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2004



# Taiwan Mobile Co., Ltd. Annual Report

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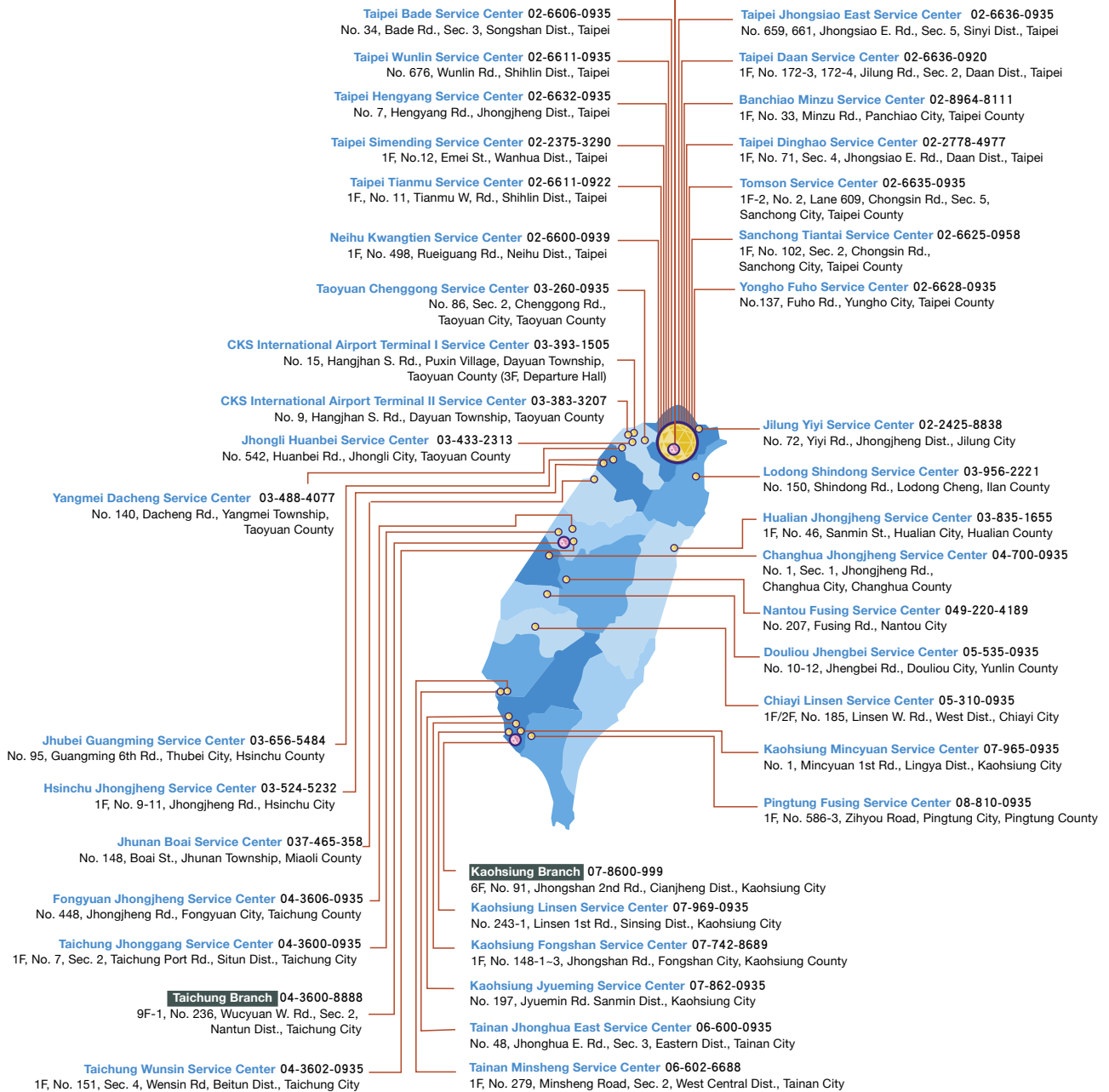
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Note: The Company's name has been changed from Taiwan Cellular Corp. to Taiwan Mobile Co., Ltd. in April, 2005. Accordingly, the Company's website has been changed from www.tcc.net.tw to www.taiwanmobile.com



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**Head Office**



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# Letter to the Shareholders

## **Dear Shareholders,**

As a result of the consolidation of GSM operators from six to three similar sized players, the Taiwan telecommunication market has experienced a benignly competitive environment and achieved stable growth in the past year. Taiwan Cellular Corporation, “TCC” or “The Company”, through upgrading its customer composition, enhancing its brand value, focusing on its core competency, and realizing economies of scale through acquisitions, has improved its net profit by 25% and EPS by 22% versus the previous year, both new highs in recent years. In 2004, the Company’s stand alone revenue amounted to NT\$45.09bn, consolidated revenue, which includes TransAsia Telecommunications Inc. (TAT) and Mobitai Communications (Mobitai), amounted to NT\$55.16bn, net income amounted to NT\$16.66bn, and after- tax EPS amounted to NT\$3.55.

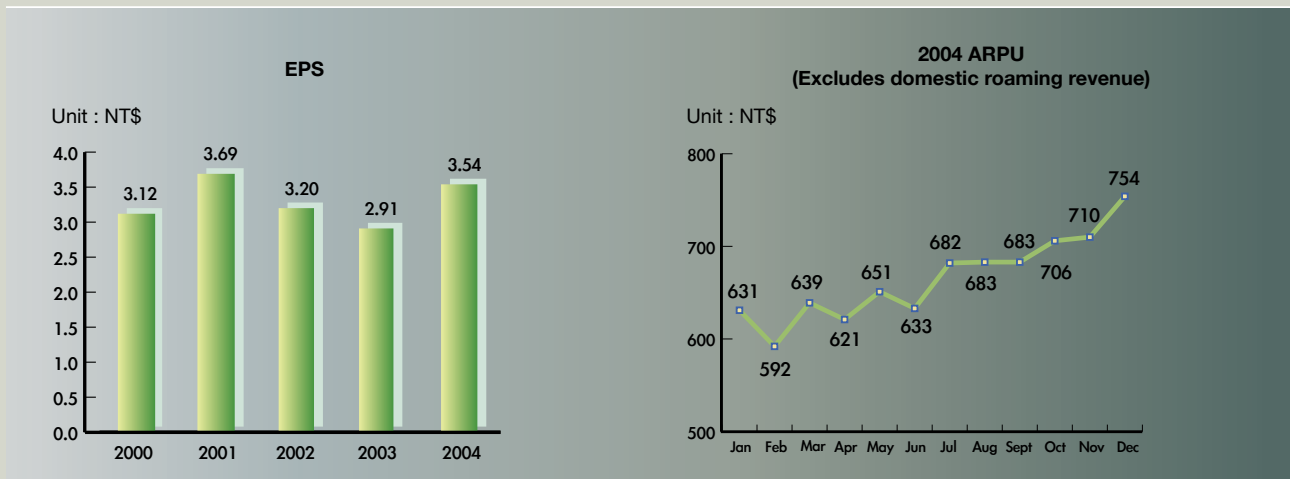
The Company’s 2004 operating results can be summarized as follows:

## **Upgrading Customer Composition**

The Company has set a strategy of acquiring and retaining high contribution customers. At the same time, the Company has been churning its low contribution postpaid and inactive prepaid customers. As a result of these efforts, in 2004, although the total number of subscribers was reduced by 17% to 4.83 million, voice revenue and value-added services revenue grew by 0.2% and 20.9% respectively. In addition, average revenue per user (ARPU) grew by almost 20% to NT\$693, the highest since 2002 and minutes of usage (MOU) per subscriber also grew by 20%. Furthermore, medium and high contribution customers now account for over 50% of the Company’s customers, which should help the Company’s future developments.

## **Enhancing Brand Value**

To enhance the Company’s brand value, the Company has started using Customer Relationship Management (CRM) tools to satisfy the diverse needs of its various customer groups. In June, the Company launched two new rate plans, 401/801, aimed at medium to high contribution customers. The



Company also strengthened the retention efforts of its high contribution customers. In August, the Company rolled out Business Solutions for its corporate customers. In December, the Company launched the “catch” music value-added service aimed at the youth market. As a result of these programs, customer satisfaction and loyalty level both showed significant improvements.

### Focus on Core Competency

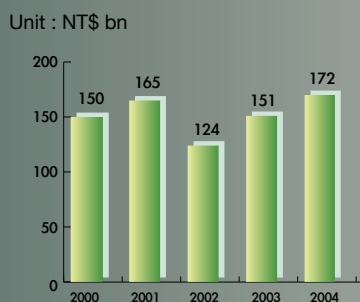
In order to provide customers with the most valuable telecommunication services, the Company has continued upgrading its existing equipment, investing in 3G services, and improving its core competencies in the following areas:

1. Simplified its investment structure and increased its financial transparency. Eliminated the complex cross-holding structure and based on the capital needs of its affiliates, organized capital reductions for these affiliates and received back NT\$5.5bn.
2. Disposed of NT\$9.2bn worth of its non-core investment of Chunghwa Telecom shares.
3. Used these proceeds to reduce its long-term debt and buy back its convertible bonds, to prevent the diluting of its earnings per share and improve its financial structure.

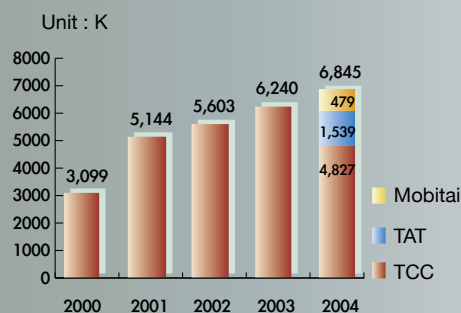
The Company’s net debt to equity ratio decreased from 72% in 2003 to 31% in 2004, a historical low for the Company. In addition, operating cashflow exceeded NT\$25bn, an increase of 22% versus the previous year and ROE improved two percentage points to 22%, thus enabling the Company to pay out a stable cash dividend.

As a result of the improvements in its financial transparency and reduction in its debt level, the Company’s investment value received the acknowledgement of both domestic and foreign investors. QFII holdings increased to over 30% and the Company’s long-term corporate credit rating and unsecured corporate bond rating by Taiwan Ratings Corporation both improved two notches to twAA. These achievements will not only help lower capital costs in the future, but they also effectively improve shareholder value. In 2004, the Company’s market cap increased to NT\$172 billion, the highest level

**Market Capitalization**



**Subscribers**



since its inception, ranking it 17th amongst Taiwan's publicly listed companies.

### **Realizing Economies of Scale through Acquisitions**

The Company is determined to exploit synergies and economies of scale realized through integration of its subsidiaries. After the acquisition of TAT in July 2001, the Company acquired 67% of Mobitai last August, further expanding the scope of its telecommunications business. At the end of 2004, the Company's combined subscriber base reached 6.85 million, accounting for over 30% of total market share. Through a series of corporate restructuring and re-allocation of its human resources, the Company's operating results and net income both improved. In 2004, investment income from TAT and Mobitai accounted for 14% of the Company's net income, with investment income from TAT growing by 153%.

Looking forward, though many challenges lie ahead with the implementation of "Number Portability", the launch of "3G" services, and roll-out of VOIP and MVNO business models, the Company will sustain its growth momentum through increasing its competitiveness. In addition to leveraging its "Customer Caring" brand value to build customer loyalty, rolling out new mobile and value-added services for 2G/3G, and expediting the integration of TAT and Mobitai, the Company also plans to more aggressively participate in international forums and form strategic alliances with foreign operators in order to develop more innovative and differentiated services and thus maximize shareholder and customer value.

Daniel Tsai  
Chairman

Harvey Chang  
President



# Company Highlights

## Vision

“Customer Caring” is the Company’s core vision. Through constant innovations, the Company strives to satisfy the needs of its customers at all times to create the highest level of customer satisfaction. The Company also continuously works on increasing customer value to maximize shareholder value.



## Core Competency

To provide the customers with the highest level of telecommunication services, the Company not only aims to satisfy customers’ existing needs, but also strives to create future needs. The Company also offers the best communication standards and customer service, and works continuously on improving the quality of its network and developing innovative products.

## Company Profile

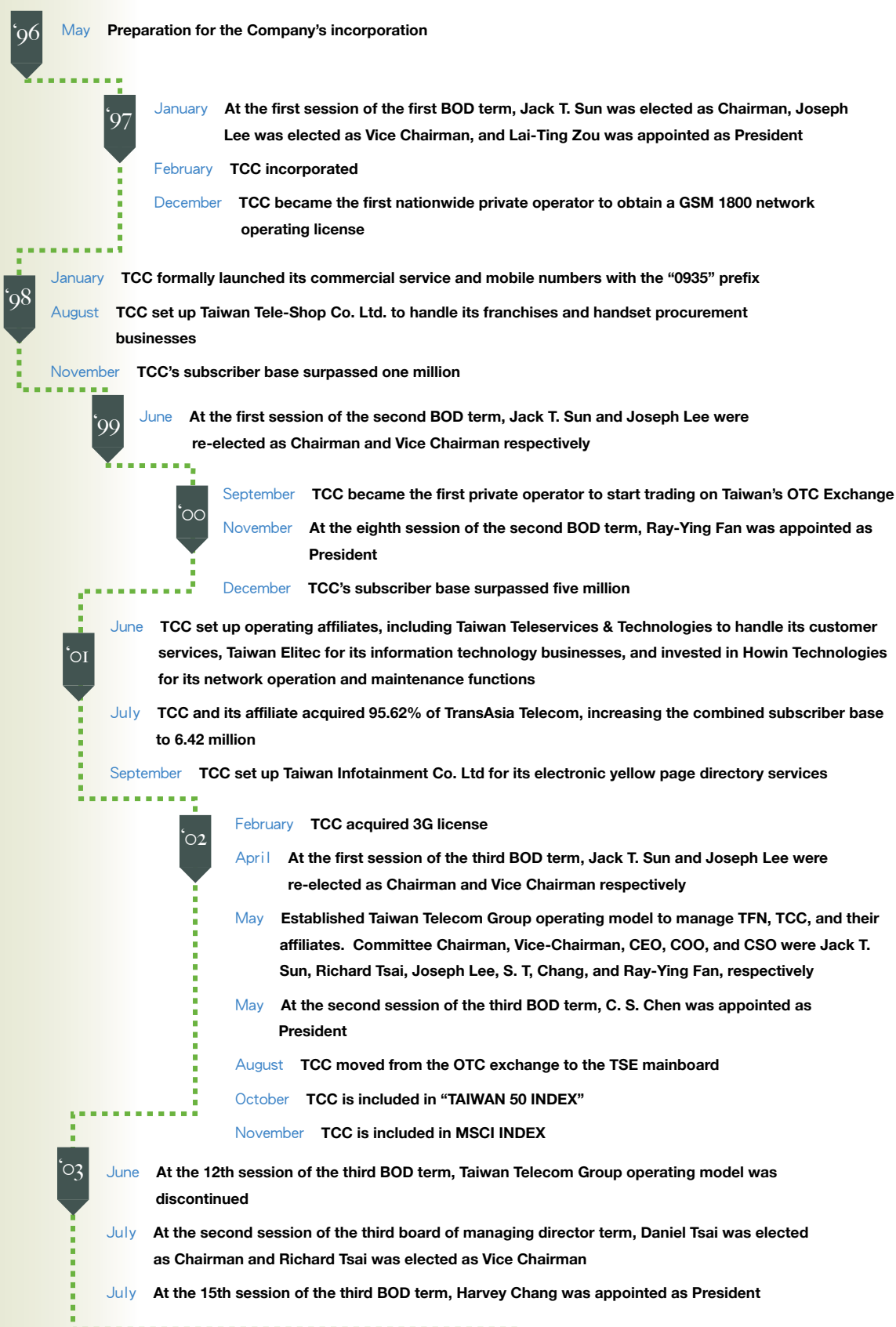
Taiwan Cellular Corporation, “the Company”, was incorporated in the Republic of China (“ROC”) on February 25, 1997. It was the first non-state owned company to receive nationwide GSM 1800 license. It was also the first telecommunications company to go public. In 2004, the Company’s market capitalization reached NT\$172bn, ranking it 17<sup>th</sup> amongst Taiwan’s publicly listed companies.

The operational scale of the Company has increased as a result of the popularization of mobile services and the expansion of its business through the acquisition of TAT and Mobitai. In 2004, the consolidated subscriber base reached 6.85 million, accounting for over 30% of the market share. In November 2004, the Company joined the largest Asian telecom alliance, Bridge Mobile Alliance, to improve its international competitiveness.

Providing the most valuable service to customers has always been the Company’s commitment. The Company has around 1,000 stores in the form of direct stores, franchises, and open channels. The Company’s subsidiary, Taiwan Teleservices & Technologies Co. Ltd., also houses Taiwan’s largest and highest quality customer service center. The Company plans to continue to provide the highest quality of network services and innovative products and reach new heights in 2005 with the launch of its 3G services.



# Milestones



# Milestones - 2004

March

TCC and TAT launched OneNet service, providing discounted intra-net calling

April

All network operations and maintenance are now handled by TCC internally, 420 network engineers from subsidiary Howin Technologies were transferred to TCC

May

Outsourced handset procurement business, 85 handset procurement and maintenance employees from Taiwan Tele-shop were transferred to selected partners

June

Merged with T&M Investment Co., Ltd, allowing direct ownership of TAT to increase to 92.317%

July

Launched "myfone" corporate identity system

August

- Rolled out "Business Solutions" for corporate customers
- Eliminated printing division of subsidiary Taiwan Elitec Corporation and outsourced billing printing service and transferred 18 employees to selected vendor
- Acquired 67% holdings in Mobitai, increasing the combined subscriber base to 8.2 million

September

97 billing collection and risk management employees of subsidiary Taiwan Elitec Corporation were transferred to TCC's Credit & Collection Division

November

- 173 employees of subsidiary TransAsia Telecommunications Inc. were transferred to related divisions of TCC
- TCC became the only Taiwanese mobile operator to join Bridge Mobile Alliance, the largest mobile alliance in Asia

December

- Launched new value-added service brand "catch" in anticipation of the new mobile Internet era
- Taiwan Infotainment Co., Ltd. merged with TT&T and was renamed as Taiwan Teleservices & Technologies Co., Ltd.
- 197 information engineering employees of subsidiary Taiwan Elitec Corporation were transferred to TCC



# Awards & Recognitions

- 
- '99** July Customer service system accredited with ISO 9002 certification
  - '99** December Rated "excellent" by Directorate General of Telecommunications (DGT) in service quality based on the three criteria of downtime, blocking rate and coverage in tunnel
  - '00** March Network engineering management accredited with ISO 9002 certification
  - '01** December Ranked as one of the top 10 companies in Taiwan by Far Eastern Economic Review
  - '02** April Ranked No. 6 by Commonwealth Magazine for Top 500 companies in Taiwan's service sector
  - '03** December "Ranked No. 1 and No. 2 by Asiamoney for Most Improved Corporate Governance and Most Improved Investor Relations, respectively"
  - '03** December Ranked No. 3 by The Asset for Best Corporate Governance in Taiwan
  - '04** June Ranked No. 1 by DGT for Best Telecom Company in respecting personal information and privacy
  - '04** July Ranked No. 1 by Institutional Investor for Most Improved Corporate Governance
  - '04** September Ranked No. 1 by Euromoney for Best Corporate Governance in Taiwan
  - '04** October Ranked No.1 by Next Magazine for Best Customer Service Mobile Telecom Operator in Taiwan
  - '04** December Taiwan Ratings Corp. raised its long-term corporate credit rating and its unsecured corporate bond rating of TCC from 'twA+' to 'twAA'

# Market Overview

## Macroeconomics

Taiwan's wireless market has gone from the growth phase where the market expanded rapidly and demand vastly exceeded supply to a more stabilized and matured phase last year. According to statistics released on February 24, 2005 by the Directorate General of Budget, Accounting and Statistics (DGBAS) of Executive Yuan, Taiwan's GDP grew by 5.71% in 2004, over the same time period, wireless revenue grew by 4.59%, demonstrating that the overall wireless market growth is highly correlated to overall economy growth. In 2005, DGBAS anticipates a GDP growth of 4.21%, therefore the overall wireless market should experience a similar benign growth.

## Industry Development

### 1. Three Players Market

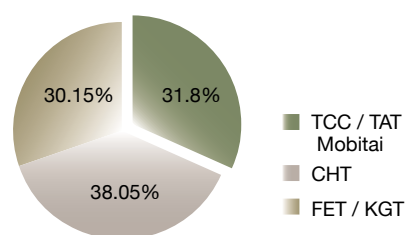
Taiwan currently has four nationwide GSM mobile phone service operators, namely the Company, Chunghwa Telecom (CHT), Far Eastone (FET), and KG Telecom (KGT), two regional GSM operators, Mobitai Communications (Mobitai) and TransAsia Telecommunications (TAT), and one greenfield 3G operator, Asia Pacific Broadband Wireless. Following FET's acquisition of KGT in 2003 and the Company's acquisition of the majority stakes of TAT and Mobitai, Taiwan's telecommunications industry has essentially been consolidated into an "oligopoly" market. In 2004, the breakdown of each operator's subscriber base and market share is as follows:

As of Dec. 31, 2004

Operator	Subscribers	Market share
TCC	4,827,091	22.42%
TAT	1,539,091	7.15%
Mobitai	479,487	2.23%
CHT	8,191,099	38.05%
FET	4,139,837	19.23%
KGT	2,351,328	10.92%
Total	21,527,933	100.00%

Source : Ministry of Transportation and Communications

Market Share by Subscribers



### 2. Growth Led by Innovative Services

As Taiwan's mobile industry continues to mature, industry growth will rely less and less on subscriber growth. According to statistics from the Ministry of Transportation and Communications (MOTC), at the end of 2004, total number of mobile subscribers actually decreased by 14.20% from a year ago to 21,527,933. However, total mobile outgoing minutes still rose by 8.28% for the same period. This suggests that increasing usage through handset, mobile service content, and technology advancements will be the main propelling growth factors for the industry.

### 3. Opportunities and Challenges

The Company believes that the overall macro environment is still favorable for the growth of the telecommunications industry, with the major positive and negative factors as follows:

#### (1) Positive Factors:

- Market consolidation, as evidenced by TCC acquiring TAT and FET merging with KGT, has led to a more rational market environment.
- The increase in handset functions, improvement in handset quality, and decrease in handset prices should increase the frequency in which customers use telecommunication services.
- The mobile phone has become a "must have" communication tool in daily life.



- (d) Increase adoption of wireless communication technology as a management tool and operation platform for enterprise customers.
- (e) The “Digital Era” is seeing the convergence of information, communication, and media industries, and telecommunication companies are poised to play a pivotal role in delivery multimedia content to customers.
- (f) Central and local governments have been promoting the deployment of WiFi technology and “dual-net” (cellular + WiFi) products to allow users the convenience of anytime access.
- (g) 3G’s high-speed environment will allow additional mobile content to be delivered at faster connections with better quality, which will lead to higher subscriber usage and increased revenue for the telecommunication companies.

**(2) Negative Factors:**

- (a) Limited subscriber growth potential as the market is saturated.
- (b) Constant upgrading of technology and sales initiatives is likely to cause the need for increased resources and thus higher costs in order to retain customer loyalty.
- (c) With the imminent implementation of Mobile Number Portability, the cost of enrolling new customers and retaining existing customers is expected to increase.
- (d) During the initial stage of 3G services’ introduction, higher expenditures in equipment, research and development, and marketing is expected, but customer acceptance may not be immediate.



# Operating Strategy

Maximizing customer value to increase company value has been the Company's core operating strategy. In 2004, through segmentation marketing and focusing on its core competency to increase operating efficiency, the Company strived to achieve a win-win situation for both the Company and its customers in a mature telecommunications industry.

## Products and Services

The Company holds a GSM 1800 license and a 3G license to operate mobile phone services nationwide, covering Taiwan, Kinmen, Matsu and all the outlying islands.

The Company provides mobile services with the following prefixes—0935, 0939, 0922, 0920, 0918, 0952, 0953, 0958, 0914, 0961, and 0970—and services, as categorized below:

Type of service	
Mobile Phone	Phone Card
Postpaid subscription	Postpaid vouchers
Prepaid subscription	Prepaid recharge cards

1. Basic telecommunication services, such as calling or receiving calls from local fixed-line, DLD, IDD, mobile phone and pager users.
2. Value-added services, including voice mail, call forwarding, call waiting, conferencing, short messaging service, roaming, call barring, and multimedia & content services. (e.g. ringtone, games, screen saver, MP3, video clip, video streaming)
3. Business solutions, such as enterprise package and MVPN (mobile virtual private network), mobile messaging service (a dedicated platform to deliver high volume SMS with cost effectiveness), mobile data service (wireless internet access via GPRS/WLAN, positioning tracking/fleet management via GPS/GPRS).

## Revenue Breakdown for the Past Two Years:

Unit: NT\$'000; %

	2004		2003	
	Amount	%	Amount	%
Telecommunication service revenue	44,531,866	98.77%	44,926,991	99.85%
Voice Revenue	42,400,037	94.04%	43,167,126	95.94%
Data Revenue	2,131,829	4.73%	1,759,865	3.91%
Other revenue	554,556	1.23%	68,799	0.15%
Total revenue	45,086,422	100.00%	44,995,790	100.00%

## Revenue for the Past Two Years:

	2004			2003		
	Domestic		Overseas	Domestic		Overseas
	Avg. # of subscribers	Revenue (NT\$'000)	Revenue (NT\$'000)	Avg. # of subscribers	Revenue (NT\$'000)	Revenue (NT\$'000)
Telecommunication Services	5,440,157	44,531,866	-	6,457,257	44,926,991	-

Note: Average # of subscribers = (sum of each month's average number)/12



## Competitive Advantages and Strategies

Powerful network coverage, all-inclusive after-sales service, innovative products and original marketing strategies will enable the Company to continue to create excellent operating results in this competitive environment, and will ensure that the Company maintains its excellent image and leadership.

- 1. Economies of Scale:** The Company, being a major mobile operator, gains leverage through economies of scale on the back of lower equipment and marketing costs. These savings in turn benefit the Company's loyal subscribers through lower costs on intra-network calls.
- 2. Customer Service:** The Company has an extensive network of distribution channels with close to 400 direct and franchised stores in Taiwan, plus the Company's subsidiary, TT&T, has over 2,100 call center seats to provide 24-hour, around-the-clock customer service.
- 3. Value-Added Services:** Subscribers that signed up for the Company's mobile Internet services through the "catch" portal have exceeded 10% of its total subscribers. The Company's ring-tone download and music-related products have also experienced substantial growth in subscriber usage. These trends have established a solid foundation for the Company to launch its 3G services.
- 4. Resource Integration:** In 2004, the Company began integrating resources from TAT and Mobitai. This has led to non-price competition differentiation and preferential package offerings to existing subscribers to ensure customer loyalty and to increase company revenue.
- 5. International Alliance:** The Company joined "Bridge Alliance", the largest Asian mobile operator alliance, in November 2004. The Company expects to further strengthen its competitiveness through joint development /procurement of service platform, technology, and handsets. Looking ahead, The Company plans to further leverage its strength to provide better value and enhance product/service differentiation.

## Operating Status

### 1. Segmented Marketing to Create Growth Momentum

The design of each product and service is tailored for a specific market segment's needs. The Company is also proactively exploring new market segments with strong growth potential:

#### (1) Postpaid Products and Services

The Company has continued to strengthen its "My Mobile" postpaid rate plans, encouraging customers to choose the appropriate rate plan based on their specific needs. After launching the "301" and "601" plans aimed at teenagers with a high demand for short messaging in September 2003, the Company followed up with the "901" plan aimed at customers with a high volume of calls with a significant other, and the "401" and "801" plans aimed at customers with higher voice volume demands in 2004. These rate plans have been highly successful and the Company plans to continue to develop various rate plans aimed at different segments to increase customer MOU and retain customer loyalty.

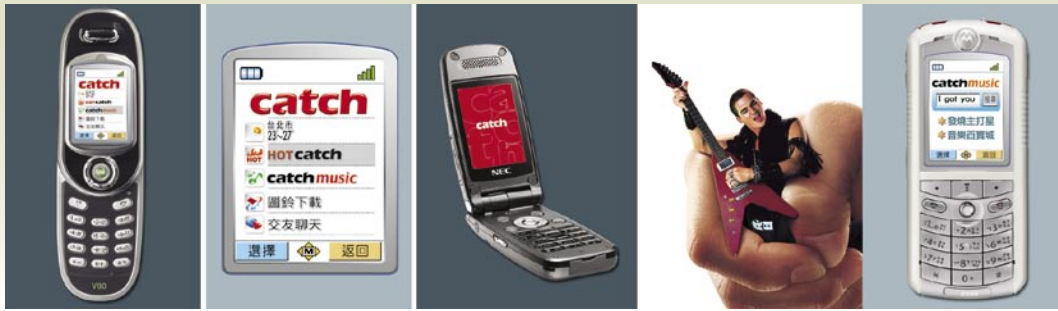
#### (2) Prepaid Services

In addition to aggressively securing its leadership in the foreign laborers prepaid cards market, the Company in 2004 also developed the local market by being the first operator to release the "Fun" prepaid card, geared toward the elementary and junior high school market. According to a survey conducted by the Company in April 2004, penetration rates in elementary and junior high school are only 14% and 37% respectively. The Company believes that this is a market segment with great growth potential and plans to ride on the "Fun" momentum and continue to develop new products aimed at specific market segments. In addition, the Company is encouraging the use of recharge cards to lower churn rate and increase the profitability of the prepaid card market.

#### (3) Value-Added Services

In anticipation of the mobile Internet era, the Company is keen on providing diverse contents and convenient usage





to increase its non-voice usage and revenue. At the end of 2004, the Company launched its value-added service brand, “catch”, based on the concept of the Wap portal, to provide customers search functions for ring-tone download, games, and multimedia messaging. The Company also worked together with major handset manufacturers to provide customized handsets to allow users single key access to these value-added services. These efforts enabled the Company’s data ARPU to experience exponential growth.

In 2005, value-added services will focus on three main areas:

- (a) Real time video, media streaming, real time TV, video call/telephony. 3D animated content and various multimedia applications.
- (b) Applications utilizing community and blog concepts.
- (c) Additional customized handsets and data card transmission equipment.

As the telecommunications market enters the high-speed transmission 3G era, and large screen multi-functional smart phones become more popularized, expanding value added service and increasing the stickiness of these applications to enhance customer loyalty will be the keys to success.

#### (4) Enterprise Customers’ Services

With the maturing of the individual user market, the Company in 2004 has restructured its Corporate Account Total Solution Division to capture opportunities in the enterprise market. In August, the Company formally launched “Business Solutions”, designed to assemble mobile communication, data and messages and related products to satisfy small, medium and large corporations’ needs for strengthening work efficiency, managing communication costs, and increasing customer satisfaction. In 2005, the Company plans to focus on mobile data and related products, such as “Mobile Internet”, “Mobile Office” and “Mobile Email” for the enterprise market.

## 2. Focus on Core Competency to Increase Operating Efficiency

In order to focus the Company’s resources on the strengthening of its core competency of “Providing the Customers with the Most Valuable Telecommunication Services”, the

Company has in 2004 began to modify the following:

- (1) Strengthening of its Sales Channels:** In order to effectively control channel marketing resources and increase services for customers, the Company is continuing the expansion of its “myfone” direct stores and integrating existing stores from TAT. In addition, the Company plans to strengthen the relationship with its other sales channels.
- (2) Outsourcing Handset Procurement:** The Company’s subsidiary Taiwan Tele-Shop Co., Ltd. will focus on the management of franchises and open channels. The Company also outsourced handset procurement and after-sale service to its partners in order to lower purchasing and inventory costs.
- (3) Outsourcing Billing Business:** In order to lower billing cost, the Company has outsourced its billing business, and began providing one consolidated bill to subscribers with multiple mobile numbers at the same address.
- (4) Integrating Resources from Subsidiaries:** The Company has integrated personnel from Taiwan Elitec Corp. and TAT back to the Company in order to avoid duplication of resources and strengthen the Company’s competitiveness.
- (5) Modifying Internal Flows:** Used ERP (Enterprise Resource Planning) to standardize and automate internal flows to lower management costs.

## Operating Results Review

With the success of the previously mentioned initiatives, in 2004, the Company was able to grow its data revenue by 20% year on year, accounting for 4.7% of total revenue as compared to 3.9% from a year ago.

Effective cost and expense management reduced selling expense by 13% and G&A expense by 16%, expanding EBITDA margin from 44.6% in 2003 to 47% in 2004.

With sound capital expenditure planning and control, the Company was able to reduce the net debt to equity ratio



from 72% in 2003 to 31% in 2004, raising the Company's capacity to pay cash dividends.

## Business Development and Strategies

Looking forward, the Company plans to strengthen communication quality, provide varied services and increase customer and service quality in order to retain customer loyalty and in turn increase customer usage and therefore the Company's overall operating results.

### 1. Short-Term Goals:

- (1) Continue to Strengthen Communication Quality:** Maintain a low blockage, low cut-offs and large coverage communication environment.
- (2) Retain High Contribution Customers and Seek New Customers:** Continue to work hard at retaining high contribution customers and seeking new customers in order to improve the quality of customer composition; provide varied value-added services to increase VAS revenues.
- (3) TCC, TAT, and Mobitai's Resource Integration:** Currently the Company has completed its human resources integration with Mobitai. In the future, the Company plans to integrate the resources of all three companies in order to achieve the benefits of economies of scale.
- (4) Become the Leading Brand in Providing Business Mobile Services:** Provide complete voice and data

services for enterprise customers, become the partner of choice to other enterprise vendors (such as IBM, Microsoft, Oracle) and play a pivotal role in the enterprise market. By end of 2006, obtain a market penetration rate of at least 50% for Taiwan's top 1,600 enterprises.

### 2. Long-Term Goals:

With the maturing of the mobile phone market and increased competition, in addition to the core focuses of increasing customer's usage and service quality, the strengthening of the Company's competitiveness is of utmost importance. Therefore, the Company plans to:

- (1) Become More Internationalized:** Internationalize from internal management to outside alliances, become a telecommunications company with international standards and differentiate among other local telecommunications companies.
- (2) Continue to Grow and Provide Innovative Services:** Adapting to the new communication era, continue to research and develop new technology, new products, and new services. Use integrated communication service, abundant mobile content and diverse functions to satisfy customers' future needs. Increase revenue from non-voice (data) value-added services to maintain the Company's growth momentum.
- (3) Build the "Customer Caring" Brand Value:** Maintain communication quality, design innovative products and services, and provide excellent customer service to satisfy the needs of different customer groups and become the telecommunications company of choice.

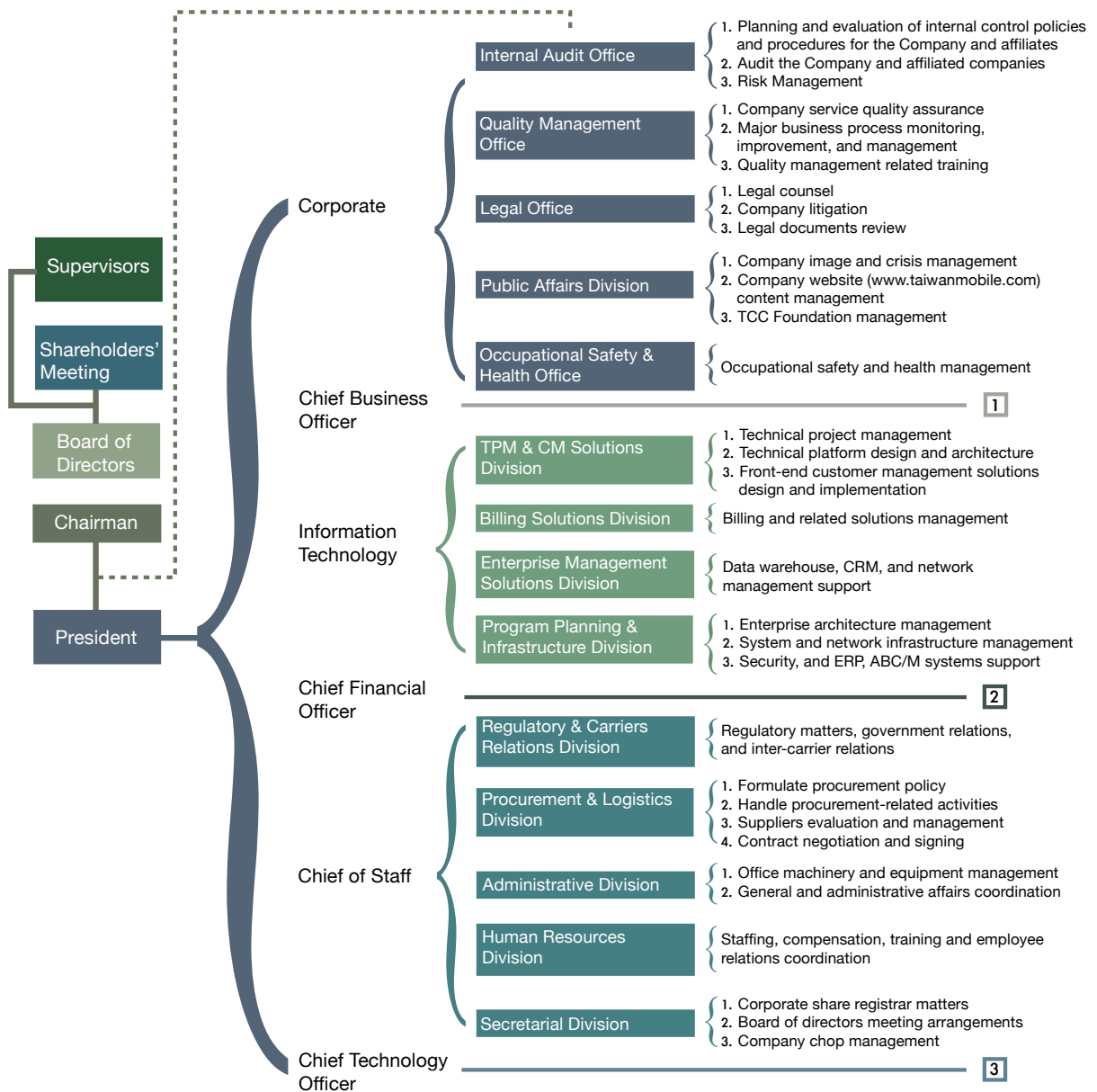


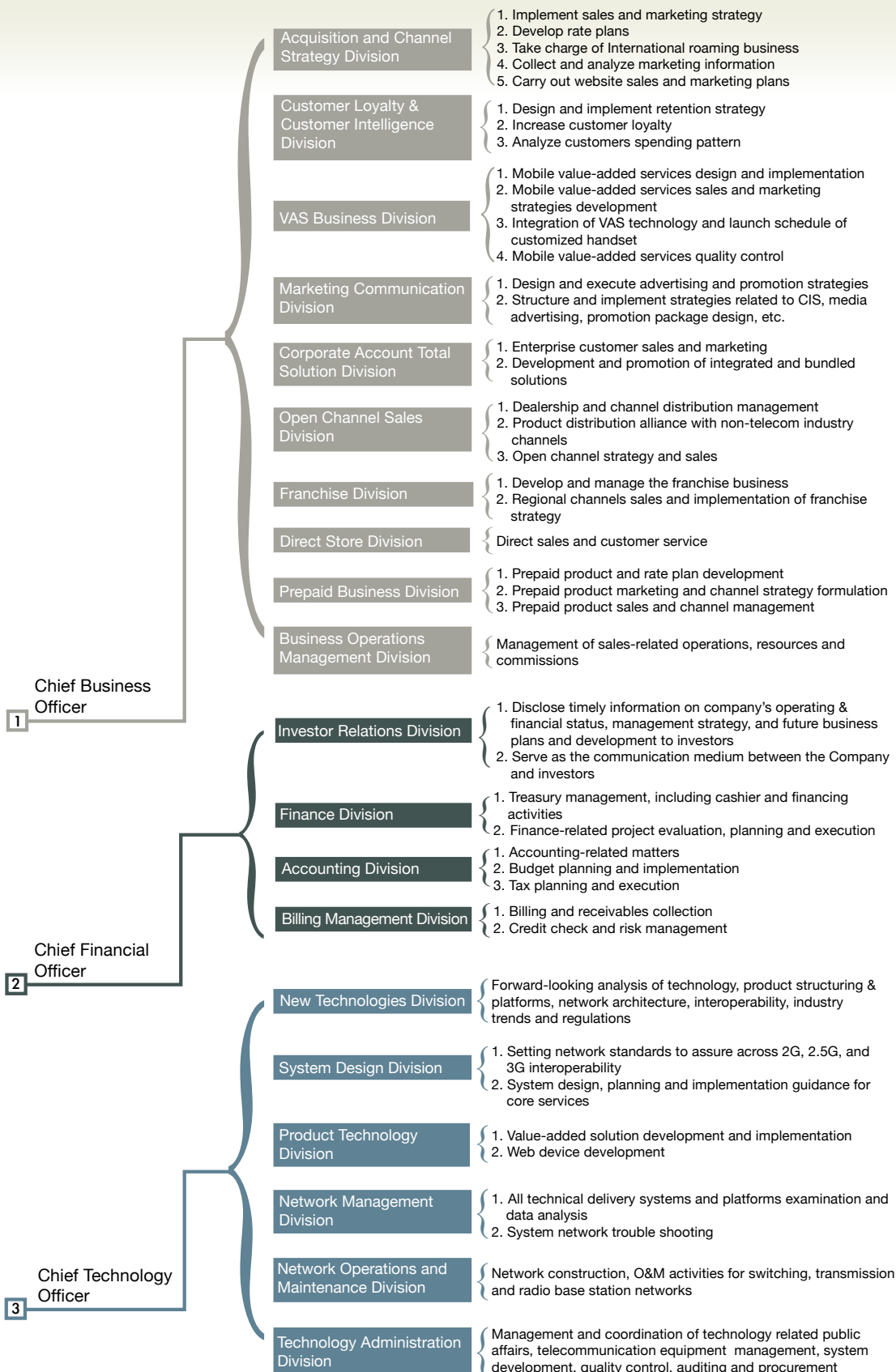
# Organization

To protect the interest of the investors, the Company has, accordingly to law, set up a Board of Directors to represent the investors in supervising the management team headed by the President. The Company's major divisions are separated by functions.

## Organization

### Organizational Chart and Division Responsibilities





## Board of Directors

The Board of Directors fully represents the interests of the investors and is responsible for supervising the management team. On April 26, 2002, the Company established a seat on the Board of Directors for an independent supervisor and on June 25, 2003, the Company added two seats on the Board for independent directors, thus fulfilling the two independent directors and one supervisor requirement for public companies. Information regarding the directors and supervisors on the third Board of Directors term is detailed below:



Chairman **Daniel Tsai**

Representative of Fu-Chi Venture Corp.

Date elected 2003.07.10  
Term expires 2005.04.25

#### Shareholding when elected

Shares 3,422,406  
% 0.090%

#### Current shareholding

Shares 4,235,569  
\* 105,075,964  
% 0.086%  
\* 2.137%

#### Spouse/minor's shareholdings

Shares 7,255,618  
% 0.148%

#### Education and experience

LL.B., National Taiwan University  
Graduate School of Law, Georgetown University  
Chairman, Fubon Insurance

#### Current position(s) in other companies

Chairman and Co-CEO, Fubon Financial Holding Co.  
Vice Chairman, Taipei Fubon Bank  
Chairman, Fubon Land Development Co.  
Chairman, Taiwan Fixed Network Co., Ltd.  
Chairman, TransAsia Telecommunications Inc.

#### Managers who are spouse or consanguineous within two degrees

Title Vice Chairman  
Name Richard Tsai  
Relationship Brother



Vice Chairman **Richard Tsai**

Representative of Fu-Chi Venture Corp.

Date elected 2003.07.10  
Term expires 2005.04.25

#### Shareholding when elected

Shares 3,422,406  
% 0.090%

#### Current shareholding

Shares 4,235,569  
\* 105,073,964  
% 0.086%  
\* 2.137%

#### Spouse/minor's shareholdings

Shares 7,995,965  
% 0.163%

#### Education and experience

MBA, Stern School, New York University  
Chairman, Fubon Securities Co., Ltd.

#### Current position(s) in other companies

Vice Chairman, Co-CEO, and President, Fubon Financial Holding Co.  
Chairman, Fubon Life Assurance  
Chairman, Fubon Asset Management  
Director, Taiwan Fixed Network  
Vice Chairman, TransAsia Telecommunications, Inc.

#### Managers who are spouse or consanguineous within two degrees

Title Chairman  
Name Daniel Tsai  
Relationship Brother



Managing Director **Nita Ing**

Representative of Ching Shang Zhen Corp.

Date elected 2003.07.10  
Term expires 2005.04.25

#### Shareholding when elected

Shares 1,815,302  
% 0.048%

#### Current shareholding

Shares 2,246,617  
\* 7,362,232  
% 0.046%  
\* 0.150%

#### Spouse/minor's shareholdings

Shares -  
% -

#### Education and experience

University of California, Los Angeles

#### Current position(s) in other companies

President, Continental Engineering Co., Ltd.  
Director, Taiwan Synthetic Rubber Co., Ltd.  
Chairman, Hao Ran Foundation  
Chairman, Taiwan High Speed Rail Corp.  
Chairman, Voice of Taipei Broadcasting Co., Ltd.  
Director, Taiwan Fixed Network Co., Ltd.  
Chairman, 921Earthquake Relief Foundation

#### Managers who are spouse or consanguineous within two degrees

Title -  
Name -  
Relationship -

\* Personal shareholding Note 1: Independent Director Note 2: Independent Supervisor



**Director Shi-Cheng Wang**

Representative of Kuo-Ta Investment Co., Ltd.

Date elected 2002.04.26  
Term expires 2005.04.25

**Shareholding when elected**

Shares 1,254,209  
% 0.033%

**Current shareholding**

Shares 1,552,208  
\* None  
% 0.032%  
\* -

**Spouse/minor's shareholdings**

Shares 9,120  
% 0.000%

**Education and experience**

Department of Accountancy, National Chung Hsing University

**Current position(s) in other companies**

none

**Managers who are spouse or consanguineous within two degrees**

Title -  
Name -  
Relationship -



**Director Ray-Ying Fan**

Representative of Taiwan Fixed Network Co., Ltd.

Date elected 2002.04.26  
Term expires 2005.04.25

**Shareholding when elected**

Shares 727,499,000  
% 19.225%

**Current shareholding**

Shares 900,352,762  
\* 30  
% 18.314%  
\* -

**Spouse/minor's shareholdings**

Shares -  
% -

**Education and experience**

B.S. University of Southern California  
M.S. California Institute of Technology  
President, Taiwan Cellular Corp.

**Current position(s) in other companies**

President, Taiwan Fixed Network Co., Ltd.  
Chairman, Howin Technologies Corp.

**Managers who are spouse or consanguineous within two degrees**

Title -  
Name -  
Relationship -



**Director Harvey Chang**

Representative of Kuo-Ki Investment Co., Ltd.

Date elected 2002.04.26  
Term expires 2005.04.25

**Shareholding when elected**

Shares 182,190  
% 0.005%

**Current shareholding**

Shares 225,478  
\* 2,120,000  
% 0.005%  
\* 0.043%

**Spouse/minor's shareholdings**

Shares -  
% -

**Education and experience**

MBA, Wharton School, University of Pennsylvania  
SVP, Trust and Foreign Depts. of Chiao Tung Bank  
Founding President of Grand Cathay Securities Corp.  
President, China Development Corp.  
Chairman, China Securities Investment Trust Corp.  
Vice Chairman, KG Telecommunications Co., Ltd.  
SVP & CFO, Taiwan Semiconductor Manufacturing Co., Ltd.

**Current position(s) in other companies**

President, Taiwan Cellular Corp.  
Director & President, TransAsia Telecommunications Inc.  
Director, Mobital Communications  
Chairman, Taiwan Teleservices & Technologies Co., Ltd.  
Chairman, Taiwan Elitex Corp.  
Chairman & President, Taihsing Den Den Co., Ltd.  
Director & President, T.I. Investment Ltd.  
Director & President, Tai Hsuo Investment Ltd.  
Director & President, Tai Fu Investment Ltd.  
Director & President, Tai Hung Investment Ltd.  
Director, TT&T Life Insurance Agency Co., Ltd.  
Director, TT&T Casualty & Property Insurance Agency Co., Ltd.  
Director, Dalian Xinkai Teleservices & Technologies Co., Ltd.  
Supervisor, Taiwan Fixed Network Co., Ltd.  
Director, Howin Technologies Corp.  
Chairman, IC Broadcasting Co., Ltd.  
Director, Taiwan Fund Inc.

**Managers who are spouse or consanguineous within two degrees**

Title - / Name - / Relationship -





Director **Piere Chen**

Representative of Kuo-Chung Investment Co., Ltd.

Date elected 2002.04.26  
Term expires 2005.04.25

**Shareholding when elected**

Shares 4,682,292  
% 0.124%

**Current shareholding**

Shares 5,794,804  
\* None  
% 0.118%  
\* -

**Spouse/minor's shareholdings**

Shares 2,833,741  
% 0.058%

**Education and experience**

Dept. of Engineering Science, National Cheng Kung University  
CEO, Yageo Corp.

**Current position(s) in other companies**

Chairman, Yageo Corp.  
Chairman, Global Testing Corp.  
Director, Taiwan Fixed Network Co., Ltd.

**Managers who are spouse or consanguineous within two degrees**

Title -  
Name -  
Relationship -



Director **George Huang**

Representative of Taiwan Fixed Network Co., Ltd.

Date elected 2002.04.26  
Term expires 2005.04.25

**Shareholding when elected**

Shares 727,499,000  
% 19.225%

**Current shareholding**

Shares 900,352,762  
\* None  
% 18.314%  
\* -

**Spouse/minor's shareholdings**

Shares -  
% -

**Education and experience**

Dept. of Communication Engineering National Chiao Tung University  
CFO, Acer Inc.

**Current position(s) in other companies**

Chairman, Mondex Taiwan Inc.  
Vice Chairman, Taiwan Hong Yuan Investment Co., Ltd.  
Vice Chairman, Taiwan Fixed Network Co., Ltd.  
Director, Acer Inc.  
Director, Lee & Lee Communications Co., Ltd.  
Director, Digitimes Publication Inc.  
Director, Lottery Technology Services Corp.  
Director, SUN NET Technology Corp. Ltd.  
Director, TFN Investment Co., Ltd.  
Director, The Eslite Corp.  
Director, Tornado Technologies Co., Ltd.  
Director, eBeasy Business Service Ltd.  
Supervisor, Apacer Technology Inc.  
Supervisor, TFN Online Ltd.  
Supervisor, TFN Multimedia Ltd.  
Supervisor, PCHOME Online Inc.

**Managers who are spouse or consanguineous within two degrees**

Title -  
Name -  
Relationship -



Director **Jack J.T. Huang**

(Note 1)

Date elected 2003.06.25  
Term expires 2005.04.25

**Shareholding when elected**

Shares -  
% -

**Current shareholding**

Shares -  
\* -  
% -  
\* -

**Spouse/minor's shareholdings**

Shares -  
% -

**Education and experience**

LL.B., National Taiwan University  
LL.M., Northwestern University  
S.J.D., Harvard University  
Partner, Jones Day Attorneys-at-Law  
Coudert Brothers, New York  
Lee and Li Attorneys-at-Law

**Current position(s) in other companies**

Director, Yulon Motor Co., Ltd.  
Director, China Motor Corp.  
Independent Director, World Peace Industrial Co.  
Independent Director, Systex Corp.

**Managers who are spouse or consanguineous within two degrees**

Title -  
Name -  
Relationship -







Director **Wen-Li Yeh**

(Note 1)

Date elected 2003.06.25  
Term expires 2005.04.25

**Shareholding when elected**

Shares -  
% -

**Current shareholding**

Shares -  
\* -  
% -  
\* -

**Spouse/minor's shareholdings**

Shares -  
% -

**Education and experience**

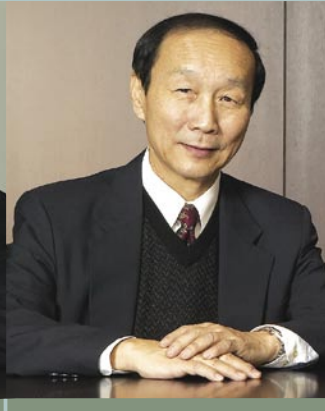
Dept. of Architecture, Chung-Yuan Christian University  
Master & Ph.D. Candidate, University of Paris  
Graduate Studies, University of California, Berkeley  
Planner, Council for Economic Planning and Development, Executive Yuan  
Managing Director, United Pacific International Inc.  
President, United Communications  
Managing Director & Vice Chairman, United Advertising Co.  
Chairman, Carat-United Media Services (Taiwan) Ltd.

**Current position(s) in other companies**

Chairman, Aegis Media Group  
Executive Director-Taiwan, Asatsu-DK Group Japan  
Director, Federal Corp.

**Managers who are spouse or consanguineous within two degrees**

Title -  
Name -  
Relationship -



Supervisor **J. Carl Hsu**

Representative of Taiwan Fixed Network Co., Ltd.

Date elected 2002.04.26  
Term expires 2005.04.25

**Shareholding when elected**

Shares 727,499,000  
% 19.225%

**Current shareholding**

Shares 900,352,762  
\* None  
% 18.314%  
\* -

**Spouse/minor's shareholdings**

Shares -  
% -

**Education and experience**

BSEE, National Taiwan University  
Ph.D. & MS, Computer Science, UCLA  
Group President, Lucent Technologies  
Executive Vice President, Bell Labs  
Senior Vice President, AT&T  
Professor, Taiwan Tsing-Hua University, Peking University, etc.

