in the E-commerce, mobile internet and cloud computing fields, etc.

Chunghwa invested in CQi for \$20,000 thousand in June 2010. CQi engages mainly in intelligent energy network management services.

The above investments do not have a quoted market price in an active market and fair values cannot be reliably measured; therefore, these investments are carried at original cost.

**14. OTHER MONETARY ASSETS - NONCURRENT**

|             | March 31     |              |
|-------------|--------------|--------------|
|             | 2011         | 2010         |
| Piping Fund | \$ 1,000,000 | \$ 1,000,000 |

As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute a total of \$1,000,000 thousand to a Piping Fund administered by the Taipei City Government. This funds was used to finance various telecommunications infrastructure projects.

**15. PROPERTY, PLANT AND EQUIPMENT**

|   | March 31              |                       |
|---|-----------------------|-----------------------|
|   | 2011                  | 2010                  |
| Cost  |                       |                       |
| Land  | \$ 101,401,329        | \$ 101,269,357        |
| Land improvements   | 1,551,988             | 1,535,066             |
| Buildings   | 65,726,304            | 62,646,557            |
| Computer equipment  | 15,316,104            | 15,467,600            |
| Telecommunications equipment  | 655,840,449           | 656,619,453           |
| Transportation equipment  | 2,257,745             | 1,969,062             |
| Miscellaneous equipment   | 6,883,622             | 6,989,078             |
| <b>Total cost</b>   | <b>848,977,541</b>    | <b>846,496,173</b>    |
| Revaluation increment on land   | 5,762,611             | 5,800,909             |
|   | <b>854,740,152</b>    | <b>852,297,082</b>    |
| Accumulated depreciation  |                       |                       |
| Land improvements   | 1,014,410             | 965,010               |
| Buildings   | 18,706,906            | 17,586,104            |
| Computer equipment  | 11,772,074            | 11,833,646            |
| Telecommunications equipment  | 530,420,186           | 522,908,897           |
| Transportation equipment  | 1,523,636             | 1,742,807             |
| Miscellaneous equipment   | 5,746,361             | 5,948,879             |
|   | <b>569,183,573</b>    | <b>560,985,343</b>    |
| Construction in progress and advances related to acquisition of equipment | 11,037,605            | 13,913,785            |
| <b>Property, plant and equipment, net</b>                                 | <b>\$ 296,594,184</b> | <b>\$ 305,225,524</b> |

Pursuant to the related regulation, Chunghwa revalued its land owned as of April 30, 2000 based on the publicly announced value on July 1, 1999. These revaluations which were approved by the Ministry of Auditing resulted in increases in the carrying values of property, plant and equipment of \$5,986,074 thousand, liabilities for land value incremental tax of \$211,182 thousand, and stockholders' equity - other adjustments of \$5,774,892 thousand.

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went into effect on February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of \$116,196 thousand to stockholders' equity - other adjustments. As of March 31, 2011, the unrealized revaluation increment was decreased to \$5,765,148 thousand due to disposal of revaluation assets.

Depreciation on property, plant and equipment for the three months ended March 31, 2011 and 2010 amounted to \$7,645,446 thousand and \$8,305,538 thousand, respectively. No interest expense was capitalized for the three months ended March 31, 2011 and 2010.

**16. ACCRUED EXPENSES**

|  | March 31             |                      |
|--|----------------------|----------------------|
|  | 2011                 | 2010                 |
| Accrued salary and compensation  | \$ 6,478,016         | \$ 5,178,746         |
| Accrued franchise fees   | 2,719,377            | 2,745,815            |
| Accrued employees' bonus and remuneration to directors and supervisors | 2,696,375            | 2,302,868            |
| Other accrued expenses   | 3,010,861            | 3,465,771            |
|  | <b>\$ 14,904,629</b> | <b>\$ 13,693,200</b> |

**17. OTHER CURRENT LIABILITIES**

|                                       | March 31             |                      |
|---------------------------------------|----------------------|----------------------|
|                                       | 2011                 | 2010                 |
| Advances from subscribers             | \$ 9,426,850         | \$ 6,928,420         |
| Amounts collected in trust for others | 1,413,985            | 1,916,964            |
| Payables to equipment suppliers       | 1,304,355            | 1,434,555            |
| Refundable customers' deposits        | 1,102,520            | 1,056,287            |
| Payables to contractors               | 697,783              | 1,312,771            |
| Others                                | 2,559,910            | 2,527,830            |
|                                       | <b>\$ 16,505,403</b> | <b>\$ 15,176,827</b> |

**18. STOCKHOLDERS EQUITY**

Under Chunghwa's Articles of Incorporation, Chunghwa's authorized capital is \$120,000,000 thousand which is divided into 12,000,000 thousand common shares (at \$10 par value per share), among which 7,757,447 thousand common shares are issued and outstanding as of March 31, 2011.

For the purpose of privatizing Chunghwa, the MOTC sold 1,109,750 thousand common shares of Chunghwa in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of Chunghwa, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. The MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of March 31, 2011, the outstanding ADSs were 647,186 thousand common shares, which equaled approximately 64,719 thousand units and represented 8.34% of Chunghwa's total outstanding common shares.

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

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

Under the ROC Company Law, additional paid-in capital may only be utilized to offset deficits. For those companies having no deficits, additional paid-in capital arising from capital surplus can be used to increase capital stock and distribute to stockholders in proportion to their ownership at the ex-dividend date. Also, such amounts can only be declared as a stock dividend by Chunghwa at an amount calculated in accordance with the provisions of existing regulations. The combined amount of any portions capitalized each year may not exceed 10 percent of common stock issued. However, where a company undergoes an organizational change (such as a merger, acquisition, or reorganization) that results in the capitalization of undistributed earnings after the organizational change, the above restriction does not apply.

In addition, before distributing a dividend or making any other distribution to stockholders, Chunghwa must pay all outstanding taxes, recover any past losses and set aside a legal reserve equal to 10% of its net income, and depending on its business needs or requirements, may also set aside a special reserve. In accordance with the Articles of Incorporation, no less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed in the following order: (a) from 2% to 5% of distributable earnings shall be distributed to employees as employee bonus; (b) no more than 0.2% of distributable earnings shall be distributed to board of directors and supervisors as remuneration; and (c) cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividends to be distributed is less than \$0.10 per share, such cash dividend shall be distributed in the form of common shares.

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

For the three months ended March 31, 2011 and 2010, the accrual amounts for bonuses to employees and remuneration to directors and supervisors were accrued on past experiences and probable amount to be paid in accordance with Chunghwa's Articles of Incorporation and Implementation Guidance for the Employee's Bonus Distribution of Chunghwa Telecom Co., Ltd.

If the initial accrual amounts of the aforementioned bonus are significantly different from the amounts proposed by the board of directors, the difference is charged to the earnings of the year making the initial estimate. Otherwise, the difference between initial accrual amounts and the amounts resolved in the stockholders' meeting is charged to the earnings of the following year as a result of change in accounting estimate.

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

The appropriations and distributions of the 2010 earnings of Chunghwa have been resolved by the board of directors on March 29, 2011, and the appropriations and distributions of the 2010 earnings of Chunghwa have been approved by the stockholders on June 18, 2010 as follows:

|                | Appropriation of Earnings |              | Dividend Per Share |         |
|----------------|---------------------------|--------------|--------------------|---------|
|                | 2010                      | 2009         | 2010               | 2009    |
| Legal reserve  | \$ 4,760,890              | \$ 4,374,014 |                    |         |
| Cash dividends | 42,854,462                | 39,369,041   | \$ 5.52            | \$ 4.06 |

The amounts for bonuses to employees and remuneration to directors and supervisors resolved by the board of directors on March 29, 2011, were \$2,144,074 thousand and \$45,044 thousand, respectively. There was no difference between the initial accrual amounts and the amounts resolved by the board of directors of the aforementioned bonuses to employees and the remuneration to directors and supervisors.

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders' meeting on June 18, 2010, were \$1,800,929 thousand and \$41,211 thousand paid by cash, respectively. There was no difference between the initial accrual amounts and the amounts resolved in stockholders' meeting of the aforementioned bonuses to employees and the remuneration to directors and supervisors.

The appropriation and distribution of 2010 earnings of Chunghwa has not been approved by the stockholders as of the report date. Information on the appropriation of Chunghwa's earnings, employees bonuses and remuneration to directors and supervisors resolved by the board of directors and approved by the stockholders is available at the Market Observation Post System website.

The stockholders, at the stockholders' meeting held on June 18, 2010, resolved to reduce the amount of \$19,393,617 thousand in capital of Chunghwa by a cash distribution to its stockholders. The abovementioned 2010 capital reduction proposal was effectively registered with FSC. The board of directors of Chunghwa were authorized to designate the record date of capital reduction as of October 26, 2010. Subsequently, the stock transfer date of capital reduction was January 15, 2011. The amount due to stockholders for capital reduction was \$19,393,617 thousand and such cash payment to stockholders was made in January 2011.

The stockholders, at a meeting held on June 19, 2009, resolved to transfer capital surplus in the amount of \$9,696,808 thousand to common capital stock. The abovementioned 2009 capital increase proposal was effectively registered with FSC. The board of directors authorized the chairman of directors to decide the ex-dividend date of the aforementioned proposal and the chairman decided the ex-dividend date as August 9, 2009.

The stockholders, at the stockholders' meeting held on June 19, 2009, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The abovementioned 2009 capital reduction proposal was effectively approved by FSC. The board of directors of Chunghwa further authorized the chairman of board of directors of Chunghwa to designate the record date of capital reduction as of October 26, 2009. Subsequently, common capital stock was reduced by \$9,696,808 thousand and the stock transfer date of capital reduction was January 28, 2010. The amount due to stockholders for capital reduction was paid in February 2010.

