

# **Taiwan Mobile Co., Ltd. and Subsidiaries**

**Consolidated Financial Statements for the  
Years Ended December 31, 2006 and 2005 and  
Independent Auditors' Report**

## **INDEPENDENT AUDITORS' REPORT**

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

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

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

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

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

January 11, 2007

Notice to Readers

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

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

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

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

ASSETS	2006		2005		LIABILITIES AND SHAREHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2, 4 and 22)	\$ 12,415,725	11	\$ 14,791,543	12	Notes payable	\$ 1,084	-	\$ 9,117	-
Financial assets at fair value through profit or loss - current (Notes 2, 3 and 5)	14,077,168	12	600,000	1	Accounts payable	1,809,069	1	1,872,785	2
Available-for-sale financial assets - current (Notes 2, 3 and 6)	381,569	-	9,277,177	8	Income taxes payable (Notes 2 and 18)	3,051,840	3	1,172,569	1
Notes receivable	11,833	-	14,048	-	Accrued expenses (Note 22)	4,008,682	3	4,163,571	3
Accounts receivable - third parties (Notes 2 and 7)	6,167,474	5	6,483,452	5	Other payables (Note 22)	3,482,799	3	2,845,662	2
Accounts receivable - related parties (Notes 2 and 22)	249,938	-	187,072	-	Advance receipts	1,015,535	1	1,084,473	1
Other receivables - third parties	263,048	-	236,274	-	Current portion of long-term liabilities (Notes 2, 14 and 23)	3,814,448	3	4,543,020	4
Other receivables - related parties (Note 22)	15,941	-	47,045	-	Guarantee deposits	119,083	-	165,502	-
Inventories (Note 2)	31,232	-	6,051	-	Other current liabilities (Note 22)	677,772	1	787,336	1
Prepayments (Note 22)	600,914	1	556,668	1	Total current liabilities	17,980,312	15	16,644,035	14
Deferred income tax assets - current (Notes 2 and 18)	185,973	-	177,372	-	<b>LONG-TERM LIABILITIES</b>				
Pledged time deposits (Notes 22 and 23)	10,000	-	10,000	-	Hedging derivative financial liabilities (Notes 3, 21 and 25)	291,046	-	-	-
Other current assets	22,367	-	17,756	-	Bonds payable (Notes 2, 14 and 23)	10,000,000	9	14,584,125	12
Total current assets	34,433,182	29	32,404,458	27	Total long-term liabilities	10,291,046	9	14,584,125	12
<b>INVESTMENTS</b>					<b>OTHER LIABILITIES</b>				
Financial assets carried at cost (Notes 2, 3 and 9)	3,879,192	3	4,006,307	3	Accrued pension cost (Notes 2 and 16)	-	-	90,580	-
Prepayments for long-term investments - non-current	-	-	24,950	-	Guarantee deposits	248,889	-	239,372	-
Total investments	3,879,192	3	4,031,257	3	Other (Notes 2 and 8)	-	-	473,921	-
<b>PROPERTY AND EQUIPMENT (Notes 2, 10, 22 and 23)</b>					Total other liabilities	248,889	-	803,873	-
Cost					Total liabilities	28,520,247	24	32,032,033	26
Land	5,040,980	4	3,971,337	3	<b>SHAREHOLDERS' EQUITY (Notes 2 and 17)</b>				
Buildings	3,044,455	3	2,531,057	2	Parent's shareholders' equity				
Telecommunication equipment	76,880,533	65	82,017,397	69	Capital stock - \$10 par value				
Office equipment	191,418	-	373,229	-	Authorized: 6,000,000 thousand shares				
Leased assets	1,276,190	1	1,284,961	1	Issued: 4,999,325 thousand shares in 2006 and 4,949,206 thousand shares in 2005	49,993,251	42	49,492,065	41
Leasehold improvements	75,228	-	278,510	-	Entitlement certificates	-	-	29,871	-
Miscellaneous equipment	1,874,825	2	1,096,358	1	Capital surplus	8,748,571	7	7,905,337	7
Total cost	88,383,629	75	91,552,849	76	Retained earnings				
Less accumulated depreciation	(30,640,536)	(26)	(29,454,617)	(24)	Legal reserve	10,128,401	9	8,504,731	7
Construction in progress and advance payments	3,165,816	3	2,427,437	2	Special reserve	3,350,000	3	2,201,631	2
Net property and equipment	60,908,909	52	64,525,669	54	Unappropriated earnings	19,228,424	16	19,175,425	16
<b>INTANGIBLE ASSETS</b>					Other equity				
3G concession (Note 2)	8,972,509	7	9,720,218	8	Cumulative translation adjustments	3,860	-	3,240	-
Goodwill (Notes 2 and 11)	6,835,370	6	6,414,029	6	Unrealized losses on financial instruments	(147,423)	-	-	-
Total intangible assets	15,807,879	13	16,134,247	14	Treasury stock	(1,437,290)	(1)	(323,544)	-
<b>OTHER ASSETS</b>					Minority interests	89,867,794	76	86,988,756	73
Assets leased to others (Notes 2 and 12)	722,041	1	927,360	1	Total shareholders' equity	89,892,302	76	87,795,573	74
Idle assets (Notes 2 and 12)	227,921	-	264,975	-	<b>TOTAL</b>	<b>\$ 118,412,549</b>	<b>100</b>	<b>\$ 119,827,606</b>	<b>100</b>
Refundable deposits	301,960	-	310,034	-					
Deferred charges (Notes 2 and 13)	495,868	1	621,298	1					
Deferred income tax assets - non-current (Notes 2 and 18)	1,554,290	1	527,751	-					
Other (Notes 2, 16, 22 and 23)	81,307	-	80,557	-					
Total other assets	3,383,387	3	2,731,975	2					
<b>TOTAL</b>	<b>\$ 118,412,549</b>	<b>100</b>	<b>\$ 119,827,606</b>	<b>100</b>					

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

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

# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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

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# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2006 AND 2005

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

	2006		2005	
	Amount	%	Amount	%
Impairment loss (Notes 2 and 12)	\$ 2,953	-	\$ 117,989	-
Investment loss recognized by the equity method, net (Notes 2 and 8)	-	-	108,146	-
Other (Notes 2 and 12)	<u>234,066</u>	<u>-</u>	<u>418,739</u>	<u>1</u>
Total non-operating expenses and losses	<u>4,943,116</u>	<u>8</u>	<u>3,350,204</u>	<u>6</u>
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	18,907,758	32	18,881,876	31
INCOME TAX EXPENSE (Notes 2 and 18)	<u>2,692,882</u>	<u>4</u>	<u>2,385,859</u>	<u>4</u>
INCOME FROM CONTINUING OPERATIONS	16,214,876	28	16,496,017	27
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3)	<u>35</u>	<u>-</u>	<u>-</u>	<u>-</u>
CONSOLIDATED NET INCOME	<u>\$ 16,214,911</u>	<u>28</u>	<u>\$ 16,496,017</u>	<u>27</u>
ATTRIBUTED TO				
Shareholders of the parent	\$ 16,170,741	28	\$ 16,236,698	27
Minority interests	<u>44,170</u>	<u>-</u>	<u>259,319</u>	<u>-</u>
	<u>\$ 16,214,911</u>	<u>28</u>	<u>\$ 16,496,017</u>	<u>27</u>
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	<u>\$ 3.54</u>	<u>\$ 3.28</u>	<u>\$ 3.74</u>	<u>\$ 3.31</u>
Diluted	<u>\$ 3.53</u>	<u>\$ 3.26</u>	<u>\$ 3.68</u>	<u>\$ 3.26</u>

