

2008 Financial Statements

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheets of Taiwan Mobile Co., Ltd. (the "Corporation") as of December 31, 2008 and 2007, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Mobile Co., Ltd. as of December 31, 2008 and 2007, 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, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As stated in Note 3 to the financial statements, in March 2007, the Accounting Research and Development Foundation issued an interpretation that requires companies to recognize employee bonuses and remuneration paid to directors and supervisors as expenses starting from January 1, 2008. The mentioned bonuses and remuneration were previously recorded as appropriations from earnings.

As stated in Note 8 to the financial statements, to position as an integrated telecom and media player down the road differentiating from competition and build growth momentum exposure to higher margin lines of business, the Board of Directors of the Corporation's subsidiary, Taishing International Telecommunications Co., Ltd. (TIT), resolved to acquire Taiwan Fixed Network Co., Ltd. (the former TFN) through a public tender offer on March 1, 2007, and approved to buy shares continuously from minority interests on April 26, 2007, both at the price of NT\$8.3 per share. On December 28, 2007, TFN merged into TIT (surviving company) by paying NT\$8.3 per share cash to minorities, and the surviving company is renamed as TFN.

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, 2008 and 2007 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. In our report dated January 20, 2009, we have issued a modified unqualified opinion on these consolidated financial statements.

January 20, 2009

Notice to Readers

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

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

TAIWAN MOBILE CO., LTD.

BALANCE SHEETS
DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2008		2007	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2, 4 and 25)	\$ 1,544,375	2	\$ 2,463,439	3
Available-for-sale financial assets - current (Notes 2 and 5)	174,008	-	177,112	-
Notes receivable	14,539	-	14,539	-
Accounts receivable - third parties (Notes 2 and 6)	5,817,239	7	5,669,871	7
Accounts receivable - related parties (Notes 2 and 25)	219,641	-	296,340	-
Other receivables - third parties	251,610	-	208,331	-
Other receivables - related parties (Note 25)	2,067,754	2	2,536,947	3
Inventories (Note 2)	309,898	-	82,222	-
Prepayments (Notes 7 and 25)	628,337	1	556,365	1
Deferred income tax assets - current (Notes 2 and 21)	142,605	-	98,239	-
Pledged time deposits (Notes 25 and 26)	10,000	-	10,000	-
Other current assets	7,882	-	17,658	-
Total current assets	11,187,288	12	11,831,063	14
INVESTMENTS				
Investments accounted for using equity method (Notes 2 and 8)	15,351,186	17	15,204,778	18
Prepayments for long-term investments (Note 8)	249,500	-	-	-
Hedging derivative financial assets - non-current (Notes 2, 24 and 28)	82,484	-	-	-
Financial assets carried at cost - non-current (Notes 2 and 9)	60,064	-	71,596	-
Total investments	15,743,234	18	15,276,374	18
PROPERTY AND EQUIPMENT (Notes 2, 10 and 25)				
Cost				
Land	3,866,289	4	3,655,983	4
Buildings	2,385,587	3	2,181,890	3
Telecommunication equipment	60,783,882	68	52,622,256	63
Office equipment	100,332	-	113,782	-
Leased assets	1,285,920	1	1,276,190	2
Miscellaneous equipment	2,065,396	2	1,965,278	2
Total cost	70,487,407	78	61,815,379	74
Less accumulated depreciation	(29,907,812)	(33)	(31,412,695)	(36)
	40,579,594	45	30,402,684	48
Construction in progress and advance payments	2,439,092	3	2,165,454	3
Net property and equipment	43,018,691	48	42,568,638	51
INTANGIBLE ASSETS (Note 2)				
3G concession	7,477,091	8	8,224,800	10
Computer software cost	4,855	-	24,658	-
Goodwill (Note 11)	6,835,570	8	-	-
	14,317,514	16	8,249,458	10
OTHER ASSETS				
Assets leased to others (Notes 2, 12 and 25)	2,304,349	3	2,382,275	3
Idle assets (Notes 2 and 12)	138,679	-	225,993	-
Refundable deposits	317,868	-	295,995	-
Deferred charges (Notes 2 and 13)	313,034	-	247,156	-
Deferred income tax assets - non-current (Notes 2 and 21)	2,467,568	3	2,876,719	4
Other (Notes 2, 19 and 25)	67,776	-	48,786	-
Total other assets	5,608,974	6	6,076,924	7
TOTAL	<u>\$9,875,501</u>	<u>100</u>	<u>\$9,402,457</u>	<u>100</u>
LIABILITIES AND SHAREHOLDERS' EQUITY				
CURRENT LIABILITIES				
Short-term bank loans (Note 14)	\$ 1,300,000	1	\$ 1,400,000	17
Short-term notes and bills payable (Note 15)	-	-	1,594,753	2
Accounts payable (Note 25)	2,166,678	2	1,600,396	2
Income taxes payable (Notes 2 and 21)	2,139,263	2	846,535	1
Accrued expenses (Note 25)	4,686,201	5	4,593,124	5
Other payables (Note 25)	4,071,747	5	15,568,725	19
Advance receipts (Note 16)	1,361,411	2	1,108,002	1
Current portion of long-term liabilities (Notes 2 and 17)	7,500,000	8	2,500,000	3
Guarantee deposits - current	68,096	-	25,529	-
Other current liabilities (Note 25)	637,973	1	926,884	1
Total current liabilities	23,931,369	26	42,763,948	51
LONG-TERM LIABILITIES				
Bonds payable (Notes 2 and 17)	8,000,000	9	7,500,000	9
Long-term borrowing (Note 18)	5,200,000	6	-	-
Hedging derivative financial liabilities - non-current (Notes 2, 24 and 28)	-	-	51,665	-
Total long-term liabilities	13,200,000	15	7,551,665	9
OTHER LIABILITIES				
Guarantee deposits	246,885	-	247,759	-
Deferred credits - gains on inter-affiliate accounts (Notes 2 and 8)	1,238,378	1	1,586,156	2
Other (Note 2)	356,271	1	-	-
Total other liabilities	1,841,534	2	1,833,915	2
Total liabilities	38,972,903	43	52,149,528	62
SHAREHOLDERS' EQUITY (Notes 2, 3 and 20)				
Capital stock - NTD par value	38,009,254	42	38,009,254	45
Authorized - 6,000,000 thousand shares				
Issued - 3,800,925 thousand shares				
Capital surplus	8,775,819	10	8,775,819	11
From convertible bonds	3,493,759	4	8,027	-
From treasury stock transactions	1,066	-	1,313	-
From long-term investments	27,095	-	-	-
From employee stock options	-	-	-	-
Retained earnings	12,406,775	14	11,745,475	14
Legal reserve	3,406,744	4	3,493,563	4
Special reserve	17,716,013	19	10,720,230	13
Unappropriated earnings	17,840	-	5,764	-
Other equity	2,862	-	1,534	-
Cumulative translation adjustments	-	-	(64,043)	-
Net loss not recognized as pension cost	-	-	(3,897)	-
Unrealized losses on financial instruments	(32,948,852)	(36)	(40,844,007)	(42)
Treasury stock	-	-	-	-
Total shareholders' equity	50,902,598	57	31,852,929	38
TOTAL	<u>\$9,875,501</u>	<u>100</u>	<u>\$9,402,457</u>	<u>100</u>

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated January 20, 2009)