## 19. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

|                      | Three Months Ended March 31, 2011 |                    |               |
|----------------------|-----------------------------------|--------------------|---------------|
|                      | Operating Costs                   | Operating Expenses | Total         |
| Compensation expense |                                   |                    |               |
| Salaries             | \$ 2,923,730                      | \$ 2,090,917       | \$ 5,014,647  |
| Insurance            | 258,680                           | 185,290            | 443,970       |
| Pension              | 426,448                           | 289,787            | 716,235       |
| Other compensation   | 2,415,208                         | 1,684,558          | 4,099,766     |
|                      | \$ 6,024,066                      | \$ 4,250,552       | \$ 10,274,618 |
| Depreciation expense | \$ 7,237,271                      | \$ 408,175         | \$ 7,645,446  |
| Amortization expense | \$ 280,873                        | \$ 31,373          | \$ 312,246    |

|                      | Three Months Ended March 31, 2010 |                    |              |
|----------------------|-----------------------------------|--------------------|--------------|
|                      | Operating Costs                   | Operating Expenses | Total        |
| Compensation expense |                                   |                    |              |
| Salaries             | \$ 3,018,985                      | \$ 2,113,514       | \$ 5,132,499 |
| Insurance            | 239,217                           | 165,344            | 404,561      |
| Pension              | 416,306                           | 274,057            | 690,363      |
| Other compensation   | 2,138,988                         | 1,442,255          | 3,581,243    |
|                      | \$ 5,813,496                      | \$ 3,995,170       | \$ 9,808,666 |
| Depreciation expense | \$ 7,890,911                      | \$ 414,627         | \$ 8,305,538 |
| Amortization expense | \$ 245,041                        | \$ 38,782          | \$ 283,823   |

## 20. INCOME TAX

- a. A reconciliation between income tax expense computed by applying the statutory income tax rate to income before income tax and income tax payable is as follows:

|  | Three Months Ended March 31 |              |
|--|-----------------------------|--------------|
|  | 2011                        | 2010         |
| Income tax expense computed at statutory income tax rate | \$ 2,393,412                | \$ 2,991,179 |
| Add (deduct) tax effects of:                             |                             |              |
| Permanent differences                                    | (80,895)                    | (56,580)     |
| Temporary differences                                    | 20,392                      | 9,238        |
| 10% undistributed earning tax                            | 46                          | 1,286        |
| Investment tax credits                                   | (55,001)                    | (57,654)     |
| Income tax payable                                       | \$ 2,277,954                | \$ 2,887,469 |

- b. Income tax expense consisted of the following:

|                                       | Three Months Ended March 31 |              |
|---------------------------------------|-----------------------------|--------------|
|                                       | 2011                        | 2010         |
| Income tax payable                    | \$ 2,277,954                | \$ 2,887,469 |
| Income tax - separated                |                             | 3,688        |
| Income tax - deferred                 | (34,354)                    | 4,335        |
| Adjustments of prior years income tax | 428                         |              |
| Income tax                            | \$ 2,244,028                | \$ 2,895,492 |

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces the income tax rate of profit-seeking enterprises from 20% to 17%, effective January 1, 2010. After the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, the Company recalculated its deferred income tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as an income tax expense or benefit.





Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

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

|  | March 31          |                   |
|--|-------------------|-------------------|
|  | 2011              | 2010              |
| <b>Current</b>   |                   |                   |
| Provision for doubtful accounts                                      | \$ 225,762        | \$ 363,090        |
| Unrealized accrued expense   | 50,620            | 62,260            |
| Unrealized foreign exchange loss (gain)                              | 17,873            | (22,058)          |
| Valuation loss (gain) on financial instruments, net                  | 969               | (9,214)           |
| Others   | 11,855            | 23,650            |
|  | 307,079           | 417,728           |
| Valuation allowance  | (225,762)         | (363,090)         |
| <b>Net deferred income tax assets - current</b>                      | <b>\$ 81,317</b>  | <b>\$ 54,638</b>  |
| <b>Noncurrent</b>  |                   |                   |
| Accrued pension cost   | \$ 305,970        | \$ 339,200        |
| Impairment loss  | 61,393            | 60,950            |
| Abandonment of equipment not approved by National Tax Administration | 37,562            |                   |
| <b>Net deferred income tax assets - noncurrent</b>                   | <b>\$ 404,925</b> | <b>\$ 400,150</b> |

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

|   | March 31            |                     |
|---|---------------------|---------------------|
|   | 2011                | 2010                |
| <b>Balance of Imputation Credit Account ( ICA )</b> | <b>\$ 4,483,339</b> | <b>\$ 7,438,480</b> |

The estimated and the actual creditable ratios distribution of Chunghwa s of 2010 and 2009 for earnings were 18.77% and 26.49%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated creditable ratio may change when the actual distribution of imputation credit is made.

e. Undistributed earnings information

As of March 31, 2011 and 2010, there is no earnings generated prior to June 30, 1998 in Chunghwa s undistributed earnings.

Income tax returns through the year ended December 31, 2006 have been examined by the ROC tax authorities.

**21. EARNINGS PER SHARE**

|   | Amount (Numerator)             |               | Weighted-<br>average                                      | Earnings Per<br>Share<br>(Dollars) |               |
|---|--------------------------------|---------------|---|------------------------------------|---------------|
|   | Income<br>Before<br>Income Tax | Net Income    | Number of<br>Common Shares<br>(Thousand)<br>(Denominator) | Income<br>Before<br>Income Tax     | Net<br>Income |
| <b><u>Three months ended March 31, 2011</u></b>   |                                |               |   |                                    |               |
| Basic EPS:  |                                |               |   |                                    |               |
| Income attributable to stockholders   | \$ 14,078,894                  | \$ 11,834,866 | 7,886,737   | \$ 1.79                            | \$ 1.50       |
| Effect of dilutive potential common stock   |                                |               |   |                                    |               |
| SENAO's stock options   | (1,685)                        | (1,685)       |   |                                    |               |
| Employee bonus  |                                |               | 27,383  |                                    |               |
| Diluted EPS   |                                |               |   |                                    |               |
| Income attributable to stockholders (including effect of dilutive potential common stock) | \$ 14,077,209                  | \$ 11,833,181 | 7,914,120   | \$ 1.78                            | \$ 1.50       |
| <b><u>Three months ended March 31, 2010</u></b>   |                                |               |   |                                    |               |
| Basic EPS   |                                |               |   |                                    |               |
| Income attributable to stockholders   | \$ 14,955,893                  | \$ 12,060,401 | 9,696,808   | \$ 1.54                            | \$ 1.24       |
| Effect of dilutive potential common stock   |                                |               |   |                                    |               |
| SENAO's stock options   | (1,721)                        | (1,721)       |   |                                    |               |
| Employee bonus  |                                |               | 34,380  |                                    |               |
| Diluted EPS   |                                |               |   |                                    |               |
| Income attributable to stockholders (including effect of dilutive potential common stock) | \$ 14,954,172                  | \$ 12,058,680 | 9,731,188   | \$ 1.54                            | \$ 1.24       |

In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning from January 1, 2008. According to the Interpretation 97-169 issued by ARDF in May 2008, Chunghwa presumed that the employee bonuses to be paid will be settled in shares and takes those shares into consideration when calculating the weighted average number of outstanding shares used in the calculation of diluted EPS if the shares have a dilutive effect for the three months ended March 31, 2011 and 2010. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa's shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The diluted earnings per share for the three months ended March 31, 2011 and 2010 was due to the effect of potential common stock of stock options by SENAO.

**22. PENSION PLAN**

Chunghwa completed privatization plans on August 12, 2005. Chunghwa is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in

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accordance with the Statute Governing Privatization of Stated-owned Enterprises. After paying all pension obligations for privatization, the plan assets of Chunghwa should be transferred to the Fund for Privatization of Government-owned Enterprises (the Privatization Fund ) under the Executive Yuan. On August 7, 2006, Chunghwa transferred the remaining balance of fund to the Privatization Fund. However, according to the instructions of MOTC, Chunghwa is requested to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. on behalf of the MOTC upon the completion of the privatization.

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The pension plan under the Labor Pension Act of ROC (the LPA ) is considered as a defined contribution plan. Based on the LPA, Chunghwa makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Chunghwa's pension plan is considered as a defined benefit plan under the Labor Standards Law that provide benefits based on an employee's length of service and average six-month salary prior to retirement. Chunghwa contributes an amount at 15% or less of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the names of the Committees in the Bank of Taiwan.

The balance of Chunghwa's plan assets subject to defined benefit plan were \$13,555,483 thousand and \$11,489,612 thousand as of March 31, 2011 and 2010, respectively.

Pension costs of Chunghwa were \$735,911 thousand (\$700,897 thousand subject to defined benefit plan and \$35,014 thousand subject to defined contribution plan) and \$709,107 thousand (\$686,216 thousand subject to defined benefit plan and \$22,891 thousand subject to defined contribution plan) for the three months ended March 31, 2011 and 2010, respectively.

### 23. TRANSACTIONS WITH RELATED PARTIES

The ROC Government, one of Chunghwa's customers held significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, Internet and data and other services to the various departments and institutions of the ROC Government and other state-owned enterprises in the normal course of business and at arm's-length prices. The information on service revenues from government bodies and related organizations have not been provided because details of the type of transactions were not summarized by Chunghwa. Chunghwa believes that all costs of doing business are reflected in the financial statements.

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

| Company  | Relationship        |
|--|---------------------|
| Senao International Co., Ltd. ( SENAO )                          | Subsidiary          |
| Light Era Development Co., Ltd. ( LED )                          | Subsidiary          |
| Chunghwa Telecom Singapore Pte., Ltd. ( CHTS )                   | Subsidiary          |
| CHIEF Telecom, Inc. ( CHIEF )                                    | Subsidiary          |
| InfoExplorer Co., Ltd. ( IFE )                                   | Subsidiary          |
| Chunghwa Telecom Japan Co., Ltd. ( CHTJ )                        | Subsidiary          |
| Chunghwa International Yellow Pages Co., Ltd. ( CIYP )           | Subsidiary          |
| Chunghwa System Integration Co., Ltd. ( CHSI )                   | Subsidiary          |
| Spring House Entertainment Inc. ( SHE )                          | Subsidiary          |
| Chunghwa Telecom Global, Inc. ( CHTG )                           | Subsidiary          |
| Donghua Telecom Co., Ltd. ( DHT )                                | Subsidiary          |
| New Prospect Investments Holdings Ltd. (B.V.I.) ( New Prospect ) | Subsidiary          |
| Prime Asia Investments Group Ltd. (B.V.I.) ( Prime Asia )        | Subsidiary          |
| Chunghwa Investment Co., Ltd. ( CHI )                            | Subsidiary          |
| Chunghwa Investment Holding Co., Ltd. ( CIHC )                   | Subsidiary of CHI   |
| Chunghwa Precision Test Tech. Co., Ltd. ( CHPT )                 | Subsidiary of CHI   |
| Unigate Telecom Inc. ( Unigate )                                 | Subsidiary of CHIEF |