**Current position(s) in other companies**

Professor-Peking University and other universities

**Managers who are spouse or consanguineous within two degrees**

Title -  
Name -  
Relationship -



Supervisor **Tsung-Ming Chung**

(Note 2)

Date elected 2004.06.15  
Term expires 2005.04.25

**Shareholding when elected**

Shares -  
% -

**Current shareholding**

Shares -  
\* -  
% -  
\* -

**Spouse/minor's shareholdings**

Shares -  
% -

**Education and experience**

MBA, National Chengchi University  
BBA, National Taiwan University  
CPA, ROC  
CPA, Connecticut, USA  
Partner, T.N. Soong & Co.  
Instructor, Dept. of Accounting, National Chengchi University

**Current position(s) in other companies**

Vice Chairman, Arima Optoelectronics Corp.  
Chairman, Dynapack Corp.  
Director & Supervisor, Arima Computer Group  
Supervisor, Chroma Ate Inc.  
Independent Supervisor, Polytronics Technology Corp.  
Stationed Supervisor, Far Eastern Int'l Bank  
Director, KYE Enterprise  
Director, Unity Opto Technology

**Managers who are spouse or consanguineous within two degrees**

Title -  
Name -  
Relationship -



Supervisor **Victor Kung**

Representative of Fu-Chi Venture Corp.

Date elected 2002.04.26  
Term expires 2005.04.25

**Shareholding when elected**

Shares 3,422,406  
% 0.090%

**Current shareholding**

Shares 4,235,569  
\* None  
% 0.086%  
\* -

**Spouse/minor's shareholdings**

Shares 960  
% 0.000%

**Education and experience**

MA in Economics and MBA in Finance, New York University  
EVP, Walden International Investment Group (WIIG)  
Executive Director, Citicorp Capital Asia Ltd.  
Director of Direct Investments, AIG Investment Corp.

**Current position(s) in other companies**

EVP & CFO, Fubon Financial Holding Co.  
Chairman, Fubon Direct  
Director, Fubon Insurance  
Supervisor, Fubon Life Assurance  
Director, World Vision Taiwan  
Supervisor, Taipei Fubon Bank  
Supervisor, Taipei Fubon Bank Foundation  
Supervisor, Fubon Asset Management  
Supervisor, Fubon Venture Capital  
Director, International Bank of Asia

**Managers who are spouse or consanguineous within two degrees**

Title -  
Name -  
Relationship -



## 1. Major Shareholders of TCC's Institutional Investors

As of March 15, 2005

Institutional investors	Major shareholders of TCC's institutional investors
Fu-Chi Venture Corp.	Richard Tsai, Mei-Hui Ueng Tsai
Ching Shang Zhen Corp.	Dugan Co.
Kuo-Ki Investment Co., Ltd.	Daniel Tsai, Richard Tsai
Kuo-Ta Investment Co., Ltd.	Jyh Wenn Tsai
Kuo-Chung Investment Co., Ltd.	Yageo Corp.
Taiwan Fixed Network Co., Ltd.	Taiwan Cellular Corp., Acer Digital Service Co., Fubon Land Development Co., Ltd., Continental Engineering Co., Ltd., Evergreen International Corp., Foxconn Electronics, Inc. Syu Tai Investment Ltd., ASE Network Inc., Howin Technologies Corp., Tong An Investment Co., Ltd., Chin-Cheng Investment Co., Ltd.

Company	Major shareholders
Dugan Co.	Long Reign Holdings Inc.
Yageo Corp.	Yageo Corp. GDR holders, Chen Mu Yun, Hsu Chang Investment Ltd., Supervisory Board for the Labor Pension Fund, etc.
Taiwan Cellular Corp.	Taiwan Fixed Network, TFN Investment, Taiwan Hong Yuan Investment, Continental Engineering, Fubon Insurance, Chunghwa Post, Fubon Life, Daniel Tsai, Richard Tsai, Fubon Securities
Acer Digital Service Co.	Acer Inc.
Fubon Land Development Co., Ltd.	Ming Dong Do., Ltd., Dao Ying Co., Ltd.
Continental Engineering Co., Ltd.	Wei Dar Investment Co., Ltd., Tina Ing
Evergreen International Corp.	Chang Kuo Hua, Chang Kuo Ming, Chang Kuo Cheng, Chang Shu Hua, Chang Kuo Wei,
Foxconn Electronics, Inc	Terry Gou
Syu Tai Investment Ltd	Li Huei Jhen
ASE Network Inc.	Advanced Semiconductor Engineering, Inc., Accton Technology Corp.
Howin Technologies Corp.	Taiwan Fixed Network, Taihsing Den Den Co., Ltd.
Tong An Investment Co., Ltd.	TECO Electric & Machinery Co., Ltd.
Chin-Cheng Investment Co., Ltd.	Walsin Lihwa Corp.

## 2. Independence Criteria of Directors and Supervisors

As of March 15, 2005

	Over five years of experience in business, finance, legal and/or other areas related to the Company's business	Independence criteria (Notes)						
		1	2	3	4	5	6	7
Daniel Tsai	✓			✓		✓	✓	
Richard Tsai	✓			✓		✓	✓	
Nita Ing	✓		✓	✓		✓	✓	
Shi-Cheng Wang	✓	✓	✓	✓	✓	✓	✓	
Ray-Ying Fan	✓		✓	✓			✓	
Harvey Chang	✓		✓	✓			✓	
Pieere Chen	✓		✓	✓		✓	✓	
George Huang	✓		✓	✓		✓	✓	
Jack J.T. Huang*	✓	✓	✓	✓	✓	✓	✓	✓
Wen-Li Yeh	✓	✓	✓	✓	✓	✓	✓	✓
J. Carl Hsu	✓	✓	✓	✓	✓	✓	✓	
Tsung-Ming Chung**	✓	✓	✓	✓	✓	✓	✓	✓
Victor Kung	✓	✓	✓	✓	✓	✓	✓	

\*✓ denotes meeting the conditions specified above

Criterion 1: Not an employee of the Company, nor a director, supervisor, or employee of the Company's affiliated companies.

Criterion 2: Not a shareholder directly or indirectly owning more than 1% of the Company's outstanding shares, nor one of the Company's top 10 individual shareholders.

Criterion 3: Neither a spouse nor first- or second-degree relative to any person specified in Criteria 1 & 2.

Criterion 4: Not a director, supervisor, or employee of an entity that directly and/or indirectly holds more than 5% of the Company's shares, nor one of the Company's top five shareholders.

Criterion 5: Not a director, supervisor, manager or shareholder owning more than 5% of the outstanding shares of certain companies that have financial or business relationship with the Company.

Criterion 6: Not an owner, partner, director, supervisor, manager, and his/her spouse, of any sole proprietorship, partnership, company or institution, that has provided financial, commercial, legal consultation and other services to the Company or its affiliates within the past year.

Criterion 7: Not an institutional shareholder or its representative pursuant to Article 27 of the Company Law.

\*\*\* also act as independent director for two other companies

\*\*\*\* also act as independent supervisor for another company

### 3. Insignificant Changes in Shareholder Structure

For 2004 and up to the publication date for 2005, the Company did not have any major share transfers or pledges by directors, supervisors, and shareholders with more than 10% of outstanding shares. The Company has maintained a good relationship with its directors, supervisors, and major

shareholders. In addition, with maximizing shareholder value as its goal, the Company tries to maintain a stable management in order to decrease shareholder risk. Below is a chart detailing net changes in shareholdings of directors, supervisors, managers, and major shareholders:

As of March 15, 2005; Unit: Shares

Title	Name	2004		2005 (as of March 15)	
		Net change in shareholding	Net change in shares pledged	Net change in shareholding	Net change in shares pledged
Chairman	Daniel Tsai, Representative of Fu-Chi Venture Corp.	0	0	0	0
Vice Chairman	Richard Tsai, Representative of Fu-Chi Venture Corp.	0	0	0	0
Managing Director	Nita Ing, Representative of Ching Shang Zhen Co., Ltd.	0	0	0	0
Director	Shi-Cheng Wang, Representative of Kuo-Ta Investment Co., Ltd.	0	0	0	0
Director	Ray-Ying Fan, Representative of Taiwan Fixed Network Co., Ltd.	0	0	0	0
Director	Harvey Chang, Representative of Kuo-Ki Investment Co., Ltd.	0	0	0	0
Director	Pieere Chen, Representative of Kuo-Chung Investment Co., Ltd.	0	0	0	0
Director	George Huang, Representative of Taiwan Fixed Network Co., Ltd.	0	0	0	0
Director	Jack J.T. Huang (Note 1)	0	0	0	0
Director	Wen-Li Yeh (Note 1)	0	0	0	0
Supervisor	J. Carl Hsu, Representative of Taiwan Fixed Network Co., Ltd.	0	0	0	0
Supervisor	Tsung-Ming Chung (Note 2)	0	0	0	0
Supervisor	Victor Kung, Representative of Fu-Chi Venture Corp.	0	0	0	0
President & Chief Executive Officer	Harvey Chang	1,600,000	0	0	0
Chief Technology Officer	David Clarke	0	0	0	0
Chief Financial Officer	Hui-Ming Cheng	393,000	0	(117,000)	0
Chief of Staff	Vivien Hsu	0	0	0	0

(Continued)



Title	Name	2004		2005 (as of March 15)	
		Net change in shareholding	Net change in shares pledged	Net change in shareholding	Net change in shares pledged
Chief Business Officer	James Wilson	0	0	0	0
Vice President	Li-Fang Chou	111,000	0	0	0
Vice President	Alex Cheng	146,000	0	0	0
Vice President	Juichi Tan	(23,000)	0	(12,000)	0
Vice President	Techi Juan	(22,000)	0	(7,000)	0
Vice President	Deng-Song Chiou	61,000	0	(20,000)	0
Vice President	Jerry Chu	0	0	0	0
Vice President	Andrew Wong	0	0	0	0
Vice President	C.A. Chuang	61,000	0	(10,000)	0
Vice President	Sean Hsieh	161,000	0	0	0
Vice President	Egon Chen	184,554	0	0	0
Vice President	Chien Chen	(747)	0	0	0
Vice President	Ariel Hwang	0	0	0	0
Vice President	James Yang	98,000	0	(40,000)	0
Vice President	Charles Shen	(30,000)	0	0	0
Vice President	Jay Hong	131,000	0	(40,000)	0
Vice President	Jerry Feng	0	0	0	0
Vice President	James Chang	0	0	0	0
Vice President	Simon Wang	(7,000)	0	0	0

Note 1: Independent Director  
Note 2: Independent Supervisor

Stock Trade with Related Party: None  
Stock Pledge with Related Party: None

#### 4. Execution of Major Resolutions at Shareholders and Board Meetings for 2004 and 2005 (Until March 15)

##### (1) Major Resolutions at the 2004 Shareholders' Meeting:

Matters discussed and approved:

- Business report and financial report for 2003
- 2003 earnings appropriation proposal
- Amendments to the Company's Articles of Incorporation
- Amendments to the "Procedures for Acquisition or Disposal of Assets"
- "Waiver of Non-Competition Responsibility" for directors

Election of board of directors and supervisors:

Mr. Tsung-Ming Chung was elected as an independent supervisor.

##### (2) Execution of Shareholders' Meeting Resolutions:

Resolutions made in the 2004 general shareholders' meeting have all been fully executed.

##### (3) Major Resolutions at Board Meetings:

- Approved appointment of new chief auditor
- Approved issuance of new shares for convertible bond conversions
- Approved cancellation of treasury stocks
- Holding of the 2004 general shareholders' meeting
- Proposed distribution of 2003 profits
- Approved 2004 capital expenditure
- Approved TCC merger with T&M Investment
- Approved CBI buy-back
- Approved the signing of Memorandum of Understanding to acquire Mobitai shares in two phases
- Set cash dividend payment date
- Reset CBI and CBII conversion prices
- Approved additional buy-back of CBI and CBII
- Approved 1H 2004 financial reports
- Approved 3G network expansion project
- Formed "Bridge Alliance" with leading Asian mobile operator
- Approved disposal of transmission equipment to TFN
- Proposed distribution of 2004 profits
- Approved handling of TAT's operation

## Distribution of Profit

### 1. Earnings Distributed as Employee Bonus and Compensation to Directors and Supervisors in the Previous Year

Employee bonus of NT\$369,913,000 and compensation to directors and supervisors of NT\$61,652,000, as approved in 2003's board of director and shareholder's meetings, were duly paid in 2004.

### 2. Compensation to Directors, Supervisors, and Managers in 2004

#### (1) Compensation to Directors

Title / Name	Chairman	Daniel Tsai, Representative of Fu-Chi Venture Corp.
	Vice Chairman	Richard Tsai, Representative of Fu-Chi Venture Corp.
	Managing Director	Nita Ing, Representative of Ching Shang Zhen Corp.
	Director	Shi-Cheng Wang, Representative of Kuo-Ta Investment Co., Ltd.
	Director	Ray-Ying Fan, Representative of Taiwan Fixed Network Co., Ltd.
	Director	Harvey Chang, Representative of Kuo-Ki Investment Co., Ltd.
	Director	Pieere Chen, Representative of Kuo-Chung Investment Co., Ltd.
	Director	George Huang, Representative of Taiwan Fixed Network Co., Ltd.
	Independent Director	Jack J.T. Huang
	Independent Director	Wen-Li Yeh
Transportation allowance		2,790,000
Earnings paid as compensation to directors		47,469,542
Earnings paid as employee bonus (Note 1)	Cash bonus	26,000,000
	Stock bonus	-
Total compensation		76,259,542
% of net profit		0.46%
Number of employee stock option		-
Other Compensation (Note 2)		757,924

Note 1 : Employee bonus for the director who serves as the Company's president

Note 2 : Includes automobile, housing, and other personal allowances.

#### (2) Compensation to Supervisors

Title / Name	Supervisor	Robert Chou (Note 2)
	Supervisor	J. Carl Hsu Representative of Taiwan Fixed Network Co., Ltd. (Note 1)
	Independent Supervisor	Tsung-Ming Chung (Note 2)
	Supervisor	Victor Kung, Representative of Fu-Chi Venture Corp.
Transportation allowance		810,000
Earnings paid as compensation to supervisors		14,182,578
Total compensation		14,992,578
% of net profit		0.09%
Other Compensation		0.00%

Note 1 : J. Carl Hsu was appointed as Taiwan Fixed Network's representatives on September 10, 2004.

Note 2 : Robert Chou resigned on June 15, 2004 and Tsung-Ming Chung was elected at the annual shareholders' meeting the same day.



### (3) Management Compensation

Title	Name	Resigned Managers/ Managers that joined affiliated companies	Total
Chairman	Daniel Tsai		
Vice Chairman	Richard Tsai		
Honorary Chairman	Jack T. Sun		
President and Chief Executive Officer	Harvey Chang		
Chief Financial Officer	Hui-Ming Cheng		
Chief Technology Officer	David Clarke		
Chief Business Officer	James Wilson		
Chief of Staff	Vivien Hsu		
Vice President	Ariel Hwang		
Vice President	Simon Wang		
Vice President	Jerry Chu		
Vice President	James Chang		
Vice President	Li-Fang Chou		
Vice President	Egon Chen		
Vice President	Chien Chen		
Vice President	Techi Juan		
Vice President	Charles Shen		
Vice President	Alex Cheng		
Vice President	Juichi Tan		
Vice President	D.S. Chiou		
Vice President	Sean Hsieh		
Vice President	Jay Hong		
Vice President	Andrew Wong		
Vice President	James Yang		
Vice President	Jerry Feng		
Vice President	C.A. Chuang		
Director	Henry Wang		
Director	Christine Yang		
Salaries	124,739,848	30,047,945	154,787,793
Performance-Based Salaries	41,843,115	16,742,458	58,585,573
Earnings paid as employee bonus	Cash bonus	107,971,968	23,672,415
	Stock bonus	-	-
Total compensation	274,554,931	70,462,818	345,017,749
% of net profit	1.65%	0.42%	2.07%
Number of employee stock option	-	-	-
Other Compensation (Note 1)	13,101,652	631,682	13,733,334

Note 1: Includes automobile, housing, and other personal allowances.



### 3. Employee Bonus Proposal Adopted by Board of Directors

- (1) On February 1, 2005, the board of directors proposed to distribute cash dividends in the amount of NT\$12,126,820,935.
- (2) Employee cash and stock bonus and compensation to directors and supervisors: proposed employee cash bonus amounts to NT\$383,613,296, compensation to directors and supervisors amounts to NT\$63,935,549.
- (3) Proposed employee stock bonus as a percentage of retained earnings distributed: zero.
- (4) Pro forma earnings per share with employee bonus and compensation to directors and supervisors: NT\$3.46.

According to the Company's Article of Incorporation, the Company's annual net income, after paying income taxes,

making up any losses in the previous years, appropriating 10% thereof as legal reserve, and setting aside special reserves, should be appropriated in the following order if there is any remainder:

- (a) Dividends and bonuses to preferred stockholders;
- (b) 0.5% as compensation to directors and supervisors;
- (c) 1% to 3% as bonuses to employees;
- (d) Remainder thereafter, to be determined as stock/cash dividends to shareholders at the annual shareholder meeting.

If bonuses to employees are stock bonuses, the recipients are to include qualifying employees of subsidiaries. The board of directors is empowered to decide the allocation of stock bonuses to employees.





## Management Team

President and Chief Executive Officer	CBO Chief Business Officer	CBO Vice President	CBO Vice President
Harvey Chang	James Wilson	Alex Cheng	Juichi Tan
<b>Effective date /</b> 2003.09.08	<b>Effective date /</b> 2004.04.01	<b>Effective date /</b> 2002.04.25	<b>Effective date /</b> 2002.04.25
<b>Shareholding :</b> 2,120,000 % 0.043%	<b>Shareholding :</b> - % -	<b>Shareholding :</b> 1,116,547 % 0.023%	<b>Shareholding :</b> 1,339 % 0.000%
<b>Spouse/ minor's shareholding</b> - % -	<b>Spouse/ minor's shareholding</b> - % -	<b>Spouse/ minor's shareholding</b> - % -	<b>Spouse/ minor's shareholding</b> 891 % 0.000%
<b>Education and experience</b> MBA, Wharton School, University of Pennsylvania SVP, Trust Dept. and Foreign Dept., Chiao Tung Bank Founding President, Grand Cathay Securities Corp. President, China Development Corp. Chairman, China Securities Investment Trust Corp. Vice Chairman, KG Telecom Co. SVP & CFO, Taiwan Semiconductor Manufacturing Co., Ltd.	<b>Education and experience</b> MBA, Lindenwood College, Missouri Senior Manager, SBC Communications President, TransAsia Telecom Senior EVP, TeleDenmark COO, Algar Telecom Leste	<b>Education and experience</b> Master of Communication, Fort Hays State University Assistant Manager, K-Concepts Communications Consultants Co., Ltd. Manager, Pacific Iridium Co., Ltd. Senior Director, Taiwan Cellular	<b>Education and experience</b> MBA, Iowa State University Marketing Manager, Brand and Promotions, Ford Motors Co., Ltd. Senior Director, Taiwan Cellular
<b>Current position(s) in other companies</b> Director & President, TransAsia Telecommunications Inc. Director, Mobitai Communications Chairman, Taiwan Teleservices & Technologies Co., Ltd. Chairman, Taiwan Elitec Corp. President & Director, Taihsing Den Den Co., Ltd. Director & President, T.I. Investment Ltd. Director & President, Tai Hsuo Investment Ltd. Director & President, Tai Fu Investment Ltd. Director & President, Tai Hung Investment Ltd. Director, TT&T Life Insurance Agency Co., Ltd. Director, TT&T Casualty & Property Insurance Agency Co., Ltd. Director, Dalian Xinkai Teleservices & Technologies Co., Ltd. Supervisor, Taiwan Fixed Network Co., Ltd. Director, Howin Technologies Corp. Chairman, IC Broadcasting Co., Ltd. Director, Taiwan Fund Inc.	<b>Current position(s) in other companies</b> None	<b>Current position(s) in other companies</b> None	<b>Current position(s) in other companies</b> Director, Taiwan Tele-Shop Co., Ltd.
<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title VP Name Tech Juan Relationship Spouse





CBO Vice President	CBO Vice President	CBO Vice President	CBO Vice President
D.S. Chiou	Sean Hsieh	Jay Hong	Andrew Wong
<b>Effective date /</b> 2002.05.21	<b>Effective date /</b> 2003.12.08	<b>Effective date /</b> 2004.05.06	<b>Effective date /</b> 2003.12.01
<b>Shareholding :</b> 43,506 % 0.001%	<b>Shareholding :</b> 161,000 % 0.003%	<b>Shareholding :</b> 91,000 % 0.002%	<b>Shareholding :</b> - % -
<b>Spouse/ minor's shareholding</b> 5,608 % 0.000%	<b>Spouse/ minor's shareholding</b> - % -	<b>Spouse/ minor's shareholding</b> - % -	<b>Spouse/ minor's shareholding</b> - % -
<b>Education and experience</b> M.S., University of California, Riverside U.S.A. Project Manager, Siemens Telecommunication Systems Ltd. Senior Director, Taiwan Cellular	<b>Education and experience</b> Dept. of Business Administration & Dept. of Sociology, Fu Jen Catholic University University of Texas, Austin Account Supervisor, Bozell CCAA Group Account Director, Series DMB&B Communications Marketing & Sales Manager, PUMA North Asia Ltd., Taiwan Branch Marketing Director, TransAsia Telecommunications Inc. Vice President, TransAsia Telecommunications Inc. VP, Corporate Account total Solution & Open Channel Sales, Taiwan Cellular Corp.	<b>Education and experience</b> EMBA, National Sun Yat-Sen University Engineer Supervisor, Engineering Div., Nan Ya Plastics CAD/CAM Supervisor, Engineering Div., Nan Ya Plastics VP, TransAsia Telecommunications Inc.	<b>Education and experience</b> MBA, George Washington University Manager, Johnson, Bassin & Shaw Manager, MCI Communications Vice President, Far EastTone Telecommunications Co., Ltd.
<b>Current position(s) in other companies</b> President & Director, Taiwan Teleservices & Technologies Co., Ltd. President & Director, TT&T Life Insurance Agency Co., Ltd. President & Director, TT&T Casualty & Property Insurance Agency Co., Ltd. Director, Dalian Xinkai Teleservices & Technologies Co., Ltd.	<b>Current position(s) in other companies</b> Director, Taiwan Tele-Shop Co., Ltd.	<b>Current position(s) in other companies</b> None	<b>Current position(s) in other companies</b> None
<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -



CBO Vice President	CBO Vice President	CFO Chief Financial Officer	CFO Vice President
James Yang	Jerry Feng	Hui-Ming Cheng	Li-Fang Chou
<b>Effective date /</b> 2004.03.08	<b>Effective date /</b> 2004.08.01	<b>Effective date /</b> 2003.10.29	<b>Effective date /</b> 2001.05.02
<b>Shareholding :</b> 487,504 % 0.010%	<b>Shareholding :</b> - %	<b>Shareholding :</b> 276,000 % 0.006%	<b>Shareholding :</b> 196,173 % 0.004%
<b>Spouse/ minor's shareholding</b> 56,592 % 0.001%	<b>Spouse/ minor's shareholding</b> - %	<b>Spouse/ minor's shareholding</b> - %	<b>Spouse/ minor's shareholding</b> 41,600 % 0.001%
<b>Education and experience</b> Dept. of Transportation & Communication Management Science, National Cheng Kung University Specialist, Chunghwa Telecom Manager, Siemens Telecommunication Systems Ltd. Sales Director, Best Way Telecom. Senior Director, Taiwan Cellular Corp.	<b>Education and experience</b> M.S. Degree for Business Administration, Mississippi State University, USA General Manager, CPCNeT Hong Kong Limited General Manager, PCCW-HKT Taiwan Branch Office	<b>Education and experience</b> Master of Science, Chemical Engineering, UCLA, U.S.A. MBA, Indiana University, U.S.A. Vice President, Chase Manhattan Bank, Taipei Branch Assistant of President, China Securities Investment Trust Corp. Director, China Development Industrial Bank President, China Development Inductriak bank Group Seres Capital (Singapore) Pte. Ltd., CFO, Winbond Elec. Corp.	<b>Education and experience</b> Department of Accountancy, National Chung Hsing University Manager, Auditing Department, PricewaterhouseCoopers Manager, Pacific Telecommunications Taiwan Co., Ltd. Director, Taiwan Cellular Corp.
<b>Current position(s) in other companies</b> President & Director, Taiwan Tele- Shop Co., Ltd.	<b>Current position(s) in other companies</b> None	<b>Current position(s) in other companies</b> Independent Director, Lilontex Corp. Independent Supervisor, Acme Elec. Corp. Director, TransAsia Telecommunications Inc. Director & CFO, Mobitai Communications Supervisor, Taiwan Teleservices & Technologies Co., Ltd. Supervisor, Taiwan Elitec Corp. Director, Taiwan Tele-Shop Co., Ltd. Director, Taihsing Den Den Co., Ltd. Supervisor, TT&T Life Insurance Agency Co., Ltd. Supervisor, TT&T Casualty & Property Insurance Agency Co., Ltd. Supervisor, Dalian Xinkai Teleservices & Technologies Co., Ltd. Supervisor, Howin Technologies	<b>Current position(s) in other companies</b> Supervisor, Taiwan Tele-Shop Co., Ltd. Supervisor, Mobitai Communications Supervisor, Taihsing Den Den Co., Ltd.
<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -





COS Chief of Staff	COS Vice President	CTO Chief Technical Officer	CTO Vice President
<b>Vivien Hsu</b>	<b>C.A. Chuang</b>	<b>David Clarke</b>	<b>Egon Chen</b>
<b>Effective date /</b> 2004.01.09	<b>Effective date /</b> 2003.12.01	<b>Effective date /</b> 2003.10.16	<b>Effective date /</b> 2004.02.16
<b>Shareholding :</b> - % -	<b>Shareholding :</b> 51,000 % 0.001%	<b>Shareholding :</b> - % -	<b>Shareholding :</b> 184,554 % 0.004%
<b>Spouse/ minor's shareholding</b> - % -	<b>Spouse/ minor's shareholding</b> - % -	<b>Spouse/ minor's shareholding</b> - % -	<b>Spouse/ minor's shareholding</b> - % -
<b>Education and experience</b> MBA, National Chengchi University MBA, University of New South Wales, Australia Manager, Grand Cathay Securities Co., Ltd Manager, China Development Corp. SVP, China Securities Investment Trust EVP & CFO, KG Telecom Co. President & CEO, Lambda Net Co. President & CEO, KGEx.com Co. President, KG Satellite Communication Co., Ltd. CFO, Cathay Financial Holding Co.	<b>Education and experience</b> M.S. Industrial Education, NTNU MBA, International Management Institute Manager, Human Resources Dept., China Steel Corp. Vice President, TransAsia Telecommunications Inc.  <b>Current position(s) in other companies</b> None  <b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Education and experience</b> Geological Bachelor, Philips University Director, Operations, International Division, SBC International Co. Senior VP, TransAsia Telecommunications Inc. VP, Customer Networks, AT&T Wireless International VP, Networks & Product Technology, Far EastTone Telecom  <b>Current position(s) in other companies</b> Director, Taiwan Elitec Corp.  <b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Education and experience</b> Dept. of Electronic & Engineering Tamkang University Project Manager, Siemens Telecommunication Systems Ltd. Senior Director, Taiwan Fixed Network Vice President, Howin Technologies  <b>Current position(s) in other companies</b> None  <b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -
<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -			





CTO Vice President	CTO Vice President	CTO Vice President	Information Technology Vice President
Chien Chen	Techi Juan	Charles Shen	James Chang
<b>Effective date /</b> 2004.02.16	<b>Effective date /</b> 2002.05.21	<b>Effective date /</b> 2004.03.31	<b>Effective date /</b> 2004.09.17
<b>Shareholding :</b> % -	<b>Shareholding :</b> % 891 0.000%	<b>Shareholding :</b> % 156,702 0.003%	<b>Shareholding :</b> % -
<b>Spouse/ minor's shareholding</b> % -	<b>Spouse/ minor's shareholding</b> % 1,339 0.000%	<b>Spouse/ minor's shareholding</b> % -	<b>Spouse/ minor's shareholding</b> % -
<b>Education and experience</b> National Taipei Institute of Technology Manager, Siemens Telecommunication Systems Ltd. Vice President, Taiwan Fixed Network Vice President, Howin Technologies	<b>Education and experience</b> MS in EE, University of Missouri, Columbia Engineer, Lucent Technologies Telecommunications Taiwan Co. Technical Manager, Asia Pacific Intellectual Property Association Senior Director, Taiwan Cellular Corp.	<b>Education and experience</b> M.S. of CTI DePaul University, Chicago Supervisor, Lucent Taiwan Member of Technical Staff, Lucent Bell Lab. USA Assistant Engineer, 4E System & Software Inc. USA Director, Suretone Telecomm. Inc., Senior Director, TFN VP, Howin Technology	<b>Education and experience</b> Master of Computer Science, University of Illinois, Chicago District Manager, AT&T Laboratories Senior Director, TBCommerce Network Corp Director, AT&T Laboratories
<b>Current position(s) in other companies</b> None	<b>Current position(s) in other companies</b> None	<b>Current position(s) in other companies</b> None	<b>Current position(s) in other companies</b> None
<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title VP Name Juichi Tan Relationship Spouse	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -





Corporate Vice President	Corporate Vice President	Corporate Vice President
Ariel Hwang	Simon Wang	Jerry Chu
<b>Effective date /</b> 2004.03.01	<b>Effective date /</b> 2004.10.11	<b>Effective date /</b> 2003.12.01
<b>Shareholding :</b> % -	<b>Shareholding :</b> % 93,000 0.002%	<b>Shareholding :</b> % -
<b>Spouse/ minor's shareholding</b> % -	<b>Spouse/ minor's shareholding</b> % -	<b>Spouse/ minor's shareholding</b> % -
<b>Education and experience</b> LL.M., National ChungHsing University Judge, Taiwan Taoyuan District Court Judge, Taiwan Panchiao District Court Judge, Taiwan Taipei District Court Judge, Taiwan High Court	<b>Education and experience</b> Telecommunication Engineering B.S., NCTU Manager, Technology & Quality Division Philips Electronic Industry Co., Ltd. General Manager, Philips Optel Division Corp. Ltd. General Manager, Fu Shing Can Manufacturing Co., Ltd. General Manager, ICAN Manufacturing Co., Ltd. Director, TECO Optical Electronics Co., Ltd. Factory Manager, YATE P.C.B. Co., Ltd. Executive Vice President, TransAsia Telecommunications Inc.	<b>Education and experience</b> MBA, University of Toronto, Canada Director, KG Telecom Senior Country Operations Officer, Global Transaction Services, Citibank Taipei Vice President, Corporate Banking, Citibank Taipei
<b>Current position(s) in other companies</b> None	<b>Current position(s) in other companies</b> EVP, Mobitai Communications Director, TransAsia Telecommunications Inc.	<b>Current position(s) in other companies</b> Director, Taiwan Teleservices & Technologies Co., Ltd.
<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -	<b>Officers, directors or supervisors who are spouse or consanguineous within two degrees</b> Title - Name - Relationship -



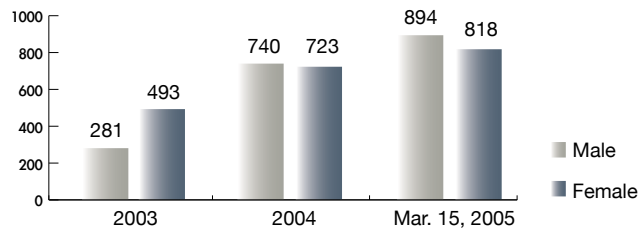
## Human Resources

Outstanding and professional talents are the Company's valued resources. In 2004, the Company has benefited from the integration of human resources from subsidiaries including TAT, Taiwan Elitec Corp., and Howin Technologies Corp., making the Company's human resources composition more diverse and well-rounded.

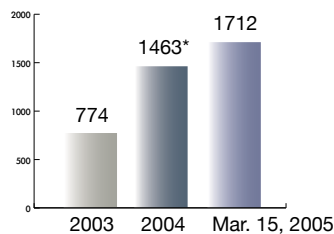
## Human Resources Composition

Employee Statistics for Most Recent Two Years and up to Publication Date for 2005.

**Number of Employees by Gender**

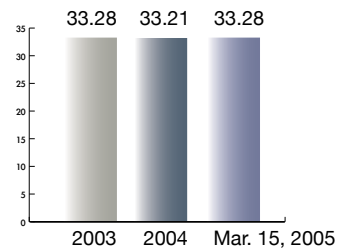


**Total Employees:**

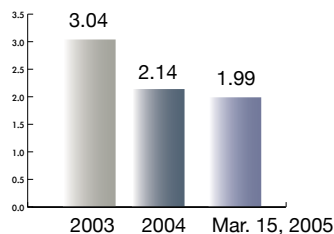


\*Including employees sent to TAT:1517

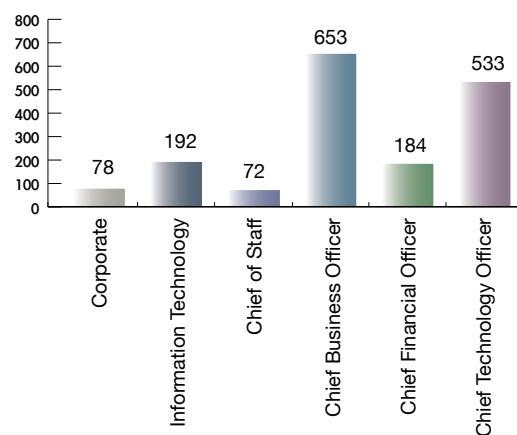
**Average Age:**

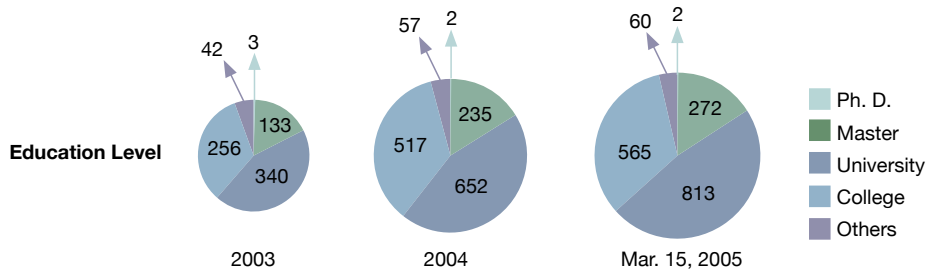


**Average Service Years:**



**By Division**





## Employee Benefits and Employee Rights Protection

To motivate employees to “live and learn” and thus realize their maximum potential, the Company has put together an employee conduct/ ethical standards policy. Not only are a number of benefits and bonuses performance based, but they also surpass basic labor law requirements. The associated human resources policies are detailed below:

### 1. Employee Behavior/Ethical Standards

- (1) **Team Player:** Exercise team spirit by making the accomplishment of team goals the top priority.
- (2) **Open Communication:** Be proactive in communicating with colleagues to resolve differences and reach consensus.
- (3) **Passion:** Commit to the company’s goals with passion and enthusiasm.
- (4) **Integrity:** Be honest and upright
- (5) **Creativity:** Think outside of the box and find ways to innovate.
- (6) **Solution Driver:** Aggressively seek solutions to a problem.

### 2. Benefits Policies and Implementations

- (1) All employees are entitled to labor insurance and national health insurance coverage starting the first day of work.
- (2) The Company has employee treasury stocks subscription plan and employee profit sharing plan
- (3) The Employee Welfare Committee was established in July 1998 to handle and implement employee benefits policies. The committee is in charge of a number of benefits designed to raise employees’ quality of life and promote physical and mental well-being, including in-

surance, company outings, and benefits for occasions such as weddings, festivals and funerals.

### 3. Employee Training & Education Program

- (1) To help employees develop their expertise in business administration and telecom technologies, the Company has a scholarship program to provide employees the opportunity to study both locally and abroad. The Company is also committed to the lifetime training and development of its employees.
- (2) The Company sends annually a large number of employees to attend local and international telecommunication conferences, management forums, consulting seminars, and vendor training programs. These activities exercise a profound influence in upgrading the Company’s technologies, developing new products, introducing innovative new ideas and improving managerial skills.
- (3) The Company provides external training reimbursement to all employees annually. Employees can select external training courses related to their jobs and needs. Employees can also combine their interest and competence development to maximize training effectiveness.
- (4) Orientation for new employee includes introduction to corporate culture, industry briefing, company history, telecommunication market and technology, IT system, as well labor safety training.
- (5) Job related training for new employee includes on the job training, department functions and business process, as well as job duty, professional knowledge and new technology introduction.
- (6) **Core Competency Development:** Focus on the common skills, including problem solving, decision making, communication, project management, basic legal knowledge of telecommunication market, team building, and service skills.



- (7) **Manager Development:** Separate training programs for entry-level management, middle management, and senior management. Training courses include performance management, leadership, inspirational skills, management game, strategy management, project management, team dynamic skills, and organization development skills.

#### 4. Retirement Structure and Implementation

- (1) The Company has specified Employee Retirement Guidelines.
- (2) The Company has set up a Labor Pension Supervisory Committee, which was approved by the Taipei Municipal Government in February 1998. Since May 1988, the Company has been allocating, on a monthly basis, a retirement pension equivalent to 2% of the employees' monthly salaries.
- (3) In accordance with Issue No. 18 of the Financial Accounting Standards of the R.O.C., the Company retains the services of an actuary to assess and calculate the labor pension reserve and provide a detailed report.

#### 5. Employee Safety and Sanitary Policy

In order to fulfill the Company's social responsibility of providing its employees with a safe, healthy and comfortable working environment, the Company endeavors to:

- (1) Abide by and comply with regulations related to environmental protection, safety and sanitation.
- (2) Be on constant lookout for potential hazards in the work environment in order to minimize accidents.
- (3) Promote health education, conduct physical examinations, and implement health management programs.
- (4) Promote and instill energy-saving consciousness to help reduce waste of resources.

#### Management/ Labor Relations

1. **Losses due to management/ labor disputes for 2004 and 2005 (up to March 15):** None.
2. **Estimate of current and potential losses due to management/labor disputes and preventative policies:** the Company, working under the management/ labor as one concept and the "win/win" belief when the two sides work together, has followed relevant labor laws and associated rules, respected employees, and valued employee benefits to build up a satisfactory management/ labor relationship. Therefore the Company has not experienced any losses due to management/ labor disputes and does not foresee the situation occurring in the future.
3. **Management/ labor negotiations:** None.
4. **Items still pending negotiation between management/ labor:** None.
5. **Labor rights' protection:** the Company, in accordance with Article 83 of the Labor Standards Law, holds a management/ labor conference each quarter.







# Corporate Governance

The Company understands the importance of good corporate governance and administers its corporate governance practices based on the principles below.

## Execution Principles

- Timely disclosure of material information
- Sound check and balance between the board and the management team
- Establishment of an audit committee to ensure the independence of external auditors as well as integrity of financial reporting
- Reserving a number of board seats (based on a set ratio) for independent board members and supervisors
- Adopting a cash dividend policy based on high earnings payout ratio
- In principle, distributing all employee profit sharing in cash

## Current Practice

To better execute the Company's corporate governance principles, the Company has implemented a number of changes to its corporate governance structure. On April 26, 2002, the Company revised the "Shareholder Meeting Rules", originally established on January 30, 1997. On June 5, 2002, the Company revised the "Affiliated Companies & Persons Transactions Procedures", originally established on August 31, 1999. And on April 30, 2004, the Company established the "Corporate Governance Committee Charter" and the "Audit Committee Charter". These changes have allowed the Company's corporate governance structure to not only meet and exceed Taiwan's Securities and Exchange Laws, but adhere to the highest international standards.

	Item	Current practice
Shareholding structure and shareholders' interest	Handling of shareholders' suggestions and disputes	The spokesperson or secretarial division personnel handles all non-legal issues; legal division handles all legal issues
	Identification of major shareholders and investors with controlling interests	The secretarial division can provide a list of shareholders
	Risk control mechanisms and firewalls between the Company and its subsidiaries	The Company has established "Rules Governing Transactions within the Group" and "Subsidiaries Monitoring Policy" as risk control mechanism
Board of directors and its responsibilities	Set up independent director	The Company's BOD includes two independent directors
	Periodical review of CPA's independency	The audit committee conducts periodic reviews
Supervisors and their responsibilities	Set up independent supervisor	The Company has one independent supervisor
	Communication between independent supervisor and the Company's employee & shareholders	Can communicate upon request
Communication channels with shareholders		The spokesperson serves as the main communication channel between the Company and its shareholders
Information disclosure	Disclosure of financial, operation and corporate governance information	Disclosure of financial-related information is posted periodically on the Company's website
	Other ways of disclosing information	The Company has established its English website, designated personnel to gather and disclose company information, and appointed a spokesperson
Audit committee's function and status		The audit committee under the board of directors meets once every quarter

## 2004 Implementation

### Corporate Governance Committee and Audit Committee

The Company planned corporate governance structure composes of two committees: an audit committee and a corporate governance committee.

#### 1. Corporate Governance Committee:

Jack J.T. Huang serves as the committee chairman and Wen-Li Yeh and George Huang are the committee members. Main responsibility is to shape the corporate governance of the Company, including:

- (1) Developing and recommending best corporate governance practices to the Board.
- (2) Nominating independent directors and supervisors.
- (3) Reviewing on an ongoing basis the current corporate governance principles and practices of the Company.

#### 2. Audit Committee:

Tsung-Ming Chung serves as the committee chairman, and Wen-Li Yeh and George Huang are the committee members. Main responsibility is to assist the Board in the oversight of the following:

- (1) Integrity of the Company's financial statements.
- (2) Independent auditors' qualifications and independence.
- (3) Performance of the Company's internal audit function and independent auditors.
- (4) Company's compliance with legal and regulatory requirements.
- (5) Company's management of market, credit liquidity and other financial and operational risks.

The Company implements appropriate disclosures to ensure shareholders have up-to-date information as a basis for their investment decisions. The Company provides key operation & financial information, BOD resolutions and CEO messages in a fairly distributed and timely manner.

### 2004 Specific Implementations and Results

#### 1. Simplified the Company's investment structure:

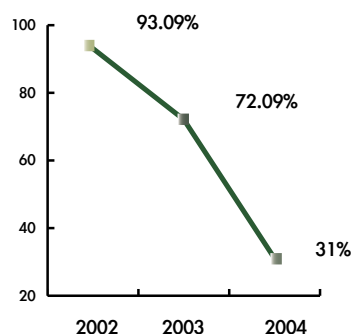
Divested non-core investments to simplify the complex

cross-holding structure and transferred all operating affiliates under one investment vehicle, Taihsing Den Den Co., Ltd.

2. **Used excess cash to pay down debt:** Used cash received from sale of CHT shares and equity reduction of subsidiaries to pay down long-term debt and buy back convertible bonds in order to lower net debt to equity ratio and interest expense and reduce the Company's financial risks.

The following chart shows the Company's net debt-to-equity ratios for the last three years:

Net Debt to Equity Ratio :



3. **Minimized capitalization to prevent dilution in EPS:** Bought back convertible bonds, increased earnings payout ratio and distributed earnings in cash dividends only, all employee bonuses are also paid in cash.

4. **Discontinued the Taiwan Telecom Group operating model:** The Company and Taiwan Fixed Network now operate as two entirely independent entities.

5. **Improved the Company's financial transparency:** Released monthly financial results, held quarterly investors conference call, and actively participated in international investors conferences.

6. **Improved the Board of Directors' independence:** Decreased the number of management team members that serves on the Company's board and increased the number of independent directors (targeted mix is independent directors should constitute more than 1/3 of total directors).





## Additional Information

1. The following chart shows the attendance of board members and supervisors at board meetings:

Title	Name	Total Meetings	Meetings Attended	Attendance Rate (%)	Supervisor Attendance #
Chairman	Daniel Tsai	28	27	96.43	
Vice Chairman	Richard Tsai	28	28	100.00	
Managing Director	Nita Ing	28	27	96.43	
Director	Shi-Cheng Wang	28	15	53.57	
Director	Ray-Ying Fan	28	25	89.29	
Director	Harvey Chang	28	27	96.43	
Director	Pieere Chen	28	24	85.71	
Director	George Huang	28	28	100.00	
Independent Director	Jack J.T. Huang	16	16	100.00	
Independent Director	Wen-Li Yeh	16	15	93.75	
Supervisor	J. Carl Hsu				11
Independent Supervisor	Tsung-Ming Chung				3
Supervisor	Victor Kung				11

2. **Training program for directors and supervisors:**  
Please refer to the Corporate Governance section in the Market Observation Post System.
3. **Directors adhere to the Company rules to avoid conflict of interest.**
4. **The Company has purchased liability insurance for its directors and supervisors.**
5. **The Company places much value on social responsibility and has a foundation that provides funds for telecommunications research, emergency rescues, public speeches, and charity events.**

## Awards and Recognitions

The Company currently stands out as the leader amongst 14 Taiwanese companies in Euromoney's corporate governance poll, published in September 2004, for emerging market companies based on ownership transparency, financial transparency, board structure, investor relations, and alignment of managerial interest.

# Financial Information

## Capital and Shares

### 1. History of Capitalization

As of March 15, 2005

Date	Par Value (NT\$)	Authorized capital		Paid-in Capital		Remarks	
		Shares	Amount (NT\$)	Shares	Amount (NT\$)	Source of capital (NT\$)	Effective date & cert. no.
Feb. 2004	10	6,000,000,000	60,000,000,000	4,697,915,800	46,979,158,000	Conversion of CB: NT\$205,045,080 Treasury stock cancellation: NT\$19,100,000	N.A.
Jun. 2004	10	6,000,000,000	60,000,000,000	4,703,599,988	47,035,999,880	Conversion of CB: NT\$56,841,880	N.A.
Aug. 2004	10	6,000,000,000	60,000,000,000	4,759,601,815	47,596,018,150	Conversion of CB: NT\$560,018,270	N.A.
Nov. 2004	10	6,000,000,000	60,000,000,000	4,850,287,550	48,502,875,500	Conversion of CB: NT\$906,857,350	N.A.
Feb. 2005	10	6,000,000,000	60,000,000,000	4,916,096,374	49,160,963,740	Conversion of CB: NT\$658,088,240	N.A.

As of March 15, 2005

	Authorized Capital			Remarks
	Listed shares	Un-issued shares	Total	
Common stock	4,916,096,374	1,083,903,626	6,000,000,000	Including 65,368,000 shares of treasury stock bought during Nov. 2002 through Jan. 2003.

### 2. Shareholder Structure

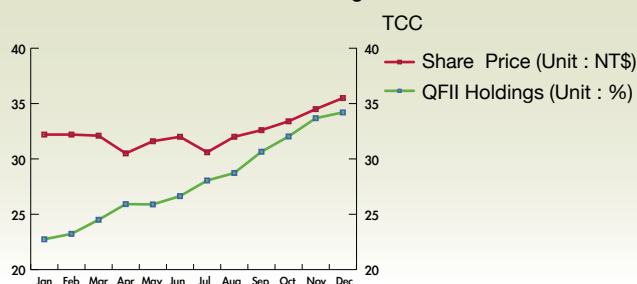
As of July 30, 2004

	Government agencies	Financial institutions	Other institutions	Individuals	Foreign institutions & individuals	Total
No. of shareholders	0	14	271	64,270	539	65,094
Shareholding	0	410,791,494	2,364,597,724	746,807,185	1,222,512,559	4,744,708,962
Holding percentage	0.00%	8.66%	49.83%	15.74%	25.77%	100.00%

Note : Adding 171,387,412 shares converted from CB in 2004, TCC's paid-in capital was 4,916,096,374 shares, as of March 15, 2005



### 2004 TCC Share Price & QFII Holdings



### 3. Shareholding Distribution

Par value: NT\$10/share

As of July 30, 2004

Shareholding range	Number of shareholders	Total shares owned	Holding percentage
1 ~ 999	23,986	7,110,096	0.150%
1,000 ~ 5,000	28,045	65,569,574	1.382%
5,001 ~ 10,000	5,941	43,906,403	0.925%
10,001 ~ 15,000	2,385	28,573,067	0.602%
15,001 ~ 20,000	1,284	22,360,207	0.471%
20,001 ~ 30,000	1,132	27,369,832	0.577%
30,001 ~ 50,000	879	34,281,800	0.723%
50,001 ~ 100,000	523	36,408,474	0.767%
100,001 ~ 200,000	283	40,162,747	0.846%
200,001 ~ 400,000	141	39,690,311	0.837%
400,001 ~ 600,000	90	44,274,000	0.933%
600,001 ~ 800,000	46	32,109,003	0.677%
800,001 ~ 1,000,000	42	38,068,900	0.802%
1,000,000 above	317	4,284,824,548	90.308%
<b>Total</b>	<b>65,094</b>	<b>4,744,708,962</b>	<b>100.000%</b>

Note : Adding 171,387,412 shares converted from CB in 2004, TCC's paid-in capital was 4,916,096,374 shares, as of March 15, 2005.

### 4. Major Shareholders

As of July 30, 2004

Name	Total shares owned	Holding percentage
Taiwan Fixed Network Co., Ltd.	900,352,762	18.976%
TFN Investment Co., Ltd.	467,821,463	9.860%
Taiwan Hong Yuan Investment Co., Ltd.	163,303,535	3.442%
Continental Engineering Corp.	143,791,583	3.031%
Fubon Insurance Co., Ltd.	122,704,191	2.586%
Chunghwa Post Co., Ltd.	117,452,865	2.475%
Fubon Life Assurance Co., Ltd.	108,152,734	2.279%
Daniel Tsai	104,795,964	2.209%
Richard Tsai	104,795,964	2.209%
Fubon Securities Co., Ltd.	103,193,000	2.175%

## 5. Direct and Indirect Investments in Affiliated Companies

Unit: NT\$, %

Long-term investments	Investment by TCC		Direct & indirect investments by TCC's directors, supervisors, and management		Total investment	
	Investment amount (NT\$)	Holding (%)	Investment amount (NT\$)	Holding (%)	Investment amount (NT\$)	Holding (%)
Tai Hung Investment Ltd.	1,505,029,900	99.99	-	-	1,505,029,900	99.99
Tai Fu Investment Ltd.	525,029,900	99.99	-	-	525,029,900	99.99
Tai Hsuo Investment Ltd.	330,029,900	99.99	-	-	330,029,900	99.99
T.I. Investment Ltd.	604,990,000	99.99	-	-	604,990,000	99.99

Long-term investments	Investment by TCC		Direct & indirect investments by TCC's directors, supervisors, and management		Total investment	
	Shares	Holding (%)	Shares	Holding (%)	Shares	Holding (%)
Taihsing Den Den Co., Ltd.	44,299,879	99.99	-	-	44,299,879	99.99
Taiwan Fixed Network Co., Ltd.	637,000,000	9.87	25,830,900	0.40	662,830,900	10.27
TransAsia Telecommunications Inc.	328,644,549	92.32	1,590,852	0.45	330,235,401	92.76
Mobitai Communications Co., Ltd.	181,277,712	67.00	-	-	181,277,712	67.00

## 6. Share Price, Net Worth, Earnings, Dividends, and Related Information

Unit: NT\$, shares in thousand

		2003	2004	As of Mar. 15, 2005 (Note 3)	
Share price (NT\$)	High	32.20	35.60	36.00	
	Low	22.40	28.00	32.70	
	Average	26.53	32.54	33.55	
Net worth per share (NT\$)	Before earnings appropriation	15.01	16.79	16.79	
	After earnings appropriation	12.52	(Note 1)	(Note 1)	
Earnings per share (NT\$)	Adjusted weighted avg. outstanding shares	4,592,006	4,690,696	4,690,696	
	Earnings per share	Before adjustment	2.91	3.55	3.55
		After adjustment	2.91	(Note 1)	(Note 1)
Dividends per share (NT\$)	Cash dividends	2.40	(Note 1)	-	
	Stock dividends	Retained earnings	-	(Note 1)	-
		Capital surplus	-	-	-
	Accumulated unpaid dividends	-	-	-	
PE and dividend yield (Note 2)	Price earnings ratio (x)	Before adjustment	9.12	9.17	
		After adjustment	9.12	(Note 1)	
	Cash dividend yield (%)	9.05	-	-	

Note 1 : The appropriation amounts indicated above are based on resolutions passed at annual shareholders' meetings in the subsequent year. The appropriation amount for 2004 has not been approved yet.

Note 2 : Price earnings ratio = Average closing price / earnings per share. Cash dividend yield = Cash dividend per share / Average closing price

Note 3 : Net worth per share and earnings per share are based on the most recent audited financial statements. All others are as of March 15, 2005



## 7. Dividend Policy

### (1) Dividend policy under Articles of Incorporation:

Stock dividend declared by the Company shall be no more than 80% of total dividend distributed that year, which shall take into account the Company's major capital expenditure plans in the year. The dividend payout proposed by the board of directors has to be approved at the annual shareholders' meeting.

### (2) Proposed dividend allocation for approval at the annual shareholders' meeting:

A cash dividend of NT\$2.5 per share

### (3) Impact of stock dividend distribution on business performance & EPS:

Not applicable. The board of directors proposes to distribute only cash dividend this year.

## 8. Share Buyback

As of March 15, 2005

Share buyback	1 <sup>st</sup>	2 <sup>nd</sup>
Purpose	Transfer to employees	Transfer to employees
Buyback period	2000.12.27 ~ 2001.01.12	2002.11.21 ~ 2002.12.31
Buyback price range	NT\$49.81 ~ NT\$57.50	NT\$26.81 ~ NT\$28.58
Total number of shares bought back	1,910,000	84,829,000
Buyback amount (NT\$)	100,759,445	2,342,691,331 (Note 1)
Number of shares cancelled/transferred	1,910,000	19,461,000
Treasury stock balance (shares)	0	65,368,000
As % of the Company's total issued shares (Note 2)	0.00%	1.330%

Note 1: Actual disbursement amount was NT\$2,342,628,483, less discounts on transaction charges of NT\$62,848.

Note 2: Total issued shares are 4,916,096,374, including 65,368,000 shares of treasury stock.