TAIWAN MOBILE CO., LTD.**STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2008		2007	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 25)				
Telecommunications service revenue	\$ 53,609,372	99	\$ 51,023,299	99
Other revenue	<u>702,233</u>	<u>1</u>	<u>261,557</u>	<u>1</u>
Total operating revenues	54,311,605	100	51,284,856	100
OPERATING COSTS (Notes 2, 23 and 25)	<u>24,090,570</u>	<u>44</u>	<u>22,376,599</u>	<u>44</u>
GROSS PROFIT	<u>30,221,035</u>	<u>56</u>	<u>28,908,257</u>	<u>56</u>
OPERATING EXPENSES (Notes 2, 23 and 25)				
Marketing	9,592,332	18	8,958,751	17
Administrative	<u>3,751,079</u>	<u>7</u>	<u>3,923,829</u>	<u>8</u>
Total operating expenses	<u>13,343,411</u>	<u>25</u>	<u>12,882,580</u>	<u>25</u>
OPERATING INCOME	<u>16,877,624</u>	<u>31</u>	<u>16,025,677</u>	<u>31</u>
NON-OPERATING INCOME AND GAINS				
Investment income recognized under the equity method, net (Notes 2 and 8)	4,092,481	8	3,661,808	7
Penalty income	197,507	-	173,290	-
Rental income (Note 25)	146,128	-	105,480	-
Interest income (Note 25)	94,213	-	339,060	1
Dividend income (Note 2)	11,451	-	9,623	-
Gain on disposal of property and equipment (Note 2)	2,096	-	3,978	-
Exchange gain, net (Note 2)	-	-	23,563	-
Other (Notes 2, 6 and 25)	<u>247,265</u>	<u>1</u>	<u>221,698</u>	<u>1</u>
Total non-operating income and gains	<u>4,791,141</u>	<u>9</u>	<u>4,538,500</u>	<u>9</u>
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal and retirement of property and equipment (Note 2)	1,118,386	2	12,069,502	23
Interest expenses (Notes 2, 10, 25 and 28)	684,012	2	391,480	1
Provision for loss on inventories (Note 2)	15,732	-	-	-
Impairment loss (Notes 2 and 9)	11,532	-	-	-
Other (Note 2)	<u>62,006</u>	-	<u>47,331</u>	-
Total non-operating expenses and losses	<u>1,891,668</u>	<u>4</u>	<u>12,508,313</u>	<u>24</u>

(Continued)

TAIWAN MOBILE CO., LTD.**STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2008		2007	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 19,777,097	36	\$ 8,055,864	16
INCOME TAX EXPENSE (Notes 2 and 21)	<u>4,405,711</u>	<u>8</u>	<u>1,442,867</u>	<u>3</u>
NET INCOME	<u>\$ 15,371,386</u>	<u>28</u>	<u>\$ 6,612,997</u>	<u>13</u>
EARNINGS PER SHARE (Note 22)				
Basic	\$ 6.67	\$ 5.18	\$ 2.05	\$ 1.68
Diluted	<u>\$ 6.65</u>	<u>\$ 5.17</u>	<u>\$ 2.05</u>	<u>\$ 1.68</u>

Pro forma information should the Corporation's stocks held by its subsidiaries be treated as an investment instead of treasury stock (after income tax):

	2008	2007
NET INCOME	\$ 18,857,118	\$ 6,612,997
EARNINGS PER SHARE		
Basic	\$ 4.97	\$ 1.36
Diluted	<u>\$ 4.96</u>	<u>\$ 1.36</u>

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

(With Deloitte & Touche audit report dated January 20, 2009)

(Concluded)

TAIWAN MOBILE CO., LTD.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	Authorized and Outstanding Capital Stock	Capital Surplus	Retained Earnings			Cumulative Translation Adjustments	Net Loss Not Recognized As Pension Cost	Unrealized Losses on Financial Instruments	Treasury Stock	Total Shareholders' Equity
			Legal Reserve	Special Reserve	Unappropriated					
BALANCE, JANUARY 1, 2007	\$ 49,993,251	\$ 8,748,571	\$ 10,128,401	\$ 3,350,000	\$ 19,228,424	\$ 3,860	\$ -	\$ (147,423)	\$ (1,437,290)	\$ 89,867,794
Appropriation of the 2006 earnings	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	1,617,074	-	(1,617,074)	-	-	-	-	-
Special reserve	-	-	-	143,563	(143,563)	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	(43,231)	-	-	-	-	(43,231)
Bonus to employees - cash	-	-	-	-	(432,303)	-	-	-	-	(432,303)
Cash dividends - NT\$2.58757 per share	-	-	-	-	(12,880,151)	-	-	-	-	(12,880,151)
Balance after appropriation	49,993,251	8,748,571	11,745,475	3,493,563	4,112,102	3,860	-	(147,423)	(1,437,290)	76,512,109
Adjustments on change of equity in equity-method investments	-	1,313	-	-	-	1,904	1,534	(113,063)	-	(108,312)
Unrealized gain on financial instruments, net	-	-	-	-	-	-	-	196,443	-	196,443
Transfer of treasury stock to employees	-	8,027	-	-	(4,869)	-	-	-	1,437,290	1,440,448
Conversion of convertible bonds to capital stock	16,003	27,248	-	-	-	-	-	-	-	43,251
Adjustments of treasury stock held by subsidiaries	-	-	-	-	-	-	-	-	(40,844,007)	(40,844,007)
Capital reduction by cash (Note 20)	(12,000,000)	-	-	-	-	-	-	-	-	(12,000,000)
Net income in 2007	-	-	-	-	6,612,997	-	-	-	-	6,612,997
BALANCE, DECEMBER 31, 2007	38,009,254	8,785,159	11,745,475	3,493,563	10,720,230	5,764	1,534	(64,043)	(40,844,007)	31,852,929
Appropriation of the 2007 earnings	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	661,300	-	(661,300)	-	-	-	-	-
Reversal of special reserve	-	-	-	(86,819)	86,819	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	(18,116)	-	-	-	-	(18,116)
Bonus to employees - cash	-	-	-	-	(181,155)	-	-	-	-	(181,155)
Cash dividends - NT\$2.54326 per share	-	-	-	-	(7,601,851)	-	-	-	-	(7,601,851)
Balance after appropriation	38,009,254	8,785,159	12,406,775	3,406,744	2,344,627	5,764	1,534	(64,043)	(40,844,007)	24,051,807
Buyback of issued shares	-	-	-	-	-	-	-	-	(1,059,732)	(1,059,732)
Adjustments on change of equity in equity-method investments	-	(147)	-	-	-	12,076	1,328	(39,362)	-	(26,105)
Disposal of the Corporations shares held by subsidiaries	-	3,485,732	-	-	-	-	-	-	8,954,907	12,440,639
Unrealized gain on financial instruments, net	-	-	-	-	-	-	-	97,508	-	97,508
Compensation cost recognized from employee stock options	-	27,095	-	-	-	-	-	-	-	27,095
Net income in 2008	-	-	-	-	15,371,386	-	-	-	-	15,371,386
BALANCE, DECEMBER 31, 2008	\$ 38,009,254	\$ 12,297,839	\$ 12,406,775	\$ 3,406,744	\$ 17,716,013	\$ 17,840	\$ 2,862	\$ (5,897)	\$ (32,948,832)	\$ 50,902,598

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

(With Deloitte & Touche audit report dated January 20, 2009)