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# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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

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

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

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

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

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2006 AND 2005**  
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	Capital Stock			Capital Surplus	Retained Earnings				Cumulative Translation Adjustments	Unrealized Gains of Financial Instruments	Total Treasury Stock	Minority Interests	Total Shareholders' Equity
	Capital Stock	Entitlement Certificates	Total		Legal Reserve	Special Reserve	Unappropriated	Total					
BALANCE, JANUARY 1, 2005	\$ 48,883,886	\$ 279,670	\$ 49,163,556	\$ 7,258,873	\$ 6,839,315	\$ -	\$ 19,554,125	\$ 26,393,440	\$ (1,631)	\$ -	\$ (1,841,417)	\$ 1,589,034	\$ 82,561,855
Appropriation of 2004 earnings													
Legal reserve	-	-	-	-	1,665,416	-	(1,665,416)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	2,201,631	(2,201,631)	-	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	(63,936)	(63,936)	-	-	-	-	(63,936)
Bonus to employees - cash	-	-	-	-	-	-	(383,613)	(383,613)	-	-	-	-	(383,613)
Cash dividends - \$2.47302 per share	-	-	-	-	-	-	(12,126,821)	(12,126,821)	-	-	-	-	(12,126,821)
Balance after appropriation	48,883,886	279,670	49,163,556	7,258,873	8,504,731	2,201,631	3,112,708	13,819,070	(1,631)	-	(1,841,417)	1,589,034	69,987,485
Translation adjustments	-	-	-	-	-	-	-	-	4,871	-	-	(995)	3,876
Transfer of treasury stock to employees	-	-	-	-	-	-	(173,981)	(173,981)	-	-	1,837,663	-	1,663,682
Conversion of convertible bonds to capital stock	608,179	(249,799)	358,380	646,464	-	-	-	-	-	-	-	-	1,004,844
Buyback of treasury stock	-	-	-	-	-	-	-	-	-	-	(319,790)	-	(319,790)
Consolidated net income in 2005	-	-	-	-	-	-	16,236,698	16,236,698	-	-	-	259,319	16,496,017
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	(1,140,865)	(1,140,865)
Subsidiaries' capital return and liquidations to minority interests	-	-	-	-	-	-	-	-	-	-	-	(3,084)	(3,084)
Subsidiaries' distribution of cash dividends, remuneration to directors and supervisors and bonus to employees	-	-	-	-	-	-	-	-	-	-	-	(295,001)	(295,001)
Adjustments for the change of consolidated entities	-	-	-	-	-	-	-	-	-	-	-	398,409	398,409
BALANCE, DECEMBER 31, 2005	49,492,065	29,871	49,521,936	7,905,337	8,504,731	2,201,631	19,175,425	29,881,787	3,240	-	(323,544)	806,817	87,795,573
Appropriation of 2005 earnings													
Legal reserve	-	-	-	-	1,623,670	-	(1,623,670)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	1,150,000	(1,150,000)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	(1,631)	1,631	-	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	(40,394)	(40,394)	-	-	-	-	(40,394)
Bonus to employees - cash	-	-	-	-	-	-	(403,940)	(403,940)	-	-	-	-	(403,940)
Cash dividends - \$2.61677 per share	-	-	-	-	-	-	(12,843,997)	(12,843,997)	-	-	-	-	(12,843,997)
Balance after appropriation	49,492,065	29,871	49,521,936	7,905,337	10,128,401	3,350,000	3,115,055	16,593,456	3,240	-	(323,544)	806,817	74,507,242
Translation adjustments	-	-	-	-	-	-	-	-	620	-	-	2,483	3,103
Transfer of treasury stock to employees	-	-	-	-	-	-	(57,372)	(57,372)	-	-	704,624	-	647,252
Conversion of convertible bonds to capital stock and entitlement certificates	501,186	(29,871)	471,315	843,234	-	-	-	-	-	-	-	-	1,314,549
Buyback of treasury stock	-	-	-	-	-	-	-	-	-	-	(1,818,370)	-	(1,818,370)
Consolidated net income in 2006	-	-	-	-	-	-	16,170,741	16,170,741	-	-	-	44,170	16,214,911
Effect of the first time adoption of new issued SFASs	-	-	-	-	-	-	-	-	-	1,834,639	-	-	1,834,639
Unrealized losses on financial assets, net	-	-	-	-	-	-	-	-	-	(1,982,062)	-	-	(1,982,062)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	(854,012)	(854,012)
Adjustments for the change of consolidated entities	-	-	-	-	-	-	-	-	-	-	-	25,050	25,050
BALANCE, DECEMBER 31, 2006	<u>\$ 49,993,251</u>	<u>\$ -</u>	<u>\$ 49,993,251</u>	<u>\$ 8,748,571</u>	<u>\$ 10,128,401</u>	<u>\$ 3,350,000</u>	<u>\$ 19,228,424</u>	<u>\$ 32,706,825</u>	<u>\$ 3,860</u>	<u>\$ (147,423)</u>	<u>\$ (1,437,290)</u>	<u>\$ 24,508</u>	<u>\$ 89,892,302</u>

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

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

# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

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

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# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

	2006	2005
Acquisition of available-for-sale financial assets	\$ (188,468)	\$ -
Increase in deferred charges	(170,943)	(268,168)
Proceeds from disposal of long-term investments	70,268	-
Proceeds from disposal of idle assets	44,633	7,050
Decrease in refundable deposits	8,074	12,382
Proceeds from disposal of subsidiary shares	6,447	-
Decrease in pledged time deposits	2,000	599,700
Decrease in other assets	720	2,812
Proceeds on investees' capital return	-	340,444
Increase in long-term investments	<u>-</u>	<u>(40,187)</u>
Net cash provided by (used in) investing activities	<u>3,458,418</u>	<u>(567,452)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash dividends paid	(12,843,925)	(12,146,818)
Decrease in bonds payable	(2,753,300)	(1,500,000)
Buyback of treasury stock	(1,818,370)	(319,790)
Buyback of bonds payable	(1,341,076)	(1,135,009)
Decrease in minority interests	(808,663)	(1,132,648)
Transfer of treasury stock to employees	647,252	1,663,682
Bonus to employees	(403,940)	(394,148)
Remuneration to directors and supervisors	(37,970)	(63,936)
Decrease in guarantee deposits	(36,901)	(106,674)
Decrease in other liabilities	(1,290)	(47,554)
Decrease in long-term bank loans	-	(8,400,000)
Decrease in short-term borrowings	-	(450,000)
Capital return and liquidations to minority interests	-	(8,328)
Cash dividends paid to minority interests	<u>-</u>	<u>(295,001)</u>
Net cash used in financing activities	<u>(19,398,183)</u>	<u>(24,336,224)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>193</u>	<u>3,928</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	<u>(2,425,818)</u>	<u>6,975,375</u>
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 2)	<u>14,841,543</u>	<u>7,816,168</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 12,415,725</u>	<u>\$ 14,791,543</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 469,519	\$ 626,238
Deduct: Interest paid - interest capitalized	<u>(11,647)</u>	<u>(71,194)</u>
Interest paid - excluding interest capitalized	<u>\$ 457,872</u>	<u>\$ 555,044</u>
Income tax paid	<u>\$ 1,531,391</u>	<u>\$ 2,279,821</u>