(Continued)

| Company  | Relationship   |
|--|--|
| CHIEF Telecom (Hong Kong) Limited ( CHK )                    | Subsidiary of CHIEF, which completed its liquidation procedure in September 2010 |
| Chief International Corp. ( CIC )                            | Subsidiary of CHIEF  |
| Concord Technology Co., Ltd. ( Concord )                     | Subsidiary of CHSI   |
| Glory Network System Service (Shanghai) Co., Ltd. ( Glory )  | Subsidiary of Concord  |
| Senao International (Samoa) Holding Ltd. (SIS)               | Subsidiary of SENAO  |
| Senao International HK Limited (SIHK)                        | Subsidiary of SIS  |
| CHI One Investment Co., Ltd. ( COI )                         | Subsidiary of CIHC   |
| Yao Yong Real Property Co., Ltd. ( YYRP )                    | Subsidiary of LED  |
| InfoExplorer International Co., Ltd. ( IESA )                | Subsidiary of IFE  |
| InfoExplorer (Hong Kong) Co., Ltd. ( IEHK )                  | Subsidiary of IESA   |
| Chunghwa Precision Test Tech. USA Corporation ( CHPT (US) )  | Subsidiary of CHPT   |
| Chunghwa Hsingta Company Ltd. ( CHC )                        | Subsidiary of Prime Asia   |
| Chunghwa Telecom (China) Co., Ltd. ( CTC )                   | Subsidiary of CHC  |
| Senao Trading (Fujian) Co., Ltd. ( STF )                     | Subsidiary of SENAO  |
| Senao International Trading (Shanghai) Co., Ltd. ( SITS )    | Subsidiary of SENAO  |
| Senao International Trading (Jiangsu) Co., Ltd. ( SITJ )     | Subsidiary of SENAO  |
| Taiwan International Standard Electronics Co., Ltd. ( TISE ) | Equity-method investee   |
| So-net Entertainment Taiwan Co., Ltd. ( So-net )             | Equity-method investee   |
| Skysoft Co., Ltd. ( SKYSOFT )                                | Equity-method investee   |
| Kingwaytek Technology Co., Ltd. ( KWT )                      | Equity-method investee   |
| Senao Networks, Inc. ( SNI )                                 | Equity-method investee of SENAO  |
| ST-2 Satellite Ventures Pte., Ltd. ( STS )                   | Equity-method investee of CHTS   |

(Concluded)

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

|  | March 31       |     |                |     |
|--|----------------|-----|----------------|-----|
|  | 2011<br>Amount | %   | 2010<br>Amount | %   |
| <b>1) Receivables</b>                                  |                |     |                |     |
| Trade notes, accounts receivable and other receivables |                |     |                |     |
| SENAO  | \$ 319,609     | 66  | \$ 307,263     | 74  |
| DHT  | 36,671         | 8   | 8,896          | 2   |
| CHIEF  | 29,711         | 6   | 23,265         | 6   |
| CHTG   | 25,206         | 5   | 12,199         | 3   |
| CIYP   | 20,849         | 4   | 20,863         | 5   |
| SHE  | 14,167         | 3   | 5,601          | 1   |
| CHSI   | 12,907         | 3   | 8,339          | 2   |
| So-net   | 8,735          | 2   | 25,321         | 6   |
| Others   | 13,458         | 3   | 5,142          | 1   |
|  | \$ 481,313     | 100 | \$ 416,889     | 100 |

|  | March 31       |     |                |     |
|--|----------------|-----|----------------|-----|
|  | 2011<br>Amount | %   | 2010<br>Amount | %   |
| <b>2) Payables</b>   |                |     |                |     |
| Trade notes payable, accounts payable and accrued expenses |                |     |                |     |
| SENAO  | \$ 836,679     | 52  | \$ 1,255,733   | 63  |
| CHSI   | 123,751        | 8   | 208,299        | 11  |
| TISE   | 109,775        | 7   | 85,553         | 5   |
| DHT  | 61,634         | 4   | 38,325         | 2   |
| CHTG   | 45,039         | 3   | 63,278         | 3   |
| CHIEF  | 43,349         | 3   | 40,681         | 2   |
| IFE  | 30,881         | 2   | 3,887          |     |
| CIYP   | 28,252         | 2   | 19,495         | 1   |
| Others   | 64,392         | 3   | 25,279         | 1   |
|  | 1,343,752      | 84  | 1,740,530      | 88  |
| Amounts collected in trust for others                      |                |     |                |     |
| SENAO  | 235,102        | 15  | 240,025        | 12  |
| SKYSOFT  | 13,753         | 1   |                |     |
| Others   | 5,584          |     | 4,749          |     |
|  | 254,439        | 16  | 244,774        | 12  |
|  | \$ 1,598,191   | 100 | \$ 1,985,304   | 100 |
| <b>3) Customers deposits</b>                               |                |     |                |     |
| CHSI   | \$ 21,566      | 1   | \$ 18,434      | 1   |
| CHTG   | 14,429         |     | 15,189         |     |
| Others   | 3,844          |     | 8,082          |     |
|  | \$ 39,839      | 1   | \$ 41,705      | 1   |
| <b>4) Revenues</b>   |                |     |                |     |
| SENAO  | \$ 305,409     | 1   | \$ 351,161     | 1   |
| LED  | 98,668         |     | 1,100          |     |
| CHIEF  | 76,770         |     | 60,571         |     |
| So-net   | 42,131         |     | 78,951         |     |
| DHT  | 25,753         |     | 21,416         |     |
| CHTG   | 24,216         |     | 12,208         |     |
| CHTS   | 10,657         |     | 3,312          |     |
| CHTJ   | 10,635         |     | 5,057          |     |
| CHSI   | 2,098          |     | 12,509         |     |
| Others   | 16,738         |     | 15,160         |     |
|  | \$ 613,075     | 1   | \$ 561,445     | 1   |

|  | Three Months Ended March 31 |   |              |   |
|--|-----------------------------|---|--------------|---|
|  | 2011                        |   | 2010         |   |
|  | Amount                      | % | Amount       | % |
| <b>5) Operating costs and expenses</b>                 |                             |   |              |   |
| SENAO  | \$ 1,650,294                | 5 | \$ 1,133,354 | 4 |
| TISE   | 94,940                      |   | 88,717       |   |
| CHIEF  | 74,540                      |   | 72,638       |   |
| CHSI   | 67,488                      |   | 155,325      | 1 |
| CHTG   | 44,907                      |   | 28,450       |   |
| IFE  | 38,364                      |   | 7,881        |   |
| DHT  | 15,522                      |   | 35,679       |   |
| SKYSOFT  | 13,240                      |   | 1,974        |   |
| CHTJ   | 11,110                      |   | 4,773        |   |
| SHE  | 7,167                       |   | 15,039       |   |
| CIYP   | 6,526                       |   | 7,201        |   |
| Others   | 18,914                      |   | 5,078        |   |
|  | \$ 2,043,012                | 5 | \$ 1,556,109 | 5 |
| <b>6) Acquisition of property, plant and equipment</b> |                             |   |              |   |
| CHSI   | \$ 133,468                  | 3 | \$ 71,116    | 2 |
| TISE   | 37,639                      | 1 | 10,986       |   |
| CHTG   | 6,069                       |   | 16,470       | 1 |
| Others   |                             |   | 7,380        |   |
|  | \$ 177,176                  | 4 | \$ 105,952   | 3 |

Chunghwa has entered into a contract with ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. This lease term is 15 years and the total contract value is approximately \$6,000,000 thousand (SG\$260,723 thousand). The Company has prepaid \$3,155,764 thousand which was classified as other assets - others. As of March 31, 2011, the ST-2 satellite is still under construction.

The Company has leased property to LED since April 2010. The leased term is 15 years and the rent is charged monthly. Based on the agreement of both parties, the lease contract was terminated on April 1, 2011.

Chunghwa sold the land with a carrying value of \$936,016 thousand to Light Era Development Co., Ltd. ( LED ) at the price of \$2,421,932 thousand in 2008. However, since the gain on disposal of land amounting to \$1,485,916 thousand is unrealized, the gain was recognized as deferred credit - profit on intercompany transactions. Gain on disposal of land \$13,264 thousand was recognized for the three months ended March 31, 2011.

Chunghwa sold the land with a carrying value of \$378,927 thousand to LED at price of \$207,030 thousand in 2008 and resulted in a disposal loss amounting to \$171,897 thousand. The disposal loss on land is unrealized and the unrealized loss is included in other assets - other. The unrealized loss is not recognized in earnings until it is sold to the third party and realized in the future.

The foregoing transactions with related parties were determined in accordance with mutual agreements.



**24. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

As of March 31, 2011 in addition to those disclosed in other notes, Chunghwa's remaining commitments under non-cancellable contracts with various parties were as follows:

- a. Acquisitions of land and buildings of \$116,343 thousand.
- b. Acquisitions of telecommunications equipment of \$19,496,992 thousand.
- c. Unused letters of credit of \$25,622 thousand.
- d. Contracts to print billing, envelopes and telephone directories of \$18,717 thousand.
- e. Chunghwa also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operation system software under contracts that expire in various years. Future leases payments were as follows:

| Year   | Rental Amount |
|--|---------------|
| 2011 (from April 1, 2011 to December 31, 2011) | \$ 1,425,358  |
| 2012   | 1,394,445     |
| 2013   | 990,287       |
| 2014   | 795,000       |
| 2015 and thereafter                            | 821,772       |

- f. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by Chunghwa on August 15, 1996 (classified as long-term investment - other monetary assets). If the fund is not sufficient, Chunghwa will contribute the remaining \$1,000,000 thousand upon notification from the Taipei City Government. Based on Chunghwa's understanding of the Piping Fund terms, if the project is considered to be no longer necessary by the ROC government, Chunghwa will receive back its proportionate share of the net equity of the Piping Fund upon its dissolution. Chunghwa does not know when its contribution to the Piping Fund will be returned; therefore, Chunghwa did not discount the face amount of its contribution on the Piping Fund.
- g. A portion of the land used by Chunghwa during the period July 1, 1996 to December 31, 2004 was co-owned by Chunghwa and Taiwan Post Co., Ltd. (the former Chunghwa Post Co., Ltd. directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to Chunghwa to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of Chunghwa's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. Chunghwa stated that both parties have the right to use co-management land without consideration. Chunghwa Post Co., Ltd. can't request payment for land compensation. Furthermore, Chunghwa believes that the computation used to derive the land usage compensation amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, Chunghwa filed an appeal at the Taiwan Taipei District Court. On March 30, 2009, the Taiwan Taipei District Court rendered its judgment that Chunghwa only need to pay \$16,870 thousand along with interest calculated at 5% per annum from July 23, 2005 and 4% of the court fees as the court judgment compensation. However, Chunghwa Post Co., Ltd. did not accept the judgment and filed an appeal at Taiwan High Court. Chunghwa also filed an appeal at the Taiwan High Court within the statutory period. On April 7, 2010, the Taiwan High Court rendered its judgment, ruling that we need to pay \$23,284 thousand as compensation in addition to the \$16,870 thousand from the Taiwan Taipei District Court judgment, along with interest calculated at 5% per annum from July 23, 2005 to the payment date and 12.5% of Chunghwa Post Co., Ltd.'s court fees from its original suit and subsequent appeal as compensation. Chunghwa has filed an appeal at the Supreme Court of the Republic of China within the statutory period. The case is under the review process of the Supreme Court of the Republic of China.