## Corporate Bond Issuance

### 1. Corporate Bonds

As of March 15, 2005

Issuance	First Secured Corporate Bond	First Unsecured Corporate Bond
Issue date	February 1, 2001	December 13, 2002
Denomination	NT\$1,000,000	NT\$5,000,000
Issuance and listing	Not applicable	Not applicable
Issue price	100%	100%
Total amount	NT\$3,000,000,000	NT\$15,000,000,000
Coupon	5.31% p.a.	IA ~ IL: 2.60% p.a. IIA ~ IIL: 5.21% p.a. minus floating rate but not lower than 0% IIIA ~ IIIM: 2.80% p.a. IVA ~ IVM: 5.75% p.a. minus floating rate but not lower than 0% The floating rate is based on the US\$ 6-month LIBOR rate quoted on page 3750 of Hong Kong Bridge Telerate at 11 a.m. London time
Term	5-year, 12 separate series: A~L, maturing from Feb. 1, 2006 to Feb. 16, 2006	5-year, maturing from Dec. 13, 2007 to Dec. 30, 2007 7-year, maturing from Dec. 13, 2009 to Dec. 31, 2009
Guarantor	Syndicated by ICBC and 15 other banks	None
Trustee	Bank SinoPac, Trust Division	Bank SinoPac, Trust Division
Underwriter	None	None
Legal counsel	None	None

(Continued)



Issuance		First Secured Corporate Bond	First Unsecured Corporate Bond
Auditor		Arthur Lee, CPA ,and Jason Hsia, CPA, Deloitte & Touche	Peter Lin, CPA, and Morris Yang, CPA, Deloitte & Touche
Repayment		Repayment of half of the principal at the end of the 4 <sup>th</sup> year and the remaining half at the end of the 5 <sup>th</sup> year	IA ~ IL: repayment of 50% of the principal at the end of 4 <sup>th</sup> year and the remaining 50% at the end of the 5 <sup>th</sup> year IIA ~ IIL: repayment in full upon maturity IIIA ~ IIIM: repayment of 50% of the principal at the end of 6 <sup>th</sup> year and the remaining 50% at the end of the 7 <sup>th</sup> year IVA ~ IVM: repayment in full upon maturity
Outstanding balance		NT\$1,500,000,000	NT\$15,000,000,000
Early repayment clause		None	None
Covenants		1. During the effective period of the syndicated credit agreement, the current ratio at the end of each year must be maintained at greater than 100%. 2. During the effective period of the syndicated credit agreement, the debt to equity ratio at the end of each year must be maintained at less than 100%. 3. Starting in 2001, long-term solvency ratio must be must be least 150%	None
Credit rating agency, rating date, company credit rating		Not applicable	Taiwan Rating Co., Ltd, 2002.11.20, twAA- Taiwan Rating Co., Ltd, 2003.03.18, twA+ Taiwan Rating Co., Ltd, 2004.12.22, twAA
Ancillary rights	Amount converted/ exchanged into common shares, ADRs or other securities	Not applicable	Not applicable
	Rules governing issuance or conversion (exchanged or subscription)	Not applicable	Not applicable
Dilution and other effects on shareholders' equity		Not applicable	Not applicable
Custodian		Not applicable	Not applicable

Issuance		First Unsecured Convertible Bond	Second Unsecured Convertible Bond
Issue date		August 25, 2001	August 16, 2002
Denomination		NT\$100,000	NT\$100,000
Issuance and listing		Not applicable	Not applicable
Issue price		100%	100%
Total amount		NT\$10,000,000,000	NT\$6,000,000,000
Coupon		Zero coupon	Zero coupon
Term		5-year, redemption date is Aug. 24, 2006	5-year, redemption date is Aug. 15, 2007
Guarantor		None	None
Trustee		Bank SinoPac, Trust Division	Bank SinoPac, Trust Division
Underwriter		Fubon Securities Co., Ltd.	Fubon Securities Co., Ltd.
Legal counsel		Esq. Tsai-Sheng Lin	Esq. Tsai-Sheng Lin
Auditor		Arthur Lee, CPA, and Jason Hsia, CPA, Deloitte & Touche	Jason Hsia, CPA, and Morris Yang, CPA, Deloitte & Touche

(Continued)



Issuance		First Unsecured Convertible Bond	Second Unsecured Convertible Bond
Repayment		Except for early conversions to common shares pursuant to Articles 10 and 18 of the rule governing the issuance of convertible bonds, or redemptions by the Company pursuant to Article 18 of the rule, or bondholders selling the bond back to the issuing company pursuant to Article 19 of the rule, repayment is due in full by cash payment upon maturity.	Except for early conversions to common shares pursuant to Articles 10 and 17 of the rule governing the issuance of convertible bonds, or redemptions by the Company pursuant to Article 17 of the rule, or bondholders selling the bond back to the issuing company pursuant to Article 18 of the rule, repayment of face value plus interest compensation is due in full by cash payment upon maturity.
Outstanding balance		NT\$1,691,000,000	NT\$1,085,700,000
Redemption or early repayment clause		After the third month of the issuance to 40 days before maturity, in the event the closing price of the Company's common share exceeds 50% of the current conversion price for 30 consecutive business days, and the convertible bonds' outstanding balance is lower than 10% of the total issuance amount, then the Company may opt for compulsory conversion or redemption to convert the bonds to entitlement certificates at the current conversion price or redeem the bonds in cash at par value from the bondholder.	After the third month of the issuance to 40 days before maturity, in the event the closing price of the Company's common share exceeds 50% of the current conversion price for 30 consecutive business days, and the convertible bonds' outstanding balance is lower than 10% of the total issuance amount, then the Company may opt for compulsory conversion or redemption to convert the bonds to common stocks at the current conversion price or redeem the bonds in cash at par value from the bondholder.
Covenants		For covenants pertaining to cash dividend distribution and preferred shares issuance, please refer to Articles 7 and 26 of the rule for issuance and conversion of this unsecured convertible bond.	For covenants pertaining to cash dividend distribution and preferred shares issuance, please refer to Articles 7 and 25 of the rule for issuance and conversion of this unsecured convertible bond.
Credit rating agency, rating date, company credit rating		Not applicable	Not applicable
Ancillary Rights	Amount converted/exchanged into common shares, ADRs or other securities	NT\$6,167,700,000 (Total CB buyback amounts to NT\$2,141,300,000 as of publication date)	NT\$4,480,200,000 (Total CB buyback amounts to NT\$434,100,000 as of publication date)
	Rules governing issuance or conversion (exchanged or subscription)	For anti-dilution criteria and price reset conditions, please refer to Article 9 of the rule for conversion of this unsecured convertible bond.	For anti-dilution criteria and price reset conditions, please refer to Article 9 of the rule for conversion of this unsecured convertible bond.
Dilution and other effects on shareholders' equity		As of March 15, 2005, dilution effect of outstanding CB is 1.41%; no major impact on shareholders' interest	As of March 15, 2005, dilution effect of outstanding CB is 0.86%; no major impact on shareholders' interest
Custodian		Not applicable	Not applicable

## 2. Convertible Bond Information

Issuance		First unsecured convertible bond			Second unsecured convertible bond		
		2003	2004	2005 (as of Mar. 15)	2003	2004	2005 (as of Mar. 15)
Market price (denomination of the bond)	High	127.80	146.00	142.10	119.90	137.30	138.00
	Low	109.05	120.00	133.50	104.40	115.25	129.00
	Average	117.23	128.64	138.62	111.04	124.67	131.33
Conversion price (NT\$)		25.20	24.30	24.30	26.60	25.70	25.70
Issue date and conversion price (NT\$) on issue date		2001.08.25 39.00	2001.08.25 39.00	2001.08.25 39.00	2002.08.16 41.20	2002.08.16 41.20	2002.08.16 41.20
Method of conversion		Issue new shares	Issue new shares	Issue new shares	Issue new shares	Issue new shares	Issue new shares

**3. Exchangeable Bond:** None

**4. Shelf Registration Issuance:** None

**5. Bond with Warrant:** None

**Mergers and Acquisitions:** None

### Other Issuance:

**1. Preferred Shares:** None

**2. Depositary Receipt Issuance:** None

**3. Employee Stock Options:** None

**4. Private Placement of Marketable Securities:** None



# Financial Report

## Financial Status

### Condensed Financial Statements for the Past Five Years

#### 1. Balance Sheet

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

##### (1) Funds and Long-Term Investments

In 2003, the Board of Directors decided to dispose of the Company's investment in CHT. As a result, this investment was transferred from long-term investments to short-term investments.

##### (2) Intangible Assets

The Company paid NT\$10.2 billion in bid payment for its 3G service license and booked it under intangible assets in 2002.

##### (3) Other Liabilities

The Company transferred all subscribers' deposits from other liabilities to current liabilities in 2003 since the Company will automatically refund these deposits or deduct these against monthly subscriptions starting January, 2004.

##### (4) Long-Term Liabilities

Long-term liabilities reduced over the past three years due to repayment of bank loans and conversion of convertible bonds.

Unit: NT\$'000

		2000	2001	2002	2003	2004
Current assets		12,683,899	17,722,981	19,093,320	26,069,897	21,449,832
Funds and long-term investments		3,509,866	22,094,573	45,304,537	26,768,421	23,737,612
Fixed assets		57,270,238	59,343,982	63,195,930	62,505,230	60,190,612
Intangible assets		1,388	1,187	10,281,985	10,281,784	10,281,583
Other assets		2,401,996	6,255,839	5,075,948	4,693,947	5,594,292
<b>Total assets</b>		<b>75,867,387</b>	<b>105,418,562</b>	<b>142,951,720</b>	<b>130,319,279</b>	<b>121,253,931</b>
Current liabilities	Before appropriation	9,916,355	11,444,638	10,541,094	17,189,229	12,611,294
	After appropriation	10,435,752	19,459,663	19,829,902	28,692,202	(Note 1)
Long-term liabilities		16,852,421	28,129,827	64,244,807	43,808,584	27,486,226
Other liabilities		9,298,642	6,372,928	3,930,493	130,700	183,590
Total liabilities	Before appropriation	36,067,418	45,947,393	78,716,394	61,128,513	40,281,110
	After appropriation	36,586,815	53,962,418	88,005,202	72,631,486	(Note 1)
Capital stock		27,600,000	37,664,190	45,026,835	46,998,258	48,883,886
Capital surplus		472	2,537,463	3,004,199	3,366,010	7,258,873
Retained earnings	Before appropriation	12,240,628	19,367,013	19,038,605	21,317,020	26,393,440
	After appropriation	2,621,231	4,165,879	7,983,419	9,814,047	(Note 1)
Unrealized valuation loss on long-term investments		-	-	(317,007)	-	-
Translation adjustments		802	3,262	7,666	34,450	(1,631)
Total stockholders' equity	Before appropriation	39,799,969	59,471,169	64,235,326	69,190,766	80,972,821
	After appropriation	39,280,572	51,456,144	54,946,518	57,687,793	(Note 1)

Note 1: 2004 earnings appropriation proposal has yet to be approved in the shareholders' meeting.

Note 2: In accordance with Consolidated Accounting Treatment for the Payment of Sales Commissions and Handset Subsidies by Mobile Telephone Operators, issued on June 28, 2000 by the ROC Accounting Research and Development Foundation, an

adjustment was made in the amount of NT\$3,416,684,000 as a deduction from total distributable earnings in FY1999, upon the distribution of earnings to shareholders in 2001.

Note 3: 2000-2004 financial information has been duly audited by independent auditors.

## 2. Income Statement

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

### (1) Operating Income

The Company's revenue has been fairly stable over the past five years, operating income decreased slightly in 2002 due to increases in interconnection fees and depreciation expenses.

### (2) Non-Operating Income

In 2003, non-operating income increased due to investment income from TAT. In 2004, non-operating income grew by over 159% due to dividend income from CHT and gains from disposal of CHT shares.

### (3) Non-Operating Expense

Interest expenses increased in 2003 as a result of increases in long-term debt in 2002. Non-operating expenses increased in 2003 and 2004 due to write-off of idle assets of around NT\$900 million each year.

Unit: NT\$'000

	2000	2001	2002	2003	2004
Revenue	45,185,889	48,811,979	45,352,378	44,995,790	45,086,422
Gross profit	33,252,268	34,968,166	28,957,775	27,140,642	26,556,975
Operating income	14,178,959	17,793,511	15,073,699	15,201,619	16,295,485
Non-operating income	1,058,149	1,624,827	1,888,631	2,194,575	5,680,226
Non-operating expenses	742,909	1,387,840	1,552,683	2,929,394	2,559,801
Pre-tax income	14,494,199	18,030,498	15,409,647	14,466,800	19,415,910
Net income	14,153,772	16,750,472	14,937,320	13,344,447	16,658,456
EPS (NT\$)	3.12	3.69	3.20	2.91	3.55

Note: 2000-2004 financial information has been duly audited by independent auditors.

## 3. Independent Auditors and Audit Opinions for the Past Five Years

Year	Audit Firm	Auditor's Name	Opinion
2000	Deloitte & Touche	Arthur Lee, Jason Hsia	An unqualified opinion
2001	Deloitte & Touche	Jason Hsia, Morris Yang	Modified unqualified opinion
2002	Deloitte & Touche	Peter Lin, Morris Yang	Modified unqualified opinion
2003	Deloitte & Touche	Charles Yen, Morris Yang	An unqualified opinion
2004	Deloitte & Touche	Peter Fan, Morris Yang	An unqualified opinion

## 4. Reasons for Changes of Auditors in the Past Five Years

Jason Hsia and Morris Yang were the assigned certified auditors for TCC in 2001. In 2002, regular job rotations within Deloitte & Touche resulted in the replacement of Jason Hsia with Peter Lin. In June 2003, Deloitte & Touche merged with T.N. Soong & Co. Accordingly, Deloitte & Touche, Taiwan, has been renamed as Deloitte Touche Tohmatsu (DTT) in Taiwan. Charles Yen and Morris Yang were then assigned as auditors to TCC.

In 2004, Peter Fan and Morris Yang were the assigned certified auditors for TCC.

## 5. Other non-audit fee paid to independent auditor

TCC paid a total amount of NT\$5,527,000 to Deloitte & Touche and its affiliates in 2004 for the non-audit services including risk management analysis, inquiry fees, and convertible bond buyback audit report.

## Financial Analysis for the Past Five Years

		2000	2001	2002	2003	2004	
Financial structure	Debt-to-asset ratio (%)	47.54	43.59	55.07	46.91	33.22	
	Long-term capital to fixed assets ratio (%)	98.92	147.62	203.30	180.78	180.19	
Solvency	Current ratio (%)	127.91	154.86	181.13	151.66	170.08	
	Quick ratio (%)	96.88	145.93	176.02	147.86	166.55	
	Interest cover (x)	1,508.36	1,365.00	1,558.41	1,013.37	1,866.23	
Operations	Accounts receivable turnover (x)	6.31	5.64	6.29	7.57	7.47	
	Average collection days	57.84	64.72	58.03	48.22	48.86	
	Accounts payable turnover (x)	18.62	12.46	11.63	12.16	12.99	
	Fixed asset turnover (x)	0.79	0.82	0.74	0.72	0.75	
	Total asset turnover (x)	0.60	0.46	0.37	0.33	0.37	
Profitability	Return on assets (%)	22.13	19.36	12.67	10.64	13.90	
	Return on equity (%)	42.78	33.75	24.15	20.00	22.19	
	% of paid-in capital	Operating profit	51.37	47.24	33.48	32.35	33.15
		Income before tax	52.52	47.87	34.22	30.78	39.49
	Net profit margin (%)	31.32	34.32	32.94	29.66	36.95	
	EPS (NT\$)	3.12	3.69	3.20	2.91	3.55	
Cash flow	Cash flow ratio (%)	143.43	207.22	187.09	120.10	198.95	
	Cash flow adequacy ratio (%)	38.37	66.20	81.61	108.79	136.55	
	Cash reinvestment rate (%)	20.39	23.53	9.45	10.06	12.01	
Leverage	Operating leverage	1.41	1.42	1.36	1.48	1.44	
	Financial leverage	1.04	1.06	1.08	1.12	1.07	
Others	EBITDA (NT\$'000)	16,536,537	21,422,027	19,292,830	20,060,377	21,192,488	
	EBITDA margin (%)	36.60	43.89	42.54	44.58	47.00	
	ARPU (NT\$)	910	749	651	582	693	
	MOU ('000)	9,803,033	11,245,368	10,920,288	11,612,586	11,720,178	

Notes: 2000-2004 financial information has been duly audited by independent auditors.

### Formulas for the above table:

#### Financial Structure

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

#### Solvency

- (1) Current Ratio = Current Assets / Current Liabilities
- (2) Quick Ratio = (Current Assets - Inventory - Prepaid Expenses) / Current Liabilities
- (3) Interest Cover = Income before Interest and Tax / Interest Expenses

#### Operations

- (1) Accounts Receivable Turnover = Net Revenue / Average Accounts Receivable
- (2) Average Collection Days = 365 / AR Turnover Ratio
- (3) Accounts Payable Turnover = COGS / Average Accounts Payable
- (4) Fixed Assets Turnover = Net Revenue / Net Fixed Assets
- (5) Total Assets Turnover = Net Revenue / Total Assets

#### Profitability

- (1) Return on Assets = (Net Income + Interest Expenses \* (1 - Tax Rate)) / Average Assets
- (2) Return on Equity = Net Income / Average Equity
- (3) Net Margin = Net Income / Net Sales

- (4) EPS = (Net Income - Preferred Stock Dividend) / Weighted Average Outstanding Shares

#### Cash Flow

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

#### Leverage

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

#### Others

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

## Financial and Operating Results Analysis

### Financial Results

#### 1. Explanation of significant changes in the past two year's assets, liabilities, and shareholders' equity (at least a 10% change and amounts to more than NT\$10 million):

- (1) Current assets decreased mainly due to the disposal of CHT shares.
- (2) Other assets increased by NT\$900 million due to the transfer of self-constructed transmission networks (to be sold to TFN in 2005) from properties and equipment to assets to be disposed of and the transfer of some rental properties for the Company's own usage.
- (3) Current liabilities decreased as the put option on the

convertible bonds have expired and the unexercised portions were transferred back to long-term liabilities and the Company started in 2004 to either refund subscriber's deposits or deduct them against monthly subscriptions.

- (4) Long-term liabilities decreased due to repayment of bank loans and buy back of convertible bonds.
- (5) Capital surplus increased due to conversion of convertible bonds to common shares.

#### 2. Impact on changes in financial results: 2004's financial ratios improved from 2003's.

#### 3. Preventative plans: Not applicable.

### Balance Sheet (2004 versus 2003)

Unit: NT\$'000

	2004	2003	YoY change	
			Amount	%
Current assets	21,449,832	26,069,897	(4,620,065)	(17.72)
Fixed assets	60,190,612	62,505,230	(2,314,618)	(3.70)
Other assets	5,594,292	4,693,947	900,345	19.18
Total assets	121,253,931	130,319,279	(9,065,348)	(6.96)
Current liabilities	12,611,294	17,189,229	(4,577,935)	(26.63)
Long-term liabilities	27,486,226	43,808,584	(16,322,358)	(37.26)
Total liabilities	40,281,110	61,128,513	(20,847,403)	(34.10)
Paid-in capital	48,883,886	46,998,258	1,885,628	4.01
Capital surplus	7,258,873	3,366,010	3,892,863	115.65
Retained earnings	26,393,440	21,317,020	5,076,420	23.81
Total shareholders' equity	80,972,821	69,190,766	11,782,055	17.03

### Operating Results

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

- (1) Operating expense decreased due to savings in marketing expenses as a result of the new focus on acquiring and retaining high contribution customers.

- (2) Non-operating income increased due to increases in investment income from TAT and gains from disposal of CHT shares.
- (3) Non-operating expense decreased due to decreases in long-term borrowings and related finance costs.

## Income Statement (2004 versus 2003)

Unit: NT\$'000

	2004	2003	YoY change	
			Amount	%
Revenue	45,086,422	44,995,790	90,632	0.20
Operating cost	(18,529,447)	(17,855,148)	674,299	3.78
Gross profit	26,556,975	27,140,642	(583,667)	(2.15)
Operating expense	(10,261,490)	(11,939,023)	(1,677,533)	(14.05)
Operating income	16,295,485	15,201,619	1,093,866	7.20
Non-operating income	5,680,226	2,194,575	3,485,651	158.83
Non-operating expense	(2,559,801)	(2,929,394)	(369,593)	(12.62)
Income before tax	19,415,910	14,466,800	4,949,110	34.21
Net income	1,658,456	13,344,447	3,314,009	24.83

## Cash Flow Analysis

### 1. 2004 cash flow analysis:

- (1) Increase in cash flow from operating activities: increase in non-operating income which translated to increase in net income
- (2) Increase in net cash inflow from investing activities: cash received from equity reduction of subsidiaries

and disposal of CHT shares

- (3) Increase in net cash outflow from financing activities: increase in cash dividend distribution, payment of long term debt, and buy back of convertible bonds

## Statement of Cash Flow (2004 versus 2003)

Unit: NT\$'000

	2004	2003	YoY Change	
			Amount	%
Cash inflows from operating activities	25,089,721	20,643,793	4,445,928	21.54
Cash inflows from investing activities	4,955,484	1,467,468	3,488,016	237.69
Cash outflows from financing activities	(28,829,446)	(27,227,284)	(1,602,162)	5.88
Net cash	1,215,759	(5,116,023)	6,331,782	(123.76)

2. Plans to improve negative liquidity: Not Applicable.

### 3. Projected cash flow Analysis for 2005:

## 2005 Cash Flow Analysis

Unit: NT\$'000

Cash balance, beginning of the year (1)	Forecast net cash inflow from operations (2)	Total cash outflow from investing and financing activities (3)	Cash balance, end of the year (1) +(2) -(3)	Source of funding for negative cash balance	
				Cash inflow from investing activities	Cash inflow from financing activities
3,096,850	21,889,419	28,450,903	(3,464,634)	7,342,344	-



- (1) Projected decrease in cash inflow from operating activities is due to payment of taxes and decrease in non-operating income.
- (2) Projected cash outflow from investing activities is due to payment of infrastructure.
- (3) Projected cash outflow from financing activities is due to distribution of cash dividends and payment of long-term borrowings.

- 4. Source of funding for negative cash flow in 2005:**  
Investing activities: receive cash from equity reduction of subsidiaries and closing down of invested companies

### Major Capital Expenditure and Source of Capital Analysis

Anticipating the oncoming of the “3G” era, the Company has since 2003 been aggressively building its 3G

network infrastructure. In 2004, in addition to the 3G network, major capital expenditures include about NT \$3 billion on expanding its 2G system and upgrading its networks. These expenditures have allowed the Company to continue to provide the best communication quality for its customers, thereby increasing its customer satisfaction level and its brand value. With the expansion of value-added services, the Company has been able to provide more diverse services and increase its revenues from VAS. In 2004, revenues from VAS grew by 21% from the previous year.

With an excellent operating year and plenty of cash flow in 2004, these major capital expenditures were funded through the Company’s internal capital, therefore have had no effect on the Company’s financials.

### Investments

Investment policy, profitability analysis and improvement plans: see chart below.

Unit:NT\$'000

Item	Explanation	Amount (Note)	Rationale	Main reasons for gains (losses)	Improvement plans	Other future investment plans
Mobitai Communications Co.		2,451,654	Generating synergies from increased economies of scale	Benefiting from rising profits at the investee company	--	Under a share purchase agreement with TECO Electric & Machinery Co., Ltd., the Company could acquire the remaining 33% of Mobitai’s shares from TECO through a share swap.

Note: Investments made during 2004 exceeded 5% of the Company’s paid-in capital.



## Supervisor's Report

February 21, 2005

The Board of Directors of Taiwan Cellular Corporation has submitted to the undersigned, the Company's 2004 business reports, financial statements and proposal for profit distribution. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. We, the undersigned, having further examined said business reports, statements and proposal, attest to the correctness and accuracy of their contents. In accordance with Article 219 of the Company Law, we hereby submit this report.



Supervisor  
J. Carl Hsu  
Taiwan Fixed Network Co., Ltd.

## Supervisor's Report

March 14, 2005

The Board of Directors of Taiwan Cellular Corporation has submitted to the undersigned, the Company's 2004 business reports, financial statements and proposal for profit distribution. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. We, the undersigned, having further examined said business reports, statements and proposal, attest to the correctness and accuracy of their contents. In accordance with Article 219 of the Company Law, we hereby submit this report.



Supervisor  
Tsung-Ming Chung

## Supervisor's Report

February 24, 2005

The Board of Directors of Taiwan Cellular Corporation has submitted to the undersigned, the Company's 2004 business reports, financial statements and proposal for profit distribution. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. We, the undersigned, having further examined said business reports, statements and proposal, attest to the correctness and accuracy of their contents. In accordance with Article 219 of the Company Law, we hereby submit this report.



Supervisor  
Victor Kung  
Fu-Chi Venture Corp.

## 2004 Financial Statements & Independent Auditors' Report

### Independent Auditors' Report

January 18, 2005

The Board of Directors and Shareholders

Taiwan Cellular Corporation

We have audited the accompanying balance sheets of Taiwan Cellular Corporation (the "Corporation") as of December 31, 2004 and 2003, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Cellular Corporation as of December 31, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

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

We have also audited the consolidated balance sheets of the Corporation and its subsidiaries as of December 31, 2004 and 2003 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. We have expressed an unqualified and a modified unqualified opinion on those consolidated financial statements as of and for the years ended December 31, 2004 and 2003, respectively.

#### Notice to Readers

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

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



## TAIWAN CELLULAR CORPORATION

### BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

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

ASSETS	2004		2003	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2, 3 and 18)	\$ 3,096,850	3	\$ 1,881,091	1
Short-term investments (Notes 2 and 4)	11,909,642	10	17,545,007	13
Notes receivable	53	-	7,512	-
Accounts receivable - third parties (Notes 2 and 5)	4,449,802	4	4,799,834	4
Accounts receivable - related parties (Notes 2 and 18)	482,177	-	771,169	1
Other receivable (Notes 13 and 18)	374,385	-	309,490	-
Prepayments	445,660	-	653,537	1
Deferred income tax assets (Notes 2 and 15)	74,902	-	91,984	-
Pledged time deposits (Notes 18 and 19)	610,000	1	10,000	-
Other current assets	6,361	-	273	-
Total current assets	21,449,832	18	26,069,897	20
<b>LONG-TERM INVESTMENTS (Notes 2, 6 and 18)</b>				
Equity method	23,705,452	19	26,745,321	20
Cost method	-	-	23,100	-
Prepayment for long-term investments	32,160	-	-	-
Total long-term investments	23,737,612	19	26,768,421	20
<b>PROPERTY AND EQUIPMENT (Notes 2, 7, 18 and 19)</b>				
Cost				
Land	3,429,769	3	2,941,193	2
Buildings	2,069,821	2	1,837,070	2
Telecommunication equipment	65,809,396	54	67,964,199	52
Office equipment	182,588	-	207,502	-
Leased assets	1,276,190	1	1,276,190	1
Miscellaneous equipment	1,093,214	1	1,057,843	1
Total cost	73,860,978	61	75,283,997	58
Less accumulated depreciation	(18,324,291)	(15)	(14,569,488)	(11)
	55,536,687	46	60,714,509	47
Construction in progress and advance payments	4,653,925	4	1,790,721	1
Net property and equipment	60,190,612	50	62,505,230	48
<b>INTANGIBLE ASSETS (Notes 2 and 8)</b>	<b>10,281,583</b>	<b>8</b>	<b>10,281,784</b>	<b>8</b>
<b>OTHER ASSETS</b>				
Non-operating assets (Notes 2, 9 and 19)	4,251,445	4	3,161,501	3
Refundable deposits	254,332	-	258,143	-
Deferred charges (Notes 2, 10, 18 and 19)	318,658	-	416,734	-
Deferred income tax assets (Notes 2 and 15)	696,673	1	749,980	1
Other	73,184	-	107,589	-
Total other assets	5,594,292	5	4,693,947	4
<b>TOTAL</b>	<b>\$ 121,253,931</b>	<b>100</b>	<b>\$ 130,319,279</b>	<b>100</b>

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

LIABILITIES AND SHAREHOLDERS' EQUITY	2004		2003	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Notes payable	\$ 72	-	\$ 2,908	-
Accounts payable (Note 18)	1,374,043	1	1,475,854	1
Income tax payable (Notes 2 and 15)	1,911,798	1	936,220	1
Accrued expenses (Note 18)	2,326,546	2	1,989,272	1
Other payable (Notes 6 and 18)	2,270,859	2	754,304	1
Advance receipts (Note 18)	854,826	1	1,421,463	1
Current portion of long-term liabilities (Notes 2, 11, 12 and 19)	3,369,563	3	7,953,006	6
Guarantee deposits	205,718	-	2,546,171	2
Other current liabilities (Note 18)	<u>297,869</u>	<u>-</u>	<u>110,031</u>	<u>-</u>
Total current liabilities	<u>12,611,294</u>	<u>10</u>	<u>17,189,229</u>	<u>13</u>
<b>LONG-TERM LIABILITIES</b>				
Bonds payable (Notes 2, 11 and 19)	19,086,226	16	23,715,318	18
Long-term bank loans (Notes 12 and 19)	<u>8,400,000</u>	<u>7</u>	<u>20,093,266</u>	<u>16</u>
Total long-term liabilities	<u>27,486,226</u>	<u>23</u>	<u>43,808,584</u>	<u>34</u>
<b>OTHER LIABILITIES</b>				
Accrued pension cost (Notes 2 and 13)	133,892	-	44,097	-
Guarantee deposits	4,069	-	34,986	-
Other	<u>45,629</u>	<u>-</u>	<u>51,617</u>	<u>-</u>
Total other liabilities	<u>183,590</u>	<u>-</u>	<u>130,700</u>	<u>-</u>
Total liabilities	<u>40,281,110</u>	<u>33</u>	<u>61,128,513</u>	<u>47</u>
<b>SHAREHOLDERS' EQUITY (Notes 2 and 14)</b>				
Capital stock - \$10 par value				
Authorized: 6,000,000 thousand shares				
Issued: 4,888,389 thousand shares in 2004 and 4,699,826 thousand shares in 2003	48,883,886	40	46,998,258	36
Entitlement certificates	279,670	-	-	-
Capital surplus - paid-in capital in excess of par value	7,258,873	6	3,366,010	3
Retained earnings				
Legal reserve	6,839,315	6	5,505,955	4
Special reserve	-	-	330,183	-
Unappropriated earnings	19,554,125	16	15,480,882	12
Other adjustments of shareholders' equity				
Cumulative translation adjustments	(1,631)	-	34,450	-
Treasury stock	<u>(1,841,417)</u>	<u>(1)</u>	<u>(2,524,972)</u>	<u>(2)</u>
Total shareholders' equity	<u>80,972,821</u>	<u>67</u>	<u>69,190,766</u>	<u>53</u>
<b>TOTAL</b>	<b>\$ 121,253,931</b>	<b>100</b>	<b>\$ 130,319,279</b>	<b>100</b>

## TAIWAN CELLULAR CORPORATION

### STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	2004		2003	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 18)				
Telecommunication service revenue	\$ 44,531,866	99	\$ 44,926,991	100
Other revenue	554,556	1	68,799	-
Total operating revenues	45,086,422	100	44,995,790	100
OPERATING COSTS (Notes 2, 17 and 18)				
	18,529,447	41	17,855,148	40
GROSS PROFIT				
	26,556,975	59	27,140,642	60
OPERATING EXPENSES (Notes 2, 17 and 18)				
Marketing	7,243,948	16	8,351,607	18
Administrative	3,017,542	7	3,587,416	8
Total operating expenses	10,261,490	23	11,939,023	26
OPERATING INCOME				
	16,295,485	36	15,201,619	34
NON-OPERATING INCOME AND GAIN				
Investment income recognized by the equity method, net (Notes 2 and 6)	2,584,131	6	1,283,481	3
Dividend income	1,249,052	3	32,207	-
Gain on disposal of investments, net (Note 2)	1,047,567	2	44,837	-
Rental income (Note 18)	233,241	1	305,161	1
Penalty income	170,160	-	158,646	-
Interest income	26,366	-	40,015	-
Gain on disposal of property and equipment (Note 2)	8,582	-	7,785	-
Market price recovery of short-term investments (Note 2)	-	-	91,819	-
Other	361,127	1	230,624	1
Total non-operating income and gain	5,680,226	13	2,194,575	5
NON-OPERATING EXPENSE AND LOSS				
Interest expenses (Notes 2 and 7)	1,099,286	3	1,583,889	4
Provision for losses on idle assets (Notes 2 and 9)	942,179	2	895,127	2
Loss on buyback of bonds payable (Note 18)	268,105	1	-	-
Financial expenses	86,988	-	194,677	-
Loss on disposal of property and equipment (Note 2)	30,160	-	24,104	-
Other	133,083	-	231,597	1
Total non-operating expense and loss	2,559,801	6	2,929,394	7
INCOME BEFORE INCOME TAX				
	19,415,910	43	14,466,800	32
INCOME TAX EXPENSE (Notes 2 and 15)				
	2,757,454	6	1,122,353	2
NET INCOME				
	\$ 16,658,456	37	\$ 13,344,447	30

	2004		2003	
	Amount	%	Amount	%
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 16)				
Basic	\$ 4.14	\$ 3.55	\$ 3.15	\$ 2.91
Diluted	\$ 3.93	\$ 3.37	\$ 2.95	\$ 2.71

The pro forma net income and earnings per share if Financial Accounting Standards No. 30, "Accounting for Treasury Stock," had not been adopted are as follows:

	2004		2003	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
NET INCOME	\$ 19,425,635	\$ 16,668,180	\$ 14,473,373	\$ 13,351,020
EARNINGS PER SHARE				
Basic	\$ 4.14	\$ 3.55	\$ 3.15	\$ 2.91
Diluted	\$ 3.93	\$ 3.37	\$ 2.95	\$ 2.71

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

TAIWAN CELLULAR CORPORATION

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	Capital Stock		Paid-in Capital-in Excess of Par Value	Legal Reserve	
	Capital Stock	Entitlement Certificates			
BALANCE, JANUARY 1, 2003	\$ 45,026,835	\$ -	\$ 3,004,199	\$ 4,018,683	
Appropriation of 2002 earnings					
Legal reserve	-	-	-	1,487,272	
Special reserve	-	-	-	-	
Remuneration to directors and supervisors	-	-	-	-	
Bonus to employees - cash	-	-	-	-	
Stock dividends - \$0.4 per share	1,766,378	-	-	-	
Cash dividends - \$2.0 per share	-	-	-	-	
Balance after appropriation	46,793,213	-	3,004,199	5,505,955	
Prior period adjustments on long-term equity-method investments	-	-	-	-	
Net income in 2003	-	-	-	-	
Conversion of convertible bonds to capital stock	205,045	-	361,811	-	
Translation adjustments	-	-	-	-	
Reversal of unrealized loss on long-term investments	-	-	-	-	
BALANCE, DECEMBER 31, 2003	46,998,258	-	3,366,010	5,505,955	
Reversal of special reserve	-	-	-	-	
Appropriation of 2003 earnings					
Legal reserve	-	-	-	1,333,360	
Remuneration to directors and supervisors	-	-	-	-	
Bonus to employees - cash	-	-	-	-	
Cash dividends - \$2.3758 per share	-	-	-	-	
Balance after appropriation	46,998,258	-	3,366,010	6,839,315	
Net income in 2004	-	-	-	-	
Conversion of convertible bonds to capital stock and entitlement certificates	1,904,728	279,670	3,894,231	-	
Cancellation of treasury stock	(19,100)	-	(1,368)	-	
Transfer of treasury stock to employees	-	-	-	-	
Adjustments of change in ownership percentage on long-term equity-method investments	-	-	-	-	
Disposal of the Corporation's shares held by its subsidiary	-	-	-	-	
Translation adjustments	-	-	-	-	
BALANCE, DECEMBER 31, 2004	\$ 48,883,886	\$ 279,670	\$ 7,258,873	\$ 6,839,315	

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



Retained Earnings			Unrealized Loss on Long-term Investments	Cumulative Translation Adjustments	Treasury Stock	Total Shareholders' Equity
Special Reserve	Unappropriated	Total				
\$ -	\$ 15,019,922	\$ 19,038,605	\$ (317,007)	\$ 7,666	\$ (2,524,972)	\$ 64,235,326
-	(1,487,272)	-	-	-	-	-
330,183	(330,183)	-	-	-	-	-
-	(65,274)	(65,274)	-	-	-	(65,274)
-	(391,645)	(391,645)	-	-	-	(391,645)
-	(1,766,378)	(1,766,378)	-	-	-	-
-	(8,831,889)	(8,831,889)	-	-	-	(8,831,889)
330,183	2,147,281	7,983,419	(317,007)	7,666	(2,524,972)	54,946,518
-	(10,846)	(10,846)	-	-	-	(10,846)
-	13,344,447	13,344,447	-	-	-	13,344,447
-	-	-	-	-	-	566,856
-	-	-	-	26,784	-	26,784
-	-	-	317,007	-	-	317,007
330,183	15,480,882	21,317,020	-	34,450	(2,524,972)	69,190,766
(330,183)	330,183	-	-	-	-	-
-	(1,333,360)	-	-	-	-	-
-	(61,652)	(61,652)	-	-	-	(61,652)
-	(369,913)	(369,913)	-	-	-	(369,913)
-	(11,071,408)	(11,071,408)	-	-	-	(11,071,408)
-	2,974,732	9,814,047	-	34,450	(2,524,972)	57,687,793
-	16,658,456	16,658,456	-	-	-	16,658,456
-	-	-	-	-	-	6,078,629
-	(33,337)	(33,337)	-	-	53,805	-
-	(36,882)	(36,882)	-	-	548,166	511,284
-	(4,299)	(4,299)	-	-	-	(4,299)
-	(4,545)	(4,545)	-	-	81,584	77,039
-	-	-	-	(36,081)	-	(36,081)
\$ -	\$ 19,554,125	\$ 26,393,440	\$ -	\$ (1,631)	\$ (1,841,417)	\$ 80,972,821

## TAIWAN CELLULAR CORPORATION

### STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars)

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 16,658,456	\$ 13,344,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,724,936	4,644,422
Investment income recognized by the equity method, net	(2,584,131)	(1,283,481)
Cash dividends received from equity-method investees	2,597,160	1,211,503
Provision for losses on idle assets	942,179	895,127
Bad debts	669,132	1,021,700
Accrued interest compensation	358,473	479,522
Loss on buyback of bonds payable	268,105	-
Amortization	172,067	214,336
Deferred income taxes	70,389	160,564
Loss on disposal of property and equipment, net	21,578	16,319
Accrued pension cost	17,567	3,445
Gain on disposal of long-term investments	(20,414)	(9,861)
Impairment loss on long-term investments	10,594	-
Cash dividends received from cost-method investees	-	1,467,793
Market price recovery of short-term investments	-	(91,819)
Other	425	-
Changes in operating assets and liabilities		
Notes receivable	7,459	(4,388)
Accounts receivable - third parties	(411,724)	(1,820,294)
Accounts receivable - related parties	288,992	(137,774)
Other receivable	9,127	204,200
Prepayments	207,877	(114,238)
Other current assets	(6,088)	(223)
Notes payable	(2,836)	(11,175)
Accounts payable	(101,811)	32,043
Income tax payable	975,578	636,916
Accrued expenses	335,478	102,506
Other payable	265,151	(331,476)
Advance receipts	(566,637)	(45,399)
Other current liabilities	<u>182,639</u>	<u>59,078</u>
Net cash provided by operating activities	<u>25,089,721</u>	<u>20,643,793</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in short-term investments	5,635,365	6,000,000
Proceeds from investees' capital reduction	5,499,507	-
Acquisition of property and equipment	(3,202,727)	(4,744,019)
Increase in long-term investments	(2,544,027)	-
Increase in pledged time deposits	(600,000)	-

	2004	2003
Proceeds from investee's liquidation	\$ 53,028	\$ -
Cash received from merger with T&M Investment Co., Ltd.	52,263	-
Proceeds from disposal of long-term investments	13,141	88,400
Proceeds from disposal of property and equipment	35,537	14,309
Decrease in deferred charges, net	7,896	117,273
Decrease (increase) in refundable deposits	3,811	(8,221)
Decrease (increase) in other assets	1,690	(274)
Net cash provided by investing activities	<u>4,955,484</u>	<u>1,467,468</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in long-term bank loans	(13,100,000)	(14,943,883)
Cash dividends paid	(11,050,917)	(8,831,889)
Decrease in guarantee deposits	(2,371,370)	(1,250,729)
Buyback of bonds payable	(2,360,484)	-
Treasury stock transferred to employees	511,284	-
Bonus to employees	(396,307)	(347,252)
Remuneration to directors and supervisors	(61,652)	(65,274)
Decrease in short-term debts	-	(1,100,000)
Buyback of issued shares	-	(449,004)
Decrease in short-term bills payable	-	(239,253)
Net cash used in financing activities	<u>(28,829,446)</u>	<u>(27,227,284)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,215,759	(5,116,023)
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>1,881,091</u>	<u>6,997,114</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,096,850</u>	<u>\$ 1,881,091</u>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid - excluding interest capitalized	<u>\$ 863,378</u>	<u>\$ 1,244,397</u>
Income tax paid	<u>\$ 1,716,200</u>	<u>\$ 324,872</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Reclassification of long-term investments as short-term investments	<u>\$ -</u>	<u>\$ 17,394,707</u>
Current portion of long-term liabilities	<u>\$ 3,369,563</u>	<u>\$ 7,953,006</u>
Conversion of convertible bonds to capital stock and entitlement certificates	<u>\$ 5,563,100</u>	<u>\$ 544,900</u>
Reclassification from treasury stock to long-term investments for disposal of the Corporation's shares held by its subsidiary	<u>\$ 77,039</u>	<u>\$ -</u>
<b>CASH PAID FOR ACQUISITION OF PROPERTY AND EQUIPMENT</b>		
Acquisition of property and equipment	\$ 4,579,689	\$ 4,740,369
Add decrease (increase) in other payable	<u>(1,376,962)</u>	<u>3,650</u>
	<u>\$ 3,202,727</u>	<u>\$ 4,744,019</u>
<b>CASH PAID FOR BUYBACK OF ISSUED SHARES</b>		
Increase in treasury stock	\$ -	\$ -
Less decrease in other payable	<u>-</u>	<u>449,004</u>
	<u>\$ -</u>	<u>\$ 449,004</u>

## SUPPLEMENTAL INFORMATION ON SUBSIDIARY:

T&M Investment Co., Ltd. (T&M), the Corporation's subsidiary, merged into the Corporation on June 30, 2004. The carrying values of assets and liabilities as of June 30, 2004 were as follows:

Other receivable	\$	403,702
Long-term investments		<u>5,135,028</u>
Assets acquired from T&M	\$	<u>5,538,730</u>
Accrued expenses	\$	127
Other payable		3,861
Other current liabilities		<u>5,199</u>
Liabilities assumed from T&M	\$	<u>9,187</u>

The Corporation acquired 67% of Mobitai Communications' shares on August 31, 2004. The carrying values of assets and liabilities as of August 31, 2004 were as follows:

Cash	\$	48,596
Short-term investments		567,613
Accounts receivable		565,038
Inventories		25,555
Other current assets		173,473
Long-term investments		427
Property and equipment		2,475,718
Other assets		<u>345,913</u>
		<u>\$ 4,202,333</u>
Short-term debts	\$	71,046
Accounts payable		190,596
Other payable		560,124
Other current liabilities		132,194
Long-term bank loans		63,152
Other liabilities		<u>103,210</u>
		<u>\$ 1,120,322</u>

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

## TAIWAN CELLULAR CORPORATION

### NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars, Except Per Share Amounts and Unless Specified Otherwise)

#### 1. ORGANIZATION AND BUSINESS

Taiwan Cellular Corporation (the "Corporation") was incorporated in the Republic of China ("ROC") on February 25, 1997. The Corporation's shares had been traded on the ROC Over-the-Counter Securities Exchange (known as GreTai Securities Market) since September 19, 2000. On August 26, 2002, the Corporation's shares were listed on the Taiwan Stock Exchange. The Corporation mainly engages in wireless communication services.

The Corporation's services are under the type I license (GSM 1800 for all sectors; "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 an annual license fee consisting of 2% of total wireless communication service revenues.

As of December 31, 2004 and 2003, the Corporation had 1,517 and 774 employees, respectively.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying 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. In conformity with these guidelines and principles, the Corporation is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful receivable, depreciation, pension and allowance for deferred income tax 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.

Significant accounting policies are summarized as follows:

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

Current assets are those expected to be sold or consumed within one year. Property and equipment, intangible assets and those other than current assets are classified as non-current. Current liabilities are obligations due within one year. All other liabilities are classified as non-current.

### **Cash Equivalents**

Government bonds acquired with resale rights and having maturities of up to three months from the date of purchase are classified as cash equivalents.

### **Short-term Investments**

Short-term investments are carried at the lower of aggregate cost or market value. An allowance for loss is provided when the aggregate carrying value of the investments exceeds the aggregate market value. Any recovery of market value to the extent of the original carrying value is recognized as income. The costs of investments sold are determined by the weighted-average method.

### **Allowance for Doubtful Receivables**

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

### **Long-term Investments**

Long-term investments in which the Corporation exercises significant influence on the investees are accounted for by the equity method. The Corporation's proportionate share in the net income or net loss of investees is recognized as

investment income or loss. Cash dividends are recorded as a reduction of the long-term investments. On the acquisition date, the difference between the cost of investment and the investee's proportionate net value is amortized by the straight-line method over 5 to 20 years and also recognized as investment income or loss.

Gains or losses on transactions with investees over which the Corporation exercises significant influence are deferred and are realized through transactions with third parties. Gains or losses on depreciable or amortizable assets are recognized over the estimated useful lives of the assets.

Other long-term investments are accounted for by the cost method. Cash dividends received in the year of investment acquisition are accounted for as a reduction of the long-term investments, and cash dividends received in subsequent years are recognized as dividend income. If the accumulated cash dividends distributed by investee exceed the investee's accumulated earnings from the acquisition date to the year end from which the distribution was made, the excess is recognized as a reduction to the carrying value of long-term investments. Stock dividends are recognized neither as an increase in long-term investments nor as investment income but are accounted for only as an increase in the number of shares held. The carrying value of the investments in unlisted stocks are reduced to reflect any other than temporary decline in value, with the reduction charged to current income.

The costs of the investments sold are 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 currently. Property and equipment covered by agreements qualifying as capital leases are carried at the lower of the present value of future minimum rent payments or the market value of the property on the starting dates of the leases.

Depreciation is provided by the straight-line method over the estimated service lives which range as follows: buildings - 50 to 55 years; telecommunication equipment - 10 to 15 years; office equipment - 3 to 5 years; leased assets - 20 years; and miscellaneous equipment - 3 to 5 years.

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

### **Intangible Assets**

Intangible assets, which consist of 3G concession and trademarks, are recorded at acquisition cost and amortized over their estimated economic lives.

### **Deferred Charges**

Deferred charges, which refer to interior decoration and bond and bill issuance costs, are amortized by the straight-line method over 3 to 7 years or contract periods.

### **Idle Assets**

Idle assets, which consist of equipment not currently used in operation, are stated at the lower of cost or net realizable value.

### **Pension Costs**

Pension costs are recognized on the basis of actuarial calculations. Unrecognized net transition obligation and unrecognized net gains or losses are amortized over 25 years and the average remaining service years of employees, respectively.

### **Bonds Payable**

Convertible bonds with redemption rights are classified as current or non-current according to redemption dates. The redemption price in excess of the face value of the bonds is amortized by the interest method from the issuance date through the due 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 and amortized over 3 to 7 years.

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

### **Income Tax**

The inter-period allocation method is used for income tax. 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 income tax assets that are more likely than not to 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 reports. 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 realization period.

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 taxes of 10% on unappropriated earnings are expensed in the year when the shareholders resolve the retention of the earnings.

### **Treasury Stock**

The buyback of issued shares is accounted for by the cost method.

If the proceeds from 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 charged to capital surplus from treasury stock. If the balance of capital surplus from treasury stock is not sufficient to absorb this difference, the rest is recorded as a reduction



of retained earnings.

If treasury stock is canceled, capital stock and additional paid-in capital are proportionately adjusted. If the carrying value of treasury stock exceeds the total balance of par value and additional paid-in capital, the excess is debited to capital surplus from treasury stock. If the balance of capital surplus from treasury stock is not sufficient to absorb such deficiency, the rest is recorded as a reduction of retained earnings. If the carrying value of treasury stocks is less than the total of par value and additional paid-in capital, the deficiency is credited to capital surplus from treasury stock.

#### Derivative Financial Instruments

The notional amounts of interest rate swap agreements are not recognized in the financial statements because these agreements do not require the settlement of these amounts initially. However, a memorandum entry is made for the transaction. The receivable or payable amounts under the agreements, which result from the differences in interest rates, are accrued as an adjustment to interest income or interest expense on the hedged objects on the balance sheet date and settlement dates.

#### Foreign-currency Transactions

Foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates, when foreign-currency receivable and payable, are settled, are credited or charged to income on the settlement date. Foreign-currency assets and liabilities are restated at prevailing exchange rates at the year end date. The resulting differences are recorded in the current income.

Long-term foreign-currency investments accounted for by the equity method are translated into New Taiwan dollars at the following exchange rates: (a) assets and liabilities - the rate at the year end date; (b) income and expense - average rate over the year; and (c) equity - historical rate. The difference resulting from the above translation is reported as cumulative translation adjustments under shareholders' equity.

#### Revenue Recognition

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

Usage revenues from wireless services and value-added services, net of any applicable discount, are billed at predetermined rates and are recognized based on minutes of traffic processed. Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized in full when the connection is activated; and (b) prepaid card services are recognized as income based upon customer usage.

#### Promotion Expenses

Commissions and cellular phone subsidy costs pertaining to the Corporation's promotions are recognized as marketing expenses on accrual basis in the year when the service is provided.

#### Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2003 have been reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2004.

### 3. CASH AND CASH EQUIVALENTS

	December 31	
	2004	2003
Government bonds with resale rights	\$ 2,273,843	\$ 1,562,812
Cash in banks	606,082	307,859
Time deposits	203,205	-
Cash on hand	9,280	7,905
Revolving funds	4,440	2,515
	<u>\$ 3,096,850</u>	<u>\$ 1,881,091</u>



#### 4. SHORT-TERM INVESTMENTS

	December 31	
	2004	2003
Listed stocks		
Chunghwa Telecom Co., Ltd.	\$ 9,277,177	\$ 17,394,707
Beneficiary certificates		
Open-end funds	2,532,165	50,000
Closed-end funds	<u>100,300</u>	<u>100,300</u>
	<u>\$ 11,909,642</u>	<u>\$ 17,545,007</u>
Market value	<u>\$ 15,099,265</u>	<u>\$ 18,422,175</u>

The market values of each investment were based on the following: (a) listed stocks and closed-end funds - the average closing prices in December; (b) open-end funds - the net asset value on the balance sheet date.

#### 5. ACCOUNTS RECEIVABLE - THIRD PARTIES

	December 31	
	2004	2003
Accounts receivable	\$ 4,803,450	\$ 5,227,795
Less allowance for doubtful receivable	<u>(353,648)</u>	<u>(427,961)</u>
	<u>\$ 4,449,802</u>	<u>\$ 4,799,834</u>

#### 6. LONG-TERM INVESTMENTS

	December 31			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Equity method				
TransAsia Telecommunications Inc.	\$ 13,056,507	92.32	\$ 12,569,285	78.87
Taiwan Fixed Network Co., Ltd.	4,256,798	9.87	2,869,367	3.25
Mobitai Communications	2,520,293	67.00	-	-
Tai Hung Investments Ltd.	1,646,819	99.99	1,590,164	99.99
Taihsing Den Den Co., Ltd.	941,566	99.99	1,526,803	99.99
Tai Fu Investment Ltd.	553,889	99.99	782,688	99.99
T.I. Investment Ltd.	405,762	99.99	432,540	99.99
Tai Hsuo Investments Ltd.	323,818	99.99	499,488	99.99
T & M Investment Co., Ltd.	-	-	6,370,748	99.99
Taiwan Telecom (Aust) Pty Ltd.	<u>-</u>	<u>-</u>	<u>104,238</u>	60.00
	<u>23,705,452</u>		<u>26,745,321</u>	
Cost method				
WEB Point Co., Ltd.	-	-	20,509	3.76
Sunnet Co., Ltd.	<u>-</u>	<u>-</u>	<u>2,591</u>	2.21
	<u>-</u>		<u>23,100</u>	
Prepayment for long-term investments				
Bridge Mobile Pte Ltd.	<u>32,160</u>	-	<u>-</u>	-
	<u>\$ 23,737,612</u>		<u>\$ 26,768,421</u>	



Although the Corporation's equity in Taiwan Fixed Network Co., Ltd. (TFN) is less than 20%, the equity method is applied because of the Corporation's significant influence over TFN. The investment income or loss is recognized by the treasury stock method for the reciprocal investments between TFN and the Corporation.

In August 2004, the Corporation acquired 67% of Mobitai Communications' ("Mobitai") shares for \$2,451,654 thousand at NT\$13.5243 per share. Based on the share purchase agreement, of the total purchase price, the following amounts should be retained and deposited to certain accounts: (a) \$84,903 thousand to four joint bank accounts at Hua-Nan Commercial Bank, between the Corporation, TECO Electric & Machinery Co., Ltd., the major shareholder of Mobitai, and three domestic shareholders; and (b) \$17,442 thousand payable to two foreign shareholders of Mobitai (recorded as other payable), to the Corporation's account for future settlement of Mobitai's possible loss due to unresolved dispute on the service of international simple resale (ISR).

To integrate enterprise resources for enhanced operating efficiency, the Board of Directors decided, on April 30, 2004, to merge the Corporation's wholly owned subsidiary, T&M Investment Co., Ltd. (T&M), with the Corporation as the surviving company. T&M was incorporated in March 1999, and it engaged in general investing activities. The record date of the merger was June 30, 2004. The Corporation assumed all rights and obligations of T&M. Since T&M was a wholly-owned subsidiary of the Corporation, no new shares were issued for this merger.