(Continued)

# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2006 AND 2005 (In Thousands of New Taiwan Dollars)

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	2006	2005
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	<u>\$ 3,814,448</u>	<u>\$ 4,543,020</u>
Conversion of convertible bonds to capital stock and entitlement certificates	<u>\$ 1,118,100</u>	<u>\$ 891,800</u>
CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment	\$ 7,512,091	\$ 3,872,247
Increase in other payables	<u>(164,505)</u>	<u>(651,766)</u>
Cash paid for acquisition of property and equipment	<u>\$ 7,347,586</u>	<u>\$ 3,220,481</u>

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

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

(Concluded)

# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

### YEARS ENDED DECEMBER 31, 2006 AND 2005

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

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#### 1. ORGANIZATION AND OPERATIONS

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

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

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

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC, Business Accounting Law and Criteria for Handling Business Accounting. In conformity with these guidelines, laws and principles, the Corporation and subsidiaries (hereinafter referred to as the “Group”) are required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, provision for losses on decline in value of inventories, depreciation, pension, allowance for deferred income tax assets, impairment loss on assets, etc. Actual results may differ from these estimates.

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

##### **Consolidation**

###### a. Basis of consolidation

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

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

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

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

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

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

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

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

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

### **Cash Equivalents**

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

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

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

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

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

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

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

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

### **Allowance for Doubtful Accounts**

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

## **Inventories**

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

## **Financial Assets Carried at Cost**

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

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

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

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

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

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

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

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

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

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

Depreciation is calculated using the straight-line method over the estimated service lives, which range as follows: buildings - 50 to 55 years; telecommunication equipment - 3 to 15 years; office equipment - 3 to 6 years; leased assets - 20 years; leasehold improvements - 5 to 10 years; and miscellaneous equipment - 3 to 8 years.

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

### **Concession**

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

### **Goodwill**

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

### **Idle Assets**

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

### **Deferred Charges**

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

### **Asset Impairment**

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

### **Pension Costs**

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

### **Bonds Payable**

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

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

### **Income Taxes**

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

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

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

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

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

### **Treasury Stock**

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

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

### **Foreign-currency Transactions**

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

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

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

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

### **Revenue Recognition**

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

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

### **Promotion Expenses**

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

### **Hedging Derivative Financial Instruments**

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

### **Reclassification**

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

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

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

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

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

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

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

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

b. Reclassifications by the adoption of these SFASs

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

1) Short-term investments

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

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

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

3) Interest rate swap contracts

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

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

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

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

#### 4. CASH AND CASH EQUIVALENTS

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

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

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

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

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

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

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

## 7. ACCOUNTS RECEIVABLE - THIRD PARTIES

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

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

## 8. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

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

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

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

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

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

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

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

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

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

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

#### **10. PROPERTY AND EQUIPMENT - ACCUMULATED DEPRECIATION**

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

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

## 11. GOODWILL

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

a. Assumptions on operating revenues

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

b. Assumptions on operating costs and expenses

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

c. Assumptions on discount rate

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

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

## 12. ASSETS LEASED TO OTHERS AND IDLE ASSETS

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

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

### 13. DEFERRED CHARGES

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

### 14. BONDS PAYABLE

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

a. Domestic secured bonds

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

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

b. Domestic unsecured bonds

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

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

c. 1st domestic convertible bonds

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

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

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

d. 2nd domestic convertible bonds

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

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

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

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

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

## 15. LONG-TERM BANK LOANS

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

## 16. PENSION PLAN

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

The new LPA provides for a defined contribution pension plan. Starting from July 1, 2005, the Corporation should contribute monthly an amount equal to 6% of the employees' monthly wages to the employees' individual pension accounts. The Group recognized a pension cost of \$114,814 thousand for the year ended December 31, 2006.

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

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

a. Pension cost

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

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

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

c. Actuarial assumptions

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

## 17. SHAREHOLDERS' EQUITY

### a. Capital surplus

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

### b. Appropriation of earnings and dividend policy

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

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

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

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

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

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

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

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

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

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

c. Treasury stock

Purpose of Buyback	(Shares in Thousands)			
	Beginning Shares	Increase	Decrease	Ending Shares
<u>Year ended December 31, 2006</u>				
To be transferred to employees	11,551	57,804	22,818	46,537
<u>Year ended December 31, 2005</u>				
To be transferred to employees	65,368	11,551	65,368	11,551

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

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

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

d. Unrealized gains (losses) on financial instruments

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

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

## 18. INCOME TAX EXPENSE

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

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

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

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

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

c. Deferred income tax assets and liabilities were as follows:

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

d. Integrated income tax information was as follows:

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

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

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

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

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

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

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

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

## 19. EARNINGS PER SHARE

(New Taiwan Dollars)

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

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

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

## 20. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

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

## 21. FINANCIAL INSTRUMENT TRANSACTIONS

### a. Fair value information

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

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

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

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

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

1) Market risk

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

2) Credit risk

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

The Group's maximum credit risk exposure of each financial instrument is the same as its carrying value.

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

3) Liquidity risk

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

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

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

## 22. RELATED-PARTY TRANSACTIONS

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

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

b. Significant transactions with related parties were summarized below:

1) Operating revenues

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

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

2) Operating costs

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

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

3) Property transactions

Acquisition of property and equipment

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

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

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

		<u>2005</u>
	<u>Description</u>	<u>Amount</u>
TFN	Miscellaneous equipment	<u>\$ 111,124</u>

Disposal of property and equipment

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

		<u>2005</u>
	<u>Description</u>	<u>Amount</u>
TFN	Telecommunication equipment, miscellaneous equipment and deferred charges	<u>\$ 2,093,154</u>

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

4) Rental income

		<b>Description</b>	<b>2006</b>	<b>2005</b>
TFN	Ji-lung Road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc.		<u>\$ 27,812</u>	<u>\$ 30,187</u>