**25. FAIR VALUE OF FINANCIAL INSTRUMENTS**

a. Carrying amount and fair value of financial instruments were as follows:

|  | 2011          |               | March 31      |               | 2010     |            |
|--|---------------|---------------|---------------|---------------|----------|------------|
|  | Carrying      |               | Carrying      |               | Carrying |            |
|  | Amount        | Fair Value    | Amount        | Fair Value    | Amount   | Fair Value |
| <b>Assets</b>  |               |               |               |               |          |            |
| Cash and cash equivalents  | \$ 69,829,156 | \$ 69,829,156 | \$ 75,244,129 | \$ 75,244,129 |          |            |
| Financial assets at fair value through profit or loss                          | 645           | 645           | 6,841         | 6,841         |          |            |
| Available-for-sale financial assets  | 1,023,820     | 1,023,820     | 7,902,927     | 7,902,927     |          |            |
| Held-to-maturity financial assets - current                                    | 2,062,915     | 2,062,915     | 1,600,885     | 1,600,885     |          |            |
| Trade notes and accounts receivable, net                                       | 17,945,843    | 17,945,843    | 9,983,020     | 9,983,020     |          |            |
| Receivables from related parties   | 481,313       | 481,313       | 416,889       | 416,889       |          |            |
| Other current monetary assets  | 2,552,532     | 2,552,532     | 2,751,736     | 2,751,736     |          |            |
| Financial assets carried at cost   | 2,315,474     |               | 2,226,048     |               |          |            |
| Held-to-maturity financial assets - noncurrent                                 | 9,973,059     | 9,973,059     | 6,123,566     | 6,123,566     |          |            |
| Other noncurrent monetary assets   | 1,000,000     | 1,000,000     | 1,000,000     | 1,000,000     |          |            |
| Refundable deposits  | 1,300,964     | 1,300,964     | 1,567,448     | 1,567,448     |          |            |
| <b>Liabilities</b>   |               |               |               |               |          |            |
| Financial liabilities at fair value through profit or loss                     | 6,348         | 6,348         |               |               |          |            |
| Trade notes and accounts payable   | 6,904,997     | 6,904,997     | 5,120,399     | 5,120,399     |          |            |
| Payables to related parties  | 1,598,191     | 1,598,191     | 1,985,304     | 1,985,304     |          |            |
| Accrued expenses   | 14,904,629    | 14,904,629    | 13,693,200    | 13,693,200    |          |            |
| Amounts collected in trust for others (included in other current liabilities ) | 1,413,985     | 1,413,985     | 1,916,964     | 1,916,964     |          |            |
| Payables to equipment suppliers (included in other current liabilities )       | 1,304,355     | 1,304,355     | 1,434,555     | 1,434,555     |          |            |
| Refundable customers deposits (included in other current liabilities )         | 1,102,520     | 1,102,520     | 1,056,287     | 1,056,287     |          |            |
| Payables to contractors (included in other current liabilities )               | 697,783       | 697,783       | 1,312,771     | 1,312,771     |          |            |
| Customers deposits   | 5,788,928     | 5,788,928     | 5,841,887     | 5,841,887     |          |            |

b. Methods and assumptions used in the estimation of fair values of financial instruments:

- 1) The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. Because of the short maturities of these instruments, the carrying value represents a reasonable basis to estimate fair values. This method does not apply to the financial instruments discussed in Notes 2 and 3 below.
- 2) If the financial instruments have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market prices of the available-for-sale financial assets are not readily available, valuation techniques are used incorporating estimates and assumptions that are consistent with prevailing market conditions.
- 3) Financial assets carried at cost are investments in nonlisted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

c. Fair values of financial assets and liabilities using quoted market prices or valuation techniques were as follows:

|  | Amount Based on Quoted |           | Amount Determined    |          |
|--|------------------------|-----------|----------------------|----------|
|  | Market Price           |           | Using                |          |
|  | March 31               |           | Valuation Techniques |          |
|  | 2011                   | 2010      | 2011                 | 2010     |
| <b>Assets</b>  |                        |           |                      |          |
| Financial assets at fair value through profit or loss      | \$                     | \$        | \$ 645               | \$ 6,841 |
| Available-for-sale financial assets                        | 1,023,820              | 7,902,927 |                      |          |
| <b>Liabilities</b>   |                        |           |                      |          |
| Financial liabilities at fair value through profit or loss |                        |           | 6,348                |          |

d. Information about financial risks

1) Market risk

The foreign exchange rate fluctuations would result in Chunghwa's foreign-currency-dominated assets and liabilities, outstanding currency swap contracts exposed to rate risk.

The financial instruments categorized as available-for-sale financial assets are mainly listed stocks and open-end mutual funds. Therefore, the market risk is the fluctuations of market price. In order to manage this risk, Chunghwa would assess the risk before investing, therefore, no material market risk are anticipated.

2) Credit risk

Credit risk represents the potential loss that would be incurred by Chunghwa if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties of the aforementioned financial instruments are reputable financial institutions and corporations. Management does not expect Chunghwa's exposure to default by those parties to be material.

3) Liquidation risk

Chunghwa has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidation risk is low.

The financial instruments of the Company categorized as available-for-sale financial assets are publicly-traded, easily converted to cash. Therefore, no material liquidation risk are anticipated. The financial instruments categorized as financial assets carried at cost are investments that do not have a quoted market price in an active market. Therefore, material liquidation risk is anticipated.

4) Cash flow interest rate risk

Chunghwa engages in investments in fixed-interest-rate debt securities. Therefore, cash flows from such securities are not expected to fluctuate significantly due to changes in market interest rates.

According to the regulations of Securities and Futures Bureau, Chunghwa should disclose the derivative transactions of Chunghwa's investees, SENAO and CHI, which was as follows:

1) Holding period and contract amounts

SENAO and CHI entered into forward exchange contracts and index future contracts to reduce the exposure to foreign currency risk and price risk.

The outstanding forward exchange contracts of SENAO as of March 31, 2011 and 2010 were as follows:

|                                 | Currency | Maturity Period | Contract Amount<br>(In Thousands) |
|---------------------------------|----------|-----------------|-----------------------------------|
| <u>March 31, 2011</u>           |          |                 |                                   |
| Forward exchange contract - buy | NTD/USD  | 2011.4          | NT\$ 347,760/US\$11,800           |
| <u>March 31, 2010</u>           |          |                 |                                   |
| Forward exchange contract - buy | NTD/USD  | 2010.4          | NT\$ 252,927/US\$7,958            |

Outstanding index future contracts of CHI as of March 31, 2011 and 2010 were as follows:

|                       | Maturity Period | Units | Contract Amount<br>(In Thousands) |
|-----------------------|-----------------|-------|-----------------------------------|
| <u>March 31, 2011</u> |                 |       |                                   |
| TAIEX futures         | 2011.04         | 14    | NT\$ 23,788                       |
| TAIEX futures         | 2011.06         | 12    | NT\$ 21,171                       |
| TE futures            | 2011.04         | 4     | NT\$ 5,034                        |
| TE futures            | 2011.05         | 21    | NT\$ 26,504                       |
| <u>March 31, 2010</u> |                 |       |                                   |
| TAIEX futures         | 2010.04         | 4     | NT\$ 6,212                        |
| TAIEX futures         | 2010.05         | 5     | NT\$ 7,884                        |

Net gain of SANE0 arising from derivative financial products for the three months ended March 31, 2011 and 2010 were \$760 thousand and \$51 thousand, respectively.

Net loss of CHI arising from derivative financial products for the three months ended March 31, 2011 and 2010 were \$447 thousand and \$16 thousand, respectively.

2) Market risk

The foreign exchange rate fluctuations would result in SENAO's foreign-currency-dominated assets and liabilities and open forward exchange contracts exposed to rate risk.

The fluctuations of market price would result in CHI's index future contracts exposed to price risk.



3) Credit risk

Credit risk represents the potential loss that would be incurred by SENAO and CHI if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the aforementioned financial instruments are reputable financial institutions. Management does not expect SENAO's and CHI's exposure to default by those parties to be material. The largest amount of exposure to default by those parties of the financial instruments of SENAO and CHI is the same as carrying value.

4) Liquidation risk

SENAO and CHI have sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidation risk is low.

**26. ADDITIONAL DISCLOSURES**

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

- a. Financing provided: None.
- b. Endorsements/guarantees provided: Please see Table 1.
- c. Marketable securities held: Please see Table 2.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 3.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: None.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- g. Total purchases from or sales to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 5.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 6.
- i. Names, locations, and other information of investees on which Chunghwa exercises significant influence: Please see Table 7.
- j. Financial transactions: Please see Notes 5 and 25.
- k. Investment in Mainland China: Please see Table 8.

**27. SEGMENT FINANCIAL INFORMATION**

Segment information: Please see Table 9.



**28. OTHERS**

The significant information of foreign-currency financial assets and liabilities as below:

|   | March 31              |               |                       |                       |               |                       |
|---|-----------------------|---------------|-----------------------|-----------------------|---------------|-----------------------|
|   | 2011                  |               | 2010                  |                       |               |                       |
|   | Foreign<br>Currencies | Exchange Rate | New Taiwan<br>Dollars | Foreign<br>Currencies | Exchange Rate | New Taiwan<br>Dollars |
| <b><u>Financial assets</u></b>                |                       |               |                       |                       |               |                       |
| Monetary items                                |                       |               |                       |                       |               |                       |
| Cash  |                       |               |                       |                       |               |                       |
| USD   | \$ 4,480              | 29.40         | \$ 131,723            | \$ 32,595             | 31.82         | \$ 1,037,126          |
| EUR   | 186                   | 41.71         | 7,754                 | 10,673                | 42.72         | 455,972               |
| SGD   | 9,084                 | 23.34         | 212,018               |                       |               |                       |
| Available-for-sale financial assets           |                       |               |                       |                       |               |                       |
| USD   | 34,824                | 29.40         | 1,023,820             | 57,441                | 31.82         | 1,827,726             |
| EUR   |                       |               |                       | 40,050                | 42.72         | 1,710,923             |
| Accounts receivable                           |                       |               |                       |                       |               |                       |
| USD   | 138,432               | 29.40         | 4,069,898             | 111,917               | 31.82         | 3,561,101             |
| EUR   | 162                   | 41.71         | 6,745                 | 67                    | 42.72         | 2,883                 |
| Investments accounted for using equity method |                       |               |                       |                       |               |                       |
| USD   | 8,296                 | 29.40         | 243,912               | 2,186                 | 31.82         | 69,562                |
| HKD   | 133,704               | 3.78          | 505,001               | 57,300                | 4.10          | 234,932               |
| SGD   | 26,415                | 23.34         | 616,537               | 62,190                | 22.72         | 1,412,966             |
| JPY   | 44,490                | 0.36          | 15,794                | 31,023                | 0.34          | 10,579                |
| VND   | 175,177,701           | 0.00136       | 238,242               | 162,532,298           | 0.00161       | 261,677               |
| <b><u>Financial liabilities</u></b>           |                       |               |                       |                       |               |                       |
| Monetary items                                |                       |               |                       |                       |               |                       |
| Payables                                      |                       |               |                       |                       |               |                       |
| USD   | 103,379               | 29.40         | 3,039,349             | 99,920                | 31.82         | 3,179,361             |
| EUR   | 23,545                | 41.71         | 982,081               | 25,251                | 42.72         | 1,078,741             |
| JPY   | 1,077                 | 0.36          | 382                   | 1,408                 | 0.34          | 480                   |
| SGD   | 125                   | 23.34         | 2,913                 | 24                    | 22.72         | 548                   |
| HKD   | 1,352                 | 3.78          | 5,108                 | 93                    | 4.10          | 382                   |

**TABLE 1****CHUNGHWA TELECOM CO., LTD.****ENDORSEMENTS/GUARANTEES PROVIDED****THREE MONTHS ENDED MARCH 31, 2011****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

| No. | Endorsement/Guarantee Provider   | Name                            | Guaranteed Party                |                           |   | Ending Balance | Amount of Endorsement/Guarantee Collateralized by Properties | Ratio of Accumulated Endorsement/Guarantee to Net Equity per Latest Financial Statements |   | Maximum Endorsement/Guarantee Allowable (Note 3) |
|-----|----------------------------------|---------------------------------|---------------------------------|---------------------------|---|----------------|--|--|---|--|
|     |                                  |                                 | Nature of Relationship (Note 2) | Guaranteed Party (Note 3) | Limits on Endorsement/Guarantee Amount Provided to Each |                |  | Maximum Balance for the Year   | to Net Equity per Latest Financial Statements |  |
| 25  | Yao Yong Real Property Co., Ltd. | Light Era Development Co., Ltd. | d                               | \$ 3,808,224              | \$ 2,750,000  | \$ 2,750,000   | \$ 2,750,000   | 0.7%   | \$ 3,808,224                                  |  |

Note 1: Significant transactions between the Company and its subsidiaries or among subsidiaries are numbered as follows:

- a. 0 for the Company.
- b. Subsidiaries are numbered from 1 .