Had T&M merged into the Corporation on January 1, 2004, the pro forma consolidated results of operations would have been as follows:

	<b>2003</b>
Operating revenues	\$ <u>44,995,790</u>
Net income	\$ <u>13,344,447</u>
Earnings per share - basic	\$ <u>2.91</u>
- diluted	\$ <u>2.71</u>

On April 6, 2004, at the shareholders' meeting of TransAsia Telecommunications Inc. (TAT), the shareholders decided to reduce TAT's capital by \$3,000,000 thousand (45.73% of

the capital), resulting in the cancellation of 300,000 thousand shares and the return to investors of their cash investments. On the record date (June 23, 2004), the Corporation was entitled to receive \$2,769,507 thousand based on its equity of 78.87% and T&M's 13.45% equity stake in TAT.

On June 11, 2004, at the shareholders' meeting of TFN, the shareholders decided to reduce TFN's capital by \$27,660,000 thousand (30% of the capital), resulting in the cancellation of 2,766,000 thousand shares and the return to investors of their cash investments. On the record date (August 15, 2004), the Corporation was entitled to receive \$2,730,000 thousand based on its 9.87% equity stake in TFN.

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

	<b>Years Ended December 31</b>	
	<b>2004</b>	<b>2003</b>
TransAsia Telecommunications Inc.	\$ 2,308,809	\$ 911,486
T&M Investment Co., Ltd.	286,322	195,997
Tai Hung Investments Ltd.	97,735	80,157
Taihsing Den Den Co., Ltd.	(81,512)	33,419
Mobitai Communications	68,640	-
Taiwan Telecom (Aust) Pty Ltd.	(43,646)	(15,408)
T.I. Investment Ltd.	(26,799)	(96,579)
Taiwan Fixed Network Co., Ltd.	(14,554)	(22,891)
Tai Hsuo Investments Ltd.	(12,067)	88,963
Tai Fu Investments Ltd.	1,203	108,337
	<u>\$ 2,584,131</u>	<u>\$ 1,283,481</u>

With the exception of TAT and Mobitai, the total assets or total operating revenue of the subsidiaries were individually less than 10% or collectively less than 30% of the Corporation's total assets or operating revenues. Thus, only the accounts of TAT and Mobitai were included in the consolidated financial statements of the Corporation.



## 7. PROPERTY AND EQUIPMENT ACCUMULATED DEPRECIATION

	December 31	
	2004	2003
Buildings	\$ 182,987	\$ 127,286
Telecommunication equipment	17,359,525	13,850,042
Office equipment	122,829	137,161
Leased assets	164,841	101,032
Miscellaneous equipment	494,109	353,967
	<u>\$ 18,324,291</u>	<u>\$ 14,569,488</u>

Depreciation for the years ended December 31, 2004 and 2003 were \$4,661,909 thousand and \$4,561,066 thousand, respectively.

Interest expenses capitalized for the years ended December 31, 2004 and 2003 amounted to \$77,582 thousand and \$25,816 thousand, respectively, with interest rates ranging from 3.00% to 3.60% and from 2.04% to 4.68%, respectively.

## 8. INTANGIBLE ASSETS

	December 31	
	2004	2003
3G concession	\$ 10,281,000	\$ 10,281,000
Trademark	583	784
	<u>\$ 10,281,583</u>	<u>\$ 10,281,784</u>

3G concession refers to the bid payment for the third generation mobile telecommunication service - License C. As of December 31, 2004, the 3G concession operation license has not been issued. However, the Corporation is still allowed to start preparations to render 3G services.

## 9. NON-OPERATING ASSETS

	December 31	
	2004	2003
Cost		
Assets leased to others	\$ 2,458,229	\$ 3,391,241
Idle assets	2,668,633	1,336,268
Assets to be disposed of	<u>2,518,960</u>	<u>-</u>
	7,645,822	4,727,509
Less accumulated depreciation	<u>(1,557,071)</u>	<u>(670,881)</u>
	6,088,751	4,056,628
Less allowance for losses	<u>(1,837,306)</u>	<u>(895,127)</u>
	<u>\$ 4,251,445</u>	<u>\$ 3,161,501</u>

In consideration of the equipment utilization condition and capital efficiency, in October 2004, the Board of Directors of the Corporation decided to sell its self-constructed transmission networks with carrying value of \$2,035,713 thousand to Taiwan Fixed Network Co., Ltd. in 2005. The equipment was therefore transferred from properties and equipment to assets to be disposed of. The Corporation believes that no material gains or losses is expected from the transaction.

## 10. DEFERRED CHARGES, NET

	December 31	
	2004	2003
Interior decoration	\$ 136,594	\$ 161,131
Bond issuance costs	34,559	68,719
Other	<u>147,505</u>	<u>186,884</u>
	<u>\$ 318,658</u>	<u>\$ 416,734</u>

## 11. BONDS PAYABLE

	December 31			
	2004		2003	
	Current	Non-current	Current	Non-current
Domestic secured bonds	\$ 1,500,000	\$ 1,500,000	\$ -	\$ 3,000,000
Domestic unsecured bonds	-	15,000,000	-	15,000,000
1st domestic unsecured convertible bonds	-	2,230,800	5,906,800	-
2nd domestic unsecured convertible bonds	1,730,400	-	-	5,464,500
Add accrued interest compensation	139,163	355,426	646,206	250,818
	<u>\$ 3,369,563</u>	<u>\$ 19,086,226</u>	<u>\$ 6,553,006</u>	<u>\$ 23,715,318</u>

### a. Domestic secured bonds

On February 1, 2001, the Corporation issued five-year domestic secured bonds amounting to \$3,000,000 thousand, 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.

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 domestic unsecured bonds amounting to \$15,000,000 thousand, 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 bonds. The interest rates and payment terms are as follows:

	Principal	Rate	Terms
Type I	\$ 2,500,000	2.6%	Repayment of \$1,250,000 thousand each in the fourth and fifth years, interest payable annually
Type II	2,500,000	5.21%-LIBOR	Repayment on maturity date, interest payable semiannually
Type III	5,000,000	2.8%	Repayment of \$2,500,000 thousand each in the sixth and seventh years, interest payable annually
Type IV	<u>5,000,000</u>	5.75%-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 five-year domestic convertible bonds amounting to \$10,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period, starting from 3 months after issuance date to 10 days 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\$24.3 per share since July 30, 2004. As of December 31, 2004, bonds amounting to \$5,952,200 thousand have been converted to 162,429 thousand common shares and 27,967 thousand units of entitlement certificates. Each certificate can be converted into one

common share. As of December 31, 2004, the bonds amounting to \$1,817,000 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 40 days before maturity, the Corporation has the option to convert the bonds to entitlement certificates at conversion price or to redeem the bonds by cash based on the 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 based on the face value.

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

#### d. 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued five-year domestic convertible bonds amounting to \$6,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to 10 days before maturity, the bondholders may have the bonds converted into common stocks 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\$25.7 per share since July 30, 2004. As of December 31, 2004, bonds amounting to \$4,239,600 thousand had been converted to 162,621 thousand common shares. As of December 31, 2004, the bonds amounting to \$30,000 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 40 days before maturity, the Corporation has the option to convert the bonds to common stocks at conversion price or to redeem the bonds by cash based on the 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 common stocks at the conversion price or to redeem the bonds by cash based on the face value.

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

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

Year	Amount
2005	\$ 1,500,000
2006	2,750,000
2007	3,750,000
2008	2,500,000
2009	7,500,000
	<u>\$ 18,000,000</u>

## 12. LONG-TERM BANK LOANS

	December 31	
	2004	2003
Secured loans	\$ 8,400,000	\$ 16,680,000
Unsecured loans	-	3,200,000
Commercial paper	-	1,620,000
Less unamortized discount	-	(6,734)
	8,400,000	21,493,266
Less current portion	-	(1,400,000)
	<u>\$ 8,400,000</u>	<u>\$ 20,093,266</u>

### a. Secured loans

The secured loans had interest rates ranging from 1.9567% to 2.0666% and from 1.4575% to 2.9334% as of December 31, 2004 and 2003, respectively. Interest is payable monthly with a maturity date of September 1, 2010. Starting March 1, 2006, the credit limit will be reduced by 10% every six months.

### b. Unsecured loans

The unsecured loans had interest rates ranging from 1.3% to 3.5% as of December 31, 2003. Interest is payable monthly. Upon maturity, these loans are allowed to revolve within their credit limits, which will be due consecutively in 2005, 2006 and 2007.

### c. Commercial paper

The Corporation has obtained guarantee agreements from the financial institutions to issue commercial paper till June 12, 2008. Commercial paper was issued at discount rates ranging from 0.67% to 2.20% as of December 31, 2003. The final maturity date is May 31, 2004. The related agreements require the Corporation to maintain its current ratio at above 100%, debt-to-equity

ratio at below 100% and its long-term solvency ratio at above 150%. As of December 31, 2004, the Corporation has terminated the above guarantee agreements.

## 13. PENSION PLAN

The Corporation has a pension plan for all regular employees, which provides benefits based on length of service and average basic pay for the six months before retirement.

The Corporation contributes monthly an amount equal to 2% of salaries and wages to a pension fund, which is administered by the employees pension fund committee and deposited in the committee's name in the Central Trust of China.

Certain employees of the Corporation's subsidiary and affiliates were transferred to the Corporation in 2004. The Corporation accepted these employees' previous service years. Based on actuarial calculation, the Corporation was entitled to receive pension amounting to \$73,897 thousand from these companies. As of December 31, 2004, the Corporation had not received these payments and recorded them as other receivable. The information is summarized as follows:

	Howin Technologies Co., Ltd.	TransAsia Telecommunications Inc.	Taiwan Elitec Corporation	Total
Amount of other receivable	\$ 35,834	\$ 33,852	\$ 4,211	\$ 73,897
Number of employees transferred to the Corporation	437	174	97	708

Pension information is summarized as follows:

### a. Pension cost

	Years Ended December 31	
	2004	2003
Service cost	\$ 34,194	\$ 21,739
Interest cost	2,784	2,506
Projected return on pension assets	(3,012)	(3,040)
Amortization	(1,771)	(1,829)
Pension cost	<u>\$ 32,195</u>	<u>\$ 19,376</u>

### b. Reconciliation of the fund status of the plan and accrued pension cost

	December 31	
	2004	2003
Benefit obligation		
Vested	\$ -	\$ (433)
Non-vested	(90,428)	(57,539)
Accumulated	(90,428)	(57,972)
Additional benefits based on future salaries	(61,736)	(34,815)

(Continued)

	December 31	
	2004	2003
Projected benefit obligation	(152,164)	(92,787)
Fair value of plan assets	111,079	93,746
Funded status	(41,085)	959
Unrecognized net transitional obligation	9,301	9,816
Unrecognized net gain or loss	(108,130)	(60,517)
Accrued pension cost	\$(139,914)	\$(49,742)
<b>c. Vested benefits</b>	\$ -	\$(433)

#### d. Actuarial assumptions

	Years Ended December 31	
	2004	2003
Discount rate used in determining present values	3.0%	3.0%
Future salary increase rate	2.5%	2.5%
Expected rate of return on plan assets	3.0%	3.0%

## 14. SHAREHOLDERS' EQUITY

### a. Capital surplus

Under the Company Law, capital surplus may only be used to offset a deficit. Capital surplus, however, 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 within a certain amount once a year.

### 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 less any accumulated deficit. The remainder, less special reserve based on relevant laws or regulations, shall be distributed as follows:

- 1) Dividends and bonus to preferred shareholders
- 2) Remuneration to directors and supervisors - 0.5%
- 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 capital budgeting process and then provides for projected capital needs by using the 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 is allowed to be appropriated to the extent that the debit balance of such accounts is reversed.

The appropriation of earnings shall be resolved by 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 appropriation of the 2003 and 2002 earnings and dividend per share was as follows:

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	For Fiscal Year 2003	For Fiscal Year 2002	For Fiscal Year 2003	For Fiscal Year 2002
Legal reserve	\$ 1,333,360	\$ 1,487,272		
Special reserve	(330,183)	330,183		
Remuneration to directors and supervisors	61,652	65,274		
Bonus to employees - in cash	369,913	391,645		
Cash dividends	11,071,408	8,831,889	\$ 2.3758	\$ 2.0
Stock dividends	-	1,766,378		0.4
	<u>\$ 12,506,150</u>	<u>\$ 12,872,641</u>		

Of the appropriation of 2003 earnings proposed by the Board of Directors and resolved by the shareholders' meeting on June 15, 2004, the bonus to employees and the remuneration to directors and supervisors were as follows:

	Amount
Bonus to employees - in cash	\$ 369,913
Remuneration to directors and supervisors - in cash	<u>61,652</u>
	<u>\$ 431,565</u>

If the above bonus to employees and remuneration to

directors and supervisors were charged against income for 2003, the basic earnings per share for the year ended December 31, 2003 would decrease from NT\$2.91 to NT\$2.81.

The appropriation of the 2004 earnings of the Corporation has not been proposed by the Board of Directors as of January 18, 2005, the independent auditors' report date. The information associated with the appropriation of 2004 earnings proposed by the Board of Directors and resolved by the shareholders can be accessed through the Market Observation Post System on the Website of the Taiwan Stock Exchange Corporation.

### c. Treasury stock

(Shares in Thousands)

Purpose of Buyback	Beginning Shares	Increase	Decrease	Ending Shares
<b>Year ended December 31, 2004</b>				
To be transferred to employees	86,739	-	21,371	65,368
Reclassification of the Corporation's shares held by subsidiaries from long-term investments to treasury stock	4,575	-	4,575	-
<b>Year ended December 31, 2003</b>				
To be transferred to employees	86,739	-	-	86,739
Reclassification of the Corporation's shares held by subsidiaries from long-term investments to treasury stock	4,399	176	-	4,575

(Stock dividends)

The 1,910 thousand shares bought back in 2001 were canceled on January 12, 2004, resulting in a reduction of capital stock, capital surplus and retained earnings, amounting to \$53,805 thousand. In 2004, the Corporation transferred its treasury stock of 19,461 thousand shares to employees at NT\$26.8 and NT\$25.99 per share, resulting in a reduction of retained earnings, amounting to \$36,882 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.

## 15. INCOME TAX EXPENSE

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

	Years Ended December 31	
	2004	2003
Tax on pretax income at statutory tax rate (25%)	\$ 4,853,968	\$ 3,616,690
Add (deduct) tax effects of		
Permanent differences		
Investment income from domestic investments accounted for by the equity method	(663,644)	(348,987)
Tax-exempt dividend income	(312,263)	(8,052)
Gain on disposal of marketable securities	(256,788)	(11,209)
Other	84,635	(4,066)
Temporary differences	288,110	253,298
Tax-exempt income	(1,721,024)	(2,225,390)
Tax on unappropriated earnings (10%)	289,459	351,018
Investment tax credits	(11,208)	(681,363)
Current income tax payable	\$ 2,551,245	\$ 941,939

The balances of income tax payable as of December 31, 2004 and 2003 were net of prepaid income taxes of \$639,447 thousand and \$5,719 thousand, respectively.

- b. Under Article 8 of the Statute for Upgrading Industries (SUI) before the SUI amendment in 1999, the Corporation is considered an important tech-

nology based enterprise. Thus, the Corporation's net operating income generated from the following expansion of its equipment is exempt from income tax for five years during the period specified, as approved by the Ministry of Finance.

Equipment Expansion Projects	Tax-Exempt Period
Switches, base transmission station (BTS) and related telecommunications equipment, acquired from December 16, 1997 to October 30, 1998	1999 to 2003
Switches, BTS and related telecommunications equipment, acquired from July 31, 1999 to December 31, 1999	2001 to 2005
Switches, BTS and related telecommunications equipment, acquired from September 30, 2000 to September 30, 2001	2002 to 2006



c. Income tax expense consisted of the following:

	Years Ended December 31	
	2004	2003
Current income tax payable	\$ 2,551,245	\$ 941,939
Deferred income tax	208,876	160,564
Prior year's adjustment	(2,667)	19,850
Income tax expense	<u>\$ 2,757,454</u>	<u>\$ 1,122,353</u>

d. Deferred income tax assets and liabilities as of December 31, 2004 and 2003 consisted of the following:

	December 31	
	2004	2003
Provision for doubtful receivable	\$ 745,559	\$ 775,561
Provision for losses on idle assets	438,338	223,782
Accrued interest compensation	123,647	224,256
Accrued pension cost	15,416	11,024
Other	<u>60,116</u>	<u>47,201</u>
	1,383,076	1,281,824
Less valuation allowance	<u>(611,501)</u>	<u>(439,860)</u>
	<u>\$ 771,575</u>	<u>\$ 841,964</u>
Deferred income tax assets		
Current	\$ 74,902	\$ 91,984
Non-current	<u>696,673</u>	<u>749,980</u>
	<u>\$ 771,575</u>	<u>\$ 841,964</u>

e. Integrated income tax information was as follows:

Balance of imputation credit account (ICA)	<u>\$ 402,933</u>	<u>\$ 334,287</u>
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As of December 31, 2004, there were no unappropriated earnings generated before January 1, 1998. The estimated ratio of the ICA balance as of December 31, 2004 to the unappropriated earnings as of such date was 2.06%. The actual ratio applied for the 2003 earnings appropriation in 2004 was 13.88%.

The imputation credits allocated to the shareholders are based on its balance as of the date of dividend distribution. The expected creditable ratio for 2004 may be adjusted when the distribution of the imputation credits are made.

f. Income tax returns through 1998 had been examined and cleared by the tax authorities.

## 16. EARNINGS PER SHARE

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

	Amounts (Numerator)		Shares (Denominator) (Thousands)	EPS	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<b>Year ended December 31, 2004</b>					
Weighted-average number of outstanding shares			4,773,976		
Less buyback of issued shares			(80,235)		
Outstanding shares held by subsidiaries, recognized as treasury stock			(3,045)		
Basic EPS					
Income of common shareholders	\$ 19,415,910	\$ 16,658,456	4,690,696	\$ 4.14	\$ 3.55
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (4.5%)	216,250	162,187	179,087		
2nd convertible bonds (3.3%)	142,223	106,667	160,444		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	\$ 19,774,383	\$ 16,927,310	\$ 5,030,227	\$ 3.93	\$ 3.37
<b>Year ended December 31, 2003</b>					
Weighted-average number of outstanding shares			4,683,320		
Less buyback of issued shares			(86,739)		
Outstanding shares held by subsidiaries, recognized as treasury stock			(4,575)		
Basic EPS					
Income of common shareholders	\$ 14,466,800	\$ 13,344,447	4,592,006	\$ 3.15	\$ 2.91
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (4.5%)	282,560	211,920	243,388		
2nd convertible bonds (3.3%)	196,962	147,721	229,541		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	\$ 14,946,322	\$ 13,704,088	\$ 5,064,935	\$ 2.95	\$ 2.71

## 17. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Years Ended December 31					
	2004			2003		
	Classified as Operating Cost	Classified as Operating Expenses	Total	Classified as Operating Cost	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 397,431	\$ 960,264	\$ 1,357,695	\$ 27,372	\$ 856,310	\$ 883,682
Labor and health insurance	24,246	39,288	63,534	1,328	40,971	42,299
Pension	11,191	22,294	33,485	491	15,171	15,662
Other	<u>25,982</u>	<u>69,905</u>	<u>95,887</u>	<u>2,160</u>	<u>86,060</u>	<u>88,220</u>
	458,850	1,091,751	1,550,601	31,351	998,512	1,029,863
Depreciation	4,415,503	246,407	4,661,910	4,253,434	307,632	4,561,066
Amortization	<u>12,783</u>	<u>97,421</u>	<u>110,204</u>	<u>12,450</u>	<u>130,011</u>	<u>142,461</u>
	<u>\$ 4,887,136</u>	<u>\$ 1,435,579</u>	<u>\$ 6,322,715</u>	<u>\$ 4,297,235</u>	<u>\$ 1,436,155</u>	<u>\$ 5,733,390</u>

## 18. RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Corporation
TransAsia Telecommunications Inc. (TAT)	Subsidiary
Mobitai Communications (Mobitai)	Subsidiary (since August 31, 2004)
Taihsing Den Den Co., Ltd. (TDD)	Subsidiary
T.I. Investment Ltd.	Subsidiary
Tai Hsuo Investment Ltd.	Subsidiary
Tai Fu Investment Ltd.	Subsidiary
Tai Hung Investment Ltd.	Subsidiary
Taiwan Tele-Shop Co., Ltd. (TTS)	Subsidiary
Taiwan Teleservices & Technologies Co., Ltd.(TT&T)	Subsidiary (merged into Taiwan Infotainment Co., Ltd. on December 20, 2004)
Taiwan Infotainment Co., Ltd.	Subsidiary (merged with TT&T on December 20, 2004 and renamed as Taiwan Teleservices & Technologies Co., Ltd.)
Taiwan Elitec Corporation (TEC)	Subsidiary
TCC Foundation	Over one third of the Foundation's authorized fund came from the Corporation
Taiwan Fixed Network Co., Ltd. (TFN)	Equity-method investee
Howin Technologies Co., Ltd. (HTC)	Affiliate
TT&T Life Insurance Agency Co., Ltd.	Affiliate

(continued)

Related Party	Relationship with the Corporation
TT&T Holdings Co., Ltd.	Affiliate
Chung Hsing Constructions Co., Ltd.	Same chairman (since June 9, 2003)
Fubon Land Development Co., Ltd.	Same chairman (since June 9, 2003)
Fubon Financial Holding Co., Ltd.	Related party in substance (since June 9, 2003)
Fubon Commercial Bank Co., Ltd. (FCB)	Related party in substance (since June 9, 2003)
Fubon Securities Co., Ltd. (FSC)	Related party in substance (since June 9, 2003)
TaipeiBank Co., Ltd. (TaipeiBank)	Related party in substance (since June 9, 2003)
Fubon Securities Investment Trust Co., Ltd.	Related party in substance (since June 9, 2003)
Fubon Life Assurance Co., Ltd.	Related party in substance (since June 9, 2003)
Fubon Insurance Co., Ltd. (Fubon Ins.)	Related party in substance (since June 9, 2003)
Fubon Direct Marketing Consulting Co., Ltd.	Related party in substance (since September 19, 2003)
Fubon Asset Management Co., Ltd.	Related party in substance (since August 17, 2004)
Taiwan Telecom (Aust) Pty Ltd.	Subsidiary (liquidating since December 2004)
The Tele-World Shop Pte Ltd.	Indirect investee under Corporation's control (liquidating since April 2004)
T & M Investment Co., Ltd.	Subsidiary (merged into the Corporation on June 30, 2004)
Supreme-Tech (Aust) Pty Ltd.	Subsidiary (liquidating since December 2004)
Taiwan Index Co., Ltd.	Affiliate (until March 10, 2004)
CTS Digi-Tech Co., Ltd.	Affiliate (merged on December 30, 2004)
Trans Asia Information Network Co., Ltd.	Subsidiary (merged into TAT on December 9, 2003)
Technology World Services Inc.	Indirect investee under Corporation's control (dissolved on July 9, 2003)
Pacific Telecommunications Taiwan Co, Ltd.	Same chairman (dissolved on February 15, 2003)
Chung-Shing Telecommunications Co., Ltd.	Same chairman (dissolved on January 15, 2003)
Capital Telecommunications Co., Ltd.	Same chairman (dissolved on January 15, 2003)
Pacific Electric Wire & Cable Co., Ltd.	Same chairman (until June 9, 2003)
Taiwan Technologies Services Inc.	Affiliate (dissolved on July 1, 2003)

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

1) Operating revenues

	Years Ended December 31			
	2004		2003	
	Amount	% of Total Sales	Amount	% of Total Sales
TAT	\$ 1,939,694	4	\$ 1,590,353	4
TFN	1,755,977	4	1,262,221	3
Mobitai	156,676	-	130,872	-

(continued)

	Years Ended December 31			
	2004		2003	
	Amount	% of Total Sales	Amount	% of Total Sales
TT&T	\$ 23,973	-	\$ 25,826	-
HTC	7,701	-	21,228	-
	<u>\$ 3,884,021</u>		<u>\$ 3,030,500</u>	

The Corporation rendered telecommunication services for the above companies. The average collection period for notes and accounts receivable was approximately two months. The Corporation also provided human

resource support and managed and maintained the network systems for TAT in 2004. These service revenues amounted to \$300,413 thousand.

## 2) Operating costs

	Years Ended December 31			
	2004		2003	
	Amount	% of Total Sales	Amount	% of Total Sales
TFN	\$ 720,002	4	\$ 457,291	3
TAT	610,388	3	602,013	3
HTC	200,000	1	800,000	4
Mobitai	134,932	1	121,248	1
	<u>\$ 1,665,322</u>		<u>\$ 1,980,552</u>	

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

## 3) Property transactions

### Acquisition of property and equipment

	Year Ended December 31, 2004	
	Description	Amount
HTC	Telecommunication equipment	\$ 2,580,000
TFN	Miscellaneous equipment	20,877
	Deferred charges - software	28,636
TEC	Office equipment and miscellaneous equipment	<u>2,459</u>
		<u>\$ 2,631,972</u>

	Year Ended December 31, 2003	
	Description	Amount
HTC	Telecommunication equipment	\$ 4,670,000
TEC	Office equipment and miscellaneous equipment	<u>25,123</u>
		<u>\$ 4,695,123</u>

The above acquisitions were made at arm's length.

4) Operating lease

a) Rental expense

	Description	Years Ended December 31	
		2004	2003
TFN	Direct shops, control rooms and Kaohsiung offices	\$ 20,877	\$ 8,488
TTS	Wu-Ku warehouse and franchised stores signboards	1,760	20,781
		<u>\$ 22,637</u>	<u>\$ 29,269</u>

b) Rental income

	Leased Sites/Equipment	Years Ended December 31	
		2004	2003
TT&T	Tang-Cherng and Tai-Chung offices and telecommunication equipment	\$ 139,993	\$ 168,558
TFN	Keelung Road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc.	35,644	45,138
TTS	Operating sites	21,248	29,889
TEC	Tang-Cherng offices and telecommunication equipment, etc.	17,859	24,074
HTC	Tang-Cherng, Tai-Chung and Chung-Ho offices	4,061	17,231
		<u>\$ 218,805</u>	<u>\$ 284,890</u>

The above lease transactions were based on market price and rents were paid and collected monthly.

5) Cash in banks and bank loans

	December 31			
	2004		2003	
	Amount	%	Amount	%
a) Cash in banks				
FCB	\$ 103,775	3	\$ 70,985	4
TaipeiBank	<u>4,731</u>	-	<u>30,955</u>	2
	<u>\$ 108,506</u>		<u>\$ 101,940</u>	
b) Pledged time deposits				
TaipeiBank	\$ 600,000	98	\$ -	-
FCB	<u>10,000</u>	2	<u>10,000</u>	100
	<u>\$ 610,000</u>		<u>\$ 10,000</u>	

6) Receivable and payable

	December 31			
	2004		2003	
	Amount	%	Amount	%
Accounts receivable				
TAT	\$ 191,803	4	\$ 240,443	4
TFN	163,756	3	78,217	1
TTS*	106,848	2	444,479	8
Mobitai	11,196	-	1,286	-
Other	<u>8,574</u>	-	<u>6,744</u>	-
	<u>\$ 482,177</u>		<u>\$ 771,169</u>	

\* Accounts receivable primarily consisted of telecommunication service charges collected by TTS from customers for the Corporation.

	December 31			
	2004		2003	
	Amount	%	Amount	%
Other receivable				
TAT	\$ 274,819	73	\$ 273,504	88
HTC	35,836	10	14,823	5
TTS	<u>21,221</u>	6	<u>1,320</u>	-
	<u>\$ 331,876</u>		<u>\$ 289,647</u>	
Accounts payable				
TAT	<u>\$ 21,989</u>	2	<u>\$ 100,336</u>	7
Accrued expenses				
TTS	\$ 242,395	10	\$ 707,163	36
TT&T	103,668	4	102,793	5
TFN	101,734	4	37,406	2
TEC	45,392	2	74,892	4
HTC	<u>16,035</u>	1	<u>221,526</u>	11
	<u>\$ 509,224</u>		<u>\$ 1,143,780</u>	
Other payable				
TFN	\$ 280,388	12	\$ 413,741	55
TTS	<u>14,858</u>	1	<u>15,922</u>	2
	<u>\$ 295,246</u>		<u>\$ 429,663</u>	
Advance receipts				
TAT	<u>\$ 137</u>	-	<u>\$ 72,776</u>	5
Other current liabilities - collections for the following				
TAT	\$ 78,474	26	\$ 11,981	11
TFN	22,593	8	32,694	30
FCB	<u>12,721</u>	4	<u>15,490</u>	14
	<u>\$ 113,788</u>		<u>\$ 60,165</u>	

	Years Ended December 31	
	2004	2003
7) Commission expenses (including handset subsidy, etc.)		
TTS	\$ 1,127,506	\$ 4,293,263
TT&T	34,357	6,624
HTC	<u>17,456</u>	<u>75,903</u>
	<u>\$ 1,179,319</u>	<u>\$ 4,375,790</u>

	Years Ended December 31	
	2004	2003
8) Professional service fees		
TT&T	\$ 1,046,897	\$ 1,256,564
TTS	204,378	5,125
TEC	192,669	252,722
TFN	<u>25,467</u>	<u>32,000</u>
	<u>\$ 1,469,411</u>	<u>\$ 1,546,411</u>
9) Service charges		
TTS	\$ 207,559	\$ 261,839
TT&T	<u>15,962</u>	<u>28,976</u>
	<u>\$ 223,521</u>	<u>\$ 290,815</u>
10) Insurance expenses		
Fubon Ins.	<u>\$ 159,313</u>	<u>\$ 182,082</u>
11) Donation		
TCC Foundation	<u>\$ 17,000</u>	<u>\$ 36,850</u>
12) Repair and maintenance expenses		
TEC	<u>\$ 41,656</u>	<u>\$ 93,390</u>
13) Printing expenses for bills and advertisement		
TEC	<u>\$ 73,534</u>	<u>\$ 216,595</u>
14) Telecommunication service expenses		
TFN	<u>\$ 19,108</u>	<u>\$ 13,225</u>

15) Guarantee provided

As of December 31, 2004, the Corporation provided TDD with loan guarantee amounting to \$600,000 thousand.

16) Other

a) On April 30 and November 11, 2004, the Corporation bought back 9,806 units and 300 units of its outstanding 1st and 2nd domestic convertible bonds, respectively, from FSC for \$130,000 per unit and \$132,000 per unit, respectively. The aggregate purchase price amounted to \$1,314,380 thousand and resulted in a loss of \$178,351 thousand.

b) On August 30, 2004, the Corporation entrusted to FSC the purchase of 7,500 units of its outstanding 1st domestic convertible bonds from TFN for \$123,500 per unit. The aggregate purchase price

amounted to \$926,250 thousand and resulted in a loss of \$69,840 thousand.

- c) On July 31, 2004, the Corporation purchased 10,000 thousand shares of TFN's common shares from TEC for \$6 per share. The aggregate purchase price amounted to \$60,000 thousand.
- d) TTS entered into an agreement with the Corporation to act as a consignee for the Corporation on selling mobile phones and related products. The amounts of such products and services that TTS received from the Corporation for the years ended December 31, 2004 and 2003 were \$932,728 thousand and \$2,662,463 thousand, respectively.
- e) As of December 31, 2004 and 2003, the Corporation acquired commercial drafts of \$500,000 thousand and \$1,000,000 thousand, respectively, from TTS as guarantee deposits for the consignment sales agreement and the credit limit of receivable.
- f) HTC entered into an agreement to provide the Corporation with GSM-1800 network maintenance. As of December 31, 2004 and 2003, the Corporation had received performance guarantee deposits of \$630,000 thousand, respectively.
- g) The Corporation purchased handsets for business purposes from TTS and accounted for them in the office supplies and other accounts. These purchases amounted to \$1,738 thousand and \$16,548 thousand for the years ended December 31, 2004 and 2003, respectively.
- h) In 2004, FCB entered into a cooperative co-branding agreement with the Corporation, by which the Corporation may encourage its customers to use credit cards issued by FCB. The Corporation recognized a revenue of \$27,388 thousand from this cooperative agreement for the year ended December 31, 2004.

## 19. ASSETS PLEDGED

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

	December 31	
	2004	2003
Property and equipment, net carrying value	\$ 28,765,820	\$ 34,382,258
Idle assets*	627,913	-
Time deposits	610,000	10,000
Assets leased to others, net carrying value	174,606	290,441
Deferred charges, net carrying value	-	1,721
	<u>\$ 30,178,339</u>	<u>\$ 34,684,420</u>

\* Net carrying value before deducting the allowance for losses on idle assets.

## 20. COMMITMENTS AND CONTINGENT EVENTS

- a. To increase network capacity and quality and to provide more extensive services, the Corporation entered into system equipment purchase and installation agreements with Howin Technologies Co., Ltd. in December 2002 for \$1,300,000 thousand and \$1,200,000 thousand, respectively. As of December 31, 2004, the unpaid balances for the purchase and installation agreements were \$520,000 thousand and \$480,000 thousand, respectively.
- b. To provide services for third generation (3G) mobile telecommunications and advanced and complete wireless broadband data transmission, the Corporation entered into 3G network equipment purchase and installation contracts with Howin Technologies Co., Ltd. in December 2002 for \$2,000,000 thousand and \$1,800,000 thousand, respectively. As of December 31, 2004, the unpaid balances for the purchase and installation contracts were \$500,000 thousand and \$450,000 thousand, respectively.
- c. 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.



- d. 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\$17,300 thousand and NT\$67,400 thousand, respectively.
- e. The Corporation and Taiwan Fixed Network Co., Ltd. (TFN) entered into an agreement with a syndicate of banks for Howin Technologies Co., Ltd. (HTC) to obtain a credit line of \$4,800,000 thousand. Based on 28 to 72 of shareholding percentage, the Corporation and TFN guaranteed the following items:
- 1) The aggregate shareholding of the Corporation, TFN and their subsidiaries in HTC shall not be less than 51%. To maintain controlling power over HTC, the Corporation, TFN and their subsidiaries shall control over half of HTC's directors and supervisors.
  - 2) Once HTC cannot repay the loan and interests, the Corporation and TFN should immediately inform the syndicate banks and cooperate with the banks to help HTC meet its obligations.
- f. Under a share purchase memorandum with Mobitai Communications ("Mobitai") and TECO Electric & Machinery Co., Ltd. ("TECO", Mobitai's major shareholder) signed in June 2004, the Corporation should buy 67% of Mobitai's shares at NT\$13.5243 per share in cash in the first phase. The Corporation could acquire the remaining 33% of Mobitai's shares from TECO through a share swap in the second phase based on the willingness of the Corporation and TECO within 12 to 16 months after August 31, 2004. The first phase of share purchase was completed on August 31, 2004, and the Corporation obtained five seats of directors and one seat of supervisor of Mobitai.
- g. As of December 31, 2004, future minimum rental payments for significant operating lease agreements were summarized as follows:

	Amount
2005	\$ 5,054
2006	5,206
2007	2,641

## 21. FINANCIAL INSTRUMENT TRANSACTIONS

	December 31			
	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Non-derivative financial instruments</b>				
<b>Assets</b>				
Financial assets - fair value approximating to carrying value	\$ 9,267,599	\$ 9,267,599	\$ 8,037,239	\$ 8,037,239
Short-term investments	11,909,642	15,099,265	17,545,007	18,422,175
Long-term investments	23,737,612	-	26,768,421	-
<b>Liabilities</b>				
Financial liabilities - fair value approximating to carrying value	6,078,828	6,078,828	6,570,352	6,570,352
Bonds payable (including current portion)	22,455,789	23,543,624	30,268,324	31,478,286
Long-term bank loans (including current portion)	8,400,000	8,400,000	21,493,266	21,493,266
<b>Derivative financial instruments</b>				
Interest rate swap contracts	-	(148,887)	-	16,535

Fair values of financial instruments were determined as follows:

- a. Short-term financial instruments (other than short-term investments) - the carrying value reported in the balance sheets approximates the fair value of these assets, including cash and cash equivalents, receivable, interest receivable and payable, pledged time deposits, notes and accounts payable because of the short maturities of these instruments.
- b. Short-term investments - based on market quotations.
- c. The fair value of long-term investments was not disclosed due to lack of market quotations.
- d. Refundable deposits and guarantee deposits - based on their carrying value.
- e. Bonds payable - based on the over-the-counter quotations in December.
- f. Long-term bank loans - based on the discounted present value of expected cash flows. Since the Corporation's long-term bank loans had floating interest rates, their fair value were equivalent to carrying value.
- g. Interest rate swap contracts - based on the valuation result provided by banks.

The fair values shown above did not include the fair value of certain financial instruments and all nonfinancial instruments. Thus, the aggregate fair value presented did not represent the underlying fair value of the Corporation.

## 22. ADDITIONAL DISCLOSURES

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

According to the principle on materiality, only item a. to d. should be disclosed, if (a) investees' individual total

assets or total operating revenues are less than 10% of those of the Corporation) or (b) the investees' personnel, finance or operation is directly or indirectly controlled by the Corporation.

- a. Financing provided: None
- b. Endorsement/guarantee provided: Table 1 (attached)
- 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: None
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital : None
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 4 (attached)
- h. Receivable from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 5 (attached)
- i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 6 (attached)
- j. Derivative transactions

The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on floating interest rate of bonds, which are settled semi-annually. The related information is as follows:



1) Contract amount and credit risk

Financial Instrument	Terms	Contract Amount	Credit Risk
Interest rate swap contracts	Floating interest rate in exchange for fixed interest rates of 2.25% and 2.45%	\$ 4,500,000	\$ -
	Floating interest rate in exchange for fixed interest rate of 2.45%	3,000,000	-

The Corporation entered into IRS contracts to hedge interest rate fluctuation. For the years ended December 31, 2004 and 2003, the gains on the IRS contracts were \$119,735 thousand and \$148,118 thousand, respectively, recorded as a deduction from interest expense.

2) Market risk

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

3) Liquidity and cash flow risk and uncertainty of future cash demand

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.

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

k. Investment in Mainland China: Table 7 (attached)

## 23. SEGMENT INFORMATION

a. Industry information

The Corporation is primarily a wireless communication service provider.

b. Geographic information

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

c. Export sales

None.

d. Customers with revenues exceeding 10% of the total revenues are as follows:

Company	2004		2003	
	Amount	% of Net Operating Revenue	Amount	% of Net Operating Revenue
Chunghwa Telecom Co., Ltd.	\$9,760,115	22	\$ 10,517,742	23



## TAIWAN CELLULAR CORPORATION

### ENDORSEMENT/GUARANTEE PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2004

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amount (Note)
		Name	Nature of Relationship	
0	TCC	Taihsing Den Den Co., Ltd.	Subsidiary	\$1,420,017

Note: According to Regulation No. 12 of the "Procedures for Endorsement/Guarantee and Lending of Funds", the Corporation limits the endorsement/guarantee amount on each subsidiary to within the net value of the Corporation, and the endorsement/guarantee amount for each counter-party should not exceed the amount of the Corporation's investment in the counter party.

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### MARKETABLE SECURITIES HELD

DECEMBER 31, 2004

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company
TCC	<u>Beneficiary certificate</u>	
	Fubon OTC Mutual Fund	-
	International Golden Dragon Mutual Fund	-
	ABN AMRO Bond Fund	-
	ABN AMRO Select Bond Fund	-
	Fubon Ju-I Fund	-
	NITC Bond Fund	-
	Barits Bond Fund	-
	Shinkong Chi-Shin Fund	-
	Polaris De-Li Fund	-
	<u>Stock</u>	
	Chunghwa Telecom Co., Ltd.	-
	Taihsing Den Den Co., Ltd.	Subsidiary
	Taiwan Fixed Network Co., Ltd.	Equity-method investee
	TransAsia Telecommunications Inc.	Subsidiary
	Mobitai Communications	Subsidiary
	<u>Prepayment for long-term investment</u>	
	Bridge Mobile Pte Ltd.	-
	<u>Subscription certificate</u>	
	Tai Hung Investment Ltd.	Subsidiary

(Amounts in Thousands of New Taiwan Dollars)

	Maximum Balance for the Period	Ending Balance	Value of Collateral Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note)
	\$ 1,350,000	\$ 600,000	\$ -	1	\$ 80,972,821

(Amounts in Thousands of New Taiwan Dollars)

	Financial Statement Account	December 31, 2004				Note
		Shares (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
	Short-term investments	10,000	\$ 100,300	-	\$ 47,200	(Note 3)
	Short-term investments	3,000	30,000	-	14,310	(Note 2)
	Short-term investments	6,904	100,979	-	101,268	(Note 2)
	Short-term investments	45,421	500,000	-	501,111	(Note 2)
	Short-term investments	38,953	601,186	-	602,685	(Note 2)
	Short-term investments	3,129	500,000	-	500,967	(Note 2)
	Short-term investments	16,918	200,000	-	200,387	(Note 2)
	Short-term investments	35,909	500,000	-	501,130	(Note 2)
	Short-term investments	6,814	100,000	-	100,207	(Note 2)
	Short-term investments	200,000	9,277,177	2.07	12,530,000	(Note 3)
	Long-term investments	44,300	941,566	99.99	1,453,200	
	Long-term investments	637,000	4,256,798	9.87	7,050,904	
	Long-term investments	328,645	13,056,507	92.32	7,061,497	
	Long-term investments	181,278	2,520,293	67.00	2,083,005	
	Prepayment for long-term investments	-	32,160	-	-	
	Long-term investments	-	1,646,819	99.99	1,661,295	

(Continued)



Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	
	Tai Fu Investment Ltd.	Subsidiary	
	Tai Hsuo Investment Ltd.	Subsidiary	
	T.I. Investment Ltd.	Subsidiary	
Taihsing Den Den Co., Ltd.	<u>Stock</u>		
	Taiwan Tele-Shop Co., Ltd.	Subsidiary	
	Arcoa Communication Co., Ltd.	-	
	Taiwan Elitec Corporation	Subsidiary	
	Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	Subsidiary	
	Sunnet Technologies Co., Ltd.	-	
	WEB Point Co., Ltd.	-	
	Parawin Venture Capital Corp.	-	
	Howin Technologies Co., Ltd.	Affiliate	
	<u>Prepayment for long-term investment</u>		
	Tai Yi Digital Broadcasting Co., Ltd.	-	
	Taiwan Tele-Shop Co., Ltd.	<u>Beneficiary certificate</u>	
NITC Bond Fund		-	
Shinkong Chi-Shin Fund		-	
ABN AMRO Select Bond Fund		-	
Fubon Ju-I Fund		-	
Fubon Ju-I II Fund		-	
Fubon Ju-I III Fund		-	
<u>Stock</u>			
Taiwan Fixed Network Co., Ltd.		Equity-method investee	
Transportation High Tech Inc.		-	
TransAsia Telecommunications Inc.	<u>Beneficiary certificate</u>		
	The First Global Investment Trust Wan Tai Bond Fund	-	
	Fubon Ju-I Fund	-	
	HSBC Taiwan Money Management Fund	-	
	JF (Taiwan) First Bond Fund	-	
	JF (Taiwan) Bond Fund	-	
	Polaris De-Li Fund	-	
	Fubon Ju-I II Fund	-	

Financial Statement Account	December 31, 2004				Note
	Shares (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
Long-term investments	-	\$ 553,889	99.99	\$ 555,331	
Long-term investments	-	323,818	99.99	308,396	
Long-term investments	-	405,762	99.99	424,406	
Long-term investments	20,509	367,650	50.02	371,515	
Long-term investments	5,225	50,000	3.89	-	(Note 5)
Long-term investments	19,662	178,111	98.31	178,115	
Long-term investments	89,732	560,523	95.88	560,460	
Long-term investments	375	3,265	1.51	-	(Note 5)
Long-term investments	1,500	9,915	3.76	8,113	
Long-term investments	3,000	28,950	3.00	28,485	
Long-term investments	30,000	512,053	25.00	522,407	
Prepayment for long-term investments	-	2,495	-	-	
Short-term investments	506	80,000	-	81,094	(Note 2)
Short-term investments	7,180	100,000	-	100,198	(Note 2)
Short-term investments	7,266	80,000	-	80,158	(Note 2)
Short-term investments	9,748	150,000	-	150,823	(Note 2)
Short-term investments	13,431	190,000	-	190,536	(Note 2)
Short-term investments	844	10,000	-	10,056	(Note 2)
Long-term investments	4,900	46,013	0.08	54,238	
Long-term investments	1,200	-	12.00	-	(Note 5)
Short-term investments	31,644	430,000	-	431,311	(Note 2)
Short-term investments	22,653	350,000	-	350,494	(Note 2)
Short-term investments	10,404	150,000	-	150,658	(Note 2)
Short-term investments	21,276	290,000	-	291,405	(Note 2)
Short-term investments	19,554	290,000	-	290,564	(Note 2)
Short-term investments	13,635	200,000	-	200,535	(Note 2)
Short-term investments	28,238	400,000	-	400,606	(Note 2)

(Continued)



Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	
	<u>Stock</u>		
	Howin Technologies Co., Ltd.	Affiliate	
Howin Technologies Co., Ltd.	<u>Beneficiary certificate</u>		
	Fubon Ju-I III Fund	-	
	Cash Reserves Fund	-	
	<u>Stock</u>		
	Taiwan Fixed Network Co., Ltd.	Equity-method investee	
	Great Taipei Broadband Co., Ltd.	-	
	Transportation High Tech Inc.	-	
	Reach & Range Inc.	-	
Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	<u>Stock</u>		
	TT&T Life Insurance Agency Co., Ltd.	Affiliate	
	TT&T Holdings Co., Ltd.	Affiliate	
	<u>Prepayment for long-term investment</u>		
	TT&T Casualty & Property Insurance Agency Co., Ltd.	-	
Reach & Range Inc.	<u>Beneficiary certificate</u>		
	HSBC Taiwan Management Fund	-	
	Fubon Ju-I III Fund	-	
	Cash Reserves Fund	-	
	Capital Safe Income Fund	-	
	Invesco Bond Fund	-	
	NITC Taiwan Bond Fund	-	
	Grand Cathy Global Balance Fund	-	
Taiwan Fixed Network Co., Ltd.	<u>Beneficiary certificate</u>		
	Fubon Ju-I II Fund	-	
	Fubon Ju-I III Fund	-	
	The First Global Investment Trust Duo Li-2 Bond Fund	-	
	The Increment Fund	-	
	Fubon Ju-I Fund	-	
	Fubon Twfubonf Fund	-	



Financial Statement Account	December 31, 2004				Note
	Shares (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
Long-term investments	3,000	\$ 36,122	2.50	\$ 52,241	
Short-term investments	38,650	449,484	-	460,764	(Note 2)
Short-term investments	13,376	147,826	-	152,530	(Note 2)
Long-term investments	2,800	11,760	0.04	30,719	
Long-term investments	5,000	44,450	3.33	44,026	
Long-term investments	1,200	-	12.00	-	(Note 5)
Long-term investments	6,002	56,957	54.56	54,386	
Long-term investments	300	2,952	100.00	2,952	
Long-term investments	1,300	41,236	100.00	41,236	
Prepayment for long-term investments	-	3,000	-	-	
Short-term investments	418	6,000	-	6,051	(Note 2)
Short-term investments	604	7,051	-	7,199	(Note 2)
Short-term investments	1,335	15,000	-	15,223	(Note 2)
Short-term investments	142	2,000	-	2,032	(Note 2)
Short-term investments	416	6,000	-	6,035	(Note 2)
Short-term investments	375	5,000	-	5,136	(Note 2)
Short-term investments	1,000	10,000	-	10,110	(Note 2)
Short-term investments	62,664	880,000	-	888,997	(Note 2)
Short-term investments	30,013	353,735	-	357,797	(Note 2)
Short-term investments	17,844	251,991	-	254,260	(Note 2)
Short-term investments	18,972	276,032	-	281,215	(Note 2)
Short-term investments	43,570	670,535	-	674,108	(Note 2)
Short-term investments	53,681	551,903	-	553,716	(Note 2)

(Continued)



Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	
	Fubon United Bond Fund	-	
	Apit Asia Pacific Bond Fund	-	
	Cash Reserves Fund	-	
	ABN AMRO Income Fund	-	
	James Bond Fund	-	
	NITC Bond Fund	-	
	Shinkong Chi-Shin Fund	-	
	<u>Stock</u>		
	Howin Technologies Co., Ltd.	Affiliate	
	Taiwan Cellular Corporation	The Corporation	
	TFN Investment Co., Ltd.	Affiliate	
	Taiwan Hong-Yuan Investment Co., Ltd.	Affiliate	
	TFN US Ltd.	Affiliate	
	TFN HK Ltd.	Affiliate	
	Taiwan High-Speed Rail Corp.	-	
	<u>Bond</u>		
	TCC 1st domestic convertible bond	The Corporation	
TFN Investment Co., Ltd.	<u>Beneficiary certificate</u>		
	Fubon Ju-I III Fund	-	
	Cash Reserves Fund	-	
	Fubon Ju-I II Fund	-	
	Fubon Ju-I Fund	-	
	NITC Bond Fund	-	
	<u>Stock</u>		
	Taiwan Cellular Corporation	The Corporation	
	Fubon Financial Holding Co., Ltd.	Related party in substance	
	Great Taipei Broadband Co., Ltd.	-	
	Sunnet Technologies Co., Ltd.	-	
Taiwan Hong-Yuan Investment Co., Ltd.	<u>Beneficiary certificate</u>		
	Cash Reserves Fund	-	
	Fubon Ju-I II Fund	-	
	Fubon Ju-I Fund	-	
	Fubon Chi-Shun III Fund	-	

	Financial Statement Account	December 31, 2004				Note
		Shares (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
	Short-term investments	39,532	\$ 500,000	-	\$ 503,435	(Note 2)
	Short-term investments	52,569	650,000	-	654,586	(Note 2)
	Short-term investments	4,532	50,000	-	51,677	(Note 2)
	Short-term investments	26,352	400,310	-	404,227	(Note 2)
	Short-term investments	18,630	275,459	-	280,053	(Note 2)
	Short-term investments	4,116	651,519	-	659,089	(Note 2)
	Short-term investments	8,919	123,674	-	124,474	(Note 2)
	Long-term investments	79,999	274,118	66.67	1,393,155	
	Long-term investments	900,353	31,584,551	18.56	31,215,230	(Note 3)
	Long-term investments	1,750,000	19,348,101	100.00	19,348,228	
	Long-term investments	600,000	7,289,777	100.00	7,289,881	
	Long-term investments	430	13,229	100.00	13,229	
	Long-term investments	1,299	4,567	99.99	4,567	
	Long-term investments	276,600	2,766,000	5.53	2,401,452	
	Short-term investments	8,190 units	819,000	-	1,136,690	(Note 4)
	Short-term investments	5,909	70,000	-	70,443	(Note 2)
	Short-term investments	6,824	74,806	-	77,809	(Note 2)
	Short-term investments	18,151	257,031	-	257,500	(Note 2)
	Short-term investments	39,748	611,768	-	614,983	(Note 2)
	Short-term investments	1,877	300,000	-	300,529	(Note 2)
	Long-term investments	467,821	16,603,598	9.64	16,219,370	(Note 3)
	Short-term investments	53,293	1,440,677	0.64	1,727,755	(Note 3)
	Long-term investments	5,000	44,417	3.33	44,026	
	Long-term investments	1,840	29,450	7.39	21,627	
	Short-term investments	12,456	137,091	-	142,039	(Note 2)
	Short-term investments	20,486	290,000	-	290,631	(Note 2)
	Short-term investments	26,180	403,000	-	405,058	(Note 2)
	Short-term investments	15,708	162,000	-	162,027	(Note 2)

(Continued)



Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	
	NITC Bond Fund	-	
	<u>Stock</u>		
	Taiwan Cellular Corporation	The Corporation	
	Howin Technologies Holding Ltd.	Affiliate	
	Fubon Financial Holding Co., Ltd.	Related party in substance	
	<u>Preferred stock</u>		
	Taiwan High-Speed Rail Corp.	-	
Mobitai Communications	<u>Beneficiary certificate</u>		
	ABN AMRO Select Bond Fund	-	
	Fubon Ju-I II Fund	-	
	Fubon Ju-I Fund	-	
	ABN AMRO Bond Fund	-	
	NITC Bond Fund	-	
	Invesco Bond Fund	-	
	James Bond Fund	-	
	JF (Taiwan) Bond Fund	-	
	<u>Stock</u>		
	Yes Mobil Holdings Company	-	

Note 1 : Based on the net value of latest financial statements, unless otherwise specified.

Note 2 : Based on the net asset value of the fund as of December 31, 2004.

Note 3 : Based on the average closing price in December 2004.

Note 4 : Based on the OTC average reference quotation in December 2004.

Note 5 : As of January 18, 2005, the independent auditors' report date, net value of the investee was unavailable.