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

		<b>December 31</b>			
		<b>2006</b>		<b>2005</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
5) Cash in banks					
a) Cash in banks					
	TFCB	<u>\$ 417,924</u>	3	<u>\$ 234,193</u>	2
b) Pledged time deposits					
	TFCB	<u>\$ 10,000</u>	100	<u>\$ 10,000</u>	100
c) Other assets - pledged time deposits					
	TFCB	<u>\$ -</u>	-	<u>\$ 1,700</u>	2
6) Receivables and payables					
a) Accounts receivable					
	TFN	\$ 241,998	4	\$ 180,597	3
	Other	<u>7,940</u>	-	<u>6,475</u>	-
		<u>\$ 249,938</u>		<u>\$ 187,072</u>	
b) Other receivables					
	TFN	\$ 10,645	4	\$ -	-
	TFCB	5,288	2	-	-
	FSC	8	-	43,162	15
	HTC	<u>-</u>	-	<u>3,883</u>	1
		<u>\$ 15,941</u>		<u>\$ 47,045</u>	
c) Accrued expenses					
	TFN	<u>\$ 58,733</u>	1	<u>\$ 24,286</u>	1
d) Other payables					
	TFN	<u>\$ 47,388</u>	1	<u>\$ 115,844</u>	4

(Continued)

	<b>December 31</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
e) Other current liabilities - collections and temporary credits for the following				
TFN	\$ 34,279	5	\$ 32,822	4
TFCB	<u>4,682</u>	1	<u>12,684</u>	2
	<u>\$ 38,961</u>		<u>\$ 45,506</u>	
7) Prepayments				
Fubon Ins.	<u>\$ 76,450</u>	13	<u>\$ 8,718</u>	2
				(Concluded)
		<b>2006</b>		<b>2005</b>
8) Telecommunication service expenses				
TFN		<u>\$ 70,387</u>	<u>\$ 83,818</u>	
9) Insurance expenses				
Fubon Ins.		<u>\$ 12,766</u>	<u>\$ 17,984</u>	
10) Donations				
TWM Foundation		<u>\$ 21,000</u>	<u>\$ 24,400</u>	
11) Other				

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

### 23. ASSETS PLEDGED

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

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

## 24. COMMITMENTS AND CONTINGENT EVENTS

- a. To enhance 3G mobile communications, expand network coverage and increase the service functions, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2006. As of December 31, 2006, the above amount has not yet paid.
- b. To enhance the intensity and widen the coverage of the 3G signal and to increase the service functions and items provided by 3G mobile telecommunications, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2004. In accordance with the terms of the contract, as of December 31, 2006, payments of \$3,062,442 thousand has been made.
- c. To provide better communication quality and more diverse service functions, the Corporation entered into agreements for upgrading the existing network equipment and building IT systems with Siemens in September 2004 for US\$17,310 thousand and NT\$67,472 thousand, respectively. In accordance with the terms of the agreements, as of December 31, 2006, payments of US\$17,310 thousand and NT\$66,902 thousand have been made, respectively.
- d. Unused letters of credit for acquisition of equipment were EUR269 thousand as of December 31, 2006.
- e. Future minimum rental payments as of December 31, 2006 for significant operating lease agreements were summarized as follows:

	<b>Amount</b>
2007	\$ 26,223
2008	30,002

## 25. ADDITIONAL DISCLOSURES

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

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

j. Derivative transactions

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

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

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

k. Investment in Mainland China:

- 1) The name of the investee company in Mainland China, the main businesses and products, issued capital, method of investment, information on inflow or outflow of capital, ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Table 9 (attached)
  - 2) Significant direct or indirect transactions with the investee company, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: None
- l. Business relationships and significant intercompany transactions: Tables 10 and Table 11 (attached).

## 26. SEGMENT INFORMATION

a. Industry

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

b. Foreign operations

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

c. Foreign revenues

The Corporation has no foreign revenues.

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

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

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

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

No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate	Type of Financing	Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Financing Limit for Each Borrowing Company (Note)	Financing Company's Financing Amount Limits (Note)
											Item	Value		
1	TransAsia Telecommunications Inc.	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Other receivables	\$ 300,000	\$ -	2.674%	Necessary for short-term financing	\$ -	Operating capital	\$ -	-	\$ -	\$ 2,810,635	\$ 2,810,635

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

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

DECEMBER 31, 2006

(In Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2006			Market Value or Net Asset Value (Note 1)	Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership		
The Corporation	<u>Beneficiary certificate</u> Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	45,175	\$ 602,192	-	\$ 602,192 (Note 2)	
	ABN AMRO Income Fund	-	Financial assets at fair value through profit or loss - current	25,387	401,917	-	401,917 (Note 2)	
	ABN AMRO Bond Fund	-	Financial assets at fair value through profit or loss - current	126,959	1,913,171	-	1,913,171 (Note 2)	
	ABN AMRO Select Bond Fund	-	Financial assets at fair value through profit or loss - current	35,432	401,565	-	401,565 (Note 2)	
	AIG Taiwan Bond Fund	-	Financial assets at fair value through profit or loss - current	153,928	1,962,733	-	1,962,733 (Note 2)	
	Dresdner Bond Dam Fund	-	Financial assets at fair value through profit or loss - current	130,038	1,506,803	-	1,506,803 (Note 2)	
	Fubon Jin-Ju-I Fund	-	Financial assets at fair value through profit or loss - current	81,999	1,002,954	-	1,002,954 (Note 2)	
	NITC Bond Fund	-	Financial assets at fair value through profit or loss - current	17,122	2,817,260	-	2,817,260 (Note 2)	
	Prudential Financial Bond Fund	-	Financial assets at fair value through profit or loss - current	13,686	200,015	-	200,015 (Note 2)	
	JF (Taiwan) Bond Fund	-	Financial assets at fair value through profit or loss - current	19,702	300,597	-	300,597 (Note 2)	
	<u>Stock</u> Chunghwa Telecom Co., Ltd.	-	Available-for-sale financial assets - current	2,688	162,893	0.028	162,893 (Note 3)	
	Taiwan Fixed Network Co., Ltd.	Related party in substance	Financial assets carried at cost - non-current	637,000	3,700,944	9.87	6,673,229	
	Bridge Mobile Pte Ltd.	-	Financial assets carried at cost - non-current	1,000	32,160	12.50	21,543	
	TransAsia Telecommunications Inc.	Subsidiary	Long-term investments - equity method	1,245,846	14,009,973	100.00	14,053,173	
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Subsidiary	Long-term investments - equity method	325,000	3,877,659	100.00	3,894,039	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2006				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
TransAsia Telecommunications Inc.	<u>Beneficiary certificate</u> ABN AMRO Bond Fund	-	Financial assets at fair value through profit or loss - current	46,758	\$ 704,606	-	\$ 704,606 (Note 2)	
	AIG Taiwan Bond Fund	-	Financial assets at fair value through profit or loss - current	71,000	905,330	-	905,330 (Note 2)	
	Prudential Financial Bond Fund	-	Financial assets at fair value through profit or loss - current	37,966	554,861	-	554,861 (Note 2)	
	JF (Taiwan) Bond Fund	-	Financial assets at fair value through profit or loss - current	42,808	653,130	-	653,130 (Note 2)	
	Fubon Jin-Ju-I Fund	-	Financial assets at fair value through profit or loss - current	12,267	150,035	-	150,035 (Note 2)	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	<u>Stock</u> Arcoa Communication Co., Ltd.	-	Financial assets carried at cost - non-current	6,998	67,731	5.21	- (Note 4)	
	Taiwan Fixed Network Co., Ltd.	Related party in substance	Financial assets carried at cost - non-current	4,900	42,864	0.08	54,089	
	Parawin Venture Capital Corp.	-	Financial assets carried at cost - non-current	3,000	25,144	3.00	- (Note 4)	
	Transportation High Tech Inc.	-	Financial assets carried at cost - non-current	1,200	-	12.00	- (Note 4)	
	WEB Point Co., Ltd.	-	Financial assets carried at cost - non-current	803	7,084	3.17	- (Note 4)	
	Sunnet Technologies Co., Ltd.	-	Financial assets carried at cost - non-current	375	3,265	1.51	- (Note 4)	
	Mobitai Communications	Subsidiary	Long-term investments - equity method	200,000	2,499,650	100.00	2,513,562	
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Long-term investments - equity method	70,000	540,640	100.00	540,640	
	Tai Yi Digital Broadcasting Co., Ltd.	Subsidiary	Long-term investments - equity method	2,495	24,410	49.90	24,410	
TWM Holding Co. Ltd.	Subsidiary	Long-term investments - equity method	1 share	325,693	100.00	325,693		
TWM Holding Co., Ltd.	<u>ADS</u> Hurray! Holding Co., Ltd.	-	Available-for-sale financial assets - current	1,080	US\$ 6,696	5.02	US\$ 6,696 (Note 3)	
Mobitai Communications	<u>Stock</u> Yes Mobile Holdings Company	-	Financial assets carried at cost - non-current	74	-	0.19	- (Note 4)	
Taiwan Teleservices & Technologies Co., Ltd.	<u>Stock</u> TT&T Life Insurance Agency Co., Ltd.	Subsidiary	Long-term investments - equity method	300	3,021	100.00	3,021	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary	Long-term investments - equity method	300	2,703	100.00	2,703	