Note 2: Relationships between the endorsement/guarantee provider and the guaranteed party:

- a. Trading partner.
- b. Majority owned subsidiary.
- c. The Company and subsidiary owns over 50% ownership of the investee company.
- d. A subsidiary jointly owned by the Company and the Company's directly-owned subsidiary.

e. Guaranteed by the Company according to the construction contract.

f. An investee company. The guarantees were provided based on the Company's proportionate share in the investee company.

Note 3: The maximum amount of endorsement or guarantee amounts is up to 200% of the asset value of the latest financial statements of Yao Yong Real Property Co., Ltd.

**TABLE 2****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****MARCH 31, 2011****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

| No. | Held Company Name          | Marketable Securities Type and Name                 | Relationship with the Company | Financial Statement Account                   | March 31, 2011                    |                         |                         |                                 |        |
|-----|----------------------------|---|-------------------------------|---|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|     |                            |   |                               |   | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value | Note   |
| 0   | Chunghwa Telecom Co., Ltd. | <u>Stocks</u>                                       |                               |   |                                   |                         |                         |                                 |        |
|     |                            | Senao International Co., Ltd.                       | Subsidiary                    | Investments accounted for using equity method | 71,773                            | \$ 1,532,126            | 28                      | \$ 5,533,710                    | Note 4 |
|     |                            | Light Era Development Co., Ltd.                     | Subsidiary                    | Investments accounted for using equity method | 300,000                           | 2,912,155               | 100                     | 2,912,400                       | Note 1 |
|     |                            | Chunghwa Investment Co., Ltd.                       | Subsidiary                    | Investments accounted for using equity method | 178,000                           | 1,932,617               | 89                      | 1,989,427                       | Note 1 |
|     |                            | Chunghwa System Integration Co., Ltd.               | Subsidiary                    | Investments accounted for using equity method | 60,000                            | 710,260                 | 100                     | 648,896                         | Note 1 |
|     |                            | Chunghwa Telecom Singapore Pte., Ltd.               | Subsidiary                    | Investments accounted for using equity method | 61,869                            | 616,537                 | 100                     | 616,537                         | Note 1 |
|     |                            | Taiwan International Standard Electronics Co., Ltd. | Equity-method investee        | Investments accounted for using equity method | 1,760                             | 598,205                 | 40                      | 785,490                         | Note 1 |
|     |                            | CHIEF Telecom Inc.                                  | Subsidiary                    | Investments accounted for using equity method | 37,942                            | 552,825                 | 69                      | 498,606                         | Note 1 |
|     |                            | Donghwa Telecom Co., Ltd.                           | Subsidiary                    | Investments accounted for using equity method | 129,590                           | 505,001                 | 100                     | 505,001                         | Note 1 |
|     |                            | InfoExplorer Co., Ltd.                              | Subsidiary                    | Investments accounted for using equity method | 22,498                            | 248,256                 | 49                      | 215,948                         | Note 1 |
|     |                            | Viettel-CHT Co., Ltd.                               | Equity-method investee        | Investments accounted for using equity method |                                   | 238,242                 | 30                      | 238,242                         | Note 1 |
|     |                            | Chunghwa International Yellow Pages Co., Ltd.       | Subsidiary                    | Investments accounted for using equity method | 15,000                            | 197,959                 | 100                     | 197,959                         | Note 1 |
|     |                            | Prime Asia Investments Group Ltd. (B.V.I.)          | Subsidiary                    | Investments accounted for using equity method | 1                                 | 176,400                 | 100                     | 176,400                         | Note 1 |
|     |                            | Skysoft Co., Ltd.                                   | Equity-method investee        | Investments accounted for using equity method | 4,438                             | 98,101                  | 30                      | 58,734                          | Note 1 |
|     |                            | Spring House Entertainment Inc.                     | Subsidiary                    | Investments accounted for using equity method | 5,996                             | 87,536                  | 56                      | 71,801                          | Note 1 |
|     |                            | Chunghwa Telecom Global, Inc.                       | Subsidiary                    | Investments accounted for using equity method | 6,000                             | 67,512                  | 100                     | 84,490                          | Note 1 |
|     |                            | KingWaytek Technology Co., Ltd.                     | Equity-method investee        | Investments accounted for using equity method | 1,703                             | 63,901                  | 33                      | 19,851                          | Note 1 |
|     |                            | So-net Entertainment Taiwan Co., Ltd.               | Equity-method investee        | Investments accounted for using equity method | 3,429                             | 28,620                  | 30                      | 11,210                          | Note 1 |
|     |                            | Chunghwa Telecom Japan Co., Ltd.                    | Subsidiary                    | Investments accounted for using equity method | 1                                 | 15,794                  | 100                     | 15,794                          | Note 1 |
|     |                            | New Prospect Investments Holdings                   | Subsidiary                    | Investments accounted for using equity method |                                   |                         | 100                     |                                 | Note 2 |

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| Ltd. (B.V.I.)   |                                     | (US\$ 1 dollar) |           | (US\$ 1 dollar) |           |        |
|---|-------------------------------------|-----------------|-----------|-----------------|-----------|--------|
| Taipei Financial Center Corp.                                   | Financial assets carried at cost    | 172,927         | 1,789,530 | 12              | 1,400,221 | Note 1 |
| Industrial Bank of Taiwan II Venture Capital Co., Ltd. (IBT II) | Financial assets carried at cost    | 20,000          | 200,000   | 17              | 224,009   | Note 1 |
| Global Mobile Corp.   | Financial assets carried at cost    | 12,696          | 127,018   | 8               | 89,355    | Note 1 |
| iD Branding Ventures  | Financial assets carried at cost    | 7,500           | 75,000    | 8               | 76,772    | Note 1 |
| Innovation Works Development Fund, L.P.                         | Financial assets carried at cost    |                 | 38,035    | 7               | 50,866    | Note 1 |
| RPTI Intergroup International Ltd.                              | Financial assets carried at cost    | 4,765           | 34,500    | 10              | 32,705    | Note 1 |
| Innovation Works Limited  | Financial assets carried at cost    | 1,000           | 31,391    | 7               | 23,724    | Note 1 |
| CQi Energy Infocom Inc.   | Financial assets carried at cost    | 2,000           | 20,000    | 18              | (549)     | Note 1 |
| Essence Technology Solution, Inc.                               | Financial assets carried at cost    | 200             |           | 7               | 1,050     | Note 1 |
| <u>Beneficiary certificates (mutual fund)</u>                   |                                     |                 |           |                 |           |        |
| HSBC Gbl Emerging Markets Bd A Inc.                             | Available-for-sale financial assets | 288             | 163,912   |                 | 159,604   | Note 3 |
| Templeton Global Bond A Acc \$                                  | Available-for-sale financial assets | 418             | 307,114   |                 | 314,825   | Note 3 |

(Continued)

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| Held Company No. | Marketable Securities Type and Name  | Relationship with the Company | Financial                           | March 31, 2011                    |                         |                         | Market Value or Net Asset Value | Note   |
|------------------|--|-------------------------------|-------------------------------------|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|                  |  |                               | Statement Account                   | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership |                                 |        |
|                  | PIMCO Global Investment Grade Credit - Ins H Acc   |                               | Available-for-sale financial assets | 751                               | \$ 307,246              |                         | \$ 309,380                      | Note 3 |
|                  | PIMCO GIS Total Return Bond Fund - H Institutional Class (Acc)                               |                               | Available-for-sale financial assets | 349                               | 242,784                 |                         | 240,011                         | Note 3 |
|                  | <u>Bonds</u>   |                               |                                     |                                   |                         |                         |                                 |        |
|                  | NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2009                       |                               | Held-to-maturity financial assets   |                                   | 502,900                 |                         | 502,900                         | Note 6 |
|                  | Taiwan Power Company 4 <sup>th</sup> Secured Corporate Bond-B Issue in 2009                  |                               | Held-to-maturity financial assets   |                                   | 348,818                 |                         | 348,818                         | Note 6 |
|                  | NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2009                       |                               | Held-to-maturity financial assets   |                                   | 251,061                 |                         | 251,061                         | Note 6 |
|                  | FCFC 1st Unsecured Corporate Bonds Issue in 2009   |                               | Held-to-maturity financial assets   |                                   | 251,970                 |                         | 251,970                         | Note 6 |
|                  | Taiwan Power Co. 1 <sup>st</sup> Secured Corporate Bond-A Issue in 2009                      |                               | Held-to-maturity financial assets   |                                   | 241,973                 |                         | 241,973                         | Note 6 |
|                  | Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured corporate Bonds - A Issue in 2008    |                               | Held-to-maturity financial assets   |                                   | 102,683                 |                         | 102,683                         | Note 6 |
|                  | China Steel Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008              |                               | Held-to-maturity financial assets   |                                   | 102,386                 |                         | 102,386                         | Note 6 |
|                  | Formosa Petrochemical Corporation 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008    |                               | Held-to-maturity financial assets   |                                   | 255,690                 |                         | 255,690                         | Note 6 |
|                  | Formosa Petrochemical Corporation 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008    |                               | Held-to-maturity financial assets   |                                   | 511,335                 |                         | 511,335                         | Note 6 |
|                  | Taiwan Power Co. 4 <sup>th</sup> secured Bond-B Issue in 2008                                |                               | Held-to-maturity financial assets   |                                   | 206,875                 |                         | 206,875                         | Note 6 |
|                  | HSBC Bank (Taiwan) Limited 1 <sup>st</sup> Financial Debenture-D Issue in 2011               |                               | Held-to-maturity financial assets   |                                   | 300,000                 |                         | 300,000                         | Note 6 |
|                  | TaipeiFubon Bank 5 <sup>th</sup> Financial Debentures-A Issue in 2010                        |                               | Held-to-maturity financial assets   |                                   | 606,997                 |                         | 606,997                         | Note 6 |
|                  | Taiwan Power Co. 4 <sup>th</sup> Secured Corporate Bond-A issue in 2010                      |                               | Held-to-maturity financial assets   |                                   | 600,553                 |                         | 600,553                         | Note 6 |
|                  | Hon Hai Precision Industry Co., Ltd. First Debenture issuing of 2009                         |                               | Held-to-maturity financial assets   |                                   | 278,239                 |                         | 278,239                         | Note 6 |
|                  | Mega Securities Co., Ltd. 1 <sup>st</sup> Unsecured Corporate Bond Issue in 2009             |                               | Held-to-maturity financial assets   |                                   | 300,000                 |                         | 300,000                         | Note 6 |
|                  | Yuanta Securities Finance Co. Ltd. 1 <sup>st</sup> Unsecured Corporate Bonds-B Issue in 2007 |                               | Held-to-maturity financial assets   |                                   | 402,169                 |                         | 402,169                         | Note 6 |
|                  | Taiwan Power Co. 5 <sup>th</sup> Secured Bond-A Issue in 2008                                |                               | Held-to-maturity financial assets   |                                   | 302,109                 |                         | 302,109                         | Note 6 |
|                  | Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured corporate Bonds-B Issue in 2006      |                               | Held-to-maturity financial assets   |                                   | 716,049                 |                         | 716,049                         | Note 6 |
|                  |  |                               |                                     |                                   | 200,785                 |                         | 200,785                         | Note 6 |