TAIWAN MOBILE CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 15,371,386	\$ 6,612,997
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,163,877	6,287,945
Investment income recognized under the equity method, net	(4,092,481)	(3,661,808)
Cash dividends received from equity-method investees	3,245,715	1,979,210
Loss on disposal and retirement of property and equipment, net	1,116,290	12,065,524
Amortization	860,970	891,669
Bad debts	627,260	806,142
Deferred income taxes	331,247	(1,485,805)
Compensation cost recognized from employee stock options	21,701	-
Provision for (recovery of) loss on inventories	15,732	(8,276)
Impairment loss	11,532	-
Pension cost	(2,229)	(8,903)
Property and equipment transferred to other expenses	1,680	-
Accrued interest compensation	-	(2,297)
Net changes in operating assets and liabilities		
Financial assets held for trading	-	11,109,207
Notes receivable	470	(3,133)
Accounts receivable - third parties	(451,171)	(1,126,076)
Accounts receivable - related parties	76,699	29,503
Other receivables - third parties	(459,877)	24,963
Other receivables - related parties	469,193	(16,380)
Inventories	(243,408)	(42,714)
Prepayments	(33,617)	8,081
Other current assets	10,346	(1,234)
Accounts payable	357,713	167,833
Income taxes payable	1,238,504	(1,259,504)
Accrued expenses	67,594	827,463
Other payables	524,341	806,919
Advance receipts	248,301	113,772
Other current liabilities	(274,621)	41,224
Net cash provided by operating activities	25,203,147	34,156,322
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(5,336,454)	(6,109,099)
Proceeds from investees' capital reduction	2,152,688	3,458,463
Repayment of financing from investees	1,255,000	-
Financing provided to investees	(1,000,000)	(2,255,000)
Increase in long-term investments accounted for using equity method	(434,500)	(34,758,230)
Increase in deferred charges	(148,091)	(70,671)
Cash received from merger with subsidiaries	124,754	-
Increase in refundable deposits	(9,842)	(21,010)
		(Continued)

- 7 -

TAIWAN MOBILE CO., LTD.

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)

	2008	2007
Decrease (increase) in other assets	\$ (9,617)	\$ 295
Proceeds from disposal of property and equipment	5,447	10,163
Increase in computer software costs	(2,716)	(117)
Increase in financial assets carried at cost-non-current	-	(39,436)
Net cash used in investing activities	(3,403,331)	(39,784,642)
CASH FLOWS FROM FINANCING ACTIVITIES		
Capital reduction	(11,997,787)	-
Increase (decrease) in short-term bank loans	(10,954,391)	14,000,000
Issuance of bonds payable	8,000,000	-
Cash dividends paid	(7,601,804)	(12,880,128)
Increase in long-term borrowing	6,100,000	-
Decrease in bonds payable	(2,500,000)	(3,768,900)
Increase (decrease) in short-term notes and bills payable	(1,594,753)	1,594,753
Buyback of treasury stock	(1,059,732)	-
Decrease in long-term loans	(900,000)	-
Bonus to employees	(181,155)	(432,303)
Remuneration to directors and supervisors	(18,116)	(43,231)
Decrease in guarantee deposits	(11,142)	(21,343)
Transfer of treasury stock to employees	-	1,440,448
Net cash used in financing activities	(22,718,880)	(10,704)
NET DECREASE IN CASH AND CASH EQUIVALENTS		
	(919,064)	(5,739,024)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,463,439	8,202,463
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,544,375	\$ 2,463,439
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$ 652,276	\$ 415,329
Less: Interest capitalized	11,296	25,981
Interest paid - excluding interest capitalized	\$ 640,980	\$ 389,348
Income tax paid	\$ 2,353,728	\$ 3,562,111
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$ 7,500,000	\$ 2,500,000
Conversion of convertible bonds to capital stock	-	43,251
Reclassification of the corporation's shares held by its subsidiaries to treasury stock	\$ 31,889,100	\$ 40,844,007
Refundable capital reduction	-	\$ 12,000,000
Participation in subsidiary's rights issue with TPN shares	-	\$ 5,287,100
		(Continued)

- 8 -

TAIWAN MOBILE CO., LTD.**STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars)**

	2008	2007
CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment	\$ 5,907,774	\$ 5,389,350
Decrease (increase) in other payables	(215,049)	719,749
Increase in other liabilities - other	(356,271)	-
	<u>\$ 5,336,454</u>	<u>\$ 6,109,099</u>
Cash paid for acquisition of property and equipment		
The Corporation merged with TransAsia Telecommunications Inc. on September 2, 2008. The book values of the assets and liabilities upon a merger were as follows:		
Cash	\$ 124,754	
Accounts receivable	758,874	
Other accounts receivable	2,102,930	
Prepayments	38,355	
Other current assets	570	
Property and equipment	1,644,531	
Intangible assets	6,843,089	
Other assets	<u>35,415</u>	
	11,548,518	
Accounts payable	300,846	
Income taxes payable	54,224	
Accrued expenses	142,097	
Other payables	161,391	
Advance receipts	5,107	
Other current liabilities	77,023	
Other liabilities	<u>322</u>	
	741,010	
Net	<u>\$ 10,807,508</u>	

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

(With Deloitte & Touche audit report dated January 20, 2009)

(Concluded)

TAIWAN MOBILE CO., LTD.**NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2008 AND 2007
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)****1. ORGANIZATION AND OPERATIONS**

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

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

As of December 31, 2008 and 2007, the Corporation had 2,543 and 2,528 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Basis of Presentation**

The accompanying financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, the Business Accounting Law, Guidelines Governing Business Accounting, and accounting principles generally accepted in the ROC. In conformity with these guidelines, the Law, and principles, the Corporation is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, provision for losses on decline in value of inventories, depreciation, pension, allowance for deferred income tax assets, bonus to employees, remuneration to directors and supervisors, impairment loss on assets, etc. Actual results may differ from these estimates.

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

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

Classification of Current and Non-current Assets and Liabilities

Current assets include cash and cash equivalents, assets held for trading and those expected to be converted to cash, sold or consumed within twelve months from the balance sheet date. Other assets such as property and equipment and intangible assets are classified as non-current. Current liabilities are obligations held for trading and those expected to be due within twelve months from the balance sheet date. All other liabilities are classified as non-current.

Cash Equivalents

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

Financial Instruments at Fair Value through Profit or Loss

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

The fair value of open-end mutual funds is based on the net asset value on the balance sheet date.

Available-for-sale Financial Assets

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

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

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

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

Allowance for Doubtful Accounts

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

Inventories

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

Investments Accounted for Using Equity Method

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

Starting January 1, 2006, in accordance with the newly revised Statement of Financial Accounting Standards (SFAS), the cost of acquisition is subjected to an initial analysis, and goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets value. Goodwill is no longer amortized. If the fair value of identifiable net assets acquired exceeds the cost of investments, the excess should be assigned to non-current assets (except for financial assets not under equity method, assets for disposal, deferred income tax assets and prepaid pension costs or other retirement benefit costs). If these assets are all reduced to zero, the remaining excess should be recognized as extraordinary gain. Starting January 1, 2006, the unamortized balance of the excess of the acquisition cost of the long-term investment by the equity method over the value in the investee's net assets value is also no longer amortized and applies the same accounting treatment as goodwill.

Gains or losses from downstream transactions to its subsidiaries are deferred and included in deferred income (loss) and recorded as other liabilities (assets). Gains or losses on the upstream transactions to the Corporation by equity-method investees that are not majority owned are deferred in proportion to the Corporation's ownership percentages in the investees until these sales are realized through transactions with third parties.

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

Financial Assets Carried at Cost

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

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. Leased property and equipment from others covered by agreements qualifying as capital leases are carried at the lower of the present value of future minimum lease payments or the market value of the property on the starting dates of the leases.

For cost associated with dismantling and relocating fixed assets and restoring the leased premises housing our fixed assets to the previous state should be recognized as an addition to the fixed assets and accrued as a potential liability accordingly, according to the Accounting Research and Development Foundation (ARDF) issued the Interpretation No. 2008-340 in November 2008.

Depreciation is calculated using the straight-line method over the estimated service lives, which range as follows: buildings - 50 to 55 years; telecommunication equipment - 2 to 15 years; office equipment - 3 to 5 years; leased assets - 20 years; and miscellaneous equipment - 3 to 5 years.