Financial Statement Account	December 31, 2004				Note
	Shares (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
Short-term investments	1,425	\$ 228,000	-	\$ 228,172	(Note 2)
Long-term investments	144,720	4,648,679	2.98	5,017,426	(Note 3)
Long-term investments	293	5,004	0.24	5,015	
Short-term investments	36,646	917,955	0.44	1,188,061	(Note 3)
Long-term investments	50,000	500,000	-	-	
Short-term investments	5,626	62,068	-	62,068	(Note 2)
Short-term investments	23,622	335,117	-	335,117	(Note 2)
Short-term investments	13,763	212,936	-	212,936	(Note 2)
Short-term investments	1,670	24,500	-	24,500	(Note 2)
Short-term investments	936	149,827	-	149,827	(Note 2)
Short-term investments	1,449	21,008	-	21,008	(Note 2)
Short-term investments	2,661	40,000	-	40,000	(Note 2)
Short-term investments	34	504	-	504	(Note 2)
Long-term investments	0.07	-	0.19	-	



TAIWAN CELLULAR CORPORATION 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

FOR THE YEAR ENDED DECEMBER 31, 2004

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance			
					Shares (Thousands)	Amount		
The Corporation	<u>Beneficiary certificate</u>							
	ABN AMRO Bond Fund	Short-term investments	-	-	-	\$ -		
	Fubon Ju-I II Fund	Short-term investments	-	-	-	-		
	The GP ROC Bond Fund	Short-term investments	-	-	-	-		
	JF (Taiwan) Bond Fund	Short-term investments	-	-	-	-		
	Dresdner Dam Fund	Short-term investments	-	-	-	-		
	ABN AMRO Select Bond Fund	Short-term investments	-	-	-	-		
	Fubon Ju-I Fund	Short-term investments	-	-	-	-		
	Fubon Fu-Tai Fund	Short-term investments	-	-	-	-		
	Fubon United Bond Fund	Short-term investments	-	-	-	-		
	Polaris De-Li Fund	Short-term investments	-	-	-	-		
	JF (Taiwan) First Bond Fund	Short-term investments	-	-	-	-		
	Shinkong Chi-Shin Fund	Short-term investments	-	-	-	-		
	NITC Bond Fund	Short-term investments	-	-	-	-		
	Barits Bond Fund	Short-term investments	-	-	-	-		
	HSBC Taiwan Money Management II Fund	Short-term investments	-	-	-	-		
		<u>Stock</u>						
		Chunghwa Telecom Co., Ltd.	Short-term investments	-	-	375,000	17,394,707	
	Mobitai Communications	Long-term investments	-	-	-	-		
Howin Technologies Co., Ltd.	<u>Stock</u>							
	Chunghwa Telecom Co., Ltd.	Short-term investments	-	-	8,600	398,919		
	Taiwan Cellular Corporation	Short-term investments	-	-	13,017	403,532		
		<u>Beneficiary certificate</u>						



(Amounts in Thousands of New Taiwan Dollars)

	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	195,817	\$ 2,850,000	188,913	\$ 2,752,157	\$ 2,749,021	\$ 3,136	6,904	\$ 100,979
	71,574	1,000,000	71,574	1,001,081	1,000,000	1,081	-	-
	48,891	700,000	48,891	700,508	700,000	508	-	-
	74,604	1,100,000	74,604	1,101,295	1,100,000	1,295	-	-
	35,815	400,000	35,815	400,853	400,000	853	-	-
	91,004	1,000,000	45,583	500,315	500,000	315	45,421	500,000
	73,284	1,130,408	34,331	530,285	529,222	1,063	38,953	601,186
	10,000	100,000	10,000	100,408	100,000	408	-	-
	15,811	200,000	15,811	200,180	200,000	180	-	-
	51,299	750,000	44,485	650,725	650,000	725	6,814	100,000
	36,704	500,000	36,704	500,305	500,000	305	-	-
	144,102	2,000,000	108,193	1,501,997	1,500,000	1,997	35,909	500,000
	3,129	500,000	-	-	-	-	3,129	500,000
	16,918	200,000	-	-	-	-	16,918	200,000
	14,611	200,000	14,611	200,273	200,000	273	-	-
	-	-	175,000	9,153,651	8,117,530	1,036,121	200,000	9,277,177
	181,278	2,451,654	-	-	-	-	181,278	2,520,293 (Note 8)
	-	-	8,600	435,298	398,919	36,379	-	-
	-	-	13,017	425,753	403,532	22,221	-	-

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance			
					Shares (Thousands)	Amount		
	Dresdner Dam Fund	Short-term investments	-	-	3,341	\$ 36,875		
	Polaris De-Li Fund	Short-term investments	-	-	9,404	135,712		
	Fubon Ju-I Fund	Short-term investments	-	-	-	-		
Taiwan Elitec Corporation	<u>Beneficiary certificate</u>							
	Cash Reserves Fund	Short-term investments	-	-	13,767	151,099		
	Prudential Well Pool Fund	Short-term investments	-	-	13,870	165,580		
TransAsia Telecommunications Inc.	<u>Beneficiary certificate</u>							
	Prudential Well Pool Fund	Short-term investments	-	-	-	-		
	First Global Global Investment Trust Wan Jai Bond Fund	Short-term investments	-	-	-	-		
	Cash Reserves Fund	Short-term investments	-	-	-	-		
	Fubon Ju-I III Fund	Short-term investments	-	-	-	-		
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	-	-		
	The First Global Investment Trust Duo Li-2 Bond Fund	Short-term investments	-	-	-	-		
	HSBC Taiwan Money Management Fund	Short-term investments	-	-	-	-		
	Polaris De-Li Fund	Short-term investments	-	-	-	-		
	JF (Taiwan) Bond Fund	Short-term investments	-	-	-	-		
	JF (Taiwan) First Bond Fund	Short-term investments	-	-	-	-		
	Fubon Ju-I II Fund	Short-term investments	-	-	-	-		
	Fubon Ju-I Fund	Short-term investments	-	-	-	-		
	<u>Stock</u>							
		Chunghwa Telecom Co., Ltd.	Short-term investments	-	-	60,000	2,783,113	
Mobitai Communications	<u>Beneficiary certificate</u>							
	Tiim Bond Fund	Short-term investments	-	-	20,959	284,642		
	The Incerement Fund	Short-term investments	-	-	9,640	133,582		





	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	17,820	\$ 200,000	21,161	\$ 237,934	\$ 236,875	\$ 1,059	-	\$ -
	23,861	350,000	33,265	488,146	485,712	2,434	-	-
	22,678	350,000	22,678	350,624	350,000	624	-	-
	-	-	13,767	154,928	151,099	3,829	-	-
	-	-	13,870	167,558	165,580	1,978	-	-
	66,458	804,000	66,458	807,413	804,000	3,413	-	-
	67,969	920,000	36,325	491,994	490,000	1,994	31,644	430,000
	17,769	200,000	17,769	202,034	200,000	2,034	-	-
	14,652	172,000	14,652	173,349	172,000	1,349	-	-
	31,159	500,000	31,159	502,017	500,000	2,017	-	-
	17,764	250,000	17,764	251,434	250,000	1,434	-	-
	10,404	150,000	-	-	-	-	10,404	150,000
	13,635	200,000	-	-	-	-	13,635	200,000
	19,554	290,000	-	-	-	-	19,554	290,000
	21,276	290,000	-	-	-	-	21,276	290,000
	30,380	430,000	2,142	30,154	30,000	154	28,238	400,000
	106,489	1,630,000	83,836	1,283,577	1,280,000	3,577	22,653	350,000
	-	-	60,000	3,173,255	2,783,113	390,142	-	-
	10,625	145,000	31,584	431,216	429,642	1,574	-	-
	2,660	37,000	12,300	171,153	170,582	571	-	-

(Continued)



Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		
					Shares (Thousands)	Amount	
	Apit Asia Pacific Bond Fund	Short-term investments	-	-	12,127	\$ 148,491	
	Fuh-Hwa Bond Fund	Short-term investments	-	-	19,852	252,326	
	Cash Reserves Fund	Short-term investments	-	-	21,903	245,304	
	EnTrust Phoenix Bond	Short-term investments	-	-	23,329	337,157	
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	15,468	183,977	
	Fubon Ju-I II Fund	Short-term investments	-	-	-	-	
	Fubon Ju-I Fund	Short-term investments	-	-	-	-	
	NITC Bond Fund	Short-term investments	-	-	-	-	
	James Bond Fund	Short-term investments	-	-	-	-	
	ABN AMRO Select Bond Fund	Short-term investments	-	-	-	-	
	Jih Sun Bond Fund	Short-term investments	-	-	3,211	42,039	
	ABN AMRO Bond Fund	Short-term investments	-	-	-	-	
	Prudential Bond Fund	Short-term investments	-	-	-	-	
	Prudential Financial Return Bond Fund	Short-term investments	-	-	11,678	156,927	
	ABN AMRO Aggressive Taiwan Bond Fund	Short-term investments	-	-	10,347	108,870	
	Tiim High Yield Fund	Short-term investments	-	-	1,617	19,000	
TFN Investment Co., Ltd.	<u>Beneficiary certificate</u>						
	NITC Bond Fund	Short-term investments	-	-	1,271	200,027	
	James Bond Fund	Short-term investments	-	-	13,567	200,000	
	The First Global Investment Trust Duo Li-2 Bond Fund	Short-term investments	-	-	-	-	
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	-	-	
	Fubon Ju-I III Fund	Short-term investments	-	-	8,759	101,182	
	Prudential Well Pool Fund	Short-term investments	-	-	13,479	160,000	
	Fubon Ju-I Fund	Short-term investments	-	-	-	-	
	Fubon Ju-I II Fund	Short-term investments	-	-	17,928	250,000	



	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	9,329	\$ 115,000	21,456	\$ 265,082	\$ 263,491	\$ 1,591	-	\$ -
	-	-	19,852	255,829	252,326	3,503	-	-
	884	10,000	22,787	257,670	255,304	2,366	-	-
	-	-	23,329	339,892	337,157	2,735	-	-
	4,277	51,000	19,745	236,810	234,977	1,833	-	-
	49,440	699,617	25,818	365,689	364,500	1,189	23,622	335,117
	27,526	425,436	13,763	212,936	212,500	436	13,763	212,936
	1,872	299,327	936	149,827	149,500	327	936	149,827
	8,663	130,000	6,002	90,071	90,000	71	2,661	40,000
	14,479	159,568	8,853	97,593	97,500	93	5,626	62,068
	8,172	107,496	11,383	149,836	149,535	301	-	-
	9,379	136,415	7,709	111,971	111,915	56	1,670	24,500
	7,672	108,000	7,672	108,117	108,000	117	-	-
	11,430	154,500	23,108	312,963	311,427	1,536	-	-
	5,337	57,000	15,684	167,773	165,870	1,903	-	-
	8,716	103,500	10,333	123,806	122,500	1,306	-	-
	2,510	400,000	1,904	302,652	300,027	2,625	1,877	300,000
	16,169	240,000	29,736	443,724	440,000	3,724	-	-
	48,442	682,000	48,442	685,693	682,000	3,693	-	-
	31,528	505,900	31,528	507,993	505,900	2,093	-	-
	10,160	120,000	13,010	153,947	151,182	2,765	5,909	70,000
	-	-	13,479	163,597	160,000	3,597	-	-
	52,693	811,000	12,945	200,031	199,232	799	39,748	611,768
	18,151	257,031	17,928	252,485	250,000	2,485	18,151	257,031

(Continued)



Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		
					Shares (Thousands)	Amount	
	The Incerement Fund	Short-term investments	-	-	-	\$ -	
	<u>Stock</u>						
	Chunghwa Telecom Co., Ltd.	Short-term investments	-	-	33,000	1,530,734	
Taiwan Hong-Yuan Investment Co., Ltd.	<u>Beneficiary certificate</u>						
	The First Global Investment Trust Duo Li-2 Bond Fund	Short-term investments	-	-	-	-	
	NITC Bond Fund	Short-term investments	-	-	-	-	
	Prudential Well Pool Fund	Short-term investments	-	-	-	-	
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	-	-	
	ABN AMRO Bond Fund	Short-term investments	-	-	-	-	
	The Incerement Fund	Short-term investments	-	-	6,877	100,000	
	Fubon Ju-I II Fund	Short-term investments	-	-	10,757	150,000	
	Fubon Ju-I Fund	Short-term investments	-	-	-	-	
	James Bond Fund	Short-term investments	-	-	8,822	130,007	
	Prudential Bond Fund	Short-term investments	-	-	-	-	
	Fubon Chi-Shun III Fund	Short-term investments	-	-	-	-	
	<u>Stock</u>						
	Chunghwa Telecom Co., Ltd.	Short-term investments	-	-	42,000	1,948,204	
	Taiwan Cellular Corporation	Long-term investments	-	-	163,304	5,114,755	
	<u>Bond</u>						
	TCC 2nd domestic convertible bond	Short-term investments	-	-	10,028 units	1,002,800	
Tai Fu Investment Ltd.	<u>Stock</u>						
	Taiwan Teleservices & Technologies Co., Ltd.	Long-term investments	Taihsing Den Den Co., Ltd.	Subsidiary	52,000	651,186	
Tai Hung Investment Ltd.	<u>Stock</u>						
	Howin Technologies Co., Ltd.	Long-term investments	Taihsing Den Den Co., Ltd.	Subsidiary	150,000	1,715,547	
Taihsing Den Den Co., Ltd.	<u>Stock</u>						



	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	29,094	\$ 428,000	29,094	\$ 429,752	\$ 428,000	\$ 1,752	-	\$ -
	-	-	33,000	1,821,765	1,530,734	291,031	-	-
	47,521	669,000	47,521	672,656	669,000	3,656	-	-
	4,333	688,000	2,908	462,386	460,000	2,386	1,425	228,000
	28,972	350,000	28,972	351,646	350,000	1,646	-	-
	38,660	620,000	38,660	622,914	620,000	2,914	-	-
	9,856	143,000	9,856	143,646	143,000	646	-	-
	20,484	300,000	27,361	402,621	400,000	2,621	-	-
	37,152	523,000	27,423	386,208	383,000	3,208	20,486	290,000
	30,738	473,000	4,558	70,040	70,000	40	26,180	403,000
	8,085	120,000	16,907	252,510	250,007	2,503	-	-
	36,307	512,000	36,307	513,666	512,000	1,666	-	-
	15,708	162,000	-	-	-	-	15,708	162,000
	-	-	42,000	2,316,166	1,948,204	367,962	-	-
	-	117,954	18,584	637,190	584,030	53,160	144,720	4,648,679
	-	-	10,028 units	1,242,971	1,002,800	240,171	-	-
	-	-	26,000	293,437	292,015	1,422	(Note 1)	(Note 1)
	-	-	30,000	407,972	389,727	18,245	(Note 2)	(Note 2)

(Continued)



Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		
					Shares (Thousands)	Amount	
	Taiwan Teleservices & Technologies Co., Ltd.	Long-term investments	Howin Technologies Co., Ltd.	Affiliate			
			Tai Fu Investment Ltd.	Subsidiary	-	\$	-
			Others	-			
	Taiwan Elitec Corporation	Long-term investments	Tai Hsuo Investment Ltd.	Subsidiary			
			Howin Technologies Co., Ltd.	Affiliate	-		
			Others	-			
	Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	Long-term investments	T.I. Investment Ltd.	Subsidiary			
			Howin Technologies Co., Ltd.	Affiliate	-		-
			Others	-			
	Howin Technologies Co., Ltd.	Long-term investments	Tai Hung Investment Ltd.	Subsidiary	-		-
Tai Hsuo Investment Ltd.	<u>Stock</u>						
	Taiwan Elitec Corporation	Long-term investments	Taihsing Den Den Co., Ltd.	Subsidiary	32,500		458,634
T.I. Investment Ltd.	<u>Stock</u>						
	Taiwan Infotainment Co., Ltd.	Long-term investments	Taihsing Den Den Co., Ltd.	Subsidiary	60,000		427,788
Taiwan Tele-Shop Co., Ltd.	<u>Beneficiary certificate</u>						
	JF (Taiwan) Bond Fund	Short-term investments	-	-	4,099		60,000
	The Incerement Fund	Short-term investments	-	-	10,290		150,000
	Fubon Ju-I Fund	Short-term investments	-	-	-		-
	Fubon Ju-I II Fund	Short-term investments	-	-	-		-
	Fubon Ju-I III Fund	Short-term investments	-	-	-		-
	Shinkong Chi-Shin Fund	Short-term investments	-	-	4,377		60,068
	Shinkong Chi-Shun Fund	Short-term investments	-	-	12,798		180,117
	Prudential Well Pool Fund	Short-term investments	-	-	16,820		200,000
	James Bond Fund	Short-term investments	-	-	8,121		120,000
	ABN AMRO Select Bond Fund	Short-term investments	-	-	5,526		60,000



	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	23,214	\$ 280,073	-	\$ -	\$ -	\$ -	- (Note 3)	\$ - (Note 3)
	19,662	194,788	-	-	-	-	19,662	178,111 (Note 4)
	61,249	327,146	-	-	-	-	89,732 (Note 3)	560,523 (Note 3)
	30,000	409,200	-	-	-	-	30,000	512,053 (Note 5)
	-	-	13,000	112,631	134,226	(21,595)	- (Note 6)	- (Note 6)
	-	-	38,100	199,425	180,780	18,645	- (Note 7)	- (Note 7)
	14,957	220,000	19,056	280,569	280,000	569	-	-
	8,873	130,000	19,163	282,443	280,000	2,443	-	-
	9,748	150,000	-	-	-	-	9,748	150,000
	13,431	190,000	-	-	-	-	13,431	190,000
	844	10,000	-	-	-	-	844	10,000
	10,801	150,000	7,998	110,718	110,068	650	7,180	100,000
	3,531	50,000	16,329	232,799	230,117	2,682	-	-
	-	-	16,820	204,196	200,000	4,196	-	-
	-	-	8,121	121,671	120,000	1,671	-	-
	7,266	80,000	5,526	60,508	60,000	508	7,266	80,000

(Continued)



Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		
					Shares (Thousands)	Amount	
Taiwan Fixed Network Co., Ltd.	NITC Bond Fund	Short-term investments	-	-	699	\$ 110,042	
	Cash Reserves Fund	Short-term investments	-	-	8,054	90,000	
	<u>Stock</u>						
	Taiwan Cellular Corporation	Short-term investments	-	-	4,575	163,109	
	<u>Beneficiary certificate</u>						
	The Incerement Fund	Short-term investments	-	-	54,741	792,000	
	NITC Bond Fund	Short-term investments	-	-	6,965	1,094,690	
	The First Global Investment Trust Due Li Bond Fund	Short-term investments	-	-	-	-	
	The First Global Investment Trust Duo Li-2 Bond Fund	Short-term investments	-	-	-	-	
	ABN AMRO Bond Fund	Short-term investments	-	-	-	-	
	ABN AMRO Income Fund	Short-term investments	-	-	2,655	40,000	
	Prudential Bond Fund	Short-term investments	-	-	-	-	
	Polaris De-Li Fund	Short-term investments	-	-	-	-	
	Polaris De-Po Fund	Short-term investments	-	-	-	-	
	Shinkong Chi-Shin Fund	Short-term investments	-	-	-	-	
	HSBC Taiwan Money Management II Fund	Short-term investments	-	-	-	-	
	ABN AMRO Select Bond Fund	Short-term investments	-	-	5,518	60,000	
	The Wan Tai Securities Investment Trust Fund	Short-term investments	-	-	16,661	223,511	
	Apit Asia Pacific Bond Fund	Short-term investments	-	-	-	-	
	Prudential Well Pool Fund	Short-term investments	-	-	78,124	933,835	
James Bond Fund	Short-term investments	-	-	81,809	1,206,500		
Fubon Ju-I II Fund	Short-term investments	-	-	17,930	250,000		
Fubon Ju-I III Fund	Short-term investments	-	-	8,984	104,735		
Fubon Ju-I Fund	Short-term investments	-	-	-	-		
Fubon Twfubonf Fund	Short-term investments	-	-	-	-		



	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	947	\$ 150,000	1,140	\$ 181,274	\$ 180,042	\$ 1,232	506	\$ 80,000
	-	-	8,054	91,634	90,000	1,634	-	-
	-	-	4,575	154,024	163,109	(9,085)	-	-
	27,206	400,000	62,975	928,000	915,968	12,032	18,972	276,032
	6,915	1,100,000	9,764	1,555,874	1,543,171	12,703	4,116	651,519
	34,188	550,000	34,188	552,057	550,000	2,057	-	-
	46,027	650,000	28,183	400,000	398,009	1,991	17,844	251,991
	61,743	900,000	61,743	901,785	900,000	1,785	-	-
	23,697	360,310	-	-	-	-	26,352	400,310
	102,516	1,448,000	102,516	1,452,399	1,448,000	4,399	-	-
	51,358	750,000	51,358	751,362	750,000	1,362	-	-
	62,536	670,000	62,536	671,845	670,000	1,845	-	-
	124,055	1,720,004	115,136	1,600,000	1,596,330	3,670	8,919	123,674
	36,694	500,000	36,694	500,960	500,000	960	-	-
	52,925	580,000	58,443	641,673	640,000	1,673	-	-
	38,773	526,000	55,434	752,451	749,511	2,940	-	-
	52,569	650,000	-	-	-	-	52,569	650,000
	49,354	600,000	127,478	1,549,718	1,533,835	15,883	-	-
	17,394	260,000	80,573	1,206,000	1,191,041	14,959	18,630	275,459
	44,734	630,000	-	-	-	-	62,664	880,000
	21,029	249,000	-	-	-	-	30,013	353,735
	82,525	1,270,063	38,955	600,441	599,528	913	43,570	670,535
	175,509	1,800,004	121,828	1,250,093	1,248,101	1,992	53,681	551,903

(Continued)



Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance	
					Shares (Thousands)	Amount
	Fubon Fu-Tai Fund	Short-term investments	-	-	-	\$ -
	Fubon United Bond Fund	Short-term investments	-	-	-	-
	Invesco Bond Fund	Short-term investments	-	-	-	-
	HSBC Taiwan Money Management Fund	Short-term investments	-	-	-	-
	<b>Bond</b>					
	TCC 1st Domestic Convertible Bond	Short-term investments	-	-	15,690 units	1,569,000

Note 1 : Net of 26,000 thousand shares disposed and 26,000 thousand shares of capital reduction of Taiwan Teleservices & Technologies Co., Ltd. The amount included capital return of \$260,000 thousand, cash dividends of \$97,240 thousand and investment loss of \$1,931 thousand.

Note 2 : Net of 30,000 thousand shares disposed and 120,000 thousand shares of capital reduction of Howin Technologies co., Ltd. The amount included capital return of \$1,200,000 thousand, cash dividends of \$195,000 thousand and investment income of \$69,180 thousand.

Note 3 : The balance of 23,213 thousand shares, net of 1 thousand shares disposed, was in exchange for 28,483 thousand shares of Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.) and merged into Taiwan Infotainment Co., Ltd., resulting in the ending balance of 89,732 thousand shares.

The amount consisted of the following:

Purchased	\$ 280,073
Disposed	(6)
Investment income by the equity method	5,010
Exchanged for the shares of Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	285,077
Adjustments for change in the investee's equity and translation adjustments of foreign-currency denominated long-term investments	(5,685)
Investment loss by the equity method	(46,015)
Purchased	327,146
	<u>\$ 560,523</u>

Note 4 : Including investment loss of \$16,677 thousand.

Note 5 : Including investment income of \$102,853 thousand.

Note 6 : Net of 13,000 thousand shares disposed and 19,500 thousand shares for capital reduction of Taiwan Elitec Corporation. The amount included capital return of \$195,000 thousand, cash dividends of 104,000 thousand and investment loss of \$25,408 thousand.

Note 7 : Net of 38,100 thousand shares disposed and 21,900 thousand shares for capital reduction of Taiwan Infotainment Co., Ltd. The amount included capital return of \$219,000 thousand and investment loss of \$28,008 thousand.

Note 8 : Including investment income of \$68,639 thousand.



	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	20,000	\$ 200,000	20,000	\$ 200,121	\$ 200,000	\$ 121	-	\$ -
	39,532	500,000	-	-	-	-	39,532	500,000
	66,004	950,000	66,004	952,706	950,000	2,706	-	-
	25,710	370,000	25,710	370,820	370,000	820	-	-
	-	-	7,500 units	926,250	750,000	176,250	8,190 units	819,000

**TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES**

**TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

FOR THE YEAR ENDED DECEMBER 31, 2004

Company Name	Related Party	Nature of Relationship	Transaction Details	
			Purchase/Sale	Amount
TCC	TransAsia Telecommunications Inc.	Subsidiary	Sale	\$ (1,939,694)
			Purchase	610,388
	Taiwan Fixed Network Co., Ltd.	Equity-method investee	Sale	(1,755,977)
			Purchase	720,002
	Mobitai Communications	Subsidiary	Sale	(156,676)
			Purchase	134,932

**TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES**

**RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL**

DECEMBER 31, 2004

(Amount in Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship
TCC	TransAsia Telecommunications Inc.	Subsidiary
	Taiwan Fixed Network Co., Ltd.	Equity-method investee
	Taiwan Tele-Shop Co., Ltd.	Subsidiary

Note : Telecommunication service revenue collected on behalf of TCC.



(Amounts in Thousands of New Taiwan Dollars)

	Transaction Details		Abnormal Transaction		Note/Accounts Payable or Receivable		Note
	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
	(4)	Based on contract terms	-	-	\$ 191,803	4	
	3	Based on contract terms	-	-	(21,989)	(2)	
	(4)	Based on contract terms	-	-	163,756	3	
	4	Based on contract terms	-	-	-	-	
	-	Based on contract terms	-	-	11,196	-	
	1	Based on contract terms	-	-	(3,566)	-	

	Ending Balance		Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
				Amount	Action Taken		
Accounts receivable	\$	191,803	8.97	\$	-	\$	-
Other receivable		274,819			-		
Accounts receivable		163,756	14.51		-		-
Accounts receivable		106,548	Note		-		-

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

FOR THE YEAR ENDED DECEMBER 31, 2004

Investor	Investee	Location	Main Businesses and Products
TCC	Taiwan Fixed Network Co., Ltd.	Taipei, Taiwan	Type-I telecommunication services-integrated fixed line and type-II telecommunication service
	Taihsing Den Den Co., Ltd.	Taipei, Taiwan	Telecommunication equipment retailing and wholesale
	Tai Hung Investment Ltd.	Taipei, Taiwan	Investment
	Tai Fu Investment Ltd.	Taipei, Taiwan	Investment
	Tai Hsuo Investment Ltd.	Taipei, Taiwan	Investment
	T.I. Investment Ltd.	Taipei, Taiwan	Investment
	T & M Investment Co., Ltd.	Taipei, Taiwan	Investment
	TransAsia Telecommunications Inc.	Kaohsiung, Taiwan	Wireless service provider
	Mobitai Communications	Tai-Chung, Taiwan	Wireless service provider
	Taiwan Telecom (Aust) Pty Ltd.	Australia	Telecommunication related R&D
	Bridge Mobile Pte. Ltd.	Singapore	Co-develop the service platforms to offer regional mobile services
Taihsing Den Den Co., Ltd.	Taiwan Tele-Shop Co., Ltd.	Taipei, Taiwan	Telecommunication equipment retailing and wholesale, and mobile service distribution
	Taiwan Elitec Corporation	Taipei, Taiwan	Software solution provider, data processing services
	Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	Taipei, Taiwan	Call center service
	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment installation
Taiwan Tele-Shop Co., Ltd.	Taiwan Fixed Network Co., Ltd.	Taipei, Taiwan	Type-I telecommunication services-integrated fixed line and type-II telecommunication service
Howin Technologies Co., Ltd.	Research & Range Inc.	Taipei, Taiwan	Sale and servicing of system equipment for value-added services, and computer software
TransAsia Telecommunications Inc.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment installation
Taiwan Fixed Network Co., Ltd.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment installation
	Taiwan Cellular Corporation	Taipei, Taiwan	Cellular phone services
	TFN Investment Co., Ltd.	Taipei, Taiwan	Investment
	Taiwan Hong-Yuan Investment Co., Ltd.	Taipei, Taiwan	Investment
	Taiwan Telecom (Aust) Pty Ltd.	Australia	Telecommunication related R&D
	TFN US Ltd.	US	Telecommunication business
	TFN HK Ltd.	Hong Kong	Telecommunication business
TFN Investment Co., Ltd.	Taiwan Cellular Corporation	Taipei, Taiwan	Cellular phone services
	Sunnet Technologies Co., Ltd.	Tainan, Taiwan	E-learning, cityfamily



(Amounts in Thousands of New Taiwan Dollars)

	Original Investment Amount		Balance as of December 31, 2004			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
	December 31, 2004	December 31, 2003	Shares (Thousands)	Percentage of Ownership	Carrying Value			
	\$ 4,410,000	\$ 3,000,000	637,000	9.87	\$ 4,256,798	\$ 3,631,892	\$ (14,554)	
	1,420,017	1,419,994	44,300	99.99	941,566	(131,834)	(81,512)	
	1,505,042	1,505,000	-	99.99	1,646,819	98,056	97,735	
	525,045	525,000	-	99.99	553,889	4,482	1,203	
	330,048	330,000	-	99.99	323,818	(42,590)	(12,067)	
	604,981	604,960	-	99.99	405,762	(8,156)	(26,799)	
	-	6,208,218	-	-	-	305,196	286,322	Merged into TCC on June 30, 2004
	10,408,388	12,298,372	328,645	92.32	13,056,507	3,385,289	2,308,809	
	2,451,654	-	181,278	67.00	2,520,293	246,820	68,640	
	-	92,160	-	-	-	(72,743)	(43,646)	
	32,160	-	-	-	32,160	-	-	
	482,349	1,232,628	20,509	50.02	367,650	67,047	NA	
	194,788	-	19,662	98.31	178,111	(55,261)	NA	
	327,146	-	89,732	95.88	560,523	(56,504)	NA	
	409,200	-	30,000	25.00	512,053	575,224	NA	
	49,000	70,000	4,900	0.08	46,013	3,631,892	NA	
	63,590	63,590	6,002	54.56	56,957	9,873	NA	
	30,000	150,000	3,000	2.50	36,122	575,224	NA	
	799,999	3,999,999	79,999	66.67	274,118	575,224	NA	
	29,633,009	29,633,009	900,353	18.56	31,584,551	16,658,456	NA	
	17,500,000	20,000,000	1,750,000	100.00	19,348,101	1,421,370	NA	
	60,000,000	10,000,000	600,000	100.00	7,289,777	1,156,069	NA	
	-	61,440	-	-	-	(72,950)	NA	
	14,950	14,950	430	100.00	13,229	(26)	NA	
	5,816	5,816	1,299	99.99	4,567	(221)	NA	
	16,346,290	16,346,290	467,821	9.64	16,603,598	16,658,456	NA	
	29,450	-	1,840	7.39	29,450	9,277	NA	

(Continued)



Investor	Investee	Location	Main Businesses and Products
	CTS Digi-Tech Co., Ltd.	Taipei, Taiwan	Software retailing and service provider
	Taiwan Info Power Co., Ltd.	Taipei, Taiwan	Sale and servicing of system equipment and computer software
Taiwan Hong Yuan Investment Co., Ltd.	Taiwan Cellular Corporation	Taipei, Taiwan	Cellular phone services
	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering, and equipment installation
Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent
	TT&T Holdings Co., Ltd.	Samoa	Investment

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### INVESTMENT IN MAINLAND CHINA

FOR THE YEAR ENDED DECEMBER 31, 2004

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2004
Dalian Xinkai Teleservices & Technologies Co., Ltd.	System integration, maintenance, R&D and technical support of CRM and MMS and training and consultancy	RMB35,000 (NT\$134,096)	Indirect investment in the Company of Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	\$ -

Accumulated Investment in Mainland China as of Dec. 31, 2004	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
US\$1,300	Note 2	Note 2

Note 1 : The above amounts were translated into New Taiwan Dollars at the prevailing exchange rate of US\$1=NT\$31.70 and RMB1=NT\$3.8313 as of December 31, 2004.

Note 2 : Indirect investment made by the Corporation's subsidiary.





	Original Investment Amount		Balance as of December 31, 2004			Net Income (Loss) of the Investee	Investment Gain (Loss)	Note
	December 31, 2004	December 31, 2003	Shares (Thousands)	Percentage of Ownership	Carrying Value			
	\$ -	\$ 60,000	-	-	\$ -	NA	NA	
	-	62,500	-	-	-	NA	NA	
	4,419,782	5,003,812	144,720	2.98	4,648,679	16,658,456	NA	
	4,204	-	293	0.24	5,004	575,224	NA	
	3,000	-	300	100.00	2,952	(48)	NA	
	3,000	-	-	-	3,000	-	NA	
	42,669	-	1,300	100.00	41,236	14	NA	

(Amounts in Thousand New Taiwan Dollars or U.S. Dollars, Unless Otherwise Specified)

	Investment Flows		Accumulated Outflow of Investment from Taiwan as of Dec. 31, 2004	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of Dec. 31, 2004	Accumulated Inward Remittance of Earnings as of Dec. 31, 2004
	Outflow	Inflow					
	US\$1,300 (NT\$41,223)	\$ -	US\$1,300 (NT\$41,223)	50% ownership of indirect investment by the Corporation's subsidiary	In development stage	NT\$41,236	\$ -





### Independent Auditors' Report

January 18, 2005

The Board of Directors and Shareholders

Taiwan Cellular Corporation

We have audited the accompanying consolidated balance sheets of Taiwan Cellular Corporation (the "Corporation") and subsidiaries as of December 31, 2004 and 2003, 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. However, the financial statements as of and for the year ended December 31, 2003 of Mobitai Communications ("Mobitai"), a subsidiary of the Corporation, were audited by other auditors. As of December 31, 2003, the carrying value of Mobitai's total assets amounted to \$6,121,524 thousand, which was 4.34% of the total consolidated assets.

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 standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As described in Note 2, in 2004, the total assets or operating revenues of the consolidated entities in 2003, Taihsing Den Den Co., Ltd. and Taiwan Tele-Shop Co., Ltd., did not meet the consolidation criteria. In addition, the Corporation acquired 67% of Mobitai Communications' shares in August 2004, resulting in a change of consolidated entities. Therefore, the consolidated financial statements as of and for the year ended December 31, 2003 have been restated to conform to the consolidated entities as of and for the year ended December 31, 2004.

#### Notice to Readers

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

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

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2004 AND 2003

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

ASSETS	2004		2003 (Note 2)	
	Amount	%	Amount	%
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2, 4 and 20)	\$ 3,689,123	3	\$ 2,754,128	2
Short-term investments (Notes 2 and 5)	14,865,602	12	22,525,799	16
Notes receivable (Note 2)	2,266	-	15,689	-
Accounts receivable - third parties (Notes 2 and 6)	5,684,729	5	6,409,047	5
Accounts receivable - related parties (Notes 2 and 20)	297,941	-	543,607	-
Other receivable (Notes 15 and 20)	401,914	-	59,583	-
Inventories (Notes 2 and 7)	5,488	-	40,631	-
Prepayments	490,022	-	648,617	1
Deferred income tax assets (Notes 2 and 17)	215,108	-	247,962	-
Pledged time deposits (Notes 20 and 21)	610,000	1	10,000	-
Other current assets (Note 20)	74,242	-	22,745	-
Total current assets	26,336,435	21	33,277,808	24
<b>LONG-TERM INVESTMENTS (Notes 2, 8 and 20)</b>				
Equity method	8,122,029	7	14,302,211	10
Cost method	-	-	26,100	-
Prepayment for long-term investments	32,160	-	-	-
Total long-term investments	8,154,189	7	14,328,311	10
<b>PROPERTY AND EQUIPMENT (Notes 2, 9, 20 and 21)</b>				
<b>Cost</b>				
Land	3,619,967	3	3,131,391	2
Buildings	2,358,627	2	2,125,876	2
Telecommunication equipment	80,708,679	64	82,555,692	59
Office equipment	518,761	-	532,225	-
Leased assets	1,276,190	1	1,276,190	1
Leased improvements	533,622	1	578,524	-
Miscellaneous equipment	1,349,919	1	1,259,722	1
Total cost	90,365,765	72	91,459,620	65
Less accumulated depreciation	(27,172,011)	(22)	(21,664,757)	(15)
	63,193,754	50	69,794,863	50
Construction in progress and advance payments	4,808,648	4	1,997,534	1
Net property and equipment	68,002,402	54	71,792,397	51
INTANGIBLE ASSETS (Notes 2 and 10)	10,281,583	8	10,281,784	7
<b>OTHER ASSETS</b>				
Non-operating assets (Notes 2, 11 and 21)	4,265,539	3	3,175,633	2
Refundable deposits	313,646	-	321,566	-
Deferred charges (Notes 2, 12, 20 and 21)	653,618	1	1,042,242	1
Deferred income tax assets (Notes 2 and 17)	702,390	1	946,781	1
Consolidated debits (Note 2)	6,633,515	5	5,740,392	4
Other	76,264	-	137,242	-
Total other assets	12,644,972	10	11,363,856	8
<b>TOTAL</b>	<b>\$ 125,419,581</b>	<b>100</b>	<b>\$ 141,044,156</b>	<b>100</b>

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated January 18, 2005)



LIABILITIES AND SHAREHOLDERS' EQUITY	2004		2003 (Note 2)	
	Amount	%	Amount	%
<b>CURRENT LIABILITIES</b>				
Short-term borrowings	\$ -	-	\$ 30,401	-
Notes payable	32,318	-	33,311	-
Accounts payable (Note 20)	1,825,505	1	1,931,064	1
Income tax payable (Notes 2 and 17)	2,143,669	2	1,013,648	1
Accrued expenses (Note 20)	3,265,175	3	2,833,384	2
Other payable (Notes 8, 20 and 22)	2,646,576	2	1,219,826	1
Advance receipts	985,025	1	1,529,515	1
Current portion of long-term liabilities (Notes 2, 13, 14 and 21)	3,369,563	3	8,037,218	6
Guarantee deposits	234,100	-	2,761,339	2
Other current liabilities (Note 20)	<u>593,812</u>	<u>-</u>	<u>328,356</u>	<u>-</u>
Total current liabilities	<u>15,095,743</u>	<u>12</u>	<u>19,718,062</u>	<u>14</u>
<b>LONG-TERM LIABILITIES</b>				
Bonds payable (Notes 2, 13 and 21)	19,086,226	15	23,715,318	17
Long-term bank loans (Notes 14 and 21)	<u>8,400,000</u>	<u>7</u>	<u>21,398,524</u>	<u>15</u>
Total long-term liabilities	<u>27,486,226</u>	<u>22</u>	<u>45,113,842</u>	<u>32</u>
<b>OTHER LIABILITIES</b>				
Accrued pension cost (Notes 2 and 15)	103,010	-	52,059	-
Guarantee deposits	109,194	-	45,437	-
Minority interests	1,589,034	1	6,856,655	5
Other	<u>63,553</u>	<u>-</u>	<u>67,335</u>	<u>-</u>
Total other liabilities	<u>1,864,791</u>	<u>1</u>	<u>7,021,486</u>	<u>5</u>
Total liabilities	<u>44,446,760</u>	<u>35</u>	<u>71,853,390</u>	<u>51</u>
<b>SHAREHOLDERS' EQUITY (Notes 2 and 16)</b>				
Capital stock - \$10 par value				
Authorized: 6,000,000 thousand shares				
Issued: 4,888,389 thousand shares in 2004 and 4,699,826 thousand shares in 2003	48,883,886	39	46,998,258	33
Entitlement certificates	279,670	-	-	-
Capital surplus - paid-in capital in excess of par value	7,258,873	6	3,366,010	3
Retained earnings				
Legal reserve	6,839,315	5	5,505,955	4
Special reserve	-	-	330,183	-
Unappropriated earnings	19,554,125	16	15,480,882	11
Other adjustments of shareholders' equity				
Cumulative translation adjustments	(1,631)	-	34,450	-
Treasury stock	<u>(1,841,417)</u>	<u>(1)</u>	<u>(2,524,972)</u>	<u>(2)</u>
Total shareholders' equity	<u>80,972,821</u>	<u>65</u>	<u>69,190,766</u>	<u>49</u>
<b>TOTAL</b>	<u>\$ 125,419,581</u>	<u>100</u>	<u>\$ 141,044,156</u>	<u>100</u>



## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	2004 (Note 2)		2003 (Note 2)	
	Amount	%	Amount	%
<b>OPERATING REVENUES (Notes 2 and 20)</b>				
Sales	\$ 295,588	1	\$ 216,094	-
Less sales returns and allowances	304	-	516	-
Net sales	295,284	1	215,578	-
Telecommunication service revenue	54,628,766	99	54,034,459	100
Other revenue	239,056	-	67,164	-
Total operating revenues	55,163,106	100	54,317,201	100
<b>OPERATING COSTS (Notes 2, 19 and 20)</b>				
Cost of goods sold	511,518	1	415,186	1
Telecommunication service cost	22,006,016	40	20,945,095	39
Total operating costs	22,517,534	41	21,360,281	40
<b>GROSS PROFIT</b>	<b>32,645,572</b>	<b>59</b>	<b>32,956,920</b>	<b>60</b>
<b>OPERATING EXPENSES (Notes 2, 19 and 20)</b>				
Marketing	9,290,640	17	11,365,966	21
Administrative	4,153,937	7	5,085,606	9
Total operating expenses	13,444,577	24	16,451,572	30
<b>OPERATING INCOME</b>	<b>19,200,995</b>	<b>35</b>	<b>16,505,348</b>	<b>30</b>
<b>NON-OPERATING INCOME AND GAIN</b>				
Gain on disposal of investments, net (Note 2)	1,460,681	3	143,187	-
Dividend income	1,249,551	2	38,670	-
Rental income (Note 20)	233,242	1	304,006	1
Penalty income	230,173	-	337,051	1
Interest income	29,211	-	46,668	-
Gain on disposal of property and equipment (Note 2)	8,582	-	7,786	-
Market price recovery of short-term investments (Note 2)	3,296	-	91,819	-
Investment income recognized by the equity method, net (Notes 2 and 8)	-	-	381,319	1
Other	513,376	1	131,154	-
Total non-operating income and gain	3,728,112	7	1,481,660	3
<b>NON-OPERATING EXPENSE AND LOSS</b>				
Interest expenses (Notes 2 and 9)	1,102,776	2	1,661,439	3
Provision for losses on idle assets (Notes 2 and 11)	942,180	2	909,848	2
Loss on buyback of bonds payable (Note 20)	268,105	-	-	-
Financial expenses	86,988	-	194,677	-
Loss on disposal of property and equipment (Note 2)	42,159	-	25,954	-
Other	417,600	1	416,515	1
Total non-operating expense and loss	2,859,808	5	3,208,433	6

	2004 (Note 2)		2003 (Note 2)	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 20,069,299	37	\$ 14,778,575	27
INCOME TAX EXPENSE (Notes 2 and 17)	<u>3,144,282</u>	<u>6</u>	<u>1,087,865</u>	<u>2</u>
INCOME BEFORE MINORITY INTERESTS	16,925,017	31	13,690,710	25
INCOME FROM MINORITY INTERESTS	<u>266,561</u>	<u>1</u>	<u>346,263</u>	<u>-</u>
CONSOLIDATED NET INCOME	<u>\$ 16,658,456</u>	<u>30</u>	<u>\$ 13,344,447</u>	<u>25</u>

	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 18)				
Basic	<u>\$ 4.14</u>	<u>\$ 3.55</u>	<u>\$ 3.15</u>	<u>\$ 2.91</u>
Diluted	<u>\$ 3.93</u>	<u>\$ 3.37</u>	<u>\$ 2.95</u>	<u>\$ 2.71</u>

The pro forma net income and earnings per share if Financial Accounting Standards No. 30, "Accounting for Treasury Stock," had not been adopted are as follows:

	2004		2003	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
NET INCOME	<u>\$ 19,425,635</u>	<u>\$ 16,668,180</u>	<u>\$ 14,473,373</u>	<u>\$ 13,351,020</u>
EARNINGS PER SHARE				
Basic	<u>\$ 4.14</u>	<u>\$ 3.55</u>	<u>\$ 3.15</u>	<u>\$ 2.91</u>
Diluted	<u>\$ 3.93</u>	<u>\$ 3.37</u>	<u>\$ 2.95</u>	<u>\$ 2.71</u>

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated January 18, 2005)

TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

	Capital Stock		Paid-in Capital-in Excess of Par Value	Legal Reserve	
	Capital Stock	Entitlement Certificates			
BALANCE, JANUARY 1, 2003	\$ 45,026,835	\$ -	\$ 3,004,199	\$ 4,018,683	
Appropriation of 2002 earnings					
Legal reserve	-	-	-	1,487,272	
Special reserve	-	-	-	-	
Remuneration to directors and supervisors	-	-	-	-	
Bonus to employees - cash	-	-	-	-	
Stock dividends - \$0.4 per share	1,766,378	-	-	-	
Cash dividends - \$2.0 per share	-	-	-	-	
Balance after appropriation	46,793,213	-	3,004,199	5,505,955	
Prior period adjustments on long-term equity-method investments	-	-	-	-	
Net income in 2003	-	-	-	-	
Conversion of convertible bonds to capital stock	205,045	-	361,811	-	
Translation adjustments	-	-	-	-	
Reversal of unrealized loss on long-term investments	-	-	-	-	
BALANCE, DECEMBER 31, 2003	46,998,258	-	3,366,010	5,505,955	
Reversal of special reserve	-	-	-	-	
Appropriation of 2003 earnings					
Legal reserve	-	-	-	1,333,360	
Remuneration to directors and supervisors	-	-	-	-	
Bonus to employees - cash	-	-	-	-	
Cash dividends - \$2.3758 per share	-	-	-	-	
Balance after appropriation	46,998,258	-	3,366,010	6,839,315	
Net income in 2004	-	-	-	-	
Conversion of convertible bonds to capital stock and entitlement certificates	1,904,728	279,670	3,894,231	-	
Cancellation of treasury stock	(19,100)	-	(1,368)	-	
Transfer of treasury stock to employees	-	-	-	-	
Adjustments of changes in ownership percentage on long-term equity-method investments	-	-	-	-	
Disposal of the Corporation's shares held by its subsidiary	-	-	-	-	
Translation adjustments	-	-	-	-	
BALANCE, DECEMBER 31, 2004	\$ 48,883,886	\$ 279,670	\$ 7,258,873	\$ 6,839,315	

The accompanying notes are an integral part of the consolidated financial statements.  
(With Deloitte & Touche audit report dated January 18, 2005)



Retained Earnings			Unrealized Loss on Long-term Investments	Cumulative Translation Adjustments	Treasury Stock	Total Shareholders' Equity
Special Reserve	Unappropriated	Total				
\$ -	\$ 15,019,922	\$ 19,038,605	\$ (317,007)	\$ 7,666	\$ (2,524,972)	\$ 64,235,326
-	(1,487,272)	-	-	-	-	-
330,183	(330,183)	-	-	-	-	-
-	(65,274)	(65,274)	-	-	-	(65,274)
-	(391,645)	(391,645)	-	-	-	(391,645)
-	(1,766,378)	(1,766,378)	-	-	-	-
-	(8,831,889)	(8,831,889)	-	-	-	(8,831,889)
330,183	2,147,281	7,983,419	(317,007)	7,666	(2,524,972)	54,946,518
-	(10,846)	(10,846)	-	-	-	(10,846)
-	13,344,447	13,344,447	-	-	-	13,344,447
-	-	-	-	-	-	566,856
-	-	-	-	26,784	-	26,784
-	-	-	317,007	-	-	317,007
330,183	15,480,882	21,317,020	-	34,450	(2,524,972)	69,190,766
(330,183)	330,183	-	-	-	-	-
-	(1,333,360)	-	-	-	-	-
-	(61,652)	(61,652)	-	-	-	(61,652)
-	(369,913)	(369,913)	-	-	-	(369,913)
-	(11,071,408)	(11,071,408)	-	-	-	(11,071,408)
-	2,974,732	9,814,047	-	34,450	(2,524,972)	57,687,793
-	16,658,456	16,658,456	-	-	-	16,658,456
-	-	-	-	-	-	6,078,629
-	(33,337)	(33,337)	-	-	53,805	-
-	(36,882)	(36,882)	-	-	548,166	511,284
-	(4,299)	(4,299)	-	-	-	(4,299)
-	(4,545)	(4,545)	-	-	81,584	77,039
-	-	-	-	(36,081)	-	(36,081)
\$ -	\$ 19,554,125	\$ 26,393,440	\$ -	\$ (1,631)	\$ (1,841,417)	\$ 80,972,821



**TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

YEARS ENDED DECEMBER 31, 2004 AND 2003

(In Thousands of New Taiwan Dollars)

	2004	2003 (Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 16,658,456	\$ 13,344,447
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,525,991	5,637,331
Cash dividends received from equity-method investees	1,478,477	249,526
Bad debts	1,075,404	1,648,696
Provision for losses on idle assets	942,387	909,848
Amortization	453,172	399,217
Amortization of consolidated debits	390,312	327,638
Accrued interest compensation	358,473	479,522
Income from minority interests	316,951	346,263
Deferred income taxes	277,245	51,898
Loss on buyback of bonds payable	268,105	-
Accrued loss on ISR dispute	121,160	-
Pre-acquisition income	102,309	-
Loss on disposal of property and equipment, net	34,331	18,168
Gain on disposal of long-term investments	(20,414)	(9,861)
Accrued pension cost	(20,253)	4,294
Impairment loss on long-term investments	13,594	-
Market price recovery of short-term investments	(9,889)	(91,819)
Provision for (reversal of) allowance for loss on inventories	8,483	(7,573)
Investment loss (income) recognized by the equity method, net	306	(381,319)
Cash dividends received from cost-method investees	-	1,761,330
Other	1,946	1,891
Changes in operating assets and liabilities		
Notes receivable	13,423	(5,365)
Accounts receivable	(193,002)	(2,539,697)
Other receivable	135,223	378,312
Inventories	27,241	9,337
Prepayments	158,595	(27,073)
Other current assets	(51,497)	(18,014)
Notes payable	(993)	(9,368)
Accounts payable	(105,559)	28,852
Income tax payable	1,130,021	661,906
Accrued expenses	428,606	(267,041)
Other payable	202,650	(34,774)
Advance receipts	(544,490)	(165,809)
Other current liabilities	260,257	64,092
Net cash provided by operating activities	<u>30,437,021</u>	<u>22,764,855</u>

	2004	2003 (Note 2)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Decrease in short-term investments	\$ 7,670,086	\$ 7,783,850
Acquisition of property and equipment	(3,662,182)	(5,818,954)
Proceeds from investees' capital return	2,850,000	-
Increase in pledged time deposits	(600,000)	-
Increase in consolidated debits	(431,710)	-
Increase in long-term investments	(92,371)	(60)
Proceeds from investees' liquidation	53,028	-
Cash received from merger with T&M Investment Co., Ltd.	52,263	-
Proceeds from disposal of property and equipment	36,729	15,891
Decrease (increase) in deferred charges	30,397	(202,541)
Decrease (increase) in other assets	23,221	(274)
Proceeds from disposal of long-term investments	13,141	88,400
Decrease (increase) in refundable deposits	7,920	(8,526)
Cash received from merger with Trans Asia Information Network Co., Ltd.	-	8,399
Net cash provided by investing activities	<u>5,950,522</u>	<u>1,866,185</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in long-term bank loans	(14,489,470)	(17,762,538)
Cash dividends paid	(11,050,917)	(8,831,889)
Decrease in minority interests	(2,632,775)	(11,255)
Decrease in guarantee deposits	(2,463,482)	(1,355,993)
Buyback of bonds payable	(2,360,484)	-
Capital return to minority interests	(2,230,302)	-
Treasury stock transferred to employees	511,284	-
Bonus to employees	(396,307)	(347,252)
Dividend paid to minority interests	(250,261)	(263,415)
Remuneration to directors and supervisors	(61,652)	(65,274)
Decrease in short-term debts	(30,401)	(1,100,000)
Increase (decrease) in other liabilities	2,219	(16,307)
Decrease in short-term bills payable	-	(239,253)
Buyback of issued shares	-	(449,004)
Net cash used in financing activities	<u>(35,452,548)</u>	<u>(30,442,180)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	934,995	(5,811,140)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,683,801	8,494,941
CASH OF THE CONSOLIDATED SUBSIDIARY (MOBITAI COMMUNICATIONS), BEGINNING OF YEAR	<u>70,327</u>	-
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 3,689,123</u>	<u>\$ 2,683,801</u>

(Continued)

	2004	2003 (Note 2)
SUPPLEMENTAL INFORMATION		
Interest paid - excluding interest capitalized	\$ 871,838	\$ 1,323,484
Income tax paid	\$ 1,791,317	\$ 374,537
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Reclassification of long-term investments as short-term investments	\$ -	\$ 20,873,670
Current portion of long-term liabilities	\$ 3,369,563	\$ 7,953,006
Conversion of convertible bonds to capital stock and entitlement certificates	\$ 5,563,100	\$ 544,900
Reclassification from treasury stock to long-term investments for disposal of the Corporation's shares held by its subsidiary	\$ 77,039	-
CASH PAID FOR ACQUISITION OF PROPERTY AND EQUIPMENT		
Acquisition of property and equipment	\$ 4,935,341	\$ 5,442,461
Add decrease (increase) in other payable	(1,273,159)	376,493
	\$ 3,662,182	\$ 5,818,954
CASH PAID FOR BUYBACK OF ISSUED SHARES		
Increase in treasury stock	\$ -	\$ -
Less decrease in other payable	-	449,004
	\$ -	\$ 449,004

#### SUPPLEMENT AND DISCLOSURE OF ACQUIRED SUBSIDIARY :

T&M Investment Co., Ltd. (T&M), the Corporation's subsidiary, merged into the Corporation on June 30, 2004. The carrying values of assets and liabilities as of June 30, 2004 were as follows:

Other receivable	\$ 403,702
Long-term investments	5,135,028
Assets acquired from T&M	\$ 5,538,730
Accrued expenses	\$ 127
Other payable	3,861
Other current liabilities	5,199
Liabilities assumed from T&M	\$ 9,187

The Corporation acquired 67% of Mobitai Communications' shares on August 31, 2004. The carrying values of assets and liabilities as of August 31, 2004 were as follows:

Cash	\$ 48,596
Short-term investments	567,613
Inventories	25,555
Accounts receivable	565,038
Other current assets	173,473
Long-term investments	427
Property and equipment	2,475,718
Other assets	345,913
	\$ 4,202,333
Short-term debts	\$ 71,046
Accounts payable	190,596
Other payable	560,124
Other current liabilities	132,194
Long-term bank loans	63,152
Other liabilities	103,210
	\$ 1,120,322

Trans Asia Information Network Co., Ltd. merged into TransAsia Telecommunications Inc., a subsidiary of the Corporation, on December 9, 2003. The carrying values of assets and liabilities on December 9, 2003 were as follows:

Short-term investments	\$	20,000
Accounts receivable		233
Other current assets		40
Property and equipment		1,515
Assets acquired from Trans Asia Information Network Co., Ltd.	\$	<u>21,788</u>
Income tax payable	\$	14
Other current liabilities		<u>68</u>
Liabilities assumed from Trans Asia Information Network Co., Ltd.	\$	<u>82</u>

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

(With Deloitte & Touche audit report dated January 18, 2005)

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2004 AND 2003

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

#### 1. ORGANIZATION AND BUSINESS

Taiwan Cellular Corporation (the "Corporation") was incorporated in the Republic of China ("ROC") on February 25, 1997. The Corporation's shares had been traded on the ROC Over-the-Counter Securities Exchange (known as GreTai Securities Market) since September 19, 2000. On August 26, 2002, the Corporation's shares were listed on the Taiwan Stock Exchange. The Corporation mainly engages in wireless communication services.