(Continued)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2006				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
TT&T Holdings Co., Ltd.	TT & T Holdings Co., Ltd.	Subsidiary	Long-term investments - equity method	1,300	\$ 41,565	100.00	\$ 41,565	
	Stock Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary	Long-term investments - equity method	-	US\$ 1,268	100.00	US\$ 1,268	

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

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

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

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

Note 5: Deducted impairment loss recognized in 2004.

(Concluded)

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
The Corporation	<u>Beneficiary certificate</u> Fubon Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	25,522	\$ 400,000	-	\$ -	25,522	\$ 400,145	\$ 400,023	\$ 122	-	\$ -
	Fubon Ju-I II Fund	Financial assets at fair value through profit or loss - current	-	-	13,916	200,000	-	-	13,916	200,072	200,012	60	-	-
	Fuh-Hwa Albatross Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	44,641	500,000	44,641	501,202	500,000	1,202	-	-
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	98,134	1,300,000	52,959	702,108	700,000	2,108	45,175	602,192 (Note 1)
	ABN AMRO Income Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	25,387	400,000	-	-	-	-	25,387	401,917 (Note 1)
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	160,324	2,400,000	33,365	500,000	498,035	1,965	126,959	1,913,171 (Note 1)
	ABN AMRO Select Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	106,679	1,200,000	71,247	803,071	800,000	3,071	35,432	401,565 (Note 1)
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	189,406	2,400,000	35,478	450,000	448,233	1,767	153,928	1,962,733 (Note 1)
	Dresdner Bond Dam Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	217,137	2,500,000	87,099	1,003,660	1,000,000	3,660	130,038	1,506,803 (Note 1)
	Fubon Chi-Shun III Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	47,546	500,000	47,546	500,000	500,599	599	-	- (Notes 1 and 2)
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	81,999	1,000,000	-	-	-	-	81,999	1,002,954 (Notes 1 and 2)
	NITC Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	19,872	3,250,000	2,750	450,000	448,262	1,738	17,122	2,817,260 (Note 1)
	NITC Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	35,789	500,000	35,789	501,496	500,000	1,496	-	-
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	13,686	200,000	-	-	-	-	13,686	200,015 (Note 1)
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	39,521	600,000	19,819	300,739	300,000	739	19,702	300,597 (Note 1)

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
TransAsia Telecommunications Inc.	<u>Stock</u> Chunghwa Telecom Co., Ltd.	Available-for-sale financial assets - current	-	-	200,000	\$ 9,277,177	2,688	\$ -	200,000	\$11,265,915	\$ 9,154,936	\$ 2,110,979	2,688	\$ 162,893 (Note 1)
	The former TransAsia Telecommunications Inc.	Long-term investments - equity method	TransAsia Telecommunications Inc.	Subsidiary	328,645	12,458,466	-	-	328,645	3 (Note 3)	12,458,465	1 (Note 3)	-	- (Note 3)
	TransAsia Telecommunications Inc.	Long-term investments - equity method	-	Subsidiary	-	-	1,245,846	12,458,463	-	-	-	-	1,245,846	14,009,973 (Note 4)
	Taiwan Cellular Co., Ltd.	Long-term investments - equity method	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Subsidiary	44,300	992,550	-	-	44,300	-	1,504,634 (Note 5)	- (Note 5)	-	- (Note 5)
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Long-term investments - equity method	-	Subsidiary	386,972	3,781,996	50,000	500,000	-	-	-	-	325,000	3,877,659 (Note 6)
	<u>Beneficiary certificate</u> ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	46,758	700,000	-	-	-	-	46,758	704,606 (Note 1)
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	94,744	1,200,000	23,744	302,712	300,000	2,712	71,000	905,330 (Note 1)
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	68,924	1,000,000	30,958	450,000	448,437	1,563	37,966	554,861 (Note 4)
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	42,808	650,000	-	-	-	-	42,808	653,130 (Note 4)
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	12,267	150,000	-	-	-	-	12,267	150,035 (Note 4)
Mobitai Communications	<u>Stock</u> The former TransAsia Telecommunications Inc.	Long-term investments - equity method	The Corporation	Ultimate parent	-	-	328,645	12,458,466	328,645	-	12,458,466	- (Note 3)	-	- (Note 3)
	<u>Stock</u> The former Mobitai Communications	Long-term investments - equity method	-	-	365,078	3,532,794	-	-	365,078	-	3,532,794	- (Note 7)	-	- (Note 7)
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	<u>Stock</u> Taiwan Cellular Co., Ltd.	Long-term investments - equity method	The Corporation	Ultimate parent	-	-	44,300	-	44,300	-	- (Note 8)	- (Note 8)	-	-
	TWM Holding Co. Ltd.	Long-term investments - equity method	-	-	-	-	1 share	292,961	-	-	-	-	1 share	325,693 (Note 9)
TWM Holding Co. Ltd.	<u>ADS</u> Hurray! Holding Co., Ltd.	Available-for-sale financial assets - current	-	-	-	-	1,080	US\$ 5,771	-	-	-	-	1,080	US\$ 6,696 (Note 1)

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

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

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

(Continued)

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

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

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

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

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

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

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

**ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)**

Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship	Prior transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
							Owner	Relationship	Transfer Date	Amount			
The Corporation	Land and buildings	2006.12.13	\$1,565,000	Finish payment	Taiwan Fixed Network Co., Ltd.	Related party in substance	Crowell Development Corp.	None	2001.2.22	\$1,483,850	Appraisal report (depending on average five appraisal companies) Appraisal report	Operating purpose	-
							Suretone Telecom. Inc.	None	2001.3.16	20,000		Operating purpose	-