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

Accounting for Leases

In accordance with SFAS No. 2, "Accounting for Leases," a lease is identified as either an operating lease or a capital lease based on the lease contract terms, the collectibility of the leasehold and the un-reimbursable costs to be incurred by the lessor.

The asset held under an operating lease is stated at cost, and depreciated on the straight-line basis over the estimated useful life. Receivables collected are periodically recognized as rental income during the lease contract.

At the inception date of a capital lease, total leasehold receivables shall be recognized as all rental receivables plus the pre-determined bargain purchase price offered to the lessee upon maturity or estimated residual value. For a financing-type of capital lease, leasehold receivables should be recognized as the sum of present value derived from each future rental receivable based on an implicit interest rate of the lease. The excess of total leasehold receivables over the present value of leasehold receivables should be deferred as unrealized interest income, and amortized as interest income by the effective interest method upon each collection.

Intangible Assets

a. Franchise

Franchise refers to the payment for the 3G mobile telecommunication service - License C. The 3G concession is recorded at acquisition cost and is amortized by straight-line method over 13 years and 9 months starting from the launch of 3G services.

b. Computer software

Computer software cost is amortized by the straight-line method over 3 years.

c. Goodwill

Starting January 1, 2006, in accordance with the newly revised SFAS, goodwill is no longer amortized. Please refer to the accounting policy of investments accounted for by the equity method.

Idle Assets

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

Deferred Charges

Deferred charges, which included interior decoration cost, bond issuance costs, and arrangement fees for syndicated bank loans are amortized by the straight-line method over three to seven years.

Asset Impairment

If the carrying value of assets (including property and equipment, intangible assets, idle assets, assets leased to others, investments accounted for using equity method and deferred charge) is more than its recoverable amount, which indicates that an impairment exists, an impairment loss should be recognized. Any subsequent reversal of the impairment loss for the increase in recoverable amount is recognized as income. The reversal of impairment loss on goodwill is not allowed.

Share-based Compensation

For the grant date of the employee stock options which falls on or after January 1, 2008 should apply SFAS No. 39 - "Accounting for Share-based Payment". The value of stock option granted, the product of the number of vested stock options multiplies by the fair value of the option on grant date, shall be expensed over the vesting period, and to increase "capital surplus - employee stock options" by the same amount accordingly.

Pension Costs

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

Bonds Payable

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

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

Income Taxes

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

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

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

Income tax of 10% on unappropriated earnings generated is provided for as income tax in the year when the shareholders resolve the retention of the earnings.

Treasury Stock

The purchase of issued shares is accounted for by debiting treasury stock, which is a reduction of shareholders' equity. The Corporation's shares held by its subsidiaries are treated as treasury stock and reclassified from investments accounted for using equity method to treasury stock.

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

Foreign-currency Transactions

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

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

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

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

Revenue Recognition

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

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

Promotion Expenses

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

Hedging Derivative Financial Instruments

Derivatives that qualify as effective hedging instruments are measured at fair value, with subsequent changes in fair value recognized either in earnings or shareholders' equity, depending on the nature of the hedge.

Hedge Accounting

When hedge accounting is applied, gain or loss from changes in the fair value of the derivatives (hedging instruments) shall be offset by that of financial assets/liabilities (hedged position).

The Corporation entered into interest rate swaps (IRS) contracts to hedge against cash flow risk from inverse floating interest rates of liabilities, thus was qualified to apply hedge accounting. The accounting treatment is as follows: Gain or loss from changes in the fair value of the derivatives, which is recognized in shareholder's equity, shall be reclassified in earnings, if gain or loss from the expected transaction of the hedged position occurs. When there is objective evidence that the net loss recognized in shareholders' equity is expected to be not recoverable, the mentioned net loss should be reclassified in earnings as well.

Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2007 have been reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2008.

3. REASONS AND EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

Accounting for Bonuses to Employees, Directors and Supervisors

In March 2007, the ARDF issued an interpretation that requires companies and their subsidiaries to recognize those bonuses to employees and remunerations to directors and supervisors as expenses starting from January 1, 2008. The mentioned bonuses and remunerations were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of \$342,125 thousand in net income and a decrease in basic earnings per share of NT\$0.12 for the year ended December 31, 2008.

Accounting for Employee Stock Options

On January 1, 2008, the Corporation adopted the newly released SFAS No. 39 - "Accounting for Share-based Payment" to account for treasury stock transferred to employees. The adoption resulted in decreases of \$16,276 thousand in net income and of NT\$0.005 in basic earnings per share for 2008.

4. CASH AND CASH EQUIVALENTS

	December 31 2008	2007
Cash in banks	\$ 521,224	\$ 428,407
Government bonds with repurchase rights	485,439	-
Short-term notes and bills with repurchase rights	391,879	1,771,757
Time deposits	115,107	237,820
Cash on hand	25,923	22,347
Revolving funds	4,803	3,108
	<u>\$ 1,544,375</u>	<u>\$ 2,463,439</u>

5. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	December 31 2008	2007
Domestic listed stocks	\$ 174,008	\$ 177,112
Chunghwa Telecom Co., Ltd.		

6. ACCOUNTS RECEIVABLE - THIRD PARTIES

	December 31 2008	2007
Accounts receivable	\$ 6,269,541	\$ 5,811,715
Less allowance for doubtful accounts	<u>(452,302)</u>	<u>(441,844)</u>
	<u>\$ 5,817,239</u>	<u>\$ 5,369,871</u>

For the year ended December 31, 2008, the Corporation entered into an accounts receivable factoring contract with HC Second Asset Management Co., Ltd. The Corporation sold \$2,966,244 thousand of the overdue accounts receivable, which had been written off, to HC Second Asset Management Co., Ltd. The aggregate selling price was \$36,967 thousand. Under this contract, the Corporation would no longer assume the risk on this receivable.

7. PREPAYMENTS

	December 31, 2008	2007
Prepaid commissions	\$ 335,388	\$ 270,228
Prepaid rents	121,152	135,131
Prepaid insurance	38,177	47,872
Others	<u>133,620</u>	<u>103,134</u>
	<u>\$ 628,337</u>	<u>\$ 556,365</u>

8. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31, 2008		2007	
	Carrying Value	% of Ownership	Carrying Value	Ownership
Taiwan Cellular Co., Ltd. (TCC)	\$ 15,125,451	100.00	\$ 3,791,398	100.00
Wealth Media Technology Co., Ltd. (WMT)	225,735	100.00	82,715	100.00
TransAsia Telecommunications Inc. (TAT)	<u>15,351,186</u>	-	<u>11,330,665</u>	100.00
Prepayment for long-term investments Taipei New Horizons Co., Ltd. (TNH)	<u>249,500</u>	-	<u>-</u>	-
	<u>\$ 15,600,686</u>		<u>\$ 15,204,778</u>	

a. Taiwan Cellular Co., Ltd.

On March 1, 2007, TCC's Board of Directors resolved the rights issue of 18,028 thousand shares at \$1,000 per share. On the record date (March 8, 2007), the Corporation subscribed for all the shares by cash of \$12,740,430 thousand and the 637,000 thousand shares of Taiwan Fixed Network Co., Ltd. (TFN) value at \$8.3 per share. After the capital injection, TCC is still a wholly-owned subsidiary of the Corporation.

TCC's Board of Directors resolved the rights issue of 21,931 thousand shares at \$1,000 dollars on October 31, 2007. On the record date (December 26, 2007), the Corporation subscribed for all the shares and TCC is still a wholly-owned subsidiary.