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|   |                                   |         |         |        |
|---|-----------------------------------|---------|---------|--------|
| Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured corporate Bonds - A Issue in 2009 | Held-to-maturity financial assets |         |         |        |
| FCFC 2nd Unsecured Corporate Bonds Issue in 2010  | Held-to-maturity financial assets | 201,255 | 201,255 | Note 6 |
| Formosa Petrochemical Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2010 | Held-to-maturity financial assets | 303,195 | 303,195 | Note 6 |

(Continued)

| Held Company No. | Marketable Securities Type and Name   | Relationship with the Company | Financial                         | March 31, 2011                              |                |                         |                                 |        |
|------------------|---|-------------------------------|-----------------------------------|---|----------------|-------------------------|---------------------------------|--------|
|                  |   |                               | Statement Account                 | Shares Carrying (Thousands/ Thousand Units) | Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value | Note   |
|                  | Taiwan Power Co. 3 <sup>rd</sup> Secured Corporate Bond-A Issue in 2010                                   |                               | Held-to-maturity financial assets |   | \$ 201,774     |                         | \$ 201,774                      | Note 6 |
|                  | NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2010                                    |                               | Held-to-maturity financial assets |   | 50,587         |                         | 50,587                          | Note 6 |
|                  | Formosa Petrochemical Corporation 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2010                 |                               | Held-to-maturity financial assets |   | 299,555        |                         | 299,555                         | Note 6 |
|                  | Formosa Petrochemical Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008                 |                               | Held-to-maturity financial assets |   | 99,925         |                         | 99,925                          | Note 6 |
|                  | Taiwan Power Co. 5 <sup>th</sup> Secured Corporate Bond-A Issue in 2008                                   |                               | Held-to-maturity financial assets |   | 149,968        |                         | 149,968                         | Note 6 |
|                  | Yuanta FHC 1 <sup>st</sup> Unsecured Corporate Bonds-A Issue in 2009                                      |                               | Held-to-maturity financial assets |   | 100,000        |                         | 100,000                         | Note 6 |
|                  | Taiwan Power Co. 6 <sup>th</sup> Secured Corporate Bond-A Issue in 2008                                   |                               | Held-to-maturity financial assets |   | 270,763        |                         | 270,763                         | Note 6 |
|                  | Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2006                 |                               | Held-to-maturity financial assets |   | 150,149        |                         | 150,149                         | Note 6 |
|                  | NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008                                    |                               | Held-to-maturity financial assets |   | 404,805        |                         | 404,805                         | Note 6 |
|                  | Taiwan Power Co. 3 <sup>rd</sup> Unsecured Corporate Bond-A Issue in 2006                                 |                               | Held-to-maturity financial assets |   | 200,338        |                         | 200,338                         | Note 6 |
|                  | Taiwan Power Co. 1 <sup>st</sup> Unsecured Bond-B Issue in 2001   |                               | Held-to-maturity financial assets |   | 87,924         |                         | 87,924                          | Note 6 |
|                  | Formosa Petrochemical Corporation 5 <sup>th</sup> Unsecured Corporate Bonds Issue in 2006                 |                               | Held-to-maturity financial assets |   | 200,435        |                         | 200,435                         | Note 6 |
|                  | NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008                                    |                               | Held-to-maturity financial assets |   | 202,960        |                         | 202,960                         | Note 6 |
|                  | China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2006   |                               | Held-to-maturity financial assets |   | 401,684        |                         | 401,684                         | Note 6 |
|                  | China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds-A Issue in 2008 |                               | Held-to-maturity financial assets |   | 102,365        |                         | 102,365                         | Note 6 |
|                  | Taiwan Power Co. 4 <sup>th</sup> Secured Corporate Bond-B Issue in 2008                                   |                               | Held-to-maturity financial assets |   | 51,163         |                         | 51,163                          | Note 6 |
|                  | Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2008                 |                               | Held-to-maturity financial assets |   | 709,321        |                         | 709,321                         | Note 6 |
|                  | NAN YA Company 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2008                                    |                               | Held-to-maturity financial assets |   | 608,785        |                         | 608,785                         | Note 6 |
|                  | MLPC 1 <sup>st</sup> Unsecured Corporate Bond Issue in 2008   |                               | Held-to-maturity financial assets |   | 199,802        |                         | 199,802                         | Note 6 |
|                  | China Steel Corporation 2 <sup>nd</sup> Unsecured Corporate Bond-A Issue in 2008                          |                               | Held-to-maturity financial assets |   | 202,269        |                         | 202,269                         | Note 6 |
|                  | China Development Industrial Bank 2 <sup>nd</sup> Financial Debentures Issue in 2006                      |                               | Held-to-maturity financial assets |   | 199,545        |                         | 199,545                         | Note 6 |
|                  | Taiwan Power Co. 3 <sup>rd</sup> Secured Bond-B Issue in 2008   |                               |                                   |   | 154,815        |                         | 154,815                         | Note 6 |

(Continued)





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| Financial      |                                       |  |                               |   |                                    |                         |                         |                                 |        |
|----------------|---------------------------------------|--|-------------------------------|---|------------------------------------|-------------------------|-------------------------|---------------------------------|--------|
| March 31, 2011 |                                       |  |                               |   |                                    |                         |                         |                                 |        |
| No.            | Held Company Name                     | Marketable Securities Type and Name                                | Relationship with the Company | Statement Account                             | Shares (Thousands/ Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership | Market Value or Net Asset Value | Note   |
| 1              | Senao International Co., Ltd.         | <u>Stocks</u><br>Senao Networks, Inc.                              | Equity-method investee        | Investments accounted for using equity method | 16,824                             | \$ 318,933              | 41                      | \$ 318,933                      | Note 1 |
|                |                                       |  |                               |   |                                    | 147,886                 |                         | 148,711                         |        |
|                |                                       | Senao International (Samoa) Holding Ltd.                           | Subsidiary                    | Investments accounted for using equity method | 5,875                              | (US\$ 5,027)            | 100                     | (US\$ 5,055)                    | Note 8 |
|                |                                       | N.T.U. Innovation Incubation Corporation                           |                               | Financial assets carried at cost              | 1,200                              | 12,000                  | 9                       | 12,632                          | Note 1 |
|                |                                       | <u>Beneficiary certificates (mutual fund)</u>                      |                               |   |                                    |                         |                         |                                 |        |
|                |                                       | Fuh Hwa Global Short-term Income Fund                              |                               | Available-for-sale financial assets           | 4,850                              | 50,000                  |                         | 52,063                          | Note 3 |
|                |                                       | Fuh Hwa Strategic High Income Fund                                 |                               | Available-for-sale financial assets           | 9,149                              | 100,000                 |                         | 105,121                         | Note 3 |
|                |                                       | Taishin Lucky Money Market   |                               | Available-for-sale financial assets           | 4,687                              | 50,000                  |                         | 50,056                          | Note 3 |
|                |                                       | IBT Bond Fund  |                               | Available-for-sale financial assets           | 3,676                              | 50,000                  |                         | 50,061                          | Note 3 |
| 2              | CHIEF Telecom Inc.                    | <u>Stocks</u><br>Unigate Telecom Inc.                              | Subsidiary                    | Investments accounted for using equity method | 200                                | 1,906                   | 100                     | 1906                            | Note 1 |
|                |                                       |  |                               |   |                                    | 8,407                   |                         | 8407                            |        |
|                |                                       | Chief International Corp.  | Subsidiary                    | Investments accounted for using equity method | 200                                | (US\$ 286)              | 100                     | (US\$ 286)                      | Note 1 |
|                |                                       | eASPNet Inc.   |                               | Financial assets carried at cost              | 1,000                              |                         | 2                       |                                 | Note 1 |
|                |                                       | 3 Link Information Service Co., Ltd.                               |                               | Financial assets carried at cost              | 374                                | 3,450                   | 10                      | 6,885                           | Note 1 |
| 3              | Chunghwa System Integration Co., Ltd. | <u>Stocks</u><br>Concord Technology Co., Ltd.                      | Subsidiary                    | Investments accounted for using equity method | 1,010                              | (US\$ 310)              | 100                     | (US\$ 310)                      | Note 1 |
|                |                                       |  |                               |   |                                    | 9,124                   |                         | 9,124                           |        |
| 8              | Light Era Development Co., Ltd.       | <u>Stocks</u><br>Yao Yong Real Property Co., Ltd.                  | Subsidiary                    | Investments accounted for using equity method | 83,290                             | 2,833,817               | 100                     | 2,833,817                       | Note 1 |
| 9              | Chunghwa Telecom Singapore Pte., Ltd. | <u>Stocks</u><br>ST-2 Satellite Ventures Pte., Ltd.                | Equity-method investee        | Investments accounted for using equity method | 18,102                             | (SG\$ 17,521)           | 38                      | (SG\$ 17,521)                   | Note 1 |
|                |                                       |  |                               |   |                                    | 408,944                 |                         | 408,944                         |        |
| 11             | InfoExplorer Co., Ltd.                | <u>Stocks</u><br>InfoExplorer International Co., Ltd.              | Subsidiary                    | Investments accounted for using equity method | 795                                | (US\$ 1,116)            | 100                     | (US\$ 1,116)                    | Note 1 |
|                |                                       |  |                               |   |                                    | 32,587                  |                         | 32,587                          |        |
| 18             | Concord Technology Co., Ltd.          | <u>Stocks</u><br>Glory Network System Service (Shanghai) Co., Ltd. | Subsidiary                    | Investments accounted for using equity method | 1,010                              | (US\$ 310)              | 100                     | (US\$ 310)                      | Note 1 |
|                |                                       |  |                               |   |                                    | 9,122                   |                         | 9,122                           |        |
| 14             | Chunghwa Investment Co., Ltd.         | <u>Stocks</u><br>Chunghwa Precision Test Tech. Co., Ltd.           | Subsidiary                    | Investments accounted for using equity method | 10,317                             | 125,465                 | 54                      | 125,465                         | Note 1 |