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

**DISPOSAL OF INDIVIDUAL REAL ESTATE AT PRICES OF AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)**

<b>Company Name</b>	<b>Types of Property</b>	<b>Transaction Date</b>	<b>Original Acquisition Date</b>	<b>Carrying Value</b>	<b>Transaction Amount</b>	<b>Receivable Term</b>	<b>Gain on Disposal</b>	<b>Counter-party</b>	<b>Nature of Relationship</b>	<b>Purpose of Disposal</b>	<b>Price Reference</b>	<b>Other Terms</b>
The Corporation	Land and buildings	2006.12.13	2000.6.30	155,848	152,000	Finish receipts	(3,848)	Taiwan Fixed Network Co., Ltd.	Related party in substance	Appropriately use assets to sufficient	Appraisal report	-

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

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Corporation	TransAsia Telecommunications Inc. (including the former TAT)	Subsidiary	Sale	\$ (693,059)	(1)	Based on contract terms	-	-	\$ 80,210	1	
			Purchase	341,755	2	Based on contract terms	-	-	(23,937)	(2)	
	Taiwan Fixed Network Co., Ltd.	Related party in substance	Sale	(1,411,029)	(3)	Based on contract terms	-	-	222,747	4	
			Purchase	868,958	4	Based on contract terms	-	-	54,674	1	
									(Note 3)		
	Mobitai Communications	Subsidiary	Sale	(285,079)	(1)	Based on contract terms	-	-	29,897	-	
			Purchase	193,763	1	Based on contract terms	-	-	(644)	-	
Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Purchase	992,514	(Note 2)	Based on contract terms	-	-	(153,397)	-		
								(Note 3)			
TransAsia Telecommunications Inc. (including the former TAT)	The Corporation	Ultimate parent	Sale	(337,170)	(4)	Based on contract terms	-	-	23,937	2	
			Purchase	693,026	20	Based on contract terms	-	-	(83,496)	(28)	
Mobitai Communications	The Corporation	Ultimate parent	Sale	(193,537)	(4)	Based on contract terms	-	-	644	-	
			Purchase	285,050	12	Based on contract terms	-	-	(19,612)	(10)	
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Sale	(989,923)	(83)	Based on contract terms	-	-	152,601	91	

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

Note 2: Recognized as operating expenses.

Note 3: Recognized as accrued expenses.

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

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars)**

Company Name	Related Party	Nature of Relationship	Ending Balance	Turn-over Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts	
					Amount	Action Taken			
The Corporation	TransAsia Telecommunications Inc.	Subsidiary	Accounts receivable	\$ 80,210	5.97	\$ -	-	\$ -	\$ -
			Other receivables	139,777	(Note 1)	-	-	-	-
	Mobitai Communications	Subsidiary	Accounts receivable	29,897	2.19	-	-	-	-
			Other receivables	99,075	-	-	-	-	-
	Taiwan Fixed Network Co., Ltd.	Related party in substance	Accounts receivable	222,747	7.74	-	-	21,996	-
			Other receivables	8,265	-	-	-	-	-
TransAsia Telecommunications Inc.	The Corporation	Ultimate parent	Accounts receivable	23,937	16.45	-	-	-	-
			Other receivables	297,019	-	-	-	96,570	-
Mobitai Communications	The Corporation	Ultimate parent	Accounts receivable	4,107	6.78	-	-	2,713	-
			Other receivables	159,229	-	-	-	63,717	-
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Accounts receivable	152,601	5.91	-	-	-	-

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

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
YEAR ENDED DECEMBER 31, 2006  
(In Thousands of New Taiwan Dollars or U.S. Dollars and RMB)

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2006			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2006	December 31, 2005	Shares (Thousands)	Percentage of Ownership	Carrying Value			
The Corporation	Taiwan Cellular Co., Ltd.	Taipei, Taiwan	Telecommunication equipment retailing and wholesale	\$ -	\$ 1,420,017	-	-	\$ -	\$ 7,614	\$ 31,198	
	The former TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	-	10,408,388	-	-	-	602,042	(1)	
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taipei, Taiwan	Equipment installation and IT service	3,250,000	3,869,715	325,000	100	3,877,659	692,350	1,160,351	
	TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	12,458,463	-	1,245,846	100	14,009,973	1,594,710	1,551,510	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taiwan Teleservices & Technologies Co., Ltd.	Taipei, Taiwan	Call center service	91,277	327,146	70,000	100	540,640	96,433	NA	
	Mobitai Communications	Taipei, Taiwan	Wireless service provider	2,000,000	3,650,782	200,000	100	2,499,650	631,550	NA	
	Tai Yi Digital Broadcasting Co., Ltd.	Taipei, Taiwan	Telecommunication business and cell phone number agency of broadcasts	24,950	24,950	2,495	49.9	24,410	(646)	NA	
	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment	-	131,700	-	-	-	-	NA	
	TWM Holding Co. Ltd.	British Virgin Islands	Investment	US\$ 9,000	-	1 share	100	325,693	US\$ 47	NA	
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	3,000	3,000	300	100	3,021	9	NA	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	3,000	3,000	300	100	2,703	(62)	NA	
	TT&T Holdings Co., Ltd.	Samoa	Investment	46,386	83,530	1,300	100	41,565	US\$ (85)	NA	
TT&T Holdings Co., Ltd.	Dalian Xinkai Teleservices & Technologies Ltd.	Dalian	Call center service	-	US\$ 1,511	-	-	-	-	NA	
	Xiamen Taifu Teleservices & Technologies Ltd.	Xiamen	Call center service	US\$ 1,300	US\$ 1,000	-	100	US\$ 1,268	RMB 24	NA	
TransAsia Telecommunications Inc.	The former TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	-	-	-	-	-	602,042	NA	
The former TransAsia Telecommunications Inc.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment	-	2,250	-	-	-	-	NA	
Mobitai Communications	The former Mobitai Communications	Taichung, Taiwan	Wireless service provider	-	3,650,782	-	-	-	-	NA	

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## INVESTMENT IN MAINLAND CHINA

YEAR ENDED DECEMBER 31, 2006

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

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of December 31, 2005	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2006	Accumulated Inward Remittance of Earnings as of December 31, 2006
					Outflow	Inflow					
Dalian Xinkai Teleservices & Technologies Ltd.	Call center service	RMB 25,011 (NT\$104,526)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$ 666 (NT\$ 21,752)	\$ -	US\$ 500 (NT\$ 16,330)	\$ -	-	(US\$ 89) (NT\$ 2,907)	\$ -	\$ -
Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	US\$ 1,300 (NT\$ 42,458)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$ 1,000 (NT\$ 32,660)	US\$ 300 (NT\$ 9,798)	-	US\$ 1,300 (NT\$ 42,458)	100% ownership of indirect investment by the Corporation's subsidiary	US\$ 3 (NT\$ 98)	US\$ 1,268 (NT\$ 41,413)	-