On April 18, 2008, TCC's Board of Directors decided to reduce its capital by \$1,000,000 thousand, resulting in the cancellation of 100,000 thousand shares and the cash return to investors. On the record date (May 1, 2008), the Corporation was entitled to receive \$1,000,000 thousand based on its 100% equity in TCC.

On July 29, 2008, TCC's Board of Directors decided to reduce its capital by \$1,150,000 thousand, resulting in the cancellation of 115,000 thousand shares and the cash return to investors. On the record date (August 1, 2008), the Corporation was entitled to receive \$1,150,000 thousand based on its 100% equity in TCC.

TCC established wholly-owned Taisheng International Telecommunications Co., Ltd. (TIT) on January 30, 2007. On March 1, 2007, the Board of Directors of TIT resolved to issue 1,806,820 thousand shares with par value of \$10 for capital injection. On the record date (March 15, 2007), TCC subscribed for all the shares by cash of \$12,740,430 thousand and the 641,900 thousand shares of TFN valued at \$8.3 per share. TIT's Board of Directors resolved another rights issue of \$21,930,800 thousand on October 31, 2007. TCC subscribed for all the shares and TIT is still a wholly-owned subsidiary of TCC.

Based on the revised SFAS No. 5, "Long-term Investments in Equity Securities," unrealized gains (losses) on downstream transactions should be deferred. Thus, the spread between the original cost and the disposal price of the TFN shares on these transactions had been deferred. As of December 31, 2008, the amount recognized by the Corporation and TCC was deferred credits \$1,238,378 thousand and deferred debits \$1,713 thousand, respectively.

With the purpose of positioning and differentiating itself from the competition as an integrated telecom and media player down the road, and building growth momentum exposure to higher margin lines of business, the Board of Directors of TIT resolved to acquire TFN through a public tender offer on March 1, 2007, and approved to buy shares continuously from minority interests on April 26, 2007, both at the price of \$8.3 per share. TFN and its subsidiaries have become the subsidiaries of the Corporation since April 17, 2007. In addition, TIT's Board of Directors resolved on June 29, 2007 to fully merge TFN at \$8.3 per share, with TIT as the surviving company. TIT thus assumed all the rights and obligations of TFN and was renamed as TFN on the record date, December 28, 2007.

As of December 31, 2008, TFN and its subsidiary held 811,918 thousand shares of the Corporation. Based on SFAS No. 30, "Treasury Stock", the Corporation's shares held by subsidiaries are treated as treasury stock. This accounting treatment increased the Corporation's treasury stock account by \$31,889,100 thousand. Please refer to Note 20 for details.

TFN reclassified investments in the former TFN from "financial assets carried at cost" account to "investments accounted for using equity method" account effective on April 17, 2007. The investment income from the former TFN for the period from January 1, 2007 to April 16, 2007 should be therefore accrued retroactively. Given that the Corporation controlled the former TFN through TFN (100% owned by the Corporation) and the former TFN held over 20% stake in the Corporation, the Corporation and the former TFN recognized investment income from each other based on treasury stock method. Moreover, the former TFN and its subsidiary became the subsidiaries of the Corporation, and reclassified investments in the Corporation from "investments accounted for using equity method" account to "available-for-sale financial assets - non-current" account effective on April 17, 2007.

The subsidiary of the Corporation, Taiwan United Communication Co., Ltd. (TUC), bought Taiwan Telecommunication Network Services Co., Ltd. (TTN) to help businesses meet their needs for digital convergence. To integrate enterprise resources and enhance the operating efficiency, TUC's Board of Directors decided on November 30, 2007 to acquire 100% of TTN through share swap on December 31, 2007. TTN's Board of Directors resolved on December 31, 2007 to fully merge TUC at \$1,384.3 per share, with TTN as the surviving company. The record date of the merger was January 1, 2008. TFN assumed all the rights and obligations of TUC.

On May 22, 2008, TFN's Board of Directors resolved to merge TTN, with TFN as the surviving company. The record date of the merger was August 1, 2008. TFN assumed all the rights and obligations of TTN.

9. FINANCIAL ASSETS CARRIED AT COST - NON-CURRENT

	December 31
	2008
Foreign unlisted stocks	\$ 60,064
Bridge Mobile Pte Ltd.	\$ 71,596

Because there is no active market quotation and a reliable fair value can not be estimated, the above investments are measured at cost. An impairment loss of \$11,552 thousand was recognized for the year of 2008.

10. PROPERTY AND EQUIPMENT - ACCUMULATED DEPRECIATION

	December 31
	2008
Buildings	\$ 343,780
Telecommunication equipment	\$ 28,153,739
Office equipment	69,825
Leased assets	420,303
Miscellaneous equipment	920,166
	<u>\$ 29,907,813</u>
	<u>\$ 21,412,695</u>

Capitalized interest for the years ended December 31, 2008 and 2007 amounted to \$11,296 thousand and \$25,981 thousand, respectively, with capitalized rates ranging from 2.4%-2.76% and from 2.4%-3.0%, respectively.

The Corporation bought farmland located in Yang-Mei, Taoyuan for the amount of \$12,000 thousand from the former TFN, based on the need for deploying telecom equipment. Because only an individual could be the owner of farmland according to related regulations, its ownership is under the landholder through a fiduciary contract.

11. GOODWILL

On September 2, 2008, the Corporation merged with TAT resulting in the recognition of goodwill at the book value of \$6,835,370 thousand.

In conformity with SFAS No. 35, "Accounting for Asset Impairment," the Corporation, TAT and Mobitai, all engaged in mobile service, were combined viewed as one cash-generating unit in 2007. The critical assumptions to evaluate the recoverable amounts of operating assets and goodwill were as follows:

- a. Assumptions on operating revenues
 - After taking changes in the telecom industry and competitive landscape into consideration, operating revenues were estimated on the basis of the projected changes in subscriber numbers, minutes of incoming and outgoing calls and average revenue per minute.
- b. Assumptions on operating costs and expenses
 - The estimates of commissions, customer retention costs, customer service costs and bill processing costs were based on the projected changes in subscriber numbers. The estimates of remaining costs and expenses were based on the proportion of the actual costs and expenses to operating revenues in the 2008 financial statements.

b. Wealth Media Technology Co., Ltd.

To integrate enterprise resources, the Corporation established Wealth Media Technology Co., Ltd. (WMT) on August 7, 2007. WMT's Board of Directors resolved the rights issue of 8,500 thousand shares and 18,500 thousand shares at \$10 par value on October 11, 2007 and March 28, 2008, respectively. On the record dates (October 15, 2007 and April 1, 2008), the Corporation subscribed for all the shares and WMT is still a wholly-owned subsidiary of the Corporation.

c. TransAsia Telecommunications Inc.

On February 27, 2007, TAT's Board of Directors decided to reduce capital by \$3,458,463 thousand, resulting in the cancellation of 345,846 thousand shares and the capital return to investors. On the record date, March 5, 2007, the Corporation was entitled to receive \$3,458,463 thousand based on its 100% holding in TAT.

To integrate enterprise resources and enhance the operating efficiency, TAT's Board of Directors decided on September 4, 2007 to merge Mobitai Communications (Mobitai) with TAT as the surviving company. Mobitai was a wireless operator, incorporated in November 2005. TAT assumed all of Mobitai's rights and obligations in this cash merger with purchase price of \$2,562,000 thousand (\$12.81 per share) on the record date of December 15, 2007.