The Corporation's services are under the type I license (GSM 1800 for all sectors; "GSM" means "global system for mobile communications") issued by the Direc-

torate General of Telecommunication (DGT) of the ROC. The license allows the Corporation to provide services for 15 years from 1997 onwards. It also entails an annual license fee consisting of 2% of total wireless communication service revenues.

The consolidated subsidiaries are as follows:

- a. TransAsia Telecommunications Inc. (92.32% shareholding; TAT) was incorporated in the ROC on July 8, 1997. TAT mainly engages in wireless communication services, sale and repair of telecommunication equipment, etc.
- b. Mobitai Communications (67% shareholding; Mobitai) was incorporated in the ROC on August 4, 1997. The Corporation acquired 67% of Mobitai's shares on August 31, 2004. Mobitai mainly engages in 1) wireless communication services, 2) sale, installation and repair of telecommunication equipment, and 3) technical consultancy of telecommunication engineering.

As of December 31, 2004 and 2003, the Corporation and subsidiaries had 1,947 and 1,590 employees, respectively.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying 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. In conformity with these guidelines and principles, the Corporation is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful receivable, allowance for loss on inventories, depreciation, pension and allowance for deferred income tax assets and contingent loss on lawsuit, 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.

Significant accounting policies are summarized as follows:

### **Basis of Consolidated Financial Statements**

The consolidated financial statements include the accounts of the Corporation and its direct and indirect subsidiaries with at least 50% of shareholding and individual assets or operating revenues amounting to at least 10% of the unconsolidated assets or operating revenues of the Corporation. In the case that the total assets or operating revenues of the subsidiaries are individually less than 10% but collectively more than 30% of the Corporation's respective total assets or operating revenues, a subsidiary with individual total assets or operating revenues exceeding 3% of the Corporation's respective total assets or operating revenues should be included into the consolidated financial statements until the combined assets or operating revenues of the subsidiaries excluded in the consolidated financial statements represent less than 20% of the Corporation's respective total assets or operating revenues.

When acquiring a subsidiary in the current year, the Corporation retroactively restates the consolidated balance sheet of the previous year in comparative financial statements, but the consolidated income statement and statement of cash flows are not retroactively restated. In addition, the Corporation recognizes the subsidiary's revenues and expenses in the consolidated financial statements from the date of the acquisition to the year end.

In 2003, the consolidated financial statements included the accounts of Taihsing Den Den Co., Ltd. (TDD) and Taiwan Tele-Shop Co., Ltd. (TTS) since their total assets or operating revenues were individually more than 10% of the Corporation's respective total assets or operating revenues. However, in 2004, the total assets or operating revenues of TDD and TTS were less than 10% of the Corporation's respective total assets or operating revenues, and, in addition, the Corporation acquired 67% of Mobitai Communications' (Mobitai)

shares in 2004, resulting in a change of consolidated entities. Accordingly, Mobitai's accounts were included in the consolidated balance sheet as of December 31, 2003, and the accounts of TDD and TTS were excluded from the consolidated financial statements as of and for the year ended December 31, 2003. Thus, the consolidated financial statements as of and for the year ended December 31, 2003 have been restated to conform to the consolidated entities as of and for the year ended December 31, 2004.

All significant intercompany accounts and transactions have been eliminated in the consolidation.

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

Current assets are those expected to be sold or consumed within one year. Property and equipment, intangible assets and those other than current assets are classified as non-current. Current liabilities are obligations due within one year. All other liabilities are classified as non-current.

### **Cash Equivalents**

Government bonds acquired with resale rights and having maturities of up to three months from the date of purchase are classified as cash equivalents.

### **Short-term Investments**

Short-term investments are carried at the lower of aggregate cost or market value. An allowance for loss is provided when the aggregate carrying value of the investments exceeds the aggregate market value. Any recovery of market value to the extent of the original carrying value is recognized as income. The costs of investments sold are determined by the weighted-average method.

### **Allowance for Doubtful Receivables**

Allowance for doubtful receivables 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 lower of weighted average cost or market, which refers to replacement cost or net realizable value.

## **Long-term Investments**

Long-term investments in which the Corporation exercises significant influence on the investees are accounted for by the equity method. The Corporation's proportionate share in the net income or net loss of investees is recognized as investment income or loss. Cash dividends are recorded as a reduction of the long-term investments. On the acquisition date, the difference between the cost of investment and the investee's proportionate net value is amortized by the straight-line method over 5 to 20 years and also recognized as investment income or loss.

Gains or losses on transactions with investees over which the Corporation exercises significant influence are deferred and are realized through transactions with third parties. Gains or losses on depreciable or amortizable assets are recognized over the estimated useful lives of the assets.

Other long-term investments are accounted for by the cost method. Cash dividends received in the year of investment acquisition are accounted for as a reduction of the long-term investments, and cash dividends received in subsequent years are recognized as dividend income. If the accumulated cash dividends distributed by investee exceed the investee's accumulated earnings from the acquisition date to the year end from which the distribution was made, the excess is recognized as a reduction to the carrying value of long-term investments. Stock dividends are recognized neither as an increase in long-term investments nor as investment income but are accounted for only as an increase in the number of shares held. The carrying value of the investments in unlisted stocks are reduced to reflect any other than temporary decline in value, with the reduction charged to current income.

The costs of the investments sold are 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 currently. Property and equipment covered by agreements qualifying as capital leases are carried at the lower of the present value of future minimum rent payments or the market value of the property on the starting dates of the leases.

Depreciation is provided by the straight-line method over the estimated service lives which range as follows: buildings - 5 to 55 years; telecommunication equipment - 3 to 15 years; office equipment - 3 to 6 years; leased assets - 20 years; leased improvements - 2 to 10 years; and miscellaneous equipment - 3 to 5 years.

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

## **Intangible Assets**

Intangible assets, which consist of 3G concession and trademarks, are recorded at acquisition cost and amortized over their estimated economic lives.

## **Deferred Charges**

Deferred charges, which refer to computer software, construction expenditures, interior decoration and bond and bill issuance costs, are amortized by the straight-line method over 2 to 8 years or contract periods.

## **Consolidated Debits**

Consolidated debits are the difference between the cost of investment and the investee's proportionate net value. Except for those attributable to property and equipment, those unidentifiable consolidated debits are amortized over 8 to 20 years according to individual in-



vestee's circumstance.

### **Idle Assets**

Idle assets, which consist of equipment not currently used in operation, are stated at the lower of cost or net realizable value.

### **Pension Costs**

Pension costs are recognized on the basis of actuarial calculations. Unrecognized net transition obligation and unrecognized net gains or losses are amortized over 15 to 25 years and 15 years or the average remaining service years of employees, respectively.

### **Bonds Payable**

Convertible bonds with redemption rights are classified as current or non-current according to redemption dates. The redemption price in excess of the face value of the bonds is amortized by the interest method from the issuance date through the due 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 and amortized over 3 to 7 years.

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

### **Income Tax**

The inter-period allocation method is used for income tax. 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 income tax assets that are more likely than not to 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 reports. 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 realization period.

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 taxes of 10% on unappropriated earnings are expensed in the year when the shareholders resolve the retention of the earnings.

### **Treasury Stock**

The buyback of issued shares is accounted for by the cost method.

If the proceeds from 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 charged to capital surplus from treasury stock. If the balance of capital surplus from treasury stock is not sufficient to absorb this difference, the rest is recorded as a reduction of retained earnings.

If treasury stock is canceled, capital stock and additional paid-in capital are proportionately adjusted. If the carrying value of treasury stock exceeds the total balance of par value and additional paid-in capital, the excess is debited to capital surplus from treasury stock. If the balance of capital surplus from treasury stock is not sufficient to absorb such deficiency, the rest is recorded as a reduction of retained earnings. If the carrying value of treasury stocks is less than the total of par value and additional paid-in capital, the deficiency is credited to capital surplus from treasury stock.

### **Derivative Financial Instruments**

The notional amounts of interest rate swap agreements are not recognized in the financial statements because these agreements do not require the settlement of these amounts initially. However, a memorandum entry is





made for the transaction. The receivable or payable amounts under the agreements, which result from the differences in interest rates, are accrued as an adjustment to interest income or interest expense on the hedged objects on the balance sheet date and settlement dates.

### **Foreign-currency Transactions**

Foreign-currency transactions are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Gains or losses resulting from the application of different foreign exchange rates, when foreign-currency receivable and payable, are settled, are credited or charged to income on the settlement date. Foreign-currency assets and liabilities are restated at prevailing exchange rates at the year end date. The resulting differences are recorded in the current income.

Long-term foreign-currency investments accounted for by the equity method are translated into New Taiwan dollars at the following exchange rates: (a) assets and liabilities - the rate at the year end date; (b) income and expense - average rate over the year; and (c) equity - historical rate. The difference resulting from the above translation is reported as cumulative translation adjustments under shareholders' equity.

### **Revenue Recognition**

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

Usage revenues from wireless services and value-added services, net of any applicable discount, are billed at predetermined rates and are recognized based on minutes of usage. Other revenues are recognized as follows: (a) one-time subscriber connection fees are recognized in full when the connection is activated; and (b) prepaid card services are recognized as income based upon customer usage.

Sales revenues are stated at the fair values of settled prices (after consideration of business discount and volume discount) between the Corporation and the buyers.

However, receivables from sales maturing within one year or less may not be valued at fair value according to the imputed interest rate when the discrepancy between their fair value and value at maturity is small, and they are frequently traded.

### **Promotion Expenses**

Commissions and cellular phone subsidy costs pertaining to the Corporation's promotions are recognized as marketing expenses on accrual basis in the year when the service is provided.

### **Reclassification**

Certain accounts in the financial statements as of and for the year ended December 31, 2003 have been reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2004.



### 3. RECONCILED ACCOUNTS BASED ON ELIMINATION OF SIGNIFICANT TRANSACTIONS BETWEEN THE CORPORATION AND SUBSIDIARIES

Company Name	Reconciled Account	Amount	Counter Party
Corporation	Accounts receivable	\$ 191,803	TAT
	Accounts receivable	11,196	Mobitai
	Other receivables	274,819	TAT
	Accounts payable	21,989	TAT
	Advance receipts	137	TAT
	Other current liabilities	78,474	TAT
	Operating revenues	1,939,694	TAT
	Operating costs	610,388	TAT
	Operating revenues	52,009	Mobitai
	Operating costs	44,977	Mobitai
TAT	Accounts receivable	100,600	Corporation
	Accounts payable	292,909	Corporation
	Other payable	173,713	Corporation
	Operating revenues	610,388	Corporation
	Operating costs	1,869,884	Corporation
	Operating revenues	20,098	Mobitai
	Operating costs	20,140	Mobitai
	Administrative expenses	69,810	Corporation
Mobitai	Accounts payable	11,196	Corporation
	Operating revenues	44,977	Corporation
	Operating costs	52,009	Corporation
	Operating revenues	20,140	TAT
	Operating costs	20,098	TAT

### 4. CASH AND CASH EQUIVALENTS

	December 31	
	2004	2003
Government bonds with resale rights	\$ 2,273,843	\$ 1,562,812
Cash in banks	1,193,824	923,731
Time deposits	203,205	-
Cash on hand	12,431	10,940
Revolving funds	5,820	6,834
Commercial paper	-	249,811
	<u>\$ 3,689,123</u>	<u>\$ 2,754,128</u>

### 5. SHORT-TERM INVESTMENTS

	December 31	
	2004	2003
Listed stocks		
Chunghwa Telecom Co., Ltd.	\$ 9,277,177	\$ 20,177,820
Other	-	28,429
Beneficiary certificates		
Open-end funds	5,488,125	2,229,139
Closed-end funds	<u>100,300</u>	<u>100,300</u>

(Continued)

	December 31	
	2004	2003
	\$ 14,865,602	\$ 22,535,688
Less allowance for losses	_____ -	_____ (9,889)
	<u>\$ 14,865,602</u>	<u>\$ 22,525,799</u>
Market value	<u>\$ 18,060,798</u>	<u>\$ 23,560,059</u>

The market values of each investment were based on the following: (a) listed stocks and closed-end funds - the average closing prices in December; (b) open-end funds - the net asset value on the balance sheet date.

## 6. ACCOUNTS RECEIVABLE - THIRD PARTIES

	December 31	
	2004	2003
Accounts receivable	\$ 6,251,356	\$ 7,087,123
Less allowance for doubtful receivable	(566,627)	(678,076)
	<u>\$ 5,684,729</u>	<u>\$ 6,409,047</u>

## 7. INVENTORIES

	December 31	
	2004	2003
Mobile phones	\$ 5,039	\$ 29,287
Accessories for mobile phones	19,432	21,876
Other	_____ 2,558	_____ 2,526
	27,029	53,689
Less allowance for losses	_____ (21,541)	_____ (13,058)
	<u>\$ 5,488</u>	<u>\$ 40,631</u>

## 8. LONG-TERM INVESTMENTS

	December 31			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<b>Equity method</b>				
Taiwan Fixed Network Co., Ltd.	\$ 4,256,798	9.87	\$ 2,869,367	3.25
Tai Hung Investment Ltd.	1,646,819	99.99	1,590,164	99.99
Taihsing Den Den Co., Ltd.	902,707	99.99	1,526,803	99.99
Tai Fu Investment Ltd.	553,889	99.99	782,688	99.99
T.I. Investment Ltd.	405,762	99.99	432,540	99.99
Tai Hsuo Investment Ltd.	323,818	99.99	499,488	99.99
Howin Technologies Co., Ltd.	32,236	2.50	126,175	2.50
T&M Investment Co., Ltd.	-	-	6,370,748	99.99
Taiwan Telecom (Aust) Pty Ltd.	_____ -	-	_____ 104,238	60.00
	<u>8,122,029</u>		<u>14,302,211</u>	

(Continued)



	December 31			
	2004		2003	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<b>Cost method</b>				
WEB Point Co., Ltd.	\$ -	-	\$ 20,509	3.76
YesMobile Holdings Company Limited	-	-	3,000	0.19
Sunnet Co., Ltd.	-	-	2,591	2.21
	-		26,100	
<b>Prepayment for long-term investments</b>				
Bridge Mobile Pte Ltd.	32,160	-	-	-
	<u>\$ 8,154,189</u>		<u>\$ 14,328,311</u>	

Although the Corporation's equity in Taiwan Fixed Network Co., Ltd. (TFN) and Howin Technologies Co., Ltd. (HTC) is less than 20%, the equity method is applied because of the Corporation's significant influence over them. The investment income or loss is recognized by the treasury stock method for the reciprocal investments between TFN and the Corporation.

In August 2004, the Corporation acquired 67% of Mobitai Communications' ("Mobitai") shares for \$2,451,654 thousand at NT\$13.5243 per share. Based on the share purchase agreement, of the total purchase price, the following amounts should be retained and deposited to certain accounts: (a) \$84,903 thousand to four joint bank accounts at Hua-Nan Commercial Bank, between the Corporation, TECO Electric & Machinery Co., Ltd., the major shareholder of Mobitai, and three domestic shareholders; and (b) \$17,442 thousand payable to two foreign shareholders (recorded as other payable), to the Corporation's account for future settlement of Mobitai's possible loss due to unresolved dispute on international simple resale (ISR).

Had the Corporation acquired Mobitai on January 1, 2004 and 2003, respectively, the pro forma consolidated results of the operations would have been as follows:

	2004	2003
Operating revenues	<u>\$ 58,102,388</u>	<u>\$ 58,667,071</u>
Net income	<u>\$ 16,658,456</u>	<u>\$ 13,485,593</u>

(Continued)

	2004	2003
Earnings per share - basic	<u>\$ 3.55</u>	<u>\$ 2.94</u>
- diluted	<u>\$ 3.37</u>	<u>\$ 2.73</u>

To integrate enterprise resources for enhanced operating efficiency, the Board of Directors decided, on April 30, 2004, to merge the Corporation's wholly owned subsidiary, T&M Investment Co., Ltd. (T&M), with the Corporation as the surviving company. T&M was incorporated in March 1999, and it engaged in general investing activities. The record date of the merger was June 30, 2004. The Corporation assumed all rights and obligations of T&M. Since T&M was a wholly-owned subsidiary of the Corporation, no new shares were issued for this merger.

Had T&M merged into the Corporation on January 1, 2004, the pro forma consolidated results of operations would have been as follows:

	2003
Operating revenues	<u>\$ 44,995,790</u>
Net income	<u>\$ 13,344,447</u>
Earnings per share - basic	<u>\$ 2.91</u>
- diluted	<u>\$ 2.71</u>

To integrate enterprise resources for enhanced operating efficiency, the Board of Directors of TransAsia Telecommunications Inc. (TAT) decided to merge its wholly owned subsidiary, Trans Asia Information Network Co.,

Ltd. (the "Trans Asia Info") with TAT as the surviving company. Trans Asia Info was incorporated in February 2000, and it engaged in type-II telecommunication service. The record date of the merger was December 9, 2003. TAT assumed all rights and obligations of Trans Asia Info. Since Trans Asia Info was a wholly-owned subsidiary of TAT, no new shares were issued for this merger.

On June 11, 2004, at the shareholders' meeting of TFN, the shareholders decided to reduce TFN's capital by \$27,660,000 thousand (30% of the capital), resulting in the cancellation of 2,766,000 thousand shares and the return to investors of their cash investments. On the record date (August 15, 2004), the Corporation was entitled to receive \$2,730,000 thousand based on its 9.87% equity stake in TFN.

In May 2004, HTC reduced its capital by \$4,800,000 thousand (80% of the capital), resulting in the cancellation of 480,000 thousand shares and the return to investors of their cash investments. On the record date (May 31, 2004), TAT was entitled to receive \$120,000 thousand based on its 2.5% equity stake in HTC.

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

	2004	2003
Tai Hung Investments Ltd.	\$ 97,735	\$ 80,157
Taihsing Den Den Co., Ltd.	(80,05)	33,419
T&M Investment Co., Ltd.	66,296	195,997
Taiwan Telecom (Aust) Pty Ltd.	(43,646)	(15,408)
T.I. Investment Ltd.	(26,799)	(96,579)
Taiwan Fixed Network Co., Ltd.	(14,554)	(22,891)
Tai Hsuo Investments Ltd.	(12,067)	88,963
Howin Technologies Co., Ltd.	11,576	8,805
Tai Fu Investments Ltd.	1,203	108,337
Trans Asia Information Network Co., Ltd.	-	519
	<u>\$ (306)</u>	<u>\$ 381,319</u>

## 9. PROPERTY AND EQUIPMENT ACCUMULATED DEPRECIATION

	December 31	
	2004	2003
Buildings	\$ 227,192	\$ 157,877
Telecommunication equipment	25,365,222	20,230,264
Office equipment	344,400	327,546
Leased assets	164,841	101,032
Leased improvement	442,629	383,582
Miscellaneous equipment	<u>627,727</u>	<u>464,456</u>
	<u>\$ 27,172,011</u>	<u>\$ 21,664,757</u>

Depreciation for the years ended December 31, 2004 and 2003 were \$6,462,926 thousand and \$5,553,976 thousand, respectively.

Interest expenses capitalized for the years ended December 31, 2004 and 2003 amounted to \$77,582 thousand and \$25,816 thousand, respectively, with interest rates ranging from 3.00% to 3.60% and from 2.04% to 4.68%, respectively.

## 10. INTANGIBLE ASSETS

	December 31	
	2004	2003
3G concession	\$ 10,281,000	\$ 10,281,000
Trademark	<u>583</u>	<u>784</u>
	<u>\$ 10,281,583</u>	<u>\$ 10,281,784</u>

3G concession refers to the bid payment for the third generation mobile telecommunication service - License C. As of December 31, 2004, the 3G concession operation license has not been issued. However, the Corporation is still allowed to start preparations to render 3G services.



## 11. NON-OPERATING ASSETS

	December 31	
	2004	2003
Cost		
Assets leased to others	\$ 2,472,487	\$ 3,405,499
Idle assets	2,711,103	1,380,687
Assets to be disposed of	<u>2,518,960</u>	<u>-</u>
	7,702,550	4,786,186
Less accumulated depreciation	<u>(1,584,776)</u>	<u>(700,705)</u>
	6,117,774	4,085,481
Less allowance for losses	<u>(1,852,235)</u>	<u>(909,848)</u>
	<u>\$ 4,265,539</u>	<u>\$ 3,175,633</u>

In consideration of the equipment utilization condition and capital efficiency, in October 2004, the Board of Directors of the Corporation decided to sell its self-constructed transmission networks with carrying value

of \$2,035,713 thousand to Taiwan Fixed Network Co., Ltd. in 2005. The equipment was therefore transferred from properties and equipment to assets to be disposed of. The Corporation believes that no material gains or losses is expected from the transaction.

## 12. DEFERRED CHARGES, NET

	December 31	
	2004	2003
Computer software	\$ 209,157	\$ 366,905
Construction expenditures	141,507	134,519
Interior decoration	136,594	161,131
Bond issuance costs	34,559	68,719
Other	<u>131,801</u>	<u>310,968</u>
	<u>\$ 653,618</u>	<u>\$ 1,042,242</u>

## 13. BONDS PAYABLE

	December 31			
	2004		2003	
	Current	Non-current	Current	Non-current
Domestic secured bonds	\$ 1,500,000	\$ 1,500,000	\$ -	\$ 3,000,000
Domestic unsecured bonds	-	15,000,000	-	15,000,000
1st domestic unsecured convertible bonds	-	2,230,800	5,906,800	-
2nd domestic unsecured convertible bonds	1,730,400	-	-	5,464,500
Add accrued interest compensation	<u>139,163</u>	<u>355,426</u>	<u>646,206</u>	<u>250,818</u>
	<u>\$ 3,369,563</u>	<u>\$ 19,086,226</u>	<u>\$ 6,553,006</u>	<u>\$ 23,715,318</u>

### a. Domestic secured bonds

On February 1, 2001, the Corporation issued five-year domestic secured bonds amounting to \$3,000,000 thousand, 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.

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 domestic unsecured bonds amounting to \$15,000,000 thousand, 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 bonds. The interest rates and payment terms are as follows:

	Principal	Rate	Terms
Type I	\$ 2,500,000	2.6%	Repayment of \$1,250,000 thousand each in the fourth and fifth years, interest payable annually
Type II	2,500,000	5.21%-LIBOR	Repayment on maturity date, interest payable semiannually
Type III	5,000,000	2.8%	Repayment of \$2,500,000 thousand each in the sixth and seventh years, interest payable annually
Type IV	<u>5,000,000</u>	5.75%-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 five-year domestic convertible bonds amounting to \$10,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period, starting from 3 months after issuance date to 10 days 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\$24.3 per share since July 30, 2004. As of December 31, 2004, bonds amounting to \$5,952,200 thousand have been converted to 162,429 thousand common shares and 27,967 thousand units of entitlement certificates. Each certificate can be converted into one common share. As of December 31, 2004, the bonds amounting to \$1,817,000 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 40 days before maturity, the Corporation has the option to convert the bonds to entitlement certificates at conversion price or to redeem the bonds by cash based on the 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 based on the face value.

On the third year after the issuance date, the holders

may redeem the bonds by cash based on the face value plus interest accrued, which is 113.30% of face value, an implied yield rate of 4.25%. Upon maturity, the Corporation will redeem the bonds by cash based on the face value plus interest accrued, which is 124.62% of face value, an implied yield rate of 4.5%.

d. 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued five-year domestic convertible bonds amounting to \$6,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to 10 days before maturity, the bondholders may have the bonds converted into common stocks 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\$25.7 per share since July 30, 2004. As of December 31, 2004, bonds amounting to \$4,239,600 thousand had been converted to 162,621 thousand common shares. As of December 31, 2004, the bonds amounting to \$30,000 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 40 days before maturity, the Corporation has the option to convert the bonds to common stocks at conversion price or to redeem the bonds by cash based on the 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 common stocks

at the conversion price or to redeem the bonds by cash based on the face value.

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

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

Year	Amount
2005	\$ 1,500,000
2006	2,750,000
2007	3,750,000
2008	2,500,000
2009	<u>7,500,000</u>
	<u>\$ 18,000,000</u>

#### 14. LONG-TERM BANK LOANS

	December 31	
	2004	2003
Secured loans	\$ 8,400,000	\$ 17,469,470
Unsecured loans	-	3,200,000
Commercial paper	-	2,220,000
Less unamortized discount	<u>-</u>	<u>(6,734)</u>
	8,400,000	22,882,736
Less current portion	<u>-</u>	<u>(1,484,212)</u>
	<u>\$ 8,400,000</u>	<u>\$ 21,398,524</u>

##### a. Secured loans

The secured loans had interest rates ranging from 1.9567% to 2.0666% and from 1.4575% to 2.9334% as of December 31, 2004 and 2003, respectively. Interest is payable monthly with a maturity date of September 1, 2010. Starting March 1, 2006, the credit limit will be reduced by 10% every six months.

##### b. Unsecured loans

The unsecured loans had interest rates ranging from 1.3% to 3.5% as of December 31, 2003. Interest is payable monthly. Upon maturity, these loans are allowed to revolve within their credit limits, which will be due consecutively in 2005, 2006 and 2007.

##### c. Commercial paper

The Corporation has obtained guarantee agreements from the financial institutions to issue commercial paper till June 12, 2008. Commercial paper was issued at discount rates ranging from 0.67% to 2.20% as of December 31, 2003. The final maturity date is May 31, 2004. The related agreements require the Corporation to maintain its current ratio at above 100%, debt-to-equity ratio at below 100% and its long-term solvency ratio at above 150%. As of December 31, 2004, the Corporation has terminated the above guarantee agreements.

#### 15. PENSION PLAN

The Corporation has a pension plan for all regular employees, which provides benefits based on length of service and average basic pay for the six months before retirement.

The Corporation contributes monthly an amount equal to 2% (TAT, equal to 2.7%; Mobitai, equal to 3.7% until May 2003) of salaries and wages to a pension fund, which is administered by the employees pension fund committee and deposited in the committee's name in the Central Trust of China.

Certain employees of the Corporation's subsidiary and affiliates were transferred to the Corporation in 2004. The Corporation accepted these employees' previous service years. Based on actuarial calculation, the Corporation was entitled to receive pension amounting to \$40,045 thousand from these companies. As of December 31, 2004, the Corporation had not received these payments and recorded them as other receivable. The information is summarized as follows:



	Howin Technologies Co., Ltd.	Taiwan Elitec Corporation	Total
Amount of other receivable	\$ 35,834	\$ 4,211	\$ 40,045
Number of employees transferred to the Corporation	437	97	534

Pension information is summarized as follows:

a. Pension cost

	Years Ended December 31	
	2004	2003
Service cost	\$ 49,969	\$ 37,436
Interest cost	5,723	5,205
Projected return on pension assets	(5,839)	(5,698)
Amortization	<u>(1,847)</u>	<u>(1,742)</u>
Pension cost	<u>\$ 48,006</u>	<u>\$ 35,201</u>

b. Reconciliation of the fund status of the plan and accrued pension cost

	December 31	
	2004	2003
Benefit obligation		
Vested	\$ (8,868)	\$ (4,380)
Non-vested	<u>(125,964)</u>	<u>(106,564)</u>
Accumulated	(134,832)	(110,944)
Additional benefits based on future salaries	<u>(85,852)</u>	<u>(65,810)</u>
Projected benefit obligation	(220,684)	(176,754)
Fair value of plan assets	<u>209,728</u>	<u>181,664</u>
Funded status	(10,956)	4,910
Unrecognized net transitional obligation	11,830	14,530
Unrecognized net gain or loss	<u>(109,906)</u>	<u>(75,725)</u>
Accrued pension cost	<u>\$ (109,032)</u>	<u>\$ (56,285)</u>
c. Vested benefits	<u>\$ (8,868)</u>	<u>\$ (4,380)</u>

	Years Ended December 31	
	2004	2003
d. Actuarial assumptions		
Discount rate used in determining present values	3.00%-3.75%	3.00%-3.50%
Future salary increase rate	2.50%-3.50%	2.50%
Expected rate of return on plan assets	2.75%-3.00%	2.75%-3.50%

## 16. SHAREHOLDERS' EQUITY

a. Capital surplus

Under the Company Law, capital surplus may only be used to offset a deficit. Capital surplus, however, 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 within a certain amount once a year.

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 less any accumulated deficit. The remainder, less special reserve based on relevant laws or regulations, shall be distributed as follows:

- 1) Dividends and bonus to preferred shareholders
- 2) Remuneration to directors and supervisors - 0.5%
- 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 capital budgeting process and then provides for projected capital needs by using the 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 is allowed to be appropriated to the extent that the debit balance of such accounts is reversed.

The appropriation of earnings shall be resolved by 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 appropriation of the 2003 and 2002 earnings and dividend per share were as follows:

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	For Fiscal Year 2003	For Fiscal Year 2002	For Fiscal Year 2003	For Fiscal Year 2002
Legal reserve	\$ 1,333,360	\$ 1,487,272		
Special reserve	(330,183)	330,183		
Remuneration to directors and supervisors	61,652	65,274		
Bonus to employees - in cash	369,913	391,645		
Cash dividends	11,071,408	8,831,889	\$ 2.3758	\$ 2.0
Stock dividends	-	1,766,378		0.4
	<u>\$ 12,506,150</u>	<u>\$ 12,872,641</u>		

Of the appropriation of 2003 earnings proposed by the Board of Directors and resolved by the shareholders' meeting on June 15, 2004, the bonus to employees and the remuneration to directors and supervisors were as follows:

	Amount
Bonus to employees - in cash	\$ 369,913
Remuneration to directors and supervisors - in cash	<u>61,652</u>
	<u>\$ 431,565</u>

If the above bonus to employees and remuneration to directors and supervisors were charged against income for 2003, the basic earnings per share for the year ended December 31, 2003 would decrease from NT\$2.91 to NT\$2.81.

The appropriation of the 2004 earnings of the Corporation has not been proposed by the Board of Directors as of January 18, 2005, the independent auditors' report date. The information associated with the appropriation of 2004 earnings proposed by the Board of Directors and resolved by the shareholders can be accessed through the Market Observation Post System on the Website of the Taiwan Stock Exchange Corporation.

c. Treasury stock

(Shares in Thousands)

Purpose of Buyback	Beginning Shares	Increase	Decrease	Ending Shares
<b>Year ended December 31, 2004</b>				
To be transferred to employees	86,739	-	21,371	65,368

(Continued)

Purpose of Buyback	Beginning Shares	Increase	Decrease	Ending Shares
Reclassification of the Corporation's shares held by subsidiaries from long-term investments to treasury stock	4,575	-	4,575	-
<b>Year ended December 31, 2003</b>				
To be transferred to employees	86,739	-	-	86,739
Reclassification of the Corporation's shares held by subsidiaries from long-term investments to treasury stock	4,399	176	-	4,575

(stock dividends)

The 1,910 thousand shares bought back in 2001 were canceled on January 12, 2004, resulting in a reduction of capital stock, capital surplus and retained earnings, amounting to \$53,805 thousand. In 2004, the Corporation transferred its treasury stock of 19,461 thousand shares to employees at NT\$26.8 and NT\$25.99 per share, resulting in a reduction of retained earnings, amounting to \$36,882 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.

## 17. INCOME TAX EXPENSE

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

	Years Ended December 31	
	2004	2003
Tax on pretax income at statutory tax rate (25%)	\$ 5,870,588	\$ 4,104,024
Add (deduct) tax effects of		
Permanent differences		
Investment income from domestic investments accounted for by the equity method	(663,644)	(348,237)

	Years Ended December 31	
	2004	2003
Gain on disposal of marketable securities	\$ (358,490)	\$ (46,598)
Tax-exempt dividend income	(312,263)	(8,052)
Other	72,491	249
Temporary differences	261,871	357,285
Tax-exempt income	(2,215,549)	(2,605,424)
Tax on unappropriated earnings (10%)	325,183	362,230
Investment tax credits	<u>(197,071)</u>	<u>(796,940)</u>
Current income tax payable	<u>\$ 2,783,116</u>	<u>\$ 1,018,537</u>

The balances of income tax payable as of December 31, 2004 and 2003 were net of prepaid income taxes of \$639,447 thousand and \$4,889 thousand, respectively.

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

Equipment Expansion Projects	Tax-Exempt Period
Switches, base transmission station (BTS) and related telecommunications equipment, acquired from December 16, 1997 to October 30, 1998	1999 to 2003

(Continued)



Equipment Expansion Projects	Tax-Exempt Period
Switches, BTS and related telecommunications equipment, acquired from July 31, 1999 to December 31, 1999	2001 to 2005
Switches, BTS and related telecommunications equipment, acquired from September 30, 2000 to September 30, 2001	2002 to 2006

Under Article 8 of SUI before the amendment in 1999, TAT, a subsidiary of the Corporation, is also considered an important technology based enterprise. Thus, 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. Income tax consisted of the following:

	Years Ended December 31	
	2004	2003
Current income tax expense	\$ 2,783,116	\$ 1,018,536
Deferred income tax	415,732	45,389
Prior year's adjustment	(6,942)	23,496
Other	<u>(47,624)</u>	<u>444</u>
Income tax expense	<u>\$ 3,144,282</u>	<u>\$ 1,087,865</u>

e. The unused investment tax credits as of December 31, 2004 are summarized as follows:

Statute	Item	Total Investment Tax Credits	Unused Investment Tax Credits	Year of Expiry
Statute for Upgrading Industries	Purchase of equipment, research and development expenditures and personnel training	<u>\$ 15,634</u>	<u>\$ 2,549</u>	2008

f. Integrated income tax information was as follows:

	December 31	
	2004	2003
Balance of imputation credit account (ICA)		
Corporation	<u>\$ 402,933</u>	<u>\$ 334,287</u>
TAT	<u>\$ 76,749</u>	<u>\$ 1,057</u>
Mobitai	<u>\$ 4,653</u>	<u>\$ 2,456</u>

As of December 31, 2004, there were no unappropri-

d. Deferred income tax assets and liabilities as of December 31, 2004 and 2003 consisted of the following:

	December 31	
	2004	2003
Provision for doubtful receivable	\$ 837,543	\$ 913,485
Provision for losses on idle assets	438,338	223,782
Accrued interest compensation	123,647	224,256
Accrued loss on argument over network interconnection	39,000	-
Accrued pension cost	16,766	11,024
Investment tax credits	2,549	250,592
Other	<u>71,156</u>	<u>52,085</u>
	1,528,999	1,675,224
Less allowance for valuation	<u>(611,501)</u>	<u>(480,481)</u>
	<u>\$ 917,498</u>	<u>\$ 1,194,743</u>
Deferred income tax assets		
Current	\$ 215,108	\$ 247,962
Non-current	<u>702,390</u>	<u>946,781</u>
	<u>\$ 917,498</u>	<u>\$ 1,194,743</u>

ated earnings generated before January 1, 1998. The estimated ratio of the ICA balance as of December 31, 2004 to the unappropriated earnings as of such date and the actual ratio applied for the 2003 earnings appropriation in 2004 were as follows:

	2004 (Estimated)	2003 (Actual)
Corporation	2.06%	13.88%
TAT	2.25%	0.13%
Mobitai	1.70%	1.17%

The imputation credits allocated to the shareholders are based on its balance as of the date of dividend distribution. The expected creditable ratio for 2004 may be adjusted when the distribution of the imputation credits are made.

g. The years through which income tax returns had

been examined and cleared by the tax authorities were as follows:

	Year
Corporation	1998
TAT	2001
Mobitai	2001

## 18. EARNINGS PER SHARE

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

	Amounts (Numerator)		Shares (Denominator) (Thousands)	EPS	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
<b>Year ended December 31, 2004</b>					
Weighted-average number of outstanding shares			4,773,976		
Less buyback of issued shares			(80,235)		
Outstanding shares held by subsidiaries, recognized as treasury stock			<u>(3,045)</u>		
Basic EPS					
Income of common shareholders	\$ 19,415,910	\$ 16,658,456	4,690,696	<u>\$ 4.14</u>	<u>\$ 3.55</u>
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (4.5%)	216,250	162,187	179,087		
2nd convertible bonds (3.3%)	<u>142,223</u>	<u>106,667</u>	<u>160,444</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$ 19,774,383</u>	<u>\$ 16,927,310</u>	<u>5,030,227</u>	<u>\$ 3.93</u>	<u>\$ 3.37</u>
<b>Year ended December 31, 2003</b>					
Weighted-average number of outstanding shares			4,683,320		
Less buyback of issued shares			(86,739)		
Outstanding shares held by subsidiaries, recognized as treasury stock			<u>(4,575)</u>		
Basic EPS					
Income of common shareholders	\$ 14,466,800	\$ 13,344,447	4,592,006	<u>\$ 3.15</u>	<u>\$ 2.91</u>
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (4.5%)	282,560	211,920	243,388		
2nd convertible bonds (3.3%)	<u>196,962</u>	<u>147,721</u>	<u>229,541</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$ 14,946,322</u>	<u>\$ 13,704,088</u>	<u>5,064,935</u>	<u>\$ 2.95</u>	<u>\$ 2.71</u>



## 19. LABOR COSTS, DEPRECIATION AND AMORTIZATION EXPENSES

	Years Ended December 31					
	2004			2003		
	Classified as Operating Cost	Classified as Operating Expenses	Total	Classified as Operating Cost	Classified as Operating Expenses	Total
Labor cost						
Salary	\$ 546,352	\$ 1,364,380	\$ 1,910,732	\$ 179,606	\$ 1,352,610	\$ 1,532,216
Labor and health insurance	33,374	68,290	101,664	11,304	73,345	84,649
Pension	15,715	28,332	44,047	3,124	25,183	28,307
Other	31,649	82,500	114,149	8,713	100,762	109,475
	627,090	1,543,502	2,170,592	202,747	1,551,900	1,754,647
Depreciation	6,150,652	307,882	6,458,534	5,979,197	377,781	6,356,978
Amortization	187,865	593,756	781,621	254,192	585,047	839,239
	<u>\$ 6,965,607</u>	<u>\$ 2,445,140</u>	<u>\$ 9,410,747</u>	<u>\$ 6,436,136</u>	<u>\$ 2,514,728</u>	<u>\$ 8,950,864</u>

## 20. RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Corporation
Taihsing Den Den Co., Ltd. (TDD)	Subsidiary
T.I. Investment Ltd.	Subsidiary
Tai Hsuo Investment Ltd.	Subsidiary
Tai Fu Investment Ltd.	Subsidiary
Tai Hung Investment Ltd.	Subsidiary
Taiwan Tele-Shop Co., Ltd. (TTS)	Subsidiary
Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Subsidiary (merged into TIC on December 20, 2004)
Taiwan Infotainment Co., Ltd. (TIC)	Subsidiary (merged with TT&T on December 20, 2004 and renamed as Taiwan Teleservices & Technologies Co., Ltd.)
Taiwan Elitec Corporation (TEC)	Subsidiary
TCC Foundation	Over one third of the Foundation's authorized fund came from the Corporation
Taiwan Fixed Network Co., Ltd. (TFN)	Equity-method investee
Howin Technologies Co., Ltd. (HTC)	Affiliate
TT&T Life Insurance Agency Co., Ltd.	Affiliate
TT&T Holdings Co., Ltd.	Affiliate

(Continued)

Related Party	Relationship with the Corporation
Research & Range Inc. (R&R)	Affiliate
Chung Hsing Constructions Co., Ltd.	Same chairman (since June 9, 2003)
Fubon Land Development Co., Ltd.	Same chairman (since June 9, 2003)
Fubon Financial Holding Co., Ltd.	Related party in substance (since June 9, 2003)
Fubon Commercial Bank Co., Ltd. (FCB)	Related party in substance (since June 9, 2003)
Fubon Securities Co., Ltd. (FSC)	Related party in substance (since June 9, 2003)
TaipeiBank Co., Ltd. (TaipeiBank)	Related party in substance (since June 9, 2003)
Fubon Securities Investment Trust Co., Ltd.	Related party in substance (since June 9, 2003)
Fubon Life Assurance Co., Ltd.	Related party in substance (since June 9, 2003)
Fubon Insurance Co., Ltd. (Fubon Ins.)	Related party in substance (since June 9, 2003)
Fubon Direct Marketing Consulting Co., Ltd.	Related party in substance (since September 19, 2003)
Fubon Asset Management Co., Ltd.	Related party in substance (since August 17, 2004)
Taiwan Telecom (Aust) Pty Ltd.	Subsidiary (liquidating since December 2004)
The Tele-World Shop Pte Ltd.	Indirect investee under Corporation's control (liquidating since April 2004)
T & M Investment Co., Ltd.	Subsidiary (merged into the Corporation on June 30, 2004)
Supreme-Tech (Aust) Pty Ltd.	Subsidiary (liquidating since December 2004)
Taiwan Index Co., Ltd.	Affiliate (until March 10, 2004)
CTS Digi-Tech Co., Ltd.	Affiliate (merged on December 30, 2004)
Trans Asia Information Network Co., Ltd.	Subsidiary (merged into TAT on December 9, 2003)
Technology World Services Inc.	Indirect investee under Corporation's control (dissolved on July 9, 2003)
Pacific Telecommunications Taiwan Co, Ltd.	Same chairman (dissolved on February 15, 2003)
Chung-Shing Telecommunications Co., Ltd.	Same chairman (dissolved on January 15, 2003)
Capital Telecommunications Co., Ltd.	Same chairman (dissolved on January 15, 2003)
Pacific Electric Wire & Cable Co., Ltd.	Same chairman (until June 9, 2003)
Taiwan Technologies Services Inc.	Affiliate (dissolved on July 1, 2003)
TECO Electric & Machinery Co., Ltd.	Invested in Mobitai by the equity method
TECOM Co., Ltd. (TECOM)	Affiliate (until August 31, 2004)
Tong Dai Co., Ltd.	Affiliate (until August 31, 2004)
Information Technology Total Service	Affiliate (until August 31, 2004)
Unison Service Co., Ltd. (Unison)	Affiliate (until August 31, 2004)
Apex Com & Networks Co., Ltd.	Same chairman with Mobitai (until August 31, 2004)
Baycom Opto-Electronics Technology Co., Ltd.	Same chairman with Mobitai (until August 31, 2004)



b. Significant transactions with related parties were summarized below:

1) Operating revenues

	Years Ended December 31			
	2004		2003	
	Amount	% of Total Sales	Amount	% of Total Sales
TFN	\$ 1,871,541	3	\$ 1,322,428	2
TT&T	23,973	-	25,826	-
HTC	<u>7,701</u>	-	<u>21,228</u>	-
	<u>\$ 1,903,215</u>		<u>\$ 1,369,482</u>	

The Corporation and subsidiaries rendered telecommunication services for the above companies. The average collection period for notes and accounts receivable was approximately two months.

2) Purchase

	Years Ended December 31			
	2004		2003	
	Amount	% of Purchase	Amount	% of Purchase
TECOM	<u>\$ 20,836</u>	<u>-</u>	<u>\$ -</u>	<u>-</u>

3) Operating costs

	Years Ended December 31			
	2004		2003	
	Amount	% of Operating Cost	Amount	% of Operating Cost
TFN	\$ 785,154	3	\$ 477,629	2
HTC	<u>272,042</u>	1	<u>1,130,031</u>	5
	<u>\$ 1,057,196</u>		<u>\$ 1,607,660</u>	

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

4) Property transactions

Acquisition of property and equipment

	Year Ended December 31, 2004	
	Description	Amount
HTC	Telecommunication equipment	\$ 2,580,000
TFN	Miscellaneous equipment and deferred charges	49,513
TEC	Office equipment and deferred charges	<u>8,809</u>
		<u>\$ 2,638,322</u>

	Year Ended December 31, 2003	
	Description	Amount
HTC	Telecommunication equipment	\$ 5,436,593
TEC	Office equipment, miscellaneous equipment and deferred charges	<u>142,168</u>
		<u>\$ 5,578,761</u>

The above acquisitions were made at arm's length.

5) Operating lease

a) Rental expense

	Years Ended December 31		
	Description	2004	2003
TFN	Direct shops, control rooms and Kaohsiung offices	\$ 20,877	\$ 8,488
TTS	Wu-Ku warehouse and franchised stores signboards	<u>1,760</u>	<u>20,781</u>
		<u>\$ 22,637</u>	<u>\$ 29,269</u>

b) Rental income

	Years Ended December 31		
	Leased Sites/Equipment	2004	2003
TT&T	Tang-Cherng and Tai-Chung offices and telecommunication equipment	\$ 139,993	\$ 168,558

(Continued)



		Years Ended December 31			
		Leased Sites/Equipment		2004	2003
TFN	Keelung Road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc.			35,644	45,138
TTS	Operating sites			21,248	29,889
TEC	Tang-Cherng offices and telecommunication equipment, etc.			17,859	24,074
HTC	Tang-Cherng, Tai-Chung and Chung-Ho offices			4,061	17,231
				<u>\$ 218,805</u>	<u>\$ 284,890</u>

The above lease transactions were based on market price and rents were paid and collected monthly.

6) Cash in banks and bank loans

	December 31				
	2004		2003		
	Amount	%	Amount	%	

a) Cash in banks

FCB	\$ 120,416	3	\$ 112,729	4
TaipeiBank	<u>4,731</u>	-	<u>30,955</u>	1
	<u>\$ 125,147</u>		<u>\$ 143,684</u>	

b) Pledged time deposits

TaipeiBank	\$ 600,000	98	\$ -	-
FCB	<u>10,000</u>	2	<u>10,000</u>	100
	<u>\$ 610,000</u>		<u>\$ 10,000</u>	

7) Receivable and payable

	December 31				
	2004		2003		
	Amount	%	Amount	%	
Accounts receivable					
TFN	\$ 182,519	3	\$ 86,304	1	
TTS*	106,848	2	444,479	6	

(Continued)

	December 31			
	2004		2003	
	Amount	%	Amount	%
Other	<u>8,574</u>	-	<u>12,824</u>	-
	<u>\$ 297,941</u>		<u>\$ 543,607</u>	

\* Accounts receivable primarily consisted of the telecommunication service charges collected by TTS from customers for the Corporation.

	December 31				
	2004		2003		
	Amount	%	Amount	%	
Other receivable					
HTC	\$ 47,439	12	\$ 21,851	37	
TTS	21,221	5	1,320	2	
TFN	<u>1,477</u>	-	<u>10,078</u>	17	
	<u>\$ 70,137</u>		<u>\$ 33,249</u>		

Accounts payable

TFN	<u>\$ 10,283</u>	1	<u>\$ 4,525</u>	-
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Other payable

TFN	\$ 311,461	12	\$ 455,642	37
HTC	75,644	3	160,679	13
TT&T	73,187	3	32,207	3
TEC	29,063	1	70,398	6
TTS	16,189	1	18,265	2
TIC	-	-	10,249	1
	<u>\$ 505,544</u>		<u>\$ 747,440</u>	

Accrued expenses

TTS	\$ 242,395	7	\$ 707,163	25
TT&T	103,668	3	102,793	4
TFN	101,734	3	37,406	1
TEC	45,392	1	74,892	3
HTC	<u>16,035</u>	-	<u>221,526</u>	8
	<u>\$ 509,224</u>		<u>\$ 1,143,780</u>	

(Continued)



	Years Ended December 31			
	2004		2003	
Other current liabilities - collections for the following				
TFN	\$ 22,593	4	\$ 32,694	10
FCB	<u>12,721</u>	2	<u>15,490</u>	5
	<u>\$ 35,314</u>		<u>\$ 48,184</u>	

8) Commission expenses (including handset subsidy, etc.)

TTS	\$ 1,134,779	\$ 4,383,982
TT&T	34,357	6,624
HTC	17,456	75,903
R&R	<u>534</u>	<u>12,342</u>
	<u>\$ 1,187,126</u>	<u>\$ 4,478,851</u>

9) Professional service fees

TT&T	\$ 1,259,011	\$ 1,439,647
TEC	276,592	346,068
TTS	204,378	5,125
TFN	25,467	32,000
Unison	<u>12,200</u>	<u>-</u>
	<u>\$ 1,777,648</u>	<u>\$ 1,822,840</u>

10) Service charges

TTS	\$ 207,559	\$ 261,839
TT&T	<u>15,962</u>	<u>28,976</u>
	<u>\$ 223,521</u>	<u>\$ 290,815</u>

11) Donation

TCC Foundation	<u>\$ 17,000</u>	<u>\$ 36,850</u>
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12) Insurance expenses

Fubon Ins.	<u>\$ 202,263</u>	<u>\$ 206,561</u>
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13) Repair and maintenance expenses

TEC	<u>\$ 55,566</u>	<u>\$ 120,765</u>
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14) Printing expenses for bills and advertisement

TEC	<u>\$ 103,688</u>	<u>\$ 286,004</u>
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15) Telecommunication service expenses

TFN	<u>\$ 44,204</u>	<u>\$ 42,187</u>
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16) Guarantee provided

As of December 31, 2004, the Corporation provided TDD with loan guarantee amounting to \$600,000 thousand.

17) Other

a) On April 30 and November 11, 2004, the Corporation bought back 9,806 units and 300 units of its outstanding 1st and 2nd domestic convertible bonds, respectively, from FSC for \$130,000 per unit and \$132,000 per unit, respectively. The aggregate purchase price amounted to \$1,314,380 thousand and resulted in a loss of \$178,351 thousand.

b) On August 30, 2004, the Corporation entrusted to FSC the purchase of 7,500 units of its outstanding 1st domestic convertible bonds from TFN for \$123,500 per unit. The aggregate purchase price amounted to \$926,250 thousand and resulted in a loss of \$69,840 thousand.

c) On July 30, 2004, the Corporation purchased 10,000 thousand shares of TFN's common shares from TEC for \$6 per share. The aggregate purchase price amounted to \$60,000 thousand.

d) TTS entered into an agreement with the Corporation to act as a consignee for the Corporation on selling mobile phones and related products. The amounts of such products and services that TTS received from the Corporation for the years ended December 31, 2004 and 2003 were \$932,728 thousand and \$2,662,463 thousand, respectively.

e) As of December 31, 2004 and 2003, the Corporation acquired commercial drafts of \$500,000 thousand and \$1,000,000 thousand, respectively, from TTS as guarantee deposits for the consignment sales agreement and the credit limit of receivable.

f) HTC entered into an agreement to provide the Corporation with GSM-1800 network maintenance. As of December 31, 2004 and 2003, the Corporation had received performance guarantee deposits of \$630,000 thousand, respectively.

- g) The Corporation purchased handsets for business purposes from TTS and accounted for them in the office supplies and other accounts. These purchases amounted to \$1,738 thousand and \$16,548 thousand for the years ended December 31, 2004 and 2003, respectively.
- h) In 2004, FCB entered into a cooperative co-branding agreement with the Corporation, by which the Corporation may encourage its customers to use credit cards issued by FCB. The Corporation recognized a revenue of \$27,388 thousand from this cooperative agreement for the year ended December 31, 2004.
- i) R&R entered into an agreement with TAT to act as a consignee for TAT on selling mobile phones and related products. The amounts of such products and services that R&R received from TAT for the years ended December 31, 2004 and 2003 were \$10,024 thousand and \$23,416 thousand, respectively.
- j) HTC entered into a purchase and installation agreement of network system equipment with TAT. As of December 31, 2004 and 2003, TAT had received performance guarantee deposits of \$185,773 thousand, respectively.

## 21. ASSETS PLEDGED

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

	December 31	
	2004	2003
Property and equipment, net carrying value	\$ 28,765,820	\$ 37,928,806
Idle assets*	627,912	-
Time deposits	610,000	10,000
Assets leased to others, net carrying value	174,606	290,441
Deferred charges, net carrying value	-	1,721
	<u>\$ 30,178,338</u>	<u>\$ 38,230,968</u>

\* Net value before the deduction of allowance for losses on idle assets.

## 22. COMMITMENTS AND CONTINGENT EVENTS

- a. To increase network capacity and quality and to provide more extensive services, the Corporation entered into system equipment purchase and installation agreements with Howin Technologies Co., Ltd. in December 2002 for \$1,300,000 thousand and \$1,200,000 thousand, respectively. As of December 31, 2004, the unpaid balances for the purchase and installation agreements were \$520,000 thousand and \$480,000 thousand, respectively.
- b. To provide services for third generation (3G) mobile telecommunications and advanced and complete wireless broadband data transmission, the Corporation entered into 3G network equipment purchase and installation contracts with Howin Technologies Co., Ltd. in December 2002 for \$2,000,000 thousand and \$1,800,000 thousand, respectively. As of December 31, 2004, the unpaid balances for the purchase and installation contracts were \$500,000 thousand and \$450,000 thousand, respectively.
- c. 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.
- d. 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\$17,300 thousand and NT\$67,400 thousand, respectively.
- e. The Corporation and Taiwan Fixed Network Co., Ltd. (TFN) entered into an agreement with a syndicate of banks for Howin Technologies Co., Ltd. (HTC) to obtain a credit line of \$4,800,000 thousand. Based on 28 to 72 of shareholding percentage, the Corporation and TFN guaranteed the following items:



- 1) The aggregate shareholding of the Corporation, TFN and their subsidiaries in HTC shall not be less than 51%. To maintain controlling power over HTC, the Corporation, TFN and their subsidiaries shall control over half of HTC's directors and supervisors.
- 2) Once HTC cannot repay the loan and interests, the Corporation and TFN should immediately inform the syndicate banks and cooperate with the banks to help HTC meet its obligations.
- f. Under a share purchase memorandum with Mobitai Communications ("Mobitai") and TECO Electric & Machinery Co., Ltd. ("TECO", Mobitai's major shareholder) signed in June 2004, the Corporation should buy 67% of Mobitai's shares at NT\$13.5243 per share in cash in the first phase. The Corporation could acquire the remaining 33% of Mobitai's shares from TECO through a share swap in the second phase based on the willingness of the Corporation and TECO within 12 to 16 months after August 31, 2004. The first phase of share purchase was completed on August 31, 2004, and the Corporation obtained five seats of directors and one seat of supervisor of Mobitai.
- g. In 2003, TAT entered into telecommunication equipment purchase and installation contracts with Howin Technologies Co., Ltd. for \$470,000 thousand. As of December 31, 2004, the remaining balance for the purchase and installation contracts was \$258,500 thousand.
- h. As of December 31, 2004, Mobitai's remaining balance for its signed purchase and maintenance contracts amounted to \$104,356 thousand.
- i. As of December 31, 2004, future minimum rental payments for significant operating lease agreements were summarized as follows:

	Amount	
2005	\$	20,061
2006		17,983
2007		10,380
2008		3,803
2009		2,026

- j. The Corporation, Far EastTone Telecommunications Co., Ltd., TransAsia Telecommunications, Inc. and KG Telecommunications Co., Ltd. claim that Mobitai had from December 2001 to April 2003 taken advantage of indirect interconnection option as provided in the Agreement of Network Interconnection entered into between these companies and Mobitai by concealing the calling party's telephone numbers and generating communication routing through Chunghwa Telecom's network. In 2004, the Directorate General of Telecommunications had judged the dispute between Mobitai and these four telecommunication operators, and the judgment was unfavorable to Mobitai. Accordingly, Mobitai had accrued a loss of \$156,000 thousand for the dispute and the loss between Mobitai and the Corporation had been eliminated in the consolidated financial statements.