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

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

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

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

**BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS**  
**YEAR ENDED DECEMBER 31, 2006**  
**(In Thousands of New Taiwan Dollars)**

Number	Company Name	Counterparty	Transaction Details				Percentage of Consolidated Total Operating Revenues or Total Assets
			Nature of Relationship	Account	Amount	Transaction Terms	
0	The Corporation	TransAsia Telecommunications Inc.	1	Accounts receivable	\$ 80,210	Based on regular terms	-
		Mobitai Communications	1	Accounts receivable	29,897	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Accounts receivable	1	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Other receivables	139,777	Based on regular terms	-
		Mobitai Communications	1	Other receivables	99,075	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Other receivables	1,505	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Prepayments	70	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Accounts payable	23,937	Based on regular terms	-
		Mobitai Communications	1	Accounts payable	644	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Accounts payable	2	Based on regular terms	-
		Mobitai Communications	1	Accrued expenses	3,426	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Accrued expenses	153,397	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Other payables	96,570	Based on regular terms	-
		Mobitai Communications	1	Other payables	63,717	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Advance receipts	251	Based on regular terms	-
		Mobitai Communications	1	Advance receipts	56	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Other current liabilities	202,048	Based on regular terms	-
		Mobitai Communications	1	Other current liabilities	95,391	Based on regular terms	-
		TransAsia Telecommunications Inc.(including the former TAT)	1	Operating revenues	693,065	Based on regular terms	1%
		Mobitai Communications	1	Operating revenues	285,050	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Operating revenues	6,921	Based on regular terms	-
		TransAsia Telecommunications Inc.(including the former TAT)	1	Operating costs	341,631	Based on regular terms	1%
		Mobitai Communications	1	Operating costs	193,763	Based on regular terms	-
		TransAsia Telecommunications Inc.(including the former TAT)	1	Marketing expenses	(5)	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Marketing expenses	855,316	Based on regular terms	1%
		Taiwan Teleservices & Technologies Co., Ltd.	1	Administrative expenses	147,713	Based on regular terms	-
		TransAsia Telecommunications Inc.(including the former TAT)	1	Rental income	5,625	Based on regular terms	-
Mobitai Communications	1	Rental income	890	Based on regular terms	-		
Taiwan Teleservices & Technologies Co., Ltd.	1	Rental income	34	Based on regular terms	-		
1	TransAsia Telecommunications Inc.( including the former TAT)	The Corporation	2	Accounts receivable	23,937	Based on regular terms	-
		Mobitai Communications	3	Accounts receivable	1,282	Based on regular terms	-
		The Corporation	2	Other receivables	297,019	Based on regular terms	-
		The Corporation	2	Prepayments	261	Based on regular terms	-
		The Corporation	2	Accounts payable	42,095	Based on regular terms	-
		Mobitai Communications	3	Accounts payable	12	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty	Transaction Details				Percentage of Consolidated Total Operating Revenues or Total Assets
			Nature of Relationship	Account	Amount	Transaction Terms	
		Taiwan Teleservices & Technologies Co., Ltd. The Corporation	3 2	Accounts payable Accrued expenses	\$ 9 170,432	Based on regular terms Based on regular terms	- -
		Mobitai Communications The Corporation	3 2	Accrued expenses Other payables	6 6,063	Based on regular terms Based on regular terms	- -
		The Corporation	2	Advance receipts	70	Based on regular terms	-
		The Corporation	2	Other current liabilities	7	Based on regular terms	-
		The Corporation	2	Operating revenues	337,170	Based on regular terms	1%
		Mobitai Communications The Corporation	3 2	Operating revenues Operating costs	13,123 698,651	Based on regular terms Based on regular terms	- 1%
		Mobitai Communications The Corporation	3 2	Operating costs Marketing expenses	7,454 39	Based on regular terms Based on regular terms	- -
		Taiwan Teleservices & Technologies Co., Ltd.	3	Marketing expenses	(1,755)	Based on regular terms	-
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	3	Interest income	3,209	Based on regular terms	-
		The Corporation	2	Rental income	4,456	Based on regular terms	-
						Based on regular terms	-
2	Mobitai Communications	The Corporation	2	Accounts receivable	4,107	Based on regular terms	-
		TransAsia Telecommunications Inc.	3	Accounts receivable	18	Based on regular terms	-
		The Corporation	2	Other receivables	159,229	Based on regular terms	-
		The Corporation	2	Prepayments	67	Based on regular terms	-
		The Corporation	2	Accounts payable	19,612	Based on regular terms	-
		TransAsia Telecommunications Inc.	3	Accounts payable	1,282	Based on regular terms	-
		The Corporation	2	Other payables	95,053	Based on regular terms	-
		The Corporation	2	Accrued expenses	14,312	Based on regular terms	-
		The Corporation	2	Operating revenues	193,763	Based on regular terms	-
		TransAsia Telecommunications Inc.	3	Operating revenues	7,454	Based on regular terms	-
		The Corporation	2	Operating costs	285,940	Based on regular terms	-
		TransAsia Telecommunications Inc.	3	Operating costs	13,123	Based on regular terms	-
3	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taiwan Teleservices & Technologies Co., Ltd.	1	Other receivables	593	Based on regular terms	-
		Xiamen Taifu Teleservices & Technologies Ltd.	1	Other receivables	100	Based on regular terms	-
		TT&T Holdings Co., Ltd.	1	Other receivables	100	Based on regular terms	-
		TransAsia Telecommunications Inc.	3	Interest expense	3,209	Based on regular terms	-
4	Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	2	Accounts receivable	152,601	Based on regular terms	-
		TransAsia Telecommunications Inc.	3	Accounts receivable	9	Based on regular terms	-
		The Corporation	2	Other receivables	841	Based on regular terms	-
		The Corporation	2	Accrued expenses	1,513	Based on regular terms	-
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	2	Accrued expenses	593	Based on regular terms	-
		TT&T Holdings Co., Ltd.	1	Accrued expenses	4,785	Based on regular terms	-
		Xiamen Taifu Teleservices & Technologies Ltd.	1	Accrued expenses	2,799	Based on regular terms	-
		The Corporation	2	Operating revenues	989,361	Based on regular terms	2
		TransAsia Telecommunications Inc.	3	Operating revenues	(1,755)	Based on regular terms	-
		TT&T Life Insurance Agency Co., Ltd.	1	Operating revenues	298	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty	Transaction Details				Percentage of Consolidated Total Operating Revenues or Total Assets
			Nature of Relationship	Account	Amount	Transaction Terms	
		The Corporation	2	Operating costs	\$ 6,920	Based on regular terms	-
		The Corporation	2	Marketing expenses	10,441	Based on regular terms	-
		TT&T Holdings Co., Ltd.	1	Marketing expenses	58,244	Based on regular terms	-
		The Corporation	2	Administrative expenses	1	Based on regular terms	-
		The Corporation	2	Administrative expenses	34	Based on regular terms	-
		TT&T Life Insurance Agency Co., Ltd	1	Rental income	4	Based on regular terms	-
		TT&T Casualty & Property Insurance Agency Co., Ltd	1	Rental income	4	Based on regular terms	-
		The Corporation	2	Miscellaneous revenue	24,109	Based on regular terms	-
5	TT&T Life Insurance Agency Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	2	Marketing expenses	298	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Rental expense	4	Based on regular terms	-
6	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	2	Rental expense	4	Based on regular terms	-
7	TT&T Holdings Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	2	Accounts receivable	908	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Accounts payable	3,708	Based on regular terms	-
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	2	Accrued expenses	100	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Operating revenues	58,244	Based on regular terms	-
		Xiamen Taifu Teleservices & Technologies Ltd.	1	Marketing expenses	14,542	Based on regular terms	-
8	Xiamen Taifu Teleservices & Technologies Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	2	Accounts receivable	10,391	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Other receivables	2	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Accrued expenses	10	Based on regular terms	-
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	2	Accrued expenses	100	Based on regular terms	-
		TT&T Holdings Co., Ltd.	2	Operating revenues	14,542	Based on regular terms	-

Note 1: Parent to subsidiary.

Note 2: Subsidiary to parent.

Note 3: Between subsidiaries.

(Concluded)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
 YEAR ENDED DECEMBER 31, 2005  
 (In Thousands of New Taiwan Dollars)

Number	Company Name	Counterparty	Transaction Details				
			Nature of Relationship	Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
0	The Corporation	The former TransAsia Telecommunications Inc.	1	Accounts receivable	\$ 152,427	Based on regular terms	-
		The former Mobitai Communications	1	Accounts receivable	230,606	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Accounts receivable	2,667	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Other receivables	151,629	Based on regular terms	-
		The former Mobitai Communications	1	Other receivables	263,663	Based on regular terms	-
		Taiwan Cellular Co., Ltd.	1	Other receivables	21,810	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Accounts payable	17,050	Based on regular terms	-
		The former Mobitai Communications	1	Accounts payable	52,478	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Other payables	165,360	Based on regular terms	-
		The former Mobitai Communications	1	Other payables	39,276	Based on regular terms	-
		Taiwan Cellular Co., Ltd.	1	Accrued expenses	20,525	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Accrued expenses	206,309	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Other current liabilities	161,795	Based on regular terms	-
		The former Mobitai Communications	1	Other current liabilities	154,183	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Operating revenues	1,478,877	Based on regular terms	2%
		The former Mobitai Communications	1	Operating revenues	652,582	Based on regular terms	1%
		Taiwan Teleservices & Technologies Co., Ltd.	1	Operating revenues	21,751	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Operating costs	629,487	Based on regular terms	1%
		The former Mobitai Communications	1	Operating costs	230,314	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	1	Marketing expenses	185,936	Based on regular terms	-
Taiwan Teleservices & Technologies Co., Ltd.	1	Marketing expenses	986,716	Based on regular terms	2%		
Taiwan Tele-Shop Co., Ltd.	1	Rental income	7,398	Based on regular terms	-		
Taiwan Teleservices & Technologies Co., Ltd.	1	Rental income	97,280	Based on regular terms	-		
1	The former TransAsia Telecommunications Inc.	The Corporation	2	Accounts receivable	329,489	Based on regular terms	-
		The former Mobitai Communications	3	Accounts receivable	1,279	Based on regular terms	-
		The Corporation	2	Other receivables	10,418	Based on regular terms	-
		The Corporation	2	Accounts payable	152,204	Based on regular terms	-
		The former Mobitai Communications	3	Accounts payable	161	Based on regular terms	-
		The Corporation	2	Other payables	148,700	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Other payables	15,067	Based on regular terms	-
		The Corporation	2	Operating revenues	629,564	Based on regular terms	1%

(Continued)

Number	Company Name	Counterparty	Transaction Details				Percentage of Consolidated Total Operating Revenues or Total Assets
			Nature of Relationship	Account	Amount	Transaction Terms	
		The former Mobitai Communications The Corporation	3	Operating revenues	\$ 44,854	Based on regular terms	-
		The former Mobitai Communications Taiwan Tele-Shop Co., Ltd.	2	Operating costs	1,452,425	Based on regular terms	2%
		Taiwan Teleservices & Technologies Co., Ltd.	3	Operating costs	37,865	Based on regular terms	-
			3	Marketing expenses	4,584	Based on regular terms	-
			3	Marketing expenses	233,676	Based on regular terms	-
2	The former Mobitai Communications	The Corporation	2	Accounts receivable	52,992	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	3	Accounts receivable	161	Based on regular terms	-
		The Corporation	2	Other receivables	194,033	Based on regular terms	-
		The Corporation	2	Prepayments	224	Based on regular terms	-
		The Corporation	2	Accounts payable	230,606	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	3	Accounts payable	1,288	Based on regular terms	-
		The Corporation	2	Other payables	263,440	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Other payables	28,046	Based on regular terms	-
		The Corporation	2	Operating revenues	230,328	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	3	Operating revenues	37,865	Based on regular terms	-
		The Corporation	2	Operating costs	596,683	Based on regular terms	1%
		The former TransAsia Telecommunications Inc.	3	Operating costs	39,291	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Marketing expenses	57,849	Based on regular terms	-
3	Taiwan Cellular Co., Ltd.	The Corporation	2	Other payables	18,774	Based on regular terms	-
4	Taiwan Tele-Shop Co., Ltd	The Corporation	2	Operating revenues	185,936	Based on regular terms	-
		The Corporation	2	Administrative expenses	7,398	Based on regular terms	-
5	Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	2	Accounts receivable	182,624	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	3	Accounts receivable	40,976	Based on regular terms	-
		The former Mobitai Communications	3	Accounts receivable	28,046	Based on regular terms	-
		TT&T Life Insurance Agency Co., Ltd.	1	Accounts receivable	2,692	Based on regular terms	-
		The Corporation	2	Accounts payable	2,667	Based on regular terms	-
		TT&T Holdings Co., Ltd.	1	Other payables	30,686	Based on regular terms	-
		The Corporation	2	Accrued expenses	4,826	Based on regular terms	-
		Xiamen Taifu Teleservices& Technologies Ltd.	1	Accrued expenses	7,250	Based on regular terms	-
		The Corporation	2	Operating revenues	986,716	Based on regular terms	2%
		The former TransAsia Telecommunications Inc.	3	Operating revenues	233,676	Based on regular terms	-
		The former Mobitai Communications	3	Operating revenues	57,849	Based on regular terms	-
		The Corporation	2	Operating costs	6,284	Based on regular terms	-
		Xiamen Taifu Teleservices& Technologies Ltd.	1	Marketing expenses	8,270	Based on regular terms	-
		The Corporation	2	Administrative expenses	112,751	Based on regular terms	-
6	TT&T Life Insurance Agency Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	2	Accrued expenses	2,692	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty	Transaction Details				
			Nature of Relationship	Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
7	TT&T Holdings Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	2	Other receivables	\$ 30,686	Based on regular terms	-
8	Xiamen Taifu Teleservices & Technologies Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	2	Accounts receivable	6,561	Based on regular terms	-

Note 1: Parent to subsidiary.

Note 2: Subsidiary to parent.

Note 3: Between subsidiaries.

(Concluded)