On July 31, 2008, the Board of Directors of the Corporation resolved to merge TAT, with the Corporation as the surviving company. The record date of the merger was September 2, 2008. The Corporation assumed all the rights and obligations of TAT.

d. Equity in investees' net gains or losses

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

The Corporation's investment income or losses were as follows:

	December 31
	2008
TCC	\$ 3,003,228
TAT	1,131,233
WMTC	(41,980)
	<u>\$ 4,092,481</u>
	<u>\$ 3,661,808</u>

e. Prepayment for long-term investments

Taipei New Horizons Co., Ltd. (TNH) is established to invest in a property development project located in the old Songshan Tobacco Factory site. On January 15, 2009, TNH signed a 50-year BOT contract with Taipei City Government.

The Corporation established TNH on December 31, 2008 with initial investment of \$249,500 thousand, representing 49.9% ownership.

All the financial statements of subsidiaries have been consolidated into the consolidated financial statements of the Corporation.

15. SHORT-TERM NOTES AND BILLS PAYABLE

	December 31	2007
	2008	2007
Commercial paper payable	-	850,000
China Bills Finance Corporation	-	750,000
International Bills Financial Corporation	-	(5,247)
Less discount on short-term notes and bills payable	-	-
Net carrying value	<u>\$ 1,594,753</u>	<u>\$ 1,594,753</u>
Interest rate	-	2.0%-2.121%
Period	-	2007.12.7-2008.2.19

16. ADVANCE RECEIPTS

The Corporation entered into a contract with Mega International Commercial Bank Co., Ltd., which provided performance guarantee for advance receipts from prepaid card customers in accordance with NCC's new policy effective on April 1, 2007. The guaranteed advance receipts from prepaid card customers were \$858,857 thousand as of December 31, 2008.

17. BONDS PAYABLE

	December 31	
	2008	2007
	Current	Non-current
Domestic unsecured bonds	<u>\$ 7,500,000</u>	<u>\$ 8,000,000</u>
	<u>\$ 7,500,000</u>	<u>\$ 7,500,000</u>

a. 1st domestic unsecured bonds

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

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

c. Assumptions on discount rate

For the years ended December 31, 2008 and 2007, the Corporation used the discount rate of 7.48% and 6.78%, respectively, in calculating the asset recoverable amounts.

Based on the key assumptions of the cash-generating unit, the Corporation's management believes that the carrying amounts of these assets for operating and goodwill will not exceed their recoverable amounts even if there are changes in the critical assumptions used to estimate recoverable amounts as long as these changes are reasonable for the year ended December 31, 2008.

12. ASSETS LEASED TO OTHERS AND IDLE ASSETS

	December 31	
	2008	2007
Assets leased to others		
Cost	\$ 2,495,563	\$ 2,504,090
Less accumulated depreciation	(136,721)	(111,224)
Less accumulated impairment	(54,493)	(10,591)
	<u>\$ 2,304,349</u>	<u>\$ 2,382,275</u>
Idle assets		
Cost	\$ 505,217	\$ 643,893
Less allowance for value decline	(187,519)	(187,424)
Less accumulated depreciation	(94,572)	(101,705)
Less accumulated impairment	(84,447)	(128,771)
	<u>\$ 138,679</u>	<u>\$ 225,993</u>

13. DEFERRED CHARGES

	December 31	
	2008	2007
Interior decoration	\$ 271,396	\$ 236,055
Bond issuing cost	17,664	6,698
Arrangement fee for syndicated bank loans	16,089	-
Other	7,885	4,403
	<u>\$ 313,034</u>	<u>\$ 247,156</u>

14. SHORT-TERM BANK LOANS

	December 31	
	2008	2007
Unsecured loans - related parties	\$ 1,300,000	\$ 14,000,000
Unsecured loans from financial institutions	-	-
	<u>\$ 1,300,000</u>	<u>\$ 14,000,000</u>
Interest rate	2.124%-2.417%	2.365%-2.6%

b. 2nd domestic unsecured bonds

On November 14, 2008, the Corporation issued \$8,000,000 thousand five-year domestic unsecured bonds, with each bond having a face value of \$10,000 thousand and a coupon rate of 2.88% per annum, simple interest due annually. Repayments will be made in the fourth and fifth year with equal installments, i.e. \$4,000,000 thousand, respectively.

Future repayments of the above-mentioned corporate bonds are as follows:

Year	Amount
2009	\$ 7,500,000
2012	4,000,000
2013	4,000,000
	<u>\$ 15,500,000</u>

c. 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued \$6,000,000 thousand of five-year domestic unsecured convertible bonds, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to the 10th day before maturity, the bondholders may have the bonds converted into common stocks of the Corporation. Cash is paid for bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been \$22.1 per share since July 24, 2007. As of August 15, 2007 (due date), bonds amounting to \$5,436,400 thousand had been converted to 210,871 thousand of common shares. Bonds amounting to \$544,700 thousand were purchased and canceled by the Corporation, and \$18,900 thousand, the amount of the remaining bonds, was repaid by the Corporation on August 15, 2007.

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

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

18. LONG-TERM BORROWING

Unsecured loans

Interest rate

	December 31	
	2008	2007
	<u>\$ 5,200,000</u>	<u>\$ -</u>
	2.5916%	-

- 23 -

To provide medium-term working capital, the Corporation and its subsidiary, TFN, entered into a syndicated loan with a joint credit line of \$13,500,000 thousand with 9 banks led by Chinatrust Commercial Bank on February 21, 2008. The tenor is three years starting from May 20, 2008. Based on contract term, interests are payable monthly and the principal is due upon maturity. Upon maturity, the loan is allowed to revolve within its credit limits. The contract requires the Corporation to maintain certain financial ratio including debt ratios, interest coverage, and tangible net asset ratio based on semi-annual financials. The Corporation also bears the repayment liability with respect to TFN's borrowing. Please refer to Note 25 for further information.

19. PENSION PLAN

The Labor Pension Act (LPA) provides for a defined contribution pension plan. Starting from July 1, 2005, the Corporation should contribute monthly an amount equal to 6% of the employees' monthly wages to the employees' individual pension accounts. The contributed amount was \$107,848 thousand and \$92,940 thousand for the years ended December 31, 2008 and 2007, respectively.

The Labor Standards Act (LSA) provides for a defined benefit pension plan. Benefits are based on the length of service and average basic pay of the six months before retirement. The Corporation contributes monthly an amount equal to 2% of the employees' monthly wages to a pension fund. The pension fund is managed by an independently administered pension fund committee and deposited in the committee's name in the Bank of Taiwan (formerly in the Central Trust of China, which was merged into the Bank of Taiwan in July 2007). Approved by Department of Labor, Taipei City Government on April 13, 2007 and January 22, 2008, the Corporation suspended contributing from February 2007 to January 2009.

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

a. Pension cost

	Years Ended December 31	
	2008	2007
Service cost	\$ 2,891	\$ 2,172
Interest cost	8,613	7,611
Projected return of pension assets	(11,387)	(10,312)
Amortization	(2,346)	(2,044)
Pension cost	<u>\$ (2,229)</u>	<u>\$ (2,573)</u>

b. Changes in the prepaid pension cost

	December 31	
	2008	2007
Benefit obligation		
Vested	\$ -	\$ -
Non-vested	(208,618)	(183,210)
Accumulated	(208,618)	(183,210)
Additional benefits based on future salaries	(178,880)	(130,004)
Projected benefit obligation	(387,498)	(313,214)
Fair value of plan assets	428,703	414,075
Funded status	41,205	100,861
Unrecognized net transition obligation	7,241	7,756
Unrecognized prior service cost	421	443
Unrecognized net gain or loss	(36,643)	(99,065)
Prepaid pension cost	<u>\$ 12,224</u>	<u>\$ 9,995</u>

- 24 -

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.