## 23. FINANCIAL INSTRUMENT TRANSACTIONS

	December 31			
	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Non-derivative financial instruments</u>				
Financial assets				
Financial assets - fair value approximating to carrying value	\$ 10,999,619	\$ 10,999,619	\$ 10,113,620	\$ 10,113,620
Short-term investments	14,865,602	18,060,798	22,525,799	22,560,059
Long-term investments	8,154,189	-	14,328,311	-

(Continued)

	December 31			
	2004		2003	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial liabilities</b>				
Financial liabilities - fair value approximating to carrying value	\$ 8,010,389	\$ 8,010,389	\$ 8,621,619	\$ 8,621,619
Bonds payable (including current portion)	22,455,789	23,543,624	30,268,324	31,478,286
Long-term bank loans (including current portion)	8,400,000	8,400,000	22,882,736	22,882,736
<b>Derivative financial instruments</b>				
Interest rate swap contracts	-	(148,887)	-	16,535

Fair values of financial instruments were determined as follows:

- a. Short-term financial instruments (other than short-term investments) - the carrying value reported in the balance sheets approximates the fair value of these assets, including cash and cash equivalents, receivable, interest receivable and payable, pledged time deposits, short-term borrowings, notes and accounts payable because of the short maturities of these instruments.
- b. Short-term investments - based on market quotations.
- c. The fair value of long-term investments was not disclosed due to lack of market quotations.
- d. Refundable deposits and guarantee deposits - based on their carrying value.
- e. Bonds payable - based on the over-the-counter quotations in December.
- f. Long-term bank loans - based on the discounted present value of expected cash flows. Since the Corporation's long-term bank loans had floating interest rates, their fair value were equivalent to carrying value.
- g. Interest rate swap contracts - based on the valuation result provided by banks.

The fair values shown above did not include the fair value of certain financial instruments and all nonfinancial

instruments. Thus, the aggregate fair value presented did not represent the underlying fair value of the Corporation and subsidiaries.

## 24. ADDITIONAL DISCLOSURES

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

According to the principle on materiality, only item a. to d. should be disclosed, if (a) investees' individual total assets or total operating revenues are less than 10% of those of the Corporation) or (b) the investees' personnel, finance or operation is directly or indirectly controlled by the Corporation.

- a. Financing provided: None
- b. Endorsement/guarantee provided: Table 1 (attached)
- 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: None
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None



g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 4 (attached)

h. Receivable from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 5 (attached)

i. Names, locations, and related information of in-

vestees on which the Corporation exercised significant influence: Table 6 (attached)

j. Derivative transactions

The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on floating interest rate of bonds, which are settled semiannually. The related information is as follows:

1) Contract amount and credit risk

Financial Instrument	Terms	Contract Amount	Credit Risk
Interest rate swap contracts	Floating interest rate in exchange for fixed interest rates of 2.25% and 2.45%	\$ 4,500,000	\$ -
	Floating interest rate in exchange for fixed interest rate of 2.45%	3,000,000	-

The Corporation entered into IRS contracts to hedge interest rate fluctuation. For the years ended December 31, 2004 and 2003, the gains on the IRS contracts were \$119,735 thousand and \$148,118 thousand, respectively, recorded as a deduction from interest expense.

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

2) Market risk

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

k. Investment in Mainland China: Table 7 (attached)

## 25. SEGMENT INFORMATION

a. Industry information

The Corporation and subsidiaries primarily engage in wireless communication services and wholesale and retailing of telecommunication equipment, which are accordingly classified into a telecommunication segment and a sale segment. Under Financial Accounting Standards 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).

3) Liquidity and cash flow risk and uncertainty of future cash demand

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.

4) The purpose of derivative financial instruments held or issued and the strategies to meet the purpose

b. Geographic information

The Corporation and subsidiaries have no revenue-generating unit that operates outside the ROC.

c. Export sales

None.

d. Customers with revenues exceeding 10% of the total revenues are as follows:

Company	2004		2003	
	Amount	% of Net Operating Revenue	Amount	% of Net Operating Revenue
Chunghwa Telecom Co., Ltd.	\$ 12,269,999	22	\$ 12,795,935	24

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### ENDORSEMENT/GUARANTEE PROVIDED

FOR THE YEAR ENDED DECEMBER 31, 2004

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amount (Note)
		Name	Nature of Relationship	
0	The Corporation	Taihsing Den Den Co., Ltd.	Subsidiary	\$ 1,420,017

Note : According to Regulation No. 12 of the "Procedures for Endorsement/Guarantee and Lending of Funds", the Corporation limits the endorsement/guarantee amount on each subsidiary to within the net value of the Corporation, and the endorsement/guarantee amount for each counter-party should not exceed the amount of the Corporation's investment in the counter party.

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### MARKETABLE SECURITIES HELD

DECEMBER 31, 2004

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account
The Corporation	<u>Beneficiary certificate</u>		
	Fubon OTC Mutual Fund	-	Short-term investments
	International Golden Dragon Mutual Fund	-	Short-term investments
	ABN AMRO Bond Fund	-	Short-term investments
	ABN AMRO Select Bond Fund	-	Short-term investments
	Fubon Ju-I Fund	-	Short-term investments
	NITC Bond Fund	-	Short-term investments
	Barits Bond Fund	-	Short-term investments
	Shinkong Chi-Shin Fund	-	Short-term investments
	Polaris De-Li Fund	-	Short-term investments
	<u>Stock</u>		
	Chunghwa Telecom Co., Ltd.	-	Short-term investments
	Taihsing Den Den Co., Ltd.	Subsidiary	Long-term investments
	Taiwan Fixed Network Co., Ltd.	Equity-method investee	Long-term investments
	TransAsia Telecommunications Inc.	Subsidiary	Long-term investments
	Mobitai Communications	Subsidiary	Long-term investments
	<u>Prepayment for long-term investment</u>		
	Bridge Mobile Pte Ltd.	-	Prepayment for long-term investments
	<u>Subscription certificate</u>		
	Tai Hung Investment Ltd.	Subsidiary	Long-term investments
	Tai Fu Investment Ltd.	Subsidiary	Long-term investments
	Tai Hsuo Investment Ltd.	Subsidiary	Long-term investments



(Amounts in Thousands of New Taiwan Dollars)

	Maximum Balance for the Period	Ending Balance	Value of Collateral Property, Plant, or Equipment	Ratio of Accumulated Amount of Collateral to Net Equity of the Latest Financial Statement	Maximum Collateral/Guarantee Amounts Allowable (Note)
	\$ 1,350,000	\$ 600,000	\$ -	1	\$ 80,972,821

(Amounts in Thousands of New Taiwan Dollars)

	December 31, 2004				Note
	Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
	10,000	\$ 100,300	-	\$ 47,200	(Note 3)
	3,000	30,000	-	14,310	(Note 2)
	6,904	100,979	-	101,268	(Note 2)
	45,421	500,000	-	501,111	(Note 2)
	38,953	601,186	-	602,685	(Note 2)
	3,129	500,000	-	500,967	(Note 2)
	16,918	200,000	-	200,387	(Note 2)
	35,909	500,000	-	501,130	(Note 2)
	6,814	100,000	-	100,207	(Note 2)
	200,000	9,277,177	2.07	12,530,000	(Note 3)
	44,300	941,566	99.99	1,453,200	
	637,000	4,256,798	9.87	7,050,904	
	328,645	13,056,507	92.32	7,061,497	(Note 6)
	181,278	2,520,293	67.00	2,083,005	(Note 6)
	-	32,160	-	-	
	-	1,646,819	99.99	1,661,295	
	-	553,889	99.99	555,331	
	-	323,818	99.99	308,396	

(Continued)



Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	
Taihsing Den Den Co., Ltd.	T.I. Investment Ltd.	Subsidiary	Long-term investments	
	<u>Stock</u>			
	Taiwan Tele-Shop Co., Ltd.	Subsidiary	Long-term investments	
	Arcoa Communication Co., Ltd.	-	Long-term investments	
	Taiwan Elitec Corporation	Subsidiary	Long-term investments	
	Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	Subsidiary	Long-term investments	
	Sunnet Technologies Co., Ltd.	-	Long-term investments	
	WEB Point Co., Ltd.	-	Long-term investments	
	Parawin Venture Capital Corp.	-	Long-term investments	
	Howin Technologies Co., Ltd.	Affiliate	Long-term investments	
	<u>Prepayment for Long-term investment</u>			
	Tai Yi Digital Broadcasting Co., Ltd.	-	Prepayment for Long-term investments	
Taiwan Tele-Shop Co., Ltd.	<u>Beneficiary certificate</u>			
	NITC Bond Fund	-	Short-term investments	
	Shinkong Chi-Shin Fund	-	Short-term investments	
	ABN AMRO Select Bond Fund	-	Short-term investments	
	Fubon Ju-I Fund	-	Short-term investments	
	Fubon Ju-II Fund	-	Short-term investments	
	Fubon Ju-III Fund	-	Short-term investments	
	<u>Stock</u>			
	Taiwan Fixed Network Co., Ltd.	Equity-method investee	Long-term investments	
	Transportation High Tech Inc.	-	Long-term investments	
TransAsia Telecommunications Inc.	<u>Beneficiary certificate</u>			
	The First Global Investment Trust Wan Tai Bond Fund	-	Short-term investments	
	Fubon Ju-I Fund	-	Short-term investments	
	HSBC Taiwan Money Management Fund	-	Short-term investments	
	JF (Taiwan) First Bond Fund	-	Short-term investments	
	JF (Taiwan) Bond Fund	-	Short-term investments	
	Polaris De-Li Fund	-	Short-term investments	
	Fubon Ju-II Fund	-	Short-term investments	
	<u>Stock</u>			
	Howin Technologies Co., Ltd.	Affiliate	Long-term investments	
Howin Technologies Co., Ltd.	<u>Beneficiary certificate</u>			
	Fubon Ju-I III Fund	-	Short-term investments	
	Cash Reserves Fund	-	Short-term investments	
	<u>Stock</u>			
	Taiwan Fixed Network Co., Ltd.	Equity-method investee	Long-term investments	
	Great Taipei Broadband Co., Ltd.	-	Long-term investments	
	Transportation High Tech Inc.	-	Long-term investments	
Reach & Range Inc.	-	Long-term investments		

	December 31, 2004				Note
	Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
	-	\$ 405,762	99.99	\$ 424,406	
	20,509	367,650	50.02	371,515	
	5,225	50,000	3.89	-	(Note 5)
	19,662	178,111	98.31	178,115	
	89,732	560,523	95.88	560,460	
	375	3,265	1.51	-	(Note 5)
	1,500	9,915	3.76	8,113	
	3,000	28,950	3.00	28,485	
	30,000	512,253	25.00	522,407	
	-	2,495	-	-	
	506	80,000	-	81,094	(Note 2)
	7,180	100,000	-	100,198	(Note 2)
	7,266	80,000	-	80,158	(Note 2)
	9,748	150,000	-	150,823	(Note 2)
	13,431	190,000	-	190,536	(Note 2)
	844	10,000	-	10,056	(Note 2)
	4,900	46,013	0.08	54,238	
	1,200	-	12.00	-	(Note 5)
	31,644	430,000	-	431,311	(Note 2)
	22,653	350,000	-	350,494	(Note 2)
	10,404	150,000	-	150,658	(Note 2)
	21,276	290,000	-	291,405	(Note 2)
	19,554	290,000	-	290,564	(Note 2)
	13,635	200,000	-	200,535	(Note 2)
	28,238	400,00	-	400,606	(Note 2)
	3,000	36,122	2.50	52,241	
	38,650	449,484	-	460,764	(Note 2)
	13,376	147,826	-	152,530	(Note 2)
	2,800	11,760	0.04	30,719	
	5,000	44,450	3.33	44,026	
	1,200	-	12.00	-	(Note 5)
	6,002	56,957	54.56	54,386	

(Continued)



Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	
Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	<u>Stock</u>			
	TT&T Life Insurance Agency Co., Ltd.	Affiliate	Long-term investments	
	TT&T Holdings Co., Ltd.	Affiliate	Long-term investments	
	<u>Prepayment for long-term investment</u>			
	TT&T Casualty & Property Insurance Agency Co., Ltd.	-	Prepayment for long-term investments	
Reach & Range Inc.	<u>Beneficiary certificate</u>			
	HSBC Taiwan Management Fund	-	Short-term investments	
	Fubon Ju-I III Fund	-	Short-term investments	
	Cash Reserves Fund	-	Short-term investments	
	Capital Safe Income Fund	-	Short-term investments	
	Invesco Bond Fund	-	Short-term investments	
	NITC Taiwan Bond Fund	-	Short-term investments	
	Grand Cathy Global Balance Fund	-	Short-term investments	
Taiwan Fixed Network Co., Ltd.	<u>Beneficiary certificate</u>			
	Fubon Ju-I II Fund	-	Short-term investments	
	Fubon Ju-I III Fund	-	Short-term investments	
	The First Global Investment Trust Duo Li-2 Bond Fund	-	Short-term investments	
	The Incerement Fund	-	Short-term investments	
	Fubon Ju-I Fund	-	Short-term investments	
	Fubon Twfubonf Fund	-	Short-term investments	
	Fubon United Bond Fund	-	Short-term investments	
	Apit Asia Pacific Bond Fund	-	Short-term investments	
	Cash Reserves Fund	-	Short-term investments	
	ABN AMRO Income Fund	-	Short-term investments	
	James Bond Fund	-	Short-term investments	
	NITC Bond Fund	-	Short-term investments	
	Shinkong Chi-Shin Fund	-	Short-term investments	
	<u>Stock</u>			
	Howin Technologies Co., Ltd.	Affiliate	Long-term investments	
	Taiwan Cellular Corporation	The Corporation	Long-term investments	
	TFN Investment Co., Ltd.	Affiliate	Long-term investments	
	Taiwan Hong-Yuan Investment Co., Ltd.	Affiliate	Long-term investments	
	TFN US Ltd.	Affiliate	Long-term investments	
	TFN HK Ltd.	Affiliate	Long-term investments	
	Taiwan High-Speed Rail Corp.	-	Long-term investments	
	<u>Bond</u>			
TCC 1st domestic convertible bond	The Corporation	Short-term investments		
TFN Investment Co., Ltd.	<u>Beneficiary certificate</u>			
	Fubon Ju-I III Fund	-	Short-term investments	

	December 31, 2004				Note
	Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
	300	\$ 2,952	100.00	\$ 2,952	
	1,300	41,236	100.00	41,236	
	-	3,000	-	-	
	418	6,000	-	6,051	(Note 2)
	604	7,051	-	7,199	(Note 2)
	1,335	15,000	-	15,223	(Note 2)
	142	2,000	-	2,032	(Note 2)
	416	6,000	-	6,035	(Note 2)
	375	5,000	-	5,136	(Note 2)
	1,000	10,000	-	10,110	(Note 2)
	62,664	880,000	-	888,997	(Note 2)
	30,013	353,735	-	357,797	(Note 2)
	17,844	251,991	-	254,260	(Note 2)
	18,972	276,032	-	281,215	(Note 2)
	43,570	670,535	-	674,108	(Note 2)
	53,681	551,903	-	553,716	(Note 2)
	39,532	500,000	-	503,435	(Note 2)
	52,569	650,000	-	654,586	(Note 2)
	4,532	50,000	-	51,677	(Note 2)
	26,352	400,310	-	404,227	(Note 2)
	18,630	275,459	-	280,053	(Note 2)
	4,116	651,519	-	659,089	(Note 2)
	8,919	123,674	-	124,474	(Note 2)
	79,999	274,118	66.67	1,393,155	
	900,353	31,584,551	18.56	31,215,230	(Note 3)
	1,750,000	19,348,101	100.00	19,348,228	
	600,000	7,289,777	100.00	7,289,881	
	430	13,229	100.00	13,229	
	1,299	4,567	99.99	4,567	
	276,600	2,766,000	5.53	2,401,452	
	8,190 units	819,000	-	1,136,690	(Note 4)
	5,909	70,000	-	70,443	(Note 2)

(Continued)



Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	
	Cash Reserves Fund	-	Short-term investments	
	Fubon Ju-I II Fund	-	Short-term investments	
	Fubon Ju-I Fund	-	Short-term investments	
	NITC Bond Fund	-	Short-term investments	
	<u>Stock</u>			
	Taiwan Cellular Corporation	The Corporation	Long-term investments	
	Fubon Financial Holding Co., Ltd.	Related party in substance	Short-term investments	
	Great Taipei Broadband Co., Ltd.	-	Long-term investments	
	Sunnet Technologies Co., Ltd.	-	Long-term investments	
	Taiwan Hong-Yuan Investment Co., Ltd.	<u>Beneficiary certificate</u>		
		Cash Reserves Fund	-	Short-term investments
		Fubon Ju-I II Fund	-	Short-term investments
		Fubon Ju-I Fund	-	Short-term investments
Fubon Chi-Shun III Fund		-	Short-term investments	
NITC Bond Fund		-	Short-term investments	
<u>Stock</u>				
Taiwan Cellular Corporation		The Corporation	Long-term investments	
Howin Technologies Holding Ltd.		Affiliate	Long-term investments	
Fubon Financial Holding Co., Ltd.		Related party in substance	Short-term investments	
<u>Preferred stock</u>				
Taiwan High-Speed Rail Corp.		-	Long-term investments	
Mobitai Communications		<u>Beneficiary certificate</u>		
	ABN AMRO Select Bond Fund	-	Short-term investments	
	Fubon Ju-I II Fund	-	Short-term investments	
	Fubon Ju-I Fund	-	Short-term investments	
	ABN AMRO Bond Fund	-	Short-term investments	
	NITC Bond Fund	-	Short-term investments	
	Invesco Bond Fund	-	Short-term investments	
	James Bond Fund	-	Short-term investments	
	JF (Taiwan) Bond Fund	-	Short-term investments	
	<u>Stock</u>			
	Yes Mobile Holdings Company	-	Long-term investments	

Note 1 : Based on the net value of latest financial statements, unless otherwise specified.

Note 2 : Based on the net asset value of the fund as of December 31, 2004.

Note 3 : Based on the average closing price in December 2004.

Note 4 : Based on the OTC average reference quotation in December 2004.

Note 5 : As of January 18, 2005, the independent auditors' report date, net value of the investee was unavailable.

Note 6 : The transactions between the Corporation and subsidiaries had been reconciled.

	December 31, 2004				Note
	Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
	6,824	\$ 74,806	-	\$ 77,809	(Note 2)
	18,151	257,031	-	257,500	(Note 2)
	39,748	611,768	-	614,983	(Note 2)
	1,877	300,000	-	300,529	(Note 2)
	467,821	16,603,598	9.64	16,219,370	(Note 3)
	53,293	1,440,677	0.64	1,727,755	(Note 3)
	5,000	44,417	3.33	44,026	
	1,840	29,450	7.39	21,627	
	12,456	137,091	-	142,039	(Note 2)
	20,486	290,000	-	290,631	(Note 2)
	26,180	403,000	-	405,058	(Note 2)
	15,708	162,000	-	162,027	(Note 2)
	1,425	228,000	-	228,172	(Note 2)
	144,720	4,648,679	2.98	5,017,426	(Note 3)
	293	5,004	0.24	5,015	
	36,646	917,955	0.44	1,188,061	(Note 3)
	50,000	500,000	-	-	
	5,626	62,068	-	62,068	(Note 2)
	23,622	335,117	-	335,117	(Note 2)
	13,763	212,936	-	212,936	(Note 2)
	1,670	24,500	-	24,500	(Note 2)
	936	149,827	-	149,827	(Note 2)
	1,449	21,008	-	21,008	(Note 2)
	2,661	40,000	-	40,000	(Note 2)
	34	504	-	504	(Note 2)
	0.07	-	0.19	-	



TAIWAN CELLULAR CORPORATION 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

FOR THE YEAR ENDED DECEMBER 31, 2004

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		
					Shares (Thousands)	Amount	
The Corporation	<u>Beneficiary certificate</u>						
	ABN AMRO Bond Fund	Short-term investments	-	-	-	\$ -	
	Fubon Ju-II Fund	Short-term investments	-	-	-	-	
	The GP ROC Bond Fund	Short-term investments	-	-	-	-	
	JF (Taiwan) Bond Fund	Short-term investments	-	-	-	-	
	Dresdner Dam Fund	Short-term investments	-	-	-	-	
	ABN AMRO Select Bond Fund	Short-term investments	-	-	-	-	
	Fubon Ju-I Fund	Short-term investments	-	-	-	-	
	Fubon Fu-Tai Fund	Short-term investments	-	-	-	-	
	Fubon United Bond Fund	Short-term investments	-	-	-	-	
	Polaris De-Li Fund	Short-term investments	-	-	-	-	
	JF (Taiwan) First Bond Fund	Short-term investments	-	-	-	-	
	Shinkong Chi-Shin Fund	Short-term investments	-	-	-	-	
	NITC Bond Fund	Short-term investments	-	-	-	-	
	Barits Bond Fund	Short-term investments	-	-	-	-	
	HSBC Taiwan Money Management II Fund	Short-term investments	-	-	-	-	
	The Corporation	<u>Stock</u>					
Chunghwa Telecom Co., Ltd.		Short-term investments	-	-	375,000	17,394,707	
Mobitai Communications		Long-term investments	-	-	-	-	
Howin Technologies Co., Ltd.	<u>Stock</u>						
	Chunghwa Telecom Co., Ltd.	Short-term investments	-	-	8,600	398,919	
	Taiwan Cellular Corporation	Short-term investments	-	-	13,017	403,532	
	<u>Beneficiary certificate</u>						
	Dresdner Dam Fund	Short-term investments	-	-	3,341	36,875	
	Polaris De-Li Fund	Short-term investments	-	-	9,404	135,712	
	Fubon Ju-I Fund	Short-term investments	-	-	-	-	
Taiwan Elitec Corporation	<u>Beneficiary certificate</u>						
	Cash Reserves Fund	Short-term investments	-	-	13,767	151,099	
	Prudential Well Pool Fund	Short-term investments	-	-	13,870	165,580	



(Amounts in Thousands of New Taiwan Dollars)

	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	195,817	\$ 2,850,000	188,913	\$ 2,752,157	\$ 2,749,021	\$ 3,136	6,904	\$ 100,979
	71,574	1,000,000	71,574	1,001,081	1,000,000	1,081	-	-
	48,891	700,000	48,891	700,508	700,000	508	-	-
	74,604	1,100,000	74,604	1,101,295	1,100,000	1,295	-	-
	35,815	400,000	35,815	400,853	400,000	853	-	-
	91,004	1,000,000	45,583	500,315	500,000	315	45,421	500,000
	73,284	1,130,408	34,331	530,285	529,222	1,063	38,953	601,186
	10,000	100,000	10,000	100,408	100,000	408	-	-
	15,811	200,000	15,811	200,180	200,000	180	-	-
	51,299	750,000	44,485	650,725	650,000	725	6,814	100,000
	36,704	500,000	36,704	500,305	500,000	305	-	-
	144,102	2,000,000	108,193	1,501,997	1,500,000	1,997	35,909	500,000
	3,129	500,000	-	-	-	-	3,129	500,000
	16,918	200,000	-	-	-	-	16,918	200,000
	14,611	200,000	14,611	200,273	200,000	273	-	-
	-	-	175,000	9,153,651	8,117,530	1,036,121	200,000	9,277,177
	181,278	2,451,654	-	-	-	-	181,278	2,520,293 (Notes 8 and 9)
	-	-	-	-	-	-	-	-
	-	-	8,600	435,298	398,919	36,379	-	-
	-	-	13,017	425,753	403,532	22,221	-	-
	17,820	200,000	21,161	237,934	236,875	1,059	-	-
	23,861	350,000	33,265	488,146	485,712	2,434	-	-
	22,678	350,000	22,678	350,624	350,000	624	-	-
	-	-	-	-	-	-	-	-
	-	-	13,767	154,928	151,099	3,829	-	-
	-	-	13,870	167,558	165,580	1,978	-	-

(Continued)



Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		
					Shares (Thousands)	Amount	
TransAsia Telecommunications Inc.	<u>Beneficiary certificate</u>						
	Prudential Well Pool Fund	Short-term investments	-	-	-	\$ -	
	The First Global Investment Trust Wan Jai Board Fund	Short-term investments	-	-	-	-	
	Cash Reserves Fund	Short-term investments	-	-	-	-	
	Fubon Ju-I III Fund	Short-term investments	-	-	-	-	
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	-	-	
	The First Global Investment Trust Duo Li-2 Bond Fund	Short-term investments	-	-	-	-	
	HSBC Taiwan Money Management Fund	Short-term investments	-	-	-	-	
	Polaris De-Li Fund	Short-term investments	-	-	-	-	
	JF (Taiwan) Bond Fund	Short-term investments	-	-	-	-	
	JF (Taiwan) First Bond Fund	Short-term investments	-	-	-	-	
	Fubon Ju-I II Fund	Short-term investments	-	-	-	-	
	Fubon Ju-I Fund	Short-term investments	-	-	-	-	
	<u>Stock</u>						
Chunghua Telecom Co., Ltd.	Short-term investments	-	-	60,000	2,783,113		
Mobitai Communications	<u>Beneficiary certificate</u>						
	Tiim Bond Fund	Short-term investments	-	-	20,959	284,642	
	The Incerement Fund	Short-term investments	-	-	9,640	133,582	
	Apit Asia Pacific Bond Fund	Short-term investments	-	-	12,127	148,491	
	Fuh-Hwa Bond Fund	Short-term investments	-	-	19,852	252,326	
	Cash Reserves Fund	Short-term investments	-	-	21,903	245,304	
	EnTrust Phoenix Bond	Short-term investments	-	-	23,329	337,157	
	Sheng Hua 1699 Bond Fund	Short-term investments	-	-	15,468	183,977	
	Fubon Ju-I II Fund	Short-term investments	-	-	-	-	
	Fubon Ju-I Fund	Short-term investments	-	-	-	-	
	NITC Bond Fund	Short-term investments	-	-	-	-	
	James Bond Fund	Short-term investments	-	-	-	-	
	ABN AMRO Select Bond Fund	Short-term investments	-	-	-	-	
	Jih Sun Bond Fund	Short-term investments	-	-	3,211	42,039	
	ABN AMRO Bond Fund	Short-term investments	-	-	-	-	
Prudential Bond Fund	Short-term investments	-	-	-	-		

	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	66,458	\$ 804,000	66,458	\$ 807,413	\$ 804,000	\$ 3,413	-	\$ -
	67,969	920,000	36,325	491,994	490,000	1,994	31,644	430,000
	17,769	200,000	17,769	202,034	200,000	2,034	-	-
	14,652	172,000	14,652	173,349	172,000	1,349	-	-
	31,159	500,000	31,159	502,017	500,000	2,017	-	-
	17,764	250,000	17,764	251,434	250,000	1,434	-	-
	10,404	150,000	-	-	-	-	10,404	150,000
	13,635	200,000	-	-	-	-	13,635	200,000
	19,554	290,000	-	-	-	-	19,554	290,000
	21,276	290,000	-	-	-	-	21,276	290,000
	30,380	430,000	2,142	30,154	30,000	154	28,238	400,000
	106,489	1,630,000	83,836	1,283,577	1,280,000	3,577	22,653	350,000
	-	-	60,000	3,173,255	2,783,113	390,142	-	-
	10,625	145,000	31,584	431,216	429,642	1,574	-	-
	2,660	37,000	12,300	171,153	170,582	571	-	-
	9,329	115,000	21,456	265,082	263,491	1,591	-	-
	-	-	19,852	255,829	252,326	3,503	-	-
	884	10,000	22,787	257,670	255,304	2,366	-	-
	-	-	23,329	339,892	337,157	2,735	-	-
	4,277	51,000	19,745	236,810	234,977	1,833	-	-
	49,440	699,617	25,818	365,689	364,500	1,189	23,622	335,117
	27,526	425,436	13,763	212,936	212,500	436	13,763	212,936
	1,872	299,327	936	149,827	149,500	327	936	149,827
	8,663	130,000	6,002	90,071	90,000	71	2,661	40,000
	14,479	159,568	8,853	97,593	97,500	93	5,626	62,068
	8,172	107,496	11,383	149,836	149,535	301	-	-
	9,379	136,415	7,709	111,971	111,915	56	1,670	24,500
	7,672	108,000	7,672	108,117	108,000	117	-	-

(Continued)



Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance			
					Shares (Thousands)	Amount		
TFN Investment Co., Ltd.	Prudential Financial Return Bond Fund	Short-term investments	-	-	11,678	\$ 156,927		
	ABN AMRO Aggressive Taiwan Bond Fund	Short-term investments	-	-	10,347	108,870		
	Tiim High Yield Fund	Short-term investments	-	-	1,617	19,000		
	<u>Beneficiary certificate</u>							
	NITC Bond Fund	Short-term investments	-	-	1,271	200,027		
	James Bond Fund	Short-term investments	-	-	13,567	200,000		
	The First Global Investment Trust Duo Li-2 Bond Fund	Short-term investments	-	-	-	-		
	The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	-	-		
	Fubon Ju-I III Fund	Short-term investments	-	-	8,759	101,182		
	Prudential Well Pool Fund	Short-term investments	-	-	13,479	160,000		
	Fubon Ju-I Fund	Short-term investments	-	-	-	-		
	Fubon Ju-I II Fund	Short-term investments	-	-	17,928	250,000		
	The Incerement Fund	Short-term investments	-	-	-	-		
	<u>Stock</u>							
Chunghwa Telecom Co., Ltd.	Short-term investments	-	-	33,000	1,530,734			
Taiwan Hong-Yua Investment Co., Ltd.	<u>Beneficiary certificate</u>							
The First Global Investment Trust Duo Li-2 Bond Fund	Short-term investments	-	-	-	-			
NITC Bond Fund	Short-term investments	-	-	-	-			
Prudential Well Pool Fund	Short-term investments	-	-	-	-			
The First Global Investment Trust Duo Li Bond Fund	Short-term investments	-	-	-	-			
ABN AMRO Bond Fund	Short-term investments	-	-	-	-			
The Incerement Fund	Short-term investments	-	-	6,877	100,000			
Fubon Ju-I II Fund	Short-term investments	-	-	10,757	150,000			
Fubon Ju-I Fund	Short-term investments	-	-	-	-			
James Bond Fund	Short-term investments	-	-	8,822	130,007			
Prudential Bond Fund	Short-term investments	-	-	-	-			
Fubon Chi-Shun III Fund	Short-term investments	-	-	-	-			
<u>Stock</u>								
Chunghwa Telecom Co., Ltd.	Short-term investments	-	-	42,000	1,948,204			
Taiwan Cellular Corporation	Long-term investments	-	-	163,304	5,114,755			

	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	11,430	\$ 154,500	23,108	\$ 312,963	\$ 311,427	\$ 1,536	-	\$ -
	5,337	57,000	15,684	167,773	165,870	1,903	-	-
	8,716	103,500	10,333	123,806	122,500	1,306	-	-
	2,510	400,000	1,904	302,652	300,027	2,625	1,877	300,000
	16,169	240,000	29,736	443,724	440,000	3,724	-	-
	48,442	682,000	48,442	685,693	682,000	3,693	-	-
	31,528	505,900	31,528	507,993	505,900	2,093	-	-
	10,160	120,000	13,010	153,947	151,182	2,765	5,909	70,000
	-	-	13,479	163,597	160,000	3,597	-	-
	52,693	811,000	12,945	200,031	199,232	799	39,748	611,768
	18,151	257,031	17,928	252,485	250,000	2,485	18,151	257,031
	9,094	428,000	29,094	429,752	428,000	1,752	-	-
	-	-	33,000	1,821,765	1,530,734	291,031	-	-
	47,521	669,000	47,521	672,656	669,000	3,656	-	-
	4,333	688,000	2,908	462,386	460,000	2,386	1,425	228,000
	28,972	350,000	28,972	351,646	350,000	1,646	-	-
	38,660	620,000	38,660	622,914	620,000	2,914	-	-
	9,856	143,000	9,856	143,646	143,000	646	-	-
	20,484	300,000	27,361	402,621	400,000	2,621	-	-
	37,152	523,000	27,423	386,208	383,000	3,208	20,486	290,000
	30,738	473,000	4,558	70,040	70,000	40	26,180	403,000
	8,085	120,000	16,907	252,510	250,007	2,503	-	-
	36,307	512,000	36,307	513,666	512,000	1,666	-	-
	15,708	162,000	-	-	-	-	15,708	162,000
	-	-	42,000	2,316,166	1,948,204	367,962	-	-
	-	117,954	18,584	637,190	584,030	53,160	144,720	4,648,679

(Continued)



Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		
					Shares (Thousands)	Amount	
	<u>Bond</u>						
	TCC 2nd domestic convertible bond	Short-term investments	-	-	10,028 units	\$1,002,800	
Tai Fu Investment Ltd.	<u>Stock</u>						
	Taiwan Teleservices & Technologies Co., Ltd.	Long-term investments	Taihsing Den Den Co., Ltd.	Subsidiary	52,000	651,186	
Tai Hung Investment Ltd.	<u>Stock</u>						
	Howin Technologies Co., Ltd.	Long-term investments	Taihsing Den Den Co., Ltd.	Subsidiary	150,000	1,715,547	
Taihsing Den Den Co., Ltd.	<u>Stock</u>						
			Howin Technologies Co., Ltd.	Affiliate			
	Taiwan Teleservices & Technologies Co., Ltd.	Long-term investments	Tai Fu Investment Ltd.	Subsidiary	-	-	
			Others	-			
	Taiwan Elitec Corporation	Long-term investments	Tai Hsuo Investment Ltd.	Subsidiary			
			Howin Technologies Co., Ltd.	Affiliate	-	-	
			Others	-			
	Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	Long-term investments	T.I. Investment Ltd.	Subsidiary			
			Howin Technologies Co., Ltd.	Affiliate	-	-	
			Others	-			
	Howin Technologies Co., Ltd.	Long-term investments	Tai Hung Investment Ltd.	Subsidiary	-	-	
Tai Hsuo Investment Ltd.	<u>Stock</u>						
	Taiwan Elitec Corporation	Long-term investments	Taihsing Den Den Co., Ltd.	Subsidiary	32,500	458,634	
T.I. Investment Ltd.	<u>Stock</u>						
	Taiwan Infotainment Co., Ltd.	Long-term investments	Taihsing Den Den Co., Ltd.	Subsidiary	60,000	427,788	

	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	-	\$ -	10,028 units	\$ 1,242,971	\$ 1,002,800	\$ 240,171	-	\$ -
	-	-	26,000	293,437	292,015	1,422	- (Note 1)	- (Note 1)
	-	-	30,000	407,972	389,727	18,245	- (Note 2)	- (Note 2)
	23,214	280,073	-	-	-	-	- (Note 3)	- Note 3)
	19,662	194,788	-	-	-	-	19,662	178,111 (Note 4)
	61,249	327,146	-	-	-	-	89,732 (Note 3)	560,523 (Note 3)
	30,000	409,200	-	-	-	-	30,000	512,053 (Note 5)
	-	-	13,000	112,631	134,226	(21,595)	- (Note 6)	- (Note 6)
	-	-	38,100	199,425	180,780	18,645	- (Note 7)	- (Note 7)

(Continued)



Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		
					Shares (Thousands)	Amount	
Taiwan Tele-Shop Co., Ltd.	<u>Beneficiary certificate</u>						
	JF (Taiwan) Bond Fund	Short-term investments	-	-	4,099	\$ 60,000	
	The Incerement Fund	Short-term investments	-	-	10,290	150,000	
	Fubon Ju-I Fund	Short-term investments	-	-	-	-	
	Fubon Ju-I II Fund	Short-term investments	-	-	-	-	
	Fubon Ju-I III Fund	Short-term investments	-	-	-	-	
	Shinkong Chi-Shin Fund	Short-term investments	-	-	4,377	60,068	
	Shinkong Chi-Shun Fund	Short-term investments	-	-	12,798	180,117	
	Prudential Well Pool Fund	Short-term investments	-	-	16,820	200,000	
	James Bond Fund	Short-term investments	-	-	8,121	120,000	
	ABN AMRO Select Bond Fund	Short-term investments	-	-	5,526	60,000	
	NITC Bond Fund	Short-term investments	-	-	699	110,042	
	Cash Reserves Fund	Short-term investments	-	-	8,054	90,000	
	<u>Stock</u>						
	Taiwan Cellular Corporation	Short-term investments	-	-	4,575	163,109	
Taiwan Fixed Network Co., Ltd.	<u>Beneficiary certificate</u>						
	The Incerement Fund	Short-term investments	-	-	54,741	792,000	
	NITC Bond Fund	Short-term investments	-	-	6,965	1,094,690	
	The First Global Investment Trust Due Li Bond Fund	Short-term investments	-	-	-	-	
	The First Global Investment Trust Duo Li-2 Bond Fund	Short-term investments	-	-	-	-	
	ABN AMRO Bond Fund	Short-term investments	-	-	-	-	
	ABN AMRO Income Fund	Short-term investments	-	-	2,655	40,000	
	Prudential Bond Fund	Short-term investments	-	-	-	-	
	Polaris De-Li Fund	Short-term investments	-	-	-	-	
	Polaris De-Po Fund	Short-term investments	-	-	-	-	
	Shinkong Chi-Shin Fund	Short-term investments	-	-	-	-	
	HSBC Taiwan Money Management II Fund	Short-term investments	-	-	-	-	
	ABN AMRO Select Bond Fund	Short-term investments	-	-	5,518	60,000	
	The Wan Tai Securities Investment Trust Fund	Short-term investments	-	-	16,661	223,511	
	Apit Asia Pacific Bond Fund	Short-term investments	-	-	-	-	
Prudential Well Pool Fund	Short-term investments	-	-	78,124	933,835		



	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	14,957	\$ 220,000	19,056	\$ 280,569	\$ 280,000	\$ 569	-	-
	8,873	130,000	19,163	282,443	280,000	2,443	-	-
	9,748	150,000	-	-	-	-	9,748	150,000
	13,431	190,000	-	-	-	-	13,431	190,000
	844	10,000	-	-	-	-	844	10,000
	10,801	150,000	7,998	110,718	110,068	650	7,180	100,000
	3,531	50,000	16,329	232,799	230,117	2,682	-	-
	-	-	16,820	204,196	200,000	4,196	-	-
	-	-	8,121	121,671	120,000	1,671	-	-
	7,266	80,000	5,526	60,508	60,000	508	7,266	80,000
	947	150,000	1,140	181,274	180,042	1,232	506	80,000
	-	-	8,054	91,634	90,000	1,634	-	-
	-	-	4,575	154,024	163,109	(9,085)	-	-
	27,206	400,000	62,975	928,000	915,968	12,032	18,972	276,032
	6,915	1,100,000	9,764	1,555,874	1,543,171	12,703	4,116	651,519
	34,188	550,000	34,188	552,057	550,000	2,057	-	-
	46,027	650,000	28,183	400,000	398,009	1,991	17,844	251,991
	61,743	900,000	61,743	901,785	900,000	1,785	-	-
	23,697	360,310	-	-	-	-	26,352	400,310
	102,516	1,448,000	102,516	1,452,399	1,448,000	4,399	-	-
	51,358	750,000	51,358	751,362	750,000	1,362	-	-
	62,536	670,000	62,536	671,845	670,000	1,845	-	-
	124,055	1,720,004	115,136	1,600,000	1,596,330	3,670	8,919	123,674
	36,694	500,000	36,694	500,960	500,000	960	-	-
	52,925	580,000	58,443	641,673	640,000	1,673	-	-
	38,773	526,000	55,434	752,451	749,511	2,940	-	-
	52,569	650,000	-	-	-	-	52,569	650,000
	49,354	600,000	127,478	1,549,718	1,533,835	15,883	-	-

(Continued)



Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance	
					Shares (Thousands)	Amount
	James Bond Fund	Short-term investments	-	-	81,809	\$1,206,500
	Fubon Ju-I II Fund	Short-term investments	-	-	17,930	250,000
	Fubon Ju-I III Fund	Short-term investments	-	-	8,984	104,735
	Fubon Ju-I Fund	Short-term investments	-	-	-	-
	Fubon Twfubonf Fund	Short-term investments	-	-	-	-
	Fubon Fu-Tai Fund	Short-term investments	-	-	-	-
	Fubon United Bond Fund	Short-term investments	-	-	-	-
	Invesco Bond Fund	Short-term investments	-	-	-	-
	HSBC Taiwan Money Management Fund	Short-term investments	-	-	-	-
	<u>Bond</u>					
	TCC 1st Domestic Convertible Bond	Short-term investments	-	-	15,690 units	1,569,000

Note 1 : Net of 26,000 thousand shares disposed and 26,000 thousand shares of capital reduction of Taiwan Teleservices & Technologies Co., Ltd. The amount included capital return of \$260,000 thousand, cash dividends of \$97,240 thousand and investment loss of \$1,931 thousand.

Note 2 : Net of 30,000 thousand shares disposed and 120,000 thousand shares of capital reduction of Howin Technologies co., Ltd. The amount included capital return of \$1,200,000 thousand, cash dividends of \$195,000 thousand and investment income of \$69,180 thousand.

Note 3 : The balance of 23,213 thousand shares, net of 1 thousand shares disposed, was in exchange for 28,483 thousand shares of Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.) and merged into Taiwan Infotainment Co., Ltd., resulting in the ending balance of 89,732 thousand shares.

The amount consisted of the following:

Purchased	\$ 280,073
Disposed	(6)
Investment income by the equity method	<u>5,010</u>
Exchanged for the shares of Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	285,077
Adjustments for change in the investee's equity and translation adjustments of foreign-currency denominated long-term investments	(5,685)
Investment loss by the equity method (formerly Taiwan Infotainment Co., Ltd.)	(46,015)
Purchased	<u>327,146</u>
	<u>\$ 560,523</u>

Note 4 : Including investment loss of \$16,677 thousand.

Note 5 : Including investment income of \$102,853 thousand.

Note 6 : Net of 13,000 thousand shares disposed and 19,500 thousand shares for capital reduction of Taiwan Elitec Corporation. The amount included capital return of \$195,000 thousand, cash dividends of 104,000 thousand and investment loss of \$25,408 thousand.

Note 7 : Net of 38,100 thousand shares disposed and 21,900 thousand shares for capital reduction of Taiwan Infotainment Co., Ltd. The amount included capital return of \$219,000 thousand and investment loss of \$28,008 thousand.

Note 8 : Including investment income of \$68,639 thousand.

Note 9 : The transactions between the Corporation and subsidiaries had been reconciled.

	Acquisition		Disposal				Ending Balance	
	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	17,394	\$ 260,000	80,573	\$ 1,206,000	\$ 1,191,041	\$ 14,959	18,630	\$ 275,459
	44,734	630,000	-	-	-	-	62,664	880,000
	21,029	249,000	-	-	-	-	30,013	353,735
	82,525	1,270,063	38,955	600,441	599,528	913	43,570	670,535
	175,509	1,800,004	121,828	1,250,093	1,248,101	1,992	53,681	551,903
	20,000	200,000	20,000	200,121	200,000	121	-	-
	39,532	500,000	-	-	-	-	39,532	500,000
	66,004	950,000	66,004	952,706	950,000	2,706	-	-
	25,710	370,000	25,710	370,820	370,000	820	-	-
	-	-	7,500 units	926,250	750,000	176,250	8,190 units	819,000



## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL

FOR THE YEAR ENDED DECEMBER 31, 2004

Company Name	Related Party	Nature of Relationship	Transaction Details	
			Purchase/Sale	Amount
The Corporation	TransAsia Telecommunications Inc.	Subsidiary	Sale	\$ (1,939,694)
			Purchase	610,388
	Taiwan Fixed Network Co., Ltd.	Equity-method investee	Sale	(1,755,977)
			Purchase	720,002
	Mobitai Communications	Subsidiary	Sale	(156,676)
			Purchase	134,932

Note : The transactions between the Corporation and subsidiaries had been reconciled.

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL

DECEMBER 31, 2004

Company Name	Related Party	Nature of Relationship	Ending Balance	
The Corporation	TransAsia Telecommunications Inc.	Subsidiary	Accounts receivable	\$ 191,803 (Note 2)
			Other receivable	274,819 (Note 2)
	Taiwan Fixed Network Co., Ltd.	Equity-method investee	Accounts receivable	163,756
	Taiwan Tele-Shop Co., Ltd.	Subsidiary	Accounts receivable	106,848

Note 1 : Telecommunication service revenue collected on behalf of TCC.

Note 2 : The transactions between the Corporation and subsidiaries had been reconciled.



(Amounts in Thousands of New Taiwan Dollars)

	Transaction Details		Abnormal Transaction		Note/Accounts Payable or Receivable		Note
	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
	(4)	Based on contract terms	-	-	\$ 191,803	4	Note
	3	Based on contract terms	-	-	(21,989)	(2)	Note
	(4)	Based on contract terms	-	-	163,756	3	
	4	Based on contract terms	-	-	-	-	
	-	Based on contract terms	-	-	11,196	-	Note
	1	Based on contract terms	-	-	(3,566)	-	Note

(Amount in Thousands of New Taiwan Dollars)

	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
		Amount	Action Taken		
	8.97	\$ -	-	\$ -	\$ -
	14.51	-	-	-	-
	Note1	-	-	-	-



## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

FOR THE YEAR ENDED DECEMBER 31, 2004

Investor	Investee	Location	Main Businesses and Products
The Corporation	Taiwan Fixed Network Co., Ltd.	Taipei, Taiwan	Type-I telecommunication services-integrated fixed line
	Taihing Den Den Co., Ltd.	Taipei, Taiwan	Telecommunication equipment retailing and wholesale
	Tai Hung Investment Ltd.	Taipei, Taiwan	Investment
	Tai Fu Investment Ltd.	Taipei, Taiwan	Investment
	Tai Hsuo Investment Ltd.	Taipei, Taiwan	Investment
	T.I. Investment Ltd.	Taipei, Taiwan	Investment
	T & M Investment Co., Ltd.	Taipei, Taiwan	Investment
	TransAsia Telecommunications Inc.	Kaohsiung, Taiwan	Wireless service provider
	Mobitai Communications	Tai-Chung, Taiwan	Wireless service provider
	Taiwan Telecom (Aust) Pty Ltd.	Australia	Telecommunication related R&D
	Bridge Mobile Pte. Ltd.	Singapore	Co-develop the service platforms to offer regional mobile services
Taihing Den Den Co., Ltd.	Taiwan Tele-Shop Co., Ltd.	Taipei, Taiwan	Telecommunication equipment retailing and wholesale, and mobile service distribution
	Taiwan Elitec Corporation	Taipei, Taiwan	Software solution provider, data processing services
	Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	Taipei, Taiwan	Call center service
	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment installation
Taiwan Tele-Shop Co., Ltd.	Taiwan Fixed Network Co., Ltd.	Taipei, Taiwan	Type-I telecommunication services-integrated fixed line
Howin Technologies Co., Ltd.	Research & Range Inc.	Taipei, Taiwan	Sale and servicing of system equipment for value-added services, and computer software
TransAsia Telecommunications Inc.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment installation
Taiwan Fixed Network Co., Ltd.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment installation
	Taiwan Cellular Corporation	Taipei, Taiwan	Cellular phone services
	TFN Investment Co., Ltd.	Taipei, Taiwan	Investment
	Taiwan Hong-Yuan Investment Co., Ltd.	Taipei, Taiwan	Investment
	Taiwan Telecom (Aust) Pty Ltd.	Australia	Telecommunication related R&D
	TFN US Ltd.	US	Telecommunication business
	TFN HK Ltd.	Hong Kong	Telecommunication business
TFN Investment Co., Ltd.	Taiwan Cellular Corporation	Taipei, Taiwan	Cellular phone services

(Amounts in Thousands of New Taiwan Dollars)

	Original Investment Amount		Balance as of December 31, 2004			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
	December 31, 2004	December 31, 2003	Shares (Thousands)	Percentage of Ownership	Carrying Value			
\$	4,410,000	\$ 3,000,000	637,000	9.87	\$ 4,256,798	\$ 3,631,892	\$ (14,554)	
	1,420,017	1,419,994	44,300	99.99	941,566	(131,834)	(81,512)	
	1,505,042	1,505,000	-	99.99	1,646,819	98,056	97,735	
	525,045	525,000	-	99.99	553,889	4,482	1,203	
	330,048	330,000	-	99.99	323,818	(42,590)	(12,067)	
	604,981	604,960	-	99.99	405,762	(8,156)	(26,799)	
	-	6,208,218	-	-	-	305,196	286,322	Merged into TCC on June 30, 2004
	10,408,388	12,298,372	328,645	92.32	13,056,507	3,385,289	2,308,809	Note
	2,451,654	-	181,278	67.00	2,520,293	246,820	68,640	Note
	-	92,160	-	-	-	(72,743)	(43,646)	
	32,160	-	-	-	32,160	-	-	
	482,349	1,232,628	20,509	50.02	367,650	67,047	NA	
	194,788	-	19,662	98.31	178,111	(55,261)	NA	
	327,146	-	89,732	95.88	560,523	(56,504)	NA	
	409,200	-	30,000	25.00	512,053	575,224	NA	
	49,000	70,000	4,900	0.08	46,013	3,631,892	NA	
	63,590	63,590	6,002	54.56	56,957	9,873	NA	
	30,000	150,000	3,000	2.50	36,122	575,224	NA	
	799,999	3,999,999	79,999	66.67	274,118	575,224	NA	
	29,633,009	29,633,009	900,353	18.56	31,584,551	16,658,456	NA	
	17,500,000	20,000,000	1,750,000	100.00	19,348,101	1,421,370	NA	
	60,000,000	10,000,000	600,000	100.00	7,289,777	1,156,069	NA	
	-	61,440	-	-	-	(72,950)	NA	
	14,950	14,950	430	100.00	13,229	(26)	NA	
	5,816	5,816	1,299	99.99	4,567	(221)	NA	
	16,346,290	16,346,290	467,821	9.64	16,603,598	16,658,456	NA	

(Continued)



Investor	Investee	Location	Main Businesses and Products
	Sunnet Technologies Co., Ltd.	Tainan, Taiwan	E-learning, cityfamily
	CTS Digi-Tech Co., Ltd.	Taipei, Taiwan	Software retailing and service provider
	Taiwan Info Power Co., Ltd.	Taipei, Taiwan	Sale and servicing of system equipment and computer software
Taiwan Hong Yuan Investment Co., Ltd.	Taiwan Cellular Corporation	Taipei, Taiwan	Cellular phone services
	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering, and equipment installation
Taiwan Teleservices & Technologies Co., Ltd. (formerly Taiwan Infotainment Co., Ltd.)	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent
	TT&T Holdings Co., Ltd.	Samoa	Investment

Note: The transactions between the Corporation and subsidiaries had been reconciled.

## TAIWAN CELLULAR CORPORATION AND SUBSIDIARIES

### INVESTMENT IN MAINLAND CHINA

FOR THE YEAR ENDED DECEMBER 31, 2004

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of Jan. 1, 2004
Dalian Xinkai Teleservices & Technologies Co., Ltd.	System integration, maintenance, R&D and technical support of CRM and MMS and training and consultancy	RMB35,000 (NT\$134,096)	Indirect investment in the Company of Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	\$ -

Accumulated Investment in Mainland China as of Dec. 31, 2004	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
US\$1,300	Note 2	Note 2

Note 1 : The above amounts were translated into New Taiwan Dollars at the prevailing exchange rate of US\$1=NT\$31.70 and RMB1=NT\$3.8313 as of December 31, 2004.

Note 2 : Indirect investment made by the Corporation's subsidiary.



	Original Investment Amount		Balance as of December 31, 2004			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
	December 31, 2004	December 31, 2003	Shares (Thousands)	Percentage of Ownership	Carrying Value			
	\$ 29,450	\$ -	1,840	7.39	\$ 29,450	\$ 9,277	NA	
	-	60,000	-	-	-	NA	NA	
	-	62,500	-	-	-	NA	NA	
	4,419,782	5,003,812	144,720	2.98	4,648,679	16,658,456	NA	
	4,204	-	293	0.24	5,004	575,224	NA	
	3,000	-	300	100.00	2,952	(48)	NA	
	3,000	-	-	-	3,000	-	NA	
	42,669	-	1,300	100.00	41,236	14	NA	

(Amounts in Thousand New Taiwan Dollars or U.S. Dollars, Unless Otherwise Specified)

	Investment Flows		Accumulated Outflow of Investment from Taiwan as of Dec. 31, 2004	% Ownership of Direct or Indirect Investment	Investment Income (Loss)	Carrying Value as of Dec. 31, 2004	Accumulated Inward Remittance of Earnings as of Dec. 31, 2004
	Outflow	Inflow					
	US\$1,300 (NT\$41,223)	\$ -	US\$ 1,300 (NT\$ 41,223)	50% ownership of indirect investment by the Corporation's subsidiary	In development stage	NT\$ 41,236	\$ -



# Risk Management Analysis

In the course of operating its business, the Company faces four major types of internal and external risks, namely industry risk, financial risk, credit risk, and operating risk. The Company realizes the damages these risks may cause and thus have set forth risk management policies and a risk management committee to minimize any particular incident's effect on the Company's operations.