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|                                       |                        |   |       |        |     |        |        |
|---------------------------------------|------------------------|---|-------|--------|-----|--------|--------|
| Chunghwa Investment Holding Co., Ltd. | Subsidiary             | Investments accounted for using equity method | 1,043 | 16,226 | 100 | 16,226 | Note 1 |
| Tatung Technology Inc.                | Equity-method investee | Investments accounted for using equity method | 5,000 | 6,479  | 28  | 6,479  | Note 1 |
| Panda Monium Company Ltd.             | Equity-method investee | Investments accounted for using equity method | 602   |        | 43  |        | Note 1 |
| CHIEF Telecom Inc.                    | Equity-method investee | Investments accounted for using equity method | 2,000 | 25,936 | 4   | 25,936 | Note 1 |
| Senao International Co., Ltd.         | Equity-method investee | Investments accounted for using equity method | 1,001 | 50,377 |     | 50,377 | Note 4 |
| Digimax Inc.                          |                        | Financial assets carried at cost              | 2,000 | 15,080 | 4   | 15,102 | Note 1 |
| Crystal Media Inc.                    |                        | Financial assets carried at cost              | 1,000 | 5,630  | 5   | 5,719  | Note 1 |
| iD Branding Ventures                  |                        | Financial assets carried at cost              | 2,500 | 25,000 | 3   | 25,382 | Note 1 |

(Continued)

| Held Company No. | Marketable Securities Type and Name          | Relationship with the Company | Financial                           | March 31, 2011                    |                         |                         | Market Value or Net Asset Value | Note   |
|------------------|--|-------------------------------|-------------------------------------|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|                  |  |                               | Statement Account                   | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership |                                 |        |
|                  | ChipSip Technology Co., Ltd.                 |                               | Financial assets carried at cost    | 681                               | \$ 6,133                | 2                       | \$ 8,904                        | Note 7 |
|                  | UniDisplay Inc.                              |                               | Financial assets carried at cost    | 4,630                             | 55,450                  | 4                       | 36,361                          | Note 1 |
|                  | A2peak Power Co. Ltd.                        |                               | Financial assets carried at cost    | 1,100                             | 9,858                   | 3                       | 10,319                          | Note 1 |
|                  | Taimide Technology Ltd.                      |                               | Financial assets carried at cost    | 877                               | 18,909                  | 1                       | 38,518                          | Note 1 |
|                  | CoaTronics Inc.                              |                               | Financial assets carried at cost    | 1,200                             | 12,000                  | 9                       | 7,844                           | Note 1 |
|                  | VisEra Technologies Company Ltd.             |                               | Financial assets carried at cost    | 649                               | 29,371                  |                         | 29,371                          | Note 1 |
|                  | PChome Store Inc.                            |                               | Financial assets carried at cost    | 325                               | 14,072                  | 3                       | 74,464                          | Note 7 |
|                  | Ultra Fine Optical Technology Co., Ltd.      |                               | Financial assets carried at cost    | 1,800                             | 27,000                  | 8                       | 27,000                          | Note 1 |
|                  | Procrystal Technology Co., Ltd.              |                               | Financial assets carried at cost    | 600                               | 30,000                  | 1                       | 30,000                          | Note 1 |
|                  | Tons Lightology Inc.                         |                               | Financial assets carried at cost    | 1,050                             | 66,150                  |                         | 66,150                          | Note 1 |
|                  | XinTec Inc.                                  |                               | Financial assets carried at cost    | 24                                | 1,076                   |                         | 1,215                           | Note 7 |
|                  | DelSolar Co., Ltd.                           |                               | Financial assets carried at cost    | 127                               | 6,084                   |                         | 7,322                           | Note 7 |
|                  | Cando Corporation                            |                               | Financial assets carried at cost    | 262                               | 4,883                   |                         | 5,999                           | Note 7 |
|                  | Subtron Technology Co., Ltd.                 |                               | Financial assets carried at cost    | 376                               | 4,938                   |                         | 5,256                           | Note 7 |
|                  | Huga Optotech Inc.                           |                               | Financial assets carried at cost    | 415                               | 12,870                  |                         | 12,454                          | Note 7 |
|                  | Tatung Fine Chemicals Co.                    |                               | Financial assets carried at cost    | 117                               | 9,135                   |                         | 7,111                           | Note 7 |
|                  | Win Semiconductors Corp.                     |                               | Financial assets carried at cost    | 370                               | 10,555                  |                         | 14,226                          | Note 7 |
|                  | OptiVision Technology Inc.                   |                               | Financial assets carried at cost    | 325                               | 10,189                  |                         | 4,547                           | Note 7 |
|                  | Lextar Electronics Corp.                     |                               | Financial assets carried at cost    | 318                               | 16,243                  |                         | 15,154                          | Note 7 |
|                  | SuperAlloy Industrial Co., Ltd.              |                               | Financial assets carried at cost    | 509                               | 7,123                   |                         | 6,277                           | Note 7 |
|                  | Chia Chang Co., Ltd.                         |                               | Financial assets carried at cost    | 147                               | 9,366                   |                         | 9,102                           | Note 7 |
|                  | G-TECH Optoelectronics Corporation           |                               | Financial assets carried at cost    | 15                                | 1,599                   |                         | 1,865                           | Note 7 |
|                  | Formosa Plastics Corporation                 |                               | Available-for-sale financial assets | 21                                | 1,253                   |                         | 2,142                           | Note 4 |
|                  | Fubon Financial Holding Co., Ltd.            |                               | Available-for-sale financial assets | 371                               | 13,576                  |                         | 14,506                          | Note 4 |
|                  | Cathay Financial Holding Co., Ltd.           |                               | Available-for-sale financial assets | 51                                | 2,739                   |                         | 2,453                           | Note 4 |
|                  | Dynapack International Technology Corp.      |                               | Available-for-sale financial assets | 11                                | 1,035                   |                         | 992                             | Note 4 |
|                  | Taiwan Hon Chuan Enterprise Co., Ltd.        |                               | Available-for-sale financial assets | 122                               | 7,042                   |                         | 9,026                           | Note 4 |
|                  | Asia Cement Corporation                      |                               | Available-for-sale financial assets | 80                                | 2,567                   |                         | 2,644                           | Note 4 |
|                  | Anpec Electronics Corporation                |                               | Available-for-sale financial assets | 65                                | 2,629                   |                         | 1,904                           | Note 4 |
|                  | China Steel Corporation                      |                               | Available-for-sale financial assets | 246                               | 7,391                   |                         | 8,634                           | Note 4 |
|                  | Wei Chuan Foods Corp.                        |                               | Available-for-sale financial assets | 203                               | 8,912                   |                         | 6,638                           | Note 4 |
|                  | Cyber Power Systems, Inc.                    |                               | Available-for-sale financial assets | 12                                | 904                     |                         | 967                             | Note 4 |
|                  | Gemtek Technology Co., Ltd.                  |                               | Available-for-sale financial assets | 71                                | 3,970                   |                         | 2,412                           | Note 4 |
|                  | Coxon Precise Industrial Co., Ltd.           |                               | Available-for-sale financial assets | 107                               | 8,206                   |                         | 5,724                           | Note 4 |
|                  | Altek Corp.                                  |                               | Available-for-sale financial assets | 36                                | 1,824                   |                         | 1,439                           | Note 4 |
|                  | I-Chiun Precision Industry Co., Ltd.         |                               | Available-for-sale financial assets | 150                               | 7,320                   |                         | 4,950                           | Note 4 |
|                  | Taiwan Semiconductor Manufacturing Co., Ltd. |                               | Available-for-sale financial assets | 40                                | 2,489                   |                         | 2,824                           | Note 4 |
|                  | MasterLink Securities Corporation            |                               | Available-for-sale financial assets | 250                               | 3,162                   |                         | 3,150                           | Note 4 |
|                  | Evergreen Marine Corp. (Taiwan) Ltd.         |                               | Available-for-sale financial assets | 100                               | 2,276                   |                         | 2,445                           | Note 4 |
|                  | Chipbond Technology Corporation              |                               | Available-for-sale financial assets | 50                                | 2,396                   |                         | 2,142                           | Note 4 |
|                  | Chung Hwa Pulp Corp.                         |                               |                                     | 120                               | 1,911                   |                         | 1,956                           | Note 4 |

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|                                  | Available-for-sale financial assets |     |       |       |        |
|----------------------------------|-------------------------------------|-----|-------|-------|--------|
| Foxconn Technology Co., Ltd.     | Available-for-sale financial assets | 20  | 2,228 | 2,240 | Note 4 |
| Taiwan Cement Corp.              | Available-for-sale financial assets | 120 | 3,757 | 4,260 | Note 4 |
| China Airlines Ltd.              | Available-for-sale financial assets | 190 | 4,127 | 3,220 | Note 4 |
| Hon Hai Precision Ind. Co., Ltd. | Available-for-sale financial assets | 18  | 2,067 | 1,891 | Note 4 |
| Insyde Software Corp.            | Available-for-sale financial assets | 15  | 2,218 | 2,527 | Note 4 |
| Swancor Ind. Co., Ltd.           | Available-for-sale financial assets | 43  | 2,386 | 2,712 | Note 4 |