For the years ended December 31, 2008, the bonuses to employees and remuneration to directors and supervisors were accrued based on a respective 3% and 0.3% of net income (net of the bonus to employees and remuneration to directors and supervisors) after setting aside 10% net income as legal reserves. The significant difference between annual accruals and the amount approved by the Board shall be adjusted in the current year. If the board's approval differs from the amount ratified at the annual general shareholders' meeting (AGM), the difference will be treated as changes in accounting estimation and will be adjusted in 2009's P&L. If employee bonuses are paid in the form of company shares, the number of employee bonus shares shall be derived from dividing the approved bonus amount by its closing price one day prior to the AGM, adjusted for cash and/or stock dividends if any.

The 2007 and 2006 earnings appropriations resolved by the AGMs on June 13, 2008 and June 15, 2007 were as follows:

	Appropriation of Earnings		Dividend Per Share	
	For Fiscal Year 2007	For Fiscal Year 2006	For Fiscal Year 2007	For Fiscal Year 2006
Appropriation of legal reserve	\$ 661,300	\$ 1,617,074		
Appropriation of special reserve	-	143,563		
Reversal of special reserve	(86,819)	-		
Remuneration to directors and supervisors	18,116	43,231		
Cash bonus to employees	181,155	432,303		
Cash dividends	7,601,851	12,880,151	\$2,54326	\$ 2,58757
	<u>\$ 8,375,603</u>	<u>\$ 15,116,322</u>		

Information about the bonus to employees, directors and supervisors proposed by the Board of Directors and resolved by the shareholders can be accessed through the Market Observation Post System website of the Taiwan Stock Exchange.

c. Capital reduction by cash

To increase ROE (Return of Equity) and maintain stable EPS (Earnings per Share) and dividend, the Corporation's AGM resolved on June 15, 2007, a capital reduction of \$12,000,000 thousand, representing 24% of outstanding shares. The Corporation's Board of Directors resolved the record date of December 1, 2007, and completed the procedure for registration changes, which is already approved by the authority. Trading suspension period started from February 1 to 19, 2008, and new shares resumed trading from February 20, 2008.

	December 31	2007
	2008	
	\$	\$

c. Vested benefit

d. Actuarial assumptions

	Years Ended December 31	2007
	2008	
Discount rate used in determining present values	2.75%	2.75%
Future salary increase rate	3.00%	3.00%
Expected rate of return on plan assets	2.75%	2.75%

20. SHAREHOLDERS' EQUITY

a. Capital surplus

Under the Company Act, capital surplus may only be used to offset a deficit. However, capital surplus generated from the excess of the issue price over the par value of capital stock, including the stock issued for new capital and the buyback of treasury stock, may be transferred to capital as stock dividends, and this transfer is restricted to a certain percentage of the capital surplus and may be made only within prescribed limits each time. Also, the capital surplus from long-term investments may not be used for any purpose.

b. Appropriation of earnings and dividend policy

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

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

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

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

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

d. Treasury stock

Purpose of Buyback	(Shares in Thousands)		
	Beginning Shares	Increase	Ending Shares
Year ended December 31, 2008			
To be transferred to employees	-	24,193	24,193
Shares held by subsidiaries	1,368,250	-	811,918
	(Note)	556,332	
Year ended December 31, 2007			
To be transferred to employees	46,537	-	-
Shares held by subsidiaries	-	1,368,250	1,368,250
			(Note)

Note: Shares held before capital reduction.

- 1) Transfer of stock to employees

For the year ended December 31, 2007, the Corporation transferred the bought-back treasury stocks through various tranches to employees of 46,537 thousand shares at \$28.17, \$31.16 and \$31.15 per share, respectively, resulting in a reduction of retained earnings, amounting to \$4,869 thousand and an increase on paid-in capital, amounting to \$8,027 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.

- 2) Shares held by subsidiaries

On December 31, 2008, TFN and TFN Investment Co., Ltd. (TFND), its subsidiary, held the carrying and market value of the treasury stocks, amounting to \$39,540,388 thousand. The Corporation reclassified \$31,889,100 thousand from investments accounted for using equity method to treasury stock based on SFAS No. 30, "Treasury Stock". Although these shares are treated as treasury stock in the financial statements, the shareholders are entitled to exercise their rights on these shares, except for participation in capital injection by cash. In addition, based on the ROC Company Law, the shareholders of treasury stocks can not exercise the voting right.

In the first quarter of 2008, TFN sold 300,000 thousand shares of the Corporation for \$13,509,828 thousand. Disposal gain from the sales resulted in an increase in capital surplus by \$3,485,732 thousand. In addition, the Corporation's shares held by subsidiaries were reduced by 256,332 thousand shares due to the Corporation's capital reduction.

- 3) In December 2008, the Corporation decided to transfer 12,096 thousand treasury shares to qualified employees of the Corporation and its subsidiaries at NT\$43.8 per share under a stock option plan. This option was priced at NT\$2.24 per unit based on the Black-Scholes pricing model. As of December 31, 2008, the Corporation recognized an increase in capital surplus - employee stock options of \$27,095 thousand.

- 27 -

e. Unrealized losses on financial instruments

Unrealized gains or losses on financial instruments for the years ended December 31, 2008 and 2007 were summarized as follows:

	Years Ended December 31	2007
Available-for-sale financial assets		
Balance, beginning of year	\$ 57,560	\$ 40,652
Fair value changes recognized directly in equity	(3,105)	16,908
	<u>54,455</u>	<u>57,560</u>
Changes in unrealized gains (losses) of cash flow hedge		
Balance, beginning of year	(38,749)	(218,284)
Fair value changes recognized directly in equity	100,613	179,535
	<u>61,864</u>	<u>(38,749)</u>
Recognition of investees' changes in unrealized gains or losses by the equity method		
Balance, beginning of year	(82,854)	30,209
Fair value changes recognized directly in equity	(39,362)	(113,063)
	<u>(122,216)</u>	<u>(82,854)</u>
Unrealized losses on financial instruments	\$ (5,897)	\$ (64,043)

21. INCOME TAX EXPENSE

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

	Years Ended December 31	2007
Tax on pretax income at statutory tax rate (25%)	\$ 4,944,264	\$ 2,013,956
Add (deduct) tax effects of		
Permanent differences		
Investment income from domestic investees accounted for using equity method	(1,023,120)	(915,452)
Other	(9,700)	(32,066)
Temporary differences	(376,262)	1,485,973
Income tax (10%) on unappropriated earnings	-	105,442
Investment tax credits	(112,901)	(281,134)
Deferred income taxes	331,247	(1,485,805)
Prior years' adjustment	647,174	535,754
Tax on short-term bills	5,221	16,199
Other	(212)	-
Income tax expense	\$ 4,405,711	\$ 1,442,867

- 28 -

b. Deferred income tax assets (liabilities) were as follows:

	<u>December 31</u>	<u>2007</u>
	<u>2008</u>	
Unrealized loss on retirement of property and equipment	\$ 2,154,822	\$ 2,452,952
Provision for doubtful accounts	683,659	741,535
Provision for impairment losses on idle assets	60,522	65,016
Amortization of goodwill	(37,974)	-
Investment tax credits	31,413	-
Unrealized (gain) loss on financial liabilities	(20,622)	12,916
Accrued pension cost	(3,056)	(790)
Other	28,510	3,096
Less valuation allowance	(287,101)	(299,767)
	<u>\$ 2,610,173</u>	<u>\$ 2,974,958</u>
Deferred income tax assets		
Current	\$ 142,605	\$ 98,239
Non-current	2,467,568	2,876,719
	<u>\$ 2,610,173</u>	<u>\$ 2,974,958</u>

c. As of December 31, 2008, the Corporation's investment tax credits consisted of the following:

Regulatory Basis of Tax Credits	Total Creditable Amount	Remaining Creditable Amount	Expiry Year
Statute for Upgrading Industries	\$ 144,314	\$ 31,413	2012
	<u>\$ 144,314</u>	<u>\$ 31,413</u>	

d. Integrated income tax information was as follows:

	<u>December 31</u>	<u>2007</u>
	<u>2008</u>	
Balance of imputation credit account (ICA)	\$ 2,797,882	\$ 2,300,728

As of December 31, 2008, there were no unappropriated earnings generated before January 1, 1998. The actual creditable ratio for the 2008 and 2007 earnings appropriation were 27.82% and 38.96%, respectively.

The imputation credits allocated to the shareholders are based on the ICA balance as of the date of dividend distribution. The estimated creditable ratio for the 2008 earnings appropriation may be adjusted when the imputation credits are distributed.

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

	Year
The Corporation	2005
TAT	Not applicable
The former TAT	2006
Mobitai	2005

Income tax returns through 2005 had been examined by the tax authorities. However, the Corporation disagreed with the examination result of the income tax returns from 1999 to 2005, and filed requests for reexamination.

The former TAT's income tax returns through 2006 had been examined by the tax authorities. However, the former TAT disagreed with the examination result on the income tax returns and filed administrative proceedings for 2002 to 2003 which was conducted by the Supreme Court of the R.O.C. and petition for reexamination of 2004 and 2005's income tax return.

22. EARNINGS PER SHARE

	<u>For the year ended December 31, 2008</u>		<u>For the year ended December 31, 2007</u>	
	<u>Amounts (Numerator) Before Income Tax</u>	<u>Shares (Denominator) (Thousands)</u>	<u>Amounts (Numerator) Before Income Tax</u>	<u>Shares (Denominator) (Thousands)</u>
Basic EPS				
Income of common shareholders	\$ 19,777,097	\$ 15,371,386	\$ 19,777,097	\$ 15,371,386
Add effect of potentially dilutive common stocks Bonus to employees	-	-	-	8,515
	<u>\$ 19,777,097</u>	<u>\$ 15,371,386</u>	<u>\$ 19,777,097</u>	<u>\$ 15,371,386</u>
Diluted EPS				
Income of common shareholders with dilutive effect of potential common shares	\$ 19,777,097	\$ 15,371,386	\$ 19,777,097	\$ 15,371,386
	<u>\$ 19,777,097</u>	<u>\$ 15,371,386</u>	<u>\$ 19,777,097</u>	<u>\$ 15,371,386</u>
Basic EPS				
Income of common shareholders	\$ 8,055,864	\$ 6,612,997	\$ 8,055,864	\$ 6,612,997
Add effect of potentially dilutive convertible bonds 2nd convertible bonds (with implied yield rate of 3.3%)	1,034	776	1,034	1,183
	<u>\$ 8,056,898</u>	<u>\$ 6,613,773</u>	<u>\$ 8,056,898</u>	<u>\$ 6,613,773</u>
Diluted EPS				
Income of common shareholders with dilutive effect of potential common shares	\$ 8,056,898	\$ 6,613,773	\$ 8,056,898	\$ 6,613,773
	<u>\$ 8,056,898</u>	<u>\$ 6,613,773</u>	<u>\$ 8,056,898</u>	<u>\$ 6,613,773</u>

When calculating fully diluted EPS, employee bonus shares to be granted should be included in the calculation of weighted average number of outstanding shares. The share count shall be derived from dividing the estimated bonus amount by its closing price on the balance sheet date. The dilutive effect should be continuously evaluated till the AGM actually resolves stock bonuses to employees.

23. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	Years Ended December 31	
	2008	2007
	Classified as Operating Costs	Classified as Operating Expenses
Labor cost		
Salary	\$ 852,052	\$ 1,758,648
Labor and health insurance	\$ 43,169	\$ 126,885
Pension	\$ 31,578	\$ 89,029
Other	\$ 42,831	\$ 81,531
	<u>\$ 969,630</u>	<u>\$ 1,981,346</u>
Depreciation	\$ 5,626,974	\$ 6,146,790
Amortization	\$ 761,315	\$ 98,321
	<u>\$ 6,351,919</u>	<u>\$ 7,226,457</u>

24. FINANCIAL INSTRUMENT TRANSACTIONS

a. Fair value information

	December 31	
	2008	2007
	Carrying Value	Fair Value
<u>Non-derivative financial instruments</u>		
Liabilities		
Bonds payable (including current portion)	\$ 15,500,000	\$ 15,621,815
		\$ 10,000,000
		\$ 9,942,440

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

- 1) Available-for-sale financial assets - based on quoted prices in an active market on the balance sheet date.
- 2) Because there is no active market, prepayments for long-term investments and a reliable fair value could only be verified at a more than reasonable cost, the fair values of investments in unlisted stocks carried at cost or accounted for using equity method can be measured by net worth of investees' or estimate of the book value.
- 3) Bonds payable - based on the over-the-counter quotations in December.
- 4) Fair value of long-term loans - based on the present value of future cash flows discounted by the interest rates the Corporation may obtain for similar loans (e.g., similar maturities).
- 5) Derivative financial instruments - based on valuation results provided by banks. As of December 31, the financial instrument held by the Corporation turned into financial assets, evaluated by the bid price of counter party.

6) The above financial instruments do not include cash and cash equivalents, notes and accounts receivables, pledged time deposits, refundable deposits, short-term bank loans, short-term notes and bills payable, notes and accounts payable and guarantee deposits. Because of the short maturities of these instruments, the carrying values represent a reasonable basis to estimate fair values.

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

d. The financial assets exposed to fair value interest rate risk amounted to \$1,002,425 thousand and \$2,019,577 thousand as of December 31, 2008 and 2007, respectively, and the financial liabilities exposed to fair value interest rate risk amounted to \$17,000,000 thousand and \$20,594,753 thousand as of December 31, 2008 and 2007, respectively. The financial assets exposed to cash flow interest rate risk amounted to \$595,637 thousand and \$422,189 thousand as of December 31, 2008 and 2007, respectively, and the financial liabilities exposed to cash flow interest rate risk amounted to \$5,000,000 thousand and \$5,051,665 thousand as of December 31, 2008 and 2007, respectively.

e. Information on financial risks:

1) Market risk

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

2) Credit risk

Credit risk represents the potential impacts to financial assets that the Corporation might encounter if counter-parties or third parties breach the contracts. Factors that affect the impacts include credit risk concentration, components of financial instruments, contract amount and other receivables. The Corporation's evaluation of credit risk exposure as of December 31, 2008 and 2007 were both zero because all of counter-parties are reputable financial institutions with good credit ratings.

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

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

3) Liquidity risk

The Corporation's operating funds are deemed sufficient to meet the cash flow demand, therefore, liquidity risk is not considered to be significant.

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

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

25. RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Corporation
Taiwan Cellular Co., Ltd. (TCC)	Subsidiary
Wealth Media Technology Co., Ltd. (WMTE)	Subsidiary
Tai Fu Media Technology Co., Ltd. (TFMT)	Subsidiary
Global Wealth Media Technology Co., Ltd.	Subsidiary
Fu Sin Media Technology Co., Ltd.	Subsidiary
Fu Jia Leh Media Technology Co., Ltd.	Subsidiary
Global Forest Media Technology Co., Ltd.	Subsidiary
Tai Yi Digital Broadcasting Co., Ltd.	Equity-method investee of TCC
TWM Holding Co. Ltd.	Subsidiary
Taiwan Super Basketball Co., Ltd.	Subsidiary
TT&T Holdings Co., Ltd.	Subsidiary
Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary
Taiwan Fixed Network Co., Ltd. (TFN)	Subsidiary