## Industry Risk

### 1. Technological Changes

#### (1) Communication technologies are constantly being upgraded

In 2004, the number of telecommunication companies worldwide who have joined the 3G bandwagon continued to increase as the consumer market began to exhibit demand and the supply of 3G handsets in worldwide markets improved over the previous year. In addition, local wireless and wired communication and information technology are constantly being upgraded. For instance, companies such as Skype who uses Internet based communication technology like Voice over IP (VoIP) have joined the competition. And Mobile Virtual Network Operator (MVNO) companies have also began operation. These factors are expected to change the mobile communication industry's technology and operating model and make the industry more open.

#### (2) Impact and counter measures

The 3G network will allow users to easily take advantage of more advanced and varied mobile communication services. In light of this, the Company has taken measures to set up its 3G infrastructure. As of the end of 2004, the Company has devoted approximately NT\$4bn in building 3G base stations. By the end of first quarter 2005, the Company expects to have 1,500 base stations completed in Taiwan's three major metropolitan cities. Therefore, the Company plans to officially launch its 3G services this year with products and services designed to meet the needs of the market, which in turn should increase the usage of value-added services and thereby enhance data service revenues.

In addition, with VoIP's new technology and MVNO's business models, competition for the price-sensitive market is

expected to intensify, thus increasing the costs of marketing and channel management and decreasing profits. In light of this, the Company is devoted to the research and development of VoIP and other advanced communication technology. In the new era where telecommunication companies will provide all-inclusive customers services across local, international, mobile, Internet, video conferencing and other advanced information and video services arrive, the Company will be prepared to provide the best services for its customers.

### 2. Major Policy and Regulatory Changes

In 2004, the regulatory agencies have continued to encourage the opening of the telecommunications market and helped to maintain a fair competitive environment. Central and local governments are also advocating the "Dual Net Plan", promising that by 2008, Taiwan will boast ten mobile cities, allowing 80% of the public to take advantage of the convenience of a mobile life. Thus the government has been encouraging telecommunication and information technology companies to develop associated new technology and services to prepare for this upcoming billion dollar market.

For 2004 and up until the publication date, major local and international policies and regulatory changes that have had a visible impact on the Company's financials and business and the Company's counter measures are as follows:

#### 1. Control over application for mobile telecommunication services

##### (1) Impact of regulatory change

In order to effectively prevent the usage of a counterfeit name to apply for mobile telecom services for criminal usage, DGT enforced a strict practice started from April 29, 2004, demanding that individuals who apply for mobile telecom services must register their personal ID card and National Health Insurance IC Card (or other valid form of identification). Meanwhile, to minimize customers using prepaid SIM card for criminal activities, DGT passed the following requirements:

- (a) Starting from October 1, 2004, the number of prepaid SIM card per foreigner is limited to 5.

- (b) Starting from December 10, 2004, the number of prepaid SIM card per native is limited to 10.
- (c) Starting from March 7, 2005, the number of prepaid SIM card for both foreigners and natives is limited to 1. Prepaid SIM card sales channels are also limited to operators' own sales channels.

## **(2) Counter measures**

In the short run, these new requirements will make it more difficult for operators to sell their prepaid SIM cards and may discourage users, especially travelers and foreign laborers, to use prepaid services. However, in the long run, with the cooperation of DGT and operators, the Company can upgrade prepaid customer composition, reduce churns and change the customers' buying behavior to primarily using recharge cards instead of disposing the used up prepaid SIM card and purchasing a new one. Some examples of the Company's effort to encourage the use of recharge cards in 2004 are as follows:

- (a) Hired a famous local brand to promote recharge cards and conducted a joint promotion with Taipei City Zoo issuing limited edition animal themed recharge cards.
- (b) Offer higher commissions for open channels to sell recharge cards.

The Company is confident that over time, this will help the operators reduce the costs on SIM cards and channel operation, which will in turn improve the Company's bottom line.

## **2. "Mobile Number Portability (MNP)" Introduction**

### **(1) Impact of regulatory change**

According to government regulation, starting from January 1, 2005, MNP service should be provided by all mobile operators. However, DGT has the authority to adjust the launch date based on the actual progress of Number Portability Centralized Database (NPDB) deployment. The Management Committee of NPDB has sent out a letter to DGT with a recommendation of the delay of launching NP service according to the schedule proposed by the Telecom Technology Center (TTC). At

the end of 2004, DGT has announced that NP service's effective date is delayed until October, 15, 2005.

### **(2) Counter measures**

In order to launch Number Portability Service, the fixed network operators and mobile operators have established the Management Committee of NP Centralized Database, to supervise the deployment, operation and administration of NPDB. TTC was nominated as the Number Portability Administrator Center (NPAC), and has started the deployment of NPDB.

In order to minimize the impact of the introduction of MNP Service, the Company is closely monitoring the deployment status of NPDB. Meanwhile, TCC is strengthening its customer retention, enhancing its services to increase customer satisfaction.

## **3. "Fixed to Mobile Interconnection Regime" Adjustment**

### **(1) Impact of regulatory change**

Beginning January 1, 2004, fixed network interconnection charge is adjusted from NT\$0.60/min to NT\$0.59/min (peak) and NT\$0.39/min (off-peak). The mark-up on interconnection fee (NT\$0.224/min) and billing handling fee (4% of retail tariff) which is paid by mobile operators to fixed operators remained unchanged.

In 2003, Chunghwa Telecom (CHT) proposed to increase the proportion of fixed-to-mobile call revenue kept by fixed operator. DGT responded that it would make further assessment after local loop unbundling is implemented.

### **(2) Counter measures**

TCC will continue to communicate with DGT that it should not change both the ownership of fixed-to-mobile tariff and the call revenue proportion kept by fixed operator until the fixed network market reaches a competitive situation.

## **3. Environment Protection and Expenditures**



The Company is a telecommunications operator and has neither environmental waste problems nor losses due to environmental waste issues.

## Financial Risk

### 1. Impact of Fluctuations in Interest Rates, Exchange Rates and Inflation on the Company's Earnings and Counter Measures

#### (1) Impact of interest rate fluctuations

In the past years, declining interest rates have been bringing down the Company's borrowing costs. The Company has pegged the floating interest rate for the Company's first unsecured corporate bond with total value of NT\$15 billion at 2.25% and 2.45% through interest rate swap agreements upon issuance. All other issued corporate bonds have fixed interest rates, making the Company's interest expense risks relatively low. As for bank loans with floating rates at the end of 2004, interest expense is estimated to increase by approximately NT\$21 million per annum for every 0.25% increase in interest rate. In the future, the Company plans to further decrease its bank loans, thus the impact of interest rate fluctuations on the Company's profits will be even less.

#### (2) Impact of exchange rate fluctuations

The Company's main business is providing mobile phone

services and its main service area is Taiwan. Other than its international roaming business, all operating revenues and operating costs are denominated in NT dollar. Major components of operating costs such as payables to China Telecom for interconnection fee are all denominated in NT dollar.

At the end of February 2005, foreign exchange gain totaled NT\$4.84m. Exchange rate fluctuation had minimal impact on the Company. In the future, some of the Company's capital expenditure will be denominated in Euro and USD. In order to minimize the impact from the foreign exchange rate fluctuation, the Company will hedge the risk through foreign currency deposit and forward contracts.

#### (3) Impact of inflation

Inflation had minimal impact on the Company's operating performances for the past year and up until the publication date.

## Credit Risk

In 2004, the Company has significantly reduced its debt level and raised its interest coverage ratio (EBITDA/interest expense). Taiwan Ratings Corporation, a notable credit watch company, raised the Company's long-term debt rating from 'twA+' to 'twAA', demonstrating faith in the Company's ability to pay its debt. Taiwan Ratings Corporation's reasoning and outlook are as follows:

## Taiwan Cellular Removed From CreditWatch Positive, Rating Raised to 'twAA'; Outlook Stable

December 22, 2004

### **RATIONALE**

Taiwan Ratings Corp. today raised its long-term corporate credit rating and its unsecured corporate bond rating on Taiwan Cellular Corp. (TCC) to 'twAA' from 'twA+', and also affirmed its 'twA-1' short-term corporate credit rating on the company. At the same time, the long-term corporate credit rating and unsecured corporate bond rating were removed from CreditWatch, where they were placed with positive implications on Nov. 15, 2004. The outlook on the long-term corporate credit rating is stable.

The rating action reflects the marked improvement in TCC's business and financial profiles. TCC has benefited from less acute market competition in the wake of industry consolidation. The company had a combined market share of 31%, including its acquired regional operators, in the first nine months of 2004. Taiwan Ratings is of the view that industry consolidation has resulted in more rational competitive behavior and abating price pressure among the top three market players, which in turn has enabled them to improve their already strong EBITDA margins. TCC has used internal cashflow, together with funds generated from restructuring its long-term investment portfolio and selling down part of its shareholding in Chunghwa Telecom, to significantly reduce its total debt in 2004. Its net debt amounted to NT\$33.3 billion at the end of September 2004, down from NT\$61.1 billion in 2002. Taiwan Ratings expects the company's debt reduction efforts to continue over the medium term.

Taiwan's wireless telecommunications market has undergone significant consolidation, which has consolidated into a market structure of only three major players. In July 2001, TCC acquired southern-based operator Trans Asia Telecommunications Co. (TransAsia), and in 2004 acquired Mobitai Communications Co. Ltd. (Mobitai). At the end of September 2004, TCC, together with TransAsia and Mobitai, had a combined market share of 31% in terms of revenue, which was four percentage points behind Chunghwa Telecom Co. Ltd. (CHT, twAAA/Stable/twA-1) and three percentage points behind Far EasTone Telecommunications Co. Ltd. Taiwan Ratings considers industry consolidation to have helped TCC to maintain its leading market position, as evidenced in 2004 by the improved quality of TCC's subscriber base without any revenue reduction. However, given the already very high penetration rate in Taiwan's wireless telecom market, Taiwan Ratings expects the market growth rate to fall below 10% over the next two to three years.

TCC reported revenue of NT\$33.7 billion in the first nine months of 2004 and a good operating margin (before depreciation & amortization) of 47%. Meanwhile, its EBITDA interest coverage was a strong 16x, and its ratio of funds from operations to net debt was a satisfactory 78%. TCC's leverage is moderate, with a ratio of net debt to capital of 30% at the end of September 2004. TCC has changed its investment policy in respect of its shareholding in CHT. The company had 212 million shares in CHT at the end of September 2004, down from 375 million shares at the end of 2002, and plans to sell more of its shares in CHT over the medium to long term.

### **LIQUIDITY**

At the end of September 2004, TCC had cash on hand of NT\$3.4 billion and long-term debt due within one year of NT\$4.4 billion, of which 62% was a domestic convertible bond with a put option exercisable in August 2005. Since TCC's current share price is above the bond's conversion price, Taiwan Ratings does not expect TCC to face redemption pressure. In any case, the company's strong internal generation cash flow will help to repay the debt. In addition, TCC had short-term investments of NT\$10.1 billion at the end of September 2004, mostly representing its shareholding in CHT. The company also has large unused credit facilities and good access to the domestic bond market, which in turn will help support the company's liquidity position.

### **OUTLOOK: STABLE**

The outlook reflects Taiwan Ratings' expectation that TCC will continue to reduce its debt level with its stable and strong cash flow generation, which derives from its well-established subscriber base and benign market conditions.

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## Operating Risk

### 1. Investment Policy and Reasons for Gains & Losses for High-Risk/High-Leverage Financial Products, Derivatives, Loans to Others, and Guarantees of Debts

- (1) The Company did not engage in any high-risk and high-leverage financial investment activities, nor did it lend to others in recent years.
- (2) The Company has around NT\$600m in time deposit as collateral for its subsidiary, Taihsing Den Den Co., Ltd's bank loans. The transaction was conducted in accordance with the Company's "Procedure for making loans and providing debt guarantees".
- (3) In December 2002, the Company issued NT\$15bn worth of corporate bonds, of which NT\$7.5bn are inverse floaters. These inverse floater notes are hedged by interest rate swap contracts.

### 2. Mergers & Acquisitions

#### (1) Mergers and acquisitions update

In order to expand its customer base in central Taiwan and create synergies through economies of scale, the Company signed an agreement to acquire 67% of Mobitai Communications Co., on August 13, 2004 for a total price of NT\$2.45 billion (181,277,712 shares at NT\$13.5243 per share). The Company also successfully appointed 5 directors and 1 supervisor on Mobitai's board, thus completing the first phase of the transaction.

During the second phase, which will take place between 12 to 16 months after the completion of the first phase,

both parties will have the option to purchase/sell TECO's (Mobitai's largest shareholder) remaining ownership in Mobitai through a share exchange program.

#### (2) Expected benefits and potential risks

The expected benefits arising from this acquisition include expansion of market share in central Taiwan and increase in the Company's total subscriber base and revenue. In light of better economies of scale, the Company expects to realize more operational synergies through this transaction to achieve a win-win result among TCC, Mobitai, and the customers.

The potential risk is likely to be higher-than-expected turnover due to job uncertainties during the merger process, which may result in lower-than-expected earnings from the merged company.

### 3. Supply and Distribution Concentration (Supplier and Customer Risk)

The Company's main supplier is Chunghwa Telecom (CHT) for leased-lines and network interconnections. In 2004, these costs accounted for about 25% of total operating costs. To diversify supplier risk, the Company has been increasing usage of leased-lines supplied by other fixed-line operators (e.g. Taiwan Fixed Network).

On the revenue side, Chunghwa Telecom is the Company's largest customer due to interconnection revenue. However, in terms of customers for its mobile services, the Company has a very diversified subscriber base. As such, there is no customer concentration risk.

Top supplier and top customer for the last two years are listed below:

#### (1) Top supplier (over 10% of total operating costs)

Company	2004		2003		Reason for change	
	Amount (NT\$'000)	% of Operating costs	Company	Amount (NT\$'000)		% of Operating costs
Chunghwa Telecom	4,552,177	24.57%	Chunghwa Telecom	4,796,834	26.87%	DGT has established that as of September 17, 2003, CHT may no longer receive revenue for the connection of unknown calls.

**(2) Top customer (over 10% of total revenue)**

2004			2003			Reason for change
Company	Amount (NT\$'000)	% of revenue	Company	Amount (NT\$'000)	% of revenue	
Chunghwa Telecom	9,760,115	21.65%	Chunghwa Telecom	10,517,742	23.37%	Decrease in minutes of fixed to mobile calls

**4. Changes in Management Control:** Not applicable.

**5. Expected Benefits and Risks Related to Plant Facility Expansions:** Not applicable.

**6. Major Contracts**

Nature	Counterpart	Contract period	Description	Restriction clauses
Sale & distribution contract	Taiwan Tele-Shop Co., Ltd.	2003.01.01~ 2005.12.31	TTS is authorized to distribute TCC's mobile phone services	Restriction on competition, unless otherwise agreed in writing
	Taiwan Tele-Shop Co., Ltd.	2003.01.01~ 2004.12.31	TCC authorizes TTS to develop franchise system for TCC	Restriction on competition, unless otherwise agreed in writing
Network interconnection contract	Chunghwa Telecom Co., Ltd.	2001.03.01 ~ 2001.12.31 (Under negotiation) (Note 1)	Network interconnection contract	Non-disclosure
	Taiwan Fixed Network Co., Ltd.	2001.04.27 ~ 2002.04.26 (Under negotiation) (Note 1)	Network interconnection contract	Non-disclosure
		2003.04.08 ~ 2004.04.07 (Under negotiation) (Note 1)	ISR	Non-disclosure
	New Century InfoComm Tech Co., Ltd.	2001.10.25 ~ 2002.10.24 (Under negotiation) (Note 1)	Network interconnection contract	Non-disclosure
	Eastern Broadband Telecom Co., Ltd.	2001.10.25 ~ 2002.10.24 (Under negotiation) (Note 1)	Network interconnection contract	Non-disclosure
	TransAsia Telecommunications Inc.	2004.03.15 ~ 2005.03.14	Voice and short message service contract	Non-disclosure
	Far EastTone Telecommunications Co., Ltd.	2004.02.10 ~ 2005.02.09	Voice and short message service contract	Non-disclosure
	Yuan-Ze Telecommunications Co., Ltd.	2004.02.10 ~ 2005.02.10	Network interconnection contract	Non-disclosure
	KG Telecommunications Co., Ltd.	2004.03.01~ 2005.02.28	Network interconnection contract	Non-disclosure
	Mobitai Communications	2002.09.01~ 2005.09.12	Voice and short message service contract	Non-disclosure
	Asia Pacific Broadband Wireless Communications Inc.	2004.03.31 ~ 2005.03.30	Voice and short message service contract	Non-disclosure
First International Telecom Corp.	2004.02.09 ~ 2005.02.08	Voice and short message service contract	Non-disclosure	

(Continued)



Nature	Counterpart	Contract period	Description	Restriction clauses
System engineering contract	Howin Technologies Corp.	2002.12.20 ~ 2004.06.30	Phase I 3G system engineering & installation	Non-disclosure
		2002.12.20 ~ 2004.06.30	Phase VI GSM1800 systems engineering & installation	Non-disclosure
Customer service and retention contract	Taiwan Teleservices & Technologies Co., Ltd.	2003.01.01~ 2005.12.31	Respond to customer inquiries and perform other after-sales services	Confidentiality clause; restriction on competition, unless otherwise agreed in writing
Technology support and maintenance contract	Howin Technologies Corp.	2003.01.01~ 2004.03.31	Management and maintenance service for mobile phone network system	Non-disclosure
	Taiwan Elitec Corp.	2003.01.01~ 2004.09.01	Billing and printing services	Non-disclosure
		2003.01.01~ 2004.12.31	Support and maintenance services for GSMBS system, both software and hardware	Non-disclosure
		2003.01.01~ 2004.12.31	General outsourcing contract	Confidentiality clause; restriction on competition, unless otherwise agreed in writing
Sale & purchase contract	Taiwan Fixed Network Co., Ltd.	2005.01.31	Related Fiber equipment agreement	Non-disclosure
Joint venture	Bharti (India), Globe Telecom (Philippines), Maxis (Malaysia) Optus (Australia), SingTel (Singapore), Telkomsel (Indonesia)	2004.11.03	Joint venture agreement	Non-disclosure
Share acquisition agreement	TECO Electric & Machinery Co., Ltd.	2004.08.13	To purchase at least 67% of issued and outstanding common shares of Mobitai	Non-disclosure
Comm. equipment consignment	Synnex Technology International Corporation	2004.06.10 ~ 2005.04.30	To accept Synnex's consignment to sell handsets and related products.	Non-disclosure
Syndicated loan	ICBC, Industrial Bank of Taiwan and 14 other banks	2000.12.15 ~ 2008.06.12	NT\$3 billion guarantee on its principle and interest payable	Certain restrictions on debt ratios, current ratios, and long-term solvency ratios
	ICBC, Industrial Bank of Taiwan and other 14 banks	2000.12.15 ~ 2008.06.12 (Outstanding has been fully repaid on 2004.05.31)	Syndicated loan of NT\$7 billion	Certain restrictions on debt ratios, current ratios, and long-term solvency ratios
	ICBC, Industrial Bank of Taiwan and 18 other banks	2003.06.26 ~ 2010.09.01	Syndicated loan of NT\$12 billion to adjust financial structure and enrich working capital	Certain restrictions on debt ratios, current ratios, and long-term solvency ratios

Note 1 : When the network interconnection contract expires, should the two parties not be able to conclude their negotiations within three months after their commencement, the process shall be as follows:

- (1) If the two parties concur to continue their negotiations, the contract terms will be the same as the originally negotiated terms, until a new agreement is reached.

- (2) Either party can appeal to the Directorate General of Telecommunications for a ruling. Prior to the date of such a ruling, the contract terms shall be the same as those originally negotiated. Following the ruling, the new contract terms will be formed based on the ruling.



## 7. Significant Lawsuits and Non-litigious Matters

Summary of all material litigation, administrative proceedings, and other non-litigious matters in which the Company or its directors, supervisors, managers and shareholders with more than 10% shares or subsidiaries were involved in the past two years up to the report's printing date, that may have significant impact on shareholders' equity or share price are listed below:

### (1) The Company

Damage Claim against Chunghwa Telecom Co., Ltd.:

**Parties Involved:** the Company is the Plaintiff and Chunghwa Telecom Co., Ltd. is the defendant

**Amount Claimed:** NT\$ 211,521,377

**Date of Filing:** July 26, 2004.

**Grounds for Lawsuit:** In accordance with the Agreement of Network Interconnection entered into between the Company and Chunghwa Telecom Co., Ltd. (CHT), CHT shall not activate the type of calls not specified in the Agreement; however, CHT had completed the unlawfully-switched communication generated from CityPhone and Best Way Telecommunication Co., Ltd. Such communication caused the Company to suffer great losses in interconnection fees and therefore the Company filed a lawsuit demanding compensation in the amount stated above.

**Status:** The lawsuit is currently pending in the Taipei District Court.

### (2) The Company's directors, supervisors, managers and shareholders with more than 10% shares:

None.

### (3) The Company's subsidiaries

#### (a) TransAsia Telecommunications Inc.

Damage Claim by TransAsia Telecommunications Inc. (TAT) against Chunghwa Telecom Co., Ltd. (CHT):

**Parties Involved:** TAT is the plaintiff and CHT is the defendant

**Amount Claimed:** NT\$ 40,946,017

**Date of Filing:** July 26, 2004.

**Grounds for Lawsuit:** In accordance with the Agreement of Network Interconnection entered into between TAT and CHT, CHT shall not activate the type of calls

not specified in the Agreement; however, CHT had completed the unlawfully-switched communication generated from CityPhone and Best Way Telecommunication Co., Ltd. Such communication caused TAT to suffer great losses in interconnection fees and therefore TAT filed a lawsuit demanding compensation in the amount stated above.

**Status:** The lawsuit is currently pending in the Taipei District Court.

#### (b) Mobitai Communications Co., Ltd.

Damage Claim by Far Eastone Telecommunications Co., Ltd. (FET) against Mobitai Communications Co., Ltd. (Mobitai):

**Parties Involved:** FET is the plaintiff and Mobitai is the defendant

**Amount Claimed:** NT\$ 59,664,140

**Date of Filing:** Initially filed by FET on February 5, 2004.

**Grounds for Lawsuit:** FET claims that Mobitai had from December 2001 through October 2003 taken advantage of indirect interconnection option as provided in the Agreement of Network Interconnection entered into between FET and Mobitai by concealing the calling party's telephone numbers and generating communication routing through CHT's network. Suffering from losses in interconnection fees caused by such communication, FET filed a lawsuit demanding compensation in the amount stated above. Mobitai denies all of the claims.

**Status:** The Taipei District Court issued a verdict in favor of the plaintiff. Mobitai appealed against the verdict and the appeal is currently pending in the Taiwan High Court.

#### (c) Mobitai Communications Co., Ltd.

Damage Claim by KGT Telecommunications Co., Ltd. (KGT) against Mobitai Communications Co., Ltd.:

**Parties Involved:** KGT is the plaintiff and Mobitai is the defendant

**Amount Claimed:** NT\$10,004,796

**Date of Filing:** August 31, 2004.

**Grounds for Lawsuit:** KGT claims that Mobitai had from December 2001 through February 2004 taken advantage of indirect interconnection option as provided in the Agreement of Network Interconnection entered into between KGT and Mobitai by concealing the calling party's telephone numbers and generating communication routing through CHT's network. Suffering from



losses in interconnection fees caused by such communication, KGT filed a lawsuit demanding compensation in the amount stated above. Mobitai denies all of the claims.

**Status:** The lawsuit is currently pending in the Taipei District Court.

#### **(d) Taiwan Fixed Network Co., Ltd.**

**Parties Involved:** Plaintiff: Taiwan Fixed Network Co., Ltd. (TFN) is the plaintiff and Tek-Sonic International Co., Ltd. is the defendant

**Amount Claimed:** NT\$ 23,723,088

**Grounds for Lawsuit:** Tek-Sonic International Co. (TEK-SONIC) applied for renting TFN's telecom facilities and TFN's telecom service, but failed to pay the rent and the service fees to TFN. TFN, therefore, terminated the Agreement between the parties, and filed a claim for payment and for returning the telecom facilities.

**Status:** This case has been settled in court.

#### **(e) Taiwan Teleservices & Technologies Co., Ltd.**

**Parties Involved:** Taiwan Teleservices & Technologies Co., Ltd. (TTNT) is the creditor and Ding-Wha Technical Corporation is the debtor.

**Amount Claimed:** NT\$ 12,371,359

**Date of Filing:** May 17, 2004

**Grounds for Lawsuit:** The parties have signed two contracts. One is a Taxi Dispatching Service Agreement, and the other is a Leasing Agreement. According to the above two contracts, Ding-Wha Technical Corporation should pay service fees and rental to TTNT, but Ding-Wha failed to pay accordingly. The checks issued by Ding-Wha were bounced. TTNT, therefore, applied for a payment order to the Taipei District Court on May 17, 2004.

**Status:** The Taipei District Court issued a certified final payment order on August 2, 2004. TTNT issued a letter to terminate the above two contracts on December 21, 2004 and wrote off the bad debt from account receivable.

## **8. Violation of Regulations and Internal Policies**

### **(1) Violation of Regulations:**

Pursuant to Article 73 of the Regulations Governing Mobile Communication Business, operators shall verify and register prepaid subscriber information and keep files for future reference. An official letter from the Ministry of Transportation and Communications dated June 8, 2004 stated that the Company has violated this regulation and in accordance with Article 63 of the Telecommunications Act, ordered a fine of NT\$300k.

### **(2) Violation of Internal Policies:**

None

### **(3) Improvement:**

To prevent the rampant illegal use of third party names, the Company has not only strictly carried out a verification process known as "the Two Valid Identity Certificates Mechanism" according to the regulations prescribed by the Directorate General of Telecommunications, but also imposed a ceiling on the amount of the prepaid card subscribed by a foreign user.

## **9. Impact of Changes in Brand Image to the Company's Risk Management Policies: None.**

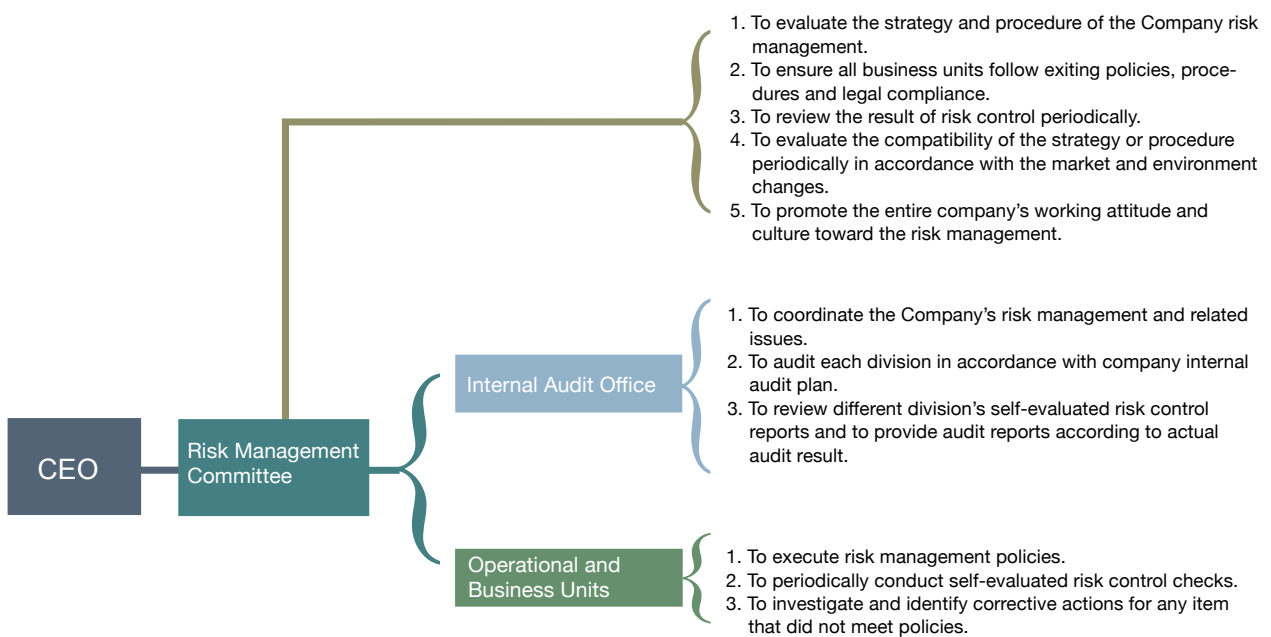
## **Risk Management Committee**

### **1. Risk Management Policies**

- (1) Promote a management (business) model based on risk management.
- (2) Establish a risk management structure that can effectively site, evaluate, supervise and control risks.
- (3) Create a company-wide risk management structure that can limit risks to an acceptable range.
- (4) Set up good risk management practices and continue to improve upon them.

## 2. Risk Management Structure

According to the aforementioned policies, the Company has set up the Committee on Risk Management, chaired by the chief auditor and associated vice presidents as committee members.



# Value Platform

## Quality Customers

High contribution and loyal customers are the basis for the Company's perpetual management. In 2004, the Company has continued to manage its low contribution customers, decreasing the total number of customers by 17% to 4.83 million. With the addition of customers from TAT and Mobitai, the Company's combined customer base is at 6.84 million, accounting for about 30% of the total market share.

In addition, through the launch of "401/801" medium and high rate plans, and top customer pay back plans, the Company has been able to satisfy the needs of different customer groups and thereby upgrading its customer composition and increasing its customer usage. The main effects of the plans are as below:

- 1. Decrease of voluntary churn rates:** Postpaid customers' monthly voluntary churn rate decreased from 2.7% in 2003 to 2.0% in 2004.
- 2. Increase of average revenue per user:** Postpaid customers' and prepaid customers' APRU reached NT\$791 and NT\$195 respectively, an increase of 17.7% and 10.8% from the previous year.
- 3. Increase of percentage of medium and high contribution customers:** Customers with monthly fee of NT\$200 or above have grown significantly, demonstrating that the Company's customer composition has improved.
- 4. Improvement in customer satisfaction:** The Company's customer satisfaction level improved quarter by

quarter in 2004. In the future, the Company plans to continue to closely monitor key customer satisfaction indexes, such as customer service and communication quality to satisfy the customers' changing needs.

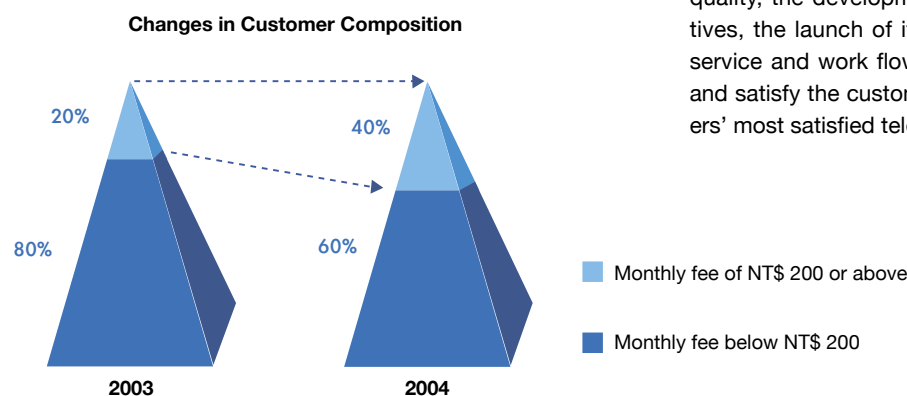
### 5. Increase in value-added services' usage:

Comparing voice and data revenues in 2004, data revenue had an outstanding year with growth rate exceeding 20%. Data revenue as a percentage of total revenue grew from 3.9% in 2003 to 4.7% in 2004. The growth is especially apparently after the launch of "Catch" in December 2004, with monthly user number and usage amount growing by 20% and 40% respectively, further preparing the Company in developing its business in the 3G Mobile Internet Era.

## Excellent Brand Image

The Company strives to become the telecommunication company of choice by customers. Through improvements in corporate governance, participation in charity events, and increase in financial transparency in 2004, the Company has built an excellent brand image. At the same time, the Company's customer service, at both its directly owned stores and hotlines, has been rated number one in the telecommunications market by the media. The Company has in effect built a brand with values that the customers concur with.

In 2005, the Company will aggressively build its "Customer Caring" brand value. In addition to strengthening its Customer Relationship Management (CRM), the Company strives to develop the best solutions for the needs of its various customer groups, from the upkeep of its network quality, the development of its sales and marketing initiatives, the launch of its new products, to the design of its service and work flows in order to be the first to discover and satisfy the customers' needs and become the customers' most satisfied telecommunications company.





With regards to the sale and marketing of its secondary brands, the Company is taking a younger and more international approach to be closer to its targeted customers. In addition to the “401/801” rate plans, the Company will continue to launch plans such as “myfone” corporate identity system, “catch” value-added service brand, and “Business Solutions” to satisfy the diverse needs of its various customer groups.

## Innovative Research and Development

“Providing better service quality and more complete service functions to maintain leadership in its technology” is the Company’s research and development team’s main focus. The Company’s research and development areas span from basic voice and messaging services to advanced wireless and automatic network services. The Company’s goal is to

provide the best mobile services and let mobile communication enable a new lifestyle for its customers.

### 1. Major Research and Development Achievements

The Company’s research and development in 2004 was focused on providing Mobile Internet and multi-media system infrastructure, including Service Delivery Management Platform (SDMP), Intelligent Network (IN), content billing, WAP system upgrade, IMS and 3G network set up to effectively satisfy the diverse mobile communication needs of its customers, increase the satisfaction level of its customers, and increase the revenue of its data services. In particular, “GPRS and WLAN Integration Solution” and “Next Generation Wireless Network Integrated Service Platform” are both government-sponsored projects that are leading the industry in its technological advancement.

Project Name	Project Details
GPRS and WLAN Integration Solution	Sponsored by the Ministry of Economic Affairs and working with Acer to develop EAP-SIM (Extensible Authentication Protocol Method for GSM Subscriber Identity Modules) server. Installed protocol in Nan Kang WLAN hot zone.
Next Generation Mobile Service Integration Platform	This MOEA sponsored R&D project is led by TCC, and supported by CHT, FET, APBW and VIBO. Its goal is to develop next generation VAS and content integration platforms, in order to fulfill future 3G/WLAN wireless broadband service needs. It began in July, 2004, and will be finished by March, 2006.
PVPN	Designed and developed the in-house PVPN (Personal Virtual Private Network) system to enable users from TCC and TAT to designate certain numbers for special rates.
EMS	Designed and developed the in-house EMS system to offer users background music and sound effects
Catch Music Center	Developed the music content vending platform to offer users a new channel to purchase music by using theme based keyword search.
MMS Portal	Develop & establish WEB/WAP based MMS Portal to offer users an easy-to-use integrated MMS service platform.





## 2. Future Research and Development Plans

Project Name	Project Details
Next Generation Mobile Service Integration Platform	Started in July, 2004, the development for the next generation mobile service integration platform R&D project will continue until March, 2006.
3G/WLAN Integration R&D	R&D in the technologies in SIM based authentication for WLAN access and 3G/WLAN integrated messaging system.
GPRS/3G/WLAN Integration	To study future integration of WLAN, GPRS and 3G technologies
SDMP	Develop & establish SDMP (Service Delivery Management Platform) to improve and promote Mobile Internet service, and also promote the cooperation with SP.
Next Generation Customer Satisfaction Infrastructure	Develop an infrastructure to monitor the services quality in real time, and integrate with trouble ticket dispatch system and customer care system, in order to provide real time information for a customer's complaint.
Mobile Internet	Develop & enhance TCC Catch VAS by the trend of wireless broadband communication and Mobile & Internet integration. To offer new and enhanced VAS such as MMS Portal, WAP Portal, content downloading and Push To Talk services, providing users brand-new user experience.
User Portal	Develop the major and interactive Web-based User Portal to satisfy the needs of customer, enhance brand image, offer M-Commerce service, build member center and simplify & ensure user authentication, etc.
Video Portal/Streaming	Offer users 3G video services such as video mail and video streaming.
IN Data Prepaid/Content Billing System	To improve and promote data prepaid service and content billing service.
Customized Handset & SIM Card	Develop 2G/3G customized handset and SIM card to satisfy the needs of customers and support the demands of each service and application.
Evaluation of GSM Communications for High Speed Rail in Taiwan	Pioneer study project for mobile operators to provide GSM/3G coverage along High Speed Railway.

## 3. Impact of Research and Development Plans on the Company's Financials

Research and development costs and its percentage of total revenue for the last two years and up until the publication date for 2005 are exhibited in the table below. In 2005,

the Company plans to spend another NT\$33m in research and development. All of the R&D plans will provide advanced technology that will increase customer satisfaction and thus in turn increase data revenues and grow the Company's overall operating results.

Year	2003	2004	Up to March 15, 2005
R&D expense (NT\$'000)	62,699	30,226	5,562
As % of total revenue	0.14%	0.07%	0.06%



## Social Contributions

The Company, under the “Take from society, give back to society” principle, has aggressively combined the resources of the TCC Foundation and the Company to give back to society. In 2004, the Company invented the “Mobile Phone Voice Guides” to expand art and literature education, and developed the “Mobile Phone Voice Donations System” to help charity organizations in seeking donations. The

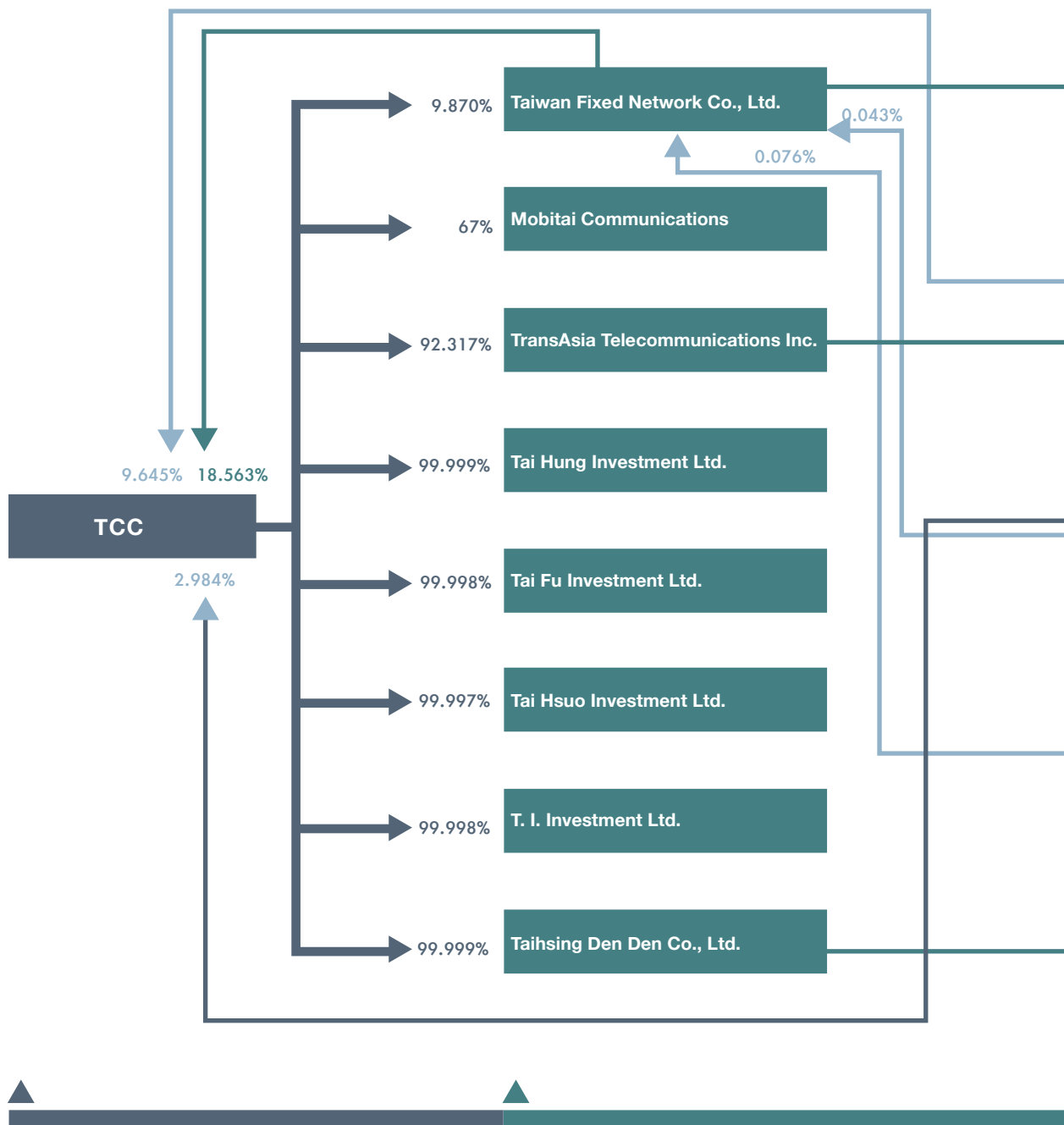
Company has also continued its support of environmental protection groups, children and teenagers’ education, adult life-long learning, and under-privileged minorities. The Company also encouraged its employee participation in events such as cleaning the beach and helping families in emergencies in the hope that the society can become a better place as a result of these efforts.



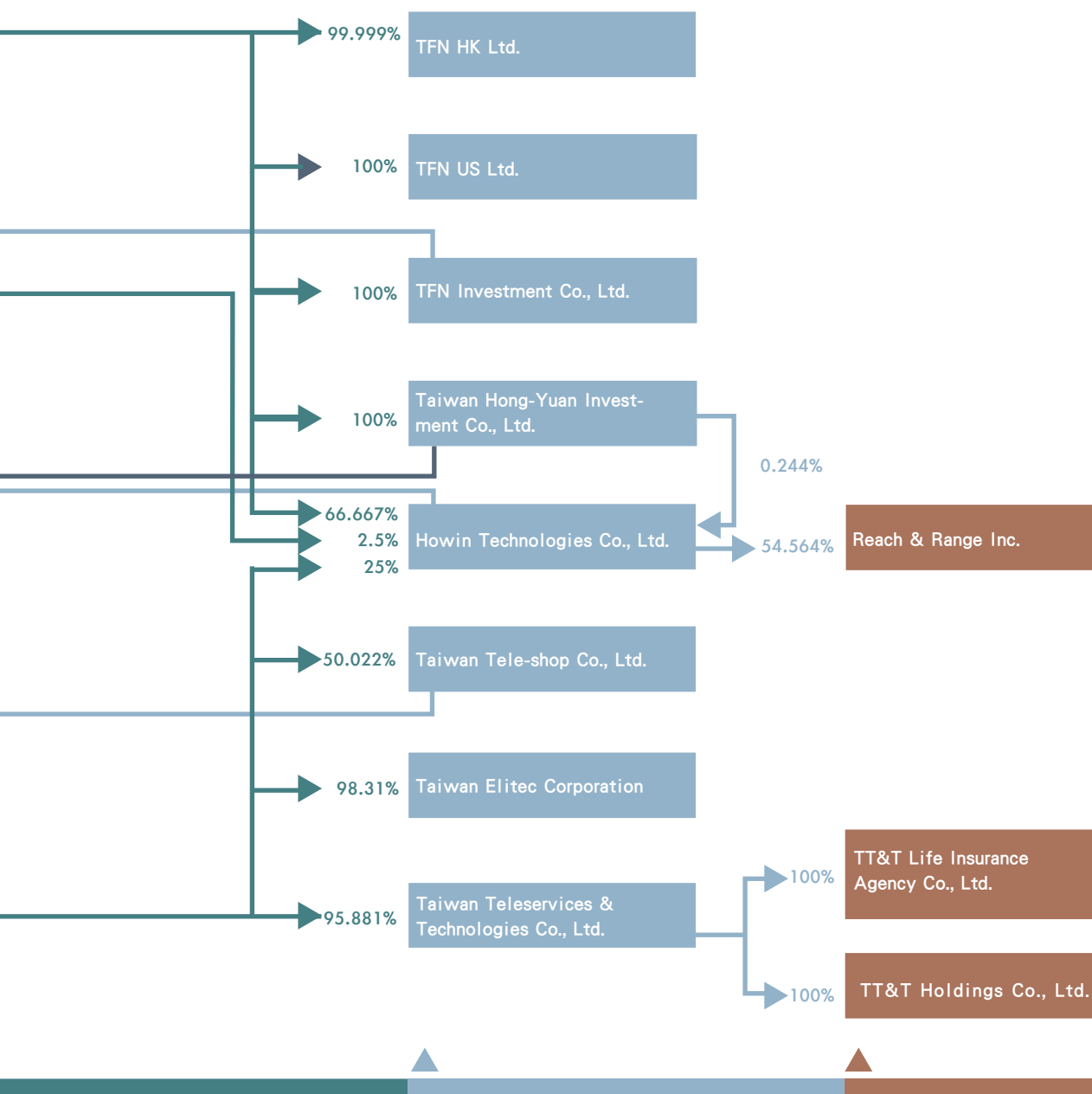
# Special Notes

## Affiliates

### 1. Investment Holding Structure







## 2. Affiliates' Profile

Unit: NT\$'000

Company name	Date of incorporation	Address	Paid-in capital	Main business
Taihsing Den Den Co., Ltd.	1997.08.20	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	443,000	Telecommunication equipment retail & wholesale
T. I. Investment Ltd.	2001.08.03	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	605,000	Investment
Tai Hsuo Investment Ltd.	2001.05.16	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	330,040	Investment
Tai Fu Investment Ltd.	2001.05.16	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	525,040	Investment
Tai Hung Investment Ltd.	2001.05.16	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	1,505,040	Investment
TransAsia Telecommunications Inc.	1997.07.08	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	3,559,956	Wireless service provider
Mobitai Communications	1997.08.04	No.12, GongYe 9 <sup>th</sup> Rd., Taichung City	2,705,623	Wireless service provider
Taiwan Fixed Network Co., Ltd.	2000.05.31	9F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	64,540,000	Type-I telecommunication services-integrated fixed line and type-II telecommunication service
Taiwan Teleservices & Technologies Co., Ltd.	2001.09.05	15F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	935,869	Call center service
Taiwan Elitec Corp.	2001.06.05	14F, No.172-1, Jilung Rd., Sec. 2, Taipei City	200,000	Software solution provider, data processing services
Taiwan Tele-Shop Co., Ltd.	1998.08.28	3F, No.206, Sec. 2, Dunhua S. Rd., Taipei City	410,000	Telecommunication equipment retail & wholesale, mobile service distribution
Howin Technologies Corp.	2000.11.10	8F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	1,200,000	Communications engineering, type-II telecommunication service, import of radio frequency equipment, installation of electronic appliances
Taiwan Hong Yuan Investment Ltd.	2002.05.16	9F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	6,000,000	Investment
TFN Investment Co., Ltd.	2001.12.20	9F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	17,500,000	Investment
TFN US Ltd.	2003.04.17	433 California Street, Suite 810, San Francisco, California 94104	US\$430,000 (Note)	International Simple Resale
TFN HK LIMITED	2003.05.14	Unit 507, 5/F, Tower 1, Silvercord, 30 Canton Rd., Tsimshatsui, Kowloon, Hong Kong	HK\$1,300,000 (Note)	International Simple Resale
TT&T Holdings Co., Ltd.	2004.10.18	TrustNet Chambers., P.O. Box 1225, Apia, Samoa.	US\$1,300,000	Investment
TT&T Life Insurance Agency Co., Ltd.	2004.12.16	10F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	3,000	Life Insurance Agency
Reach & Range Inc.	1995.12.04	5F, No.139, Jhengjhou Rd., Taipei City	110,000	Sale and service of system equipment used in value-added services, computer software

Note: Above figures are based on exchange rates as of Dec. 31, 2004: NT\$31.7 per US dollar and NT\$4.08 per Hong Kong dollar.

### 3. Affiliates' Operating Highlights

Unit: NT\$'000

Company name	Paid-in capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Net income	EPS (NT\$)
Taihsing Den Den Co., Ltd.	443,000	1,909,425	456,221	1,453,204	-	(2,008)	(131,834)	(2.98)
T. I. Investment Ltd.	605,000	424,650	237	424,413	20,416	(7,793)	(8,156)	NA
Tai Hsuo Investment Ltd.	330,040	310,147	1,741	308,406	6,134	(41,062)	(42,590)	NA
Tai Fu Investment Ltd.	525,040	557,176	1,835	555,341	8,342	6,210	4,482	NA
Tai Hung Investment Ltd.	1,505,040	1,665,320	4,014	1,661,306	101,948	101,644	98,056	NA
TransAsia Telecommunications Inc.	3,559,956	9,556,316	1,907,134	7,649,182	11,157,126	3,151,300	3,385,289	6.69
Mobitai Communications	2,705,623	4,208,645	1,099,700	3,108,945	4,820,594	433,565	246,820	0.71
Taiwan Fixed Network Co., Ltd.	64,540,000	94,393,162	22,954,329	71,438,833	8,222,115	(784,935)	3,631,892	0.44
Taiwan Teleservices & Technologies Co., Ltd.	935,869	1,134,383	549,840	584,543	102,937	(28,424)	(56,504)	(0.75)
Taiwan Elitec Corp.	200,000	265,407	84,230	181,177	598,843	6,507	(55,261)	(2.01)
Taiwan Tele-Shop Co., Ltd.	410,000	1,473,028	730,295	742,733	3,462,415	(36,013)	67,047	0.55
Howin Technologies Corp.	1,200,000	7,544,974	5,455,346	2,089,628	2,359,922	363,654	575,224	1.80
Taiwan Hong Yuan Investment Co., Ltd.	6,000,000	7,318,781	28,900	7,289,881	1,187,955	1,184,266	1,156,069	1.45
TFN Investment Co., Ltd.	17,500,000	19,433,621	85,393	19,348,228	1,505,821	1,482,981	1,421,370	0.76
TFN US Ltd.	13,724	13,288	59	13,229	-	(112)	(26)	NA
TFN HK LIMITED	5,304	4,750	183	4,567	-	(222)	(221)	NA
TT&T Holdings Co., Ltd.	41,223	41,266	30	41,236	-	(31)	14	-
TT&T Life Insurance Agency Co., Ltd.	3,000	3,003	51	2,952	-	(49)	(48)	(0.16)
Reach & Range Inc.	110,000	133,918	34,038	99,880	140,093	6,967	9,864	0.90

## TCC Shares Held / Disposed by Subsidiaries

Subsidiary	Paid-in capital (NT\$'000)	Source of funds	% Owned by TCC	Transaction date	Share increase (decrease)	Value (NT\$'000)	Gains (losses) (NT\$'000)	Share pledges	Subsidiary debts guaranteed by TCC	Loans to subsidiaries
Taiwan Tele-Shop Co., Ltd.	410,000	Internally generated funds	50.02%	Purchase Year 2000	2,800,000	163,109	-	-	-	-
				Stock dividend Year 2001	896,616	-	-	-	-	-
				Stock dividend Year 2002	702,357	-	-	-	-	-
				Stock dividend Year 2003	175,958	-	-	-	-	-
				Disposal Year 2004	(4,574,931)	153,606	(9,503)	-	-	-
				Balance as of the report's printing date	-	-	-	None	None	None

Note: TCC acquired 50.02% of Taiwan Tele-Shop through Taihsing Den Den Co., Ltd.

## Internal Control Status

The Company's Internal Audit Office is an independent unit that reports directly to the Board of Directors and briefs the CEO on a regular and as needed basis.

Internal Audit Office is responsible for the examination and assessment of the internal control of the Company's financials, sales, operations and management. All departments and subsidiaries are subject to its audits.

Regular internal audits are executed according to the annual audit plan. Special audit projects are implemented as needed. These audits ensure the quality of the internal control system, and provide timely recommendations for future improvements. In accordance with the spirit of corporate governance, audit reports are regularly submitted to and reviewed by the CEO as well as the Audit Committee.

Internal Audit Office also examines the mechanisms and results of self-inspections by each department and subsidiary to ensure the quality of implementations. In addition, Internal Audit Office generates and consolidates related inspection reports for CEO and Board of Directors to evaluate the overall efficiency of existing internal control systems before generating the Internal Control System Statements.

### 1. Audit Report issued by CPA related to Internal Control System:

The Company does not retain the services of a CPA for this purpose.

### 2. Internal Control Statement Taiwan Cellular Corporation

## Internal Control Statement

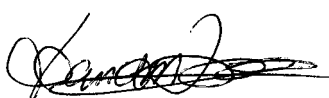
Date: February 1, 2005

TCC states the following with regard to its internal control system during the period from January 1, 2004 to December 31, 2004, based on the findings of a self-evaluation:

1. TCC is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. TCC has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguard of asset security), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. TCC judges the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies promulgated by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan (herein below, the "Regulations"). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. control environment 2. risk assessment 3. control activities 4. information and communications 5. monitoring. Each element further contains several items. Please refer to the Regulations for details.
4. TCC has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, TCC believes that during the stated time period its internal control system (including its supervision of subsidiaries), encompassing internal controls for knowledge of the degree of achievement of operational effectiveness and efficiency objectives, reliability of financial reporting, and compliance with applicable laws and regulations, was effectively designed and operating, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This statement has been passed by the Board of Directors Meeting of TCC held on February 1, 2005, where all of the 9 attending directors expressed dissenting opinions, and the remainder all affirmed the content of this Statement.

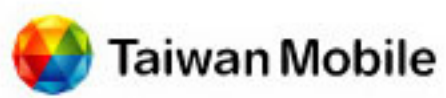
Taiwan Cellular Corporation

Chairman:



President:





Taiwan Mobile