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| Held Company No. | Marketable Securities Type and Name      | Relationship with the Company | Financial                           | March 31, 2011                     |                         |                         | Market Value or Net Asset Value | Note   |
|------------------|--|-------------------------------|-------------------------------------|------------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|                  |  |                               | Statement Account                   | Shares (Thousands/ Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership |                                 |        |
|                  | Apex Biotechnology Corp.                 |                               | Available-for-sale financial assets | 8                                  | \$ 422                  |                         | \$ 490                          | Note 4 |
|                  | Via Techonologies, Inc.                  |                               | Available-for-sale financial assets | 96                                 | 3,217                   |                         | 2,962                           | Note 4 |
|                  | Cyberlink Co.                            |                               | Available-for-sale financial assets | 45                                 | 5,735                   |                         | 4,112                           | Note 4 |
|                  | Optotech Corporation                     |                               | Available-for-sale financial assets | 320                                | 7,106                   |                         | 6,816                           | Note 4 |
|                  | Sino-American Silicon Products Inc.      |                               | Available-for-sale financial assets | 1                                  | 96                      |                         | 124                             | Note 4 |
|                  | Tang Eng Iron Works Co., Ltd.            |                               | Available-for-sale financial assets | 135                                | 3,930                   |                         | 3,955                           | Note 4 |
|                  | Pan Jit International Inc.               |                               | Available-for-sale financial assets | 21                                 | 670                     |                         | 823                             | Note 4 |
|                  | Ability Enterprise Co., Ltd.             |                               | Available-for-sale financial assets | 45                                 | 2,523                   |                         | 1,955                           | Note 4 |
|                  | Yuanta Financial Holdings                |                               | Available-for-sale financial assets | 200                                | 4,279                   |                         | 4,230                           | Note 4 |
|                  | Sunrex Technology Corporation            |                               | Available-for-sale financial assets | 46                                 | 1,491                   |                         | 1,362                           | Note 4 |
|                  | Taiwan Semiconductor Co., Ltd.           |                               | Available-for-sale financial assets | 208                                | 5,245                   |                         | 5,366                           | Note 4 |
|                  | Everlight Electronics Co., Ltd.          |                               | Available-for-sale financial assets | 90                                 | 8,248                   |                         | 7,488                           | Note 4 |
|                  | Visual Photonics Epitaxy Co., Ltd.       |                               | Available-for-sale financial assets |                                    | 24                      |                         | 34                              | Note 4 |
|                  | Ene Technology Inc.                      |                               | Available-for-sale financial assets | 95                                 | 4,932                   |                         | 3,617                           | Note 4 |
|                  | Realtek Semiconductor Corp.              |                               | Available-for-sale financial assets | 81                                 | 6,047                   |                         | 4,271                           | Note 4 |
|                  | ALi Corporation                          |                               | Available-for-sale financial assets | 105                                | 5,634                   |                         | 3,817                           | Note 4 |
|                  | Integrated Memory Logic Limited          |                               | Available-for-sale financial assets | 3                                  | 455                     |                         | 244                             | Note 4 |
|                  | Acme Electronics Corporation             |                               | Available-for-sale financial assets | 50                                 | 3,726                   |                         | 7,600                           | Note 4 |
|                  | Taiwan PCB Techvest Co., Ltd.            |                               | Available-for-sale financial assets | 100                                | 4,900                   |                         | 3,650                           | Note 4 |
|                  | China Synthetic Rubber Corporation       |                               | Available-for-sale financial assets | 190                                | 5,724                   |                         | 5,311                           | Note 4 |
|                  | Chung Hung Steel Corporation             |                               | Available-for-sale financial assets | 101                                | 1,807                   |                         | 1,795                           | Note 4 |
|                  | Newmax Technology Co., Ltd.              |                               | Available-for-sale financial assets | 11                                 | 1,564                   |                         | 1,417                           | Note 4 |
|                  | Tingyi (Cayman Islands) Holding Corp.    |                               | Available-for-sale financial assets | 45                                 | 1,918                   |                         | 1,625                           | Note 4 |
|                  | TPK Holding Co., Ltd.                    |                               | Available-for-sale financial assets | 8                                  | 1,840                   |                         | 6,472                           | Note 4 |
|                  | Daxon Technology Inc.                    |                               | Available-for-sale financial assets | 217                                | 6,135                   |                         | 5,815                           | Note 4 |
|                  | Edison Opto Corporation                  |                               | Available-for-sale financial assets | 50                                 | 7,850                   |                         | 8,532                           | Note 4 |
|                  | Kung Long Batteries Industrial Co., Ltd. |                               | Available-for-sale financial assets | 30                                 | 1,816                   |                         | 1,791                           | Note 4 |
|                  | Digital China Holdings Limited           |                               | Available-for-sale financial assets | 55                                 | 1,671                   |                         | 1,499                           | Note 4 |
|                  | Gourmet Master Co. Ltd.                  |                               | Available-for-sale financial assets | 10                                 | 655                     |                         | 686                             | Note 4 |
|                  | Wistron NeWeb Corporation                |                               | Available-for-sale financial assets | 16                                 | 968                     |                         | 746                             | Note 4 |
|                  | TXC Corporation                          |                               | Available-for-sale financial assets | 155                                | 8,769                   |                         | 8,463                           | Note 4 |

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|                                      |                                     |     |        |        |        |
|--------------------------------------|-------------------------------------|-----|--------|--------|--------|
| Formosa Petrochemical Corp.          | Available-for-sale financial assets | 85  | 8,013  | 8,203  | Note 4 |
| Taiwan Mobile Co., Ltd.              | Available-for-sale financial assets | 90  | 6,123  | 6,228  | Note 4 |
| AU Optronics Corp.                   | Available-for-sale financial assets | 60  | 1,845  | 1,542  | Note 4 |
| Richtek Technology Corp.             | Available-for-sale financial assets | 15  | 3,520  | 3,053  | Note 4 |
| Uni-President Enerprises Corp.       | Available-for-sale financial assets | 130 | 5,495  | 5,239  | Note 4 |
| Global Unichip Corp.                 | Available-for-sale financial assets | 15  | 1,676  | 1,403  | Note 4 |
| Ruentex Development Co., Ltd.        | Available-for-sale financial assets | 120 | 5,761  | 5,736  | Note 4 |
| eMemory Technology Inc.              | Available-for-sale financial assets | 1   | 73     | 86     | Note 4 |
| Far Eastern Department Stores Ltd.   | Available-for-sale financial assets | 150 | 7,389  | 6,968  | Note 4 |
| Delta Electronics Inc.               | Available-for-sale financial assets | 65  | 7,971  | 7,573  | Note 4 |
| San Shing Fastech Corp.              | Available-for-sale financial assets | 670 | 22,093 | 22,780 | Note 4 |
| USI Corp.                            | Available-for-sale financial assets | 105 | 4,224  | 4,200  | Note 4 |
| Media Tek Inc.                       | Available-for-sale financial assets | 8   | 2,781  | 2,704  | Note 4 |
| President Chain Store Corp.          | Available-for-sale financial assets | 25  | 3,029  | 3,263  | Note 4 |
| Macronix International Co., Ltd.     | Available-for-sale financial assets | 90  | 1,945  | 1,755  | Note 4 |
| FOCI Fiber Optic Communications Inc. | Available-for-sale financial assets | 16  | 677    | 751    | Note 4 |

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| Held Company No. | Marketable Securities Type and Name                  | Relationship with the Company | Financial                           | March 31, 2011                    |                         |                         | Market Value or Net Asset Value | Note   |
|------------------|--|-------------------------------|-------------------------------------|-----------------------------------|-------------------------|-------------------------|---------------------------------|--------|
|                  |  |                               | Statement Account                   | Shares (Thousands/Thousand Units) | Carrying Value (Note 5) | Percentage of Ownership |                                 |        |
|                  | Formosa Laboratories Inc.                            |                               | Available-for-sale financial assets | 15                                | \$ 1,215                |                         | \$ 1,316                        | Note 4 |
|                  | Dukang Distillers Holdings Ltd.                      |                               | Available-for-sale financial assets | 120                               | 2,256                   |                         | 1,626                           | Note 4 |
|                  | Champion Microelectronic Corp.                       |                               | Available-for-sale financial assets | 122                               | 6,350                   |                         | 5,934                           | Note 4 |
|                  | Lite-On Technology Corp.                             |                               | Available-for-sale financial assets | 10                                | 247                     |                         | 366                             | Note 4 |
|                  | Oris Tech Co., Ltd.                                  |                               | Available-for-sale financial assets | 5                                 | 201                     |                         | 287                             | Note 4 |
|                  | Chung-Hsin Electric & Machinery MFG. Corp.           |                               | Available-for-sale financial assets | 50                                | 935                     |                         | 908                             | Note 4 |
|                  | Wistron NeWeb Corp.                                  |                               | Available-for-sale financial assets | 3                                 | 196                     |                         | 293                             | Note 4 |
|                  | Highwealth Construction Corp.                        |                               | Available-for-sale financial assets | 10                                | 549                     |                         | 617                             | Note 4 |
|                  | Sinopac Financial Holdings Company Ltd.              |                               | Available-for-sale financial assets | 50                                | 696                     |                         | 663                             | Note 4 |
|                  | Unity Opto Technology Co., Ltd.                      |                               | Available-for-sale financial assets | 10                                | 581                     |                         | 548                             | Note 4 |
|                  | Gigasolar Materials Corporation                      |                               | Available-for-sale financial assets | 290                               | 33,383                  |                         | 224,942                         | Note 4 |
|                  | <u>Beneficiary certificates (mutual)</u>             |                               |                                     |                                   |                         |                         |                                 |        |
|                  | PowerShares QQQ                                      |                               | Available-for-sale financial assets | 2                                 | 2,683                   |                         | 3,377                           | Note 3 |
|                  | iPath Goldman Sachs Crude Oil Total Return Index ETN |                               | Available-for-sale financial assets | 5                                 | 3,671                   |                         | 4,145                           | Note 3 |
|                  | iShares Dow Jones U.S. Financial Sector Index Fund   |                               | Available-for-sale financial assets | 3                                 | 4,452                   |                         | 4,346                           | Note 3 |
|                  | Pro Shares UltraShort 20+ Year Treasury              |                               | Available-for-sale financial assets | 2                                 | 2,764                   |                         | 2,752                           | Note 3 |
|                  | iShares FTSE/Xinhua A50 China Index ETF              |                               | Available-for-sale financial assets | 85                                | 4,113                   |                         | 4,283                           | Note 3 |
|                  | iShares CSI A-Share Consumer Staples Index ETF       |                               | Available-for-sale financial assets | 20                                | 1,733                   |                         | 1,632                           | Note 3 |
|                  | WISE-CSI 300 China Tracker                           |                               | Available-for-sale financial assets | 14                                | 2,046                   |                         | 1,999                           | Note 3 |
|                  | Jih Sun Money Market                                 |                               | Available-for-sale financial assets | 700                               | 9,859                   |                         | 9,931                           | Note 3 |
|                  | Fuh Hwa You Li Money Market                          |                               | Available-for-sale financial assets | 786                               | 10,102                  |                         | 10,176                          | Note 3 |
|                  | Mega Diamond Bond Fund                               |                               | Available-for-sale financial assets | 4,185                             | 50,001                  |                         | 50,223                          | Note 3 |
|                  | Manulife Asia Pacific Bond Fund                      |                               | Available-for-sale financial assets | 3,444                             | 35,000                  |                         | 35,952                          | Note 3 |
|                  | Manulife Emerging Market High Yield Bond Fund-A      |                               | Available-for-sale financial assets | 2,000                             | 20,000                  |                         | 20,179                          | Note 3 |
|                  | Paradigm high Yield Bond Fund-A                      |                               | Available-for-sale financial assets | 1,399                             | 15,000                  |                         | 15,236                          | Note 3 |
|                  | HSBS Asian High Yield Bond Fund-A                    |                               | Available-for-sale financial assets | 300                               |                         |                         |                                 |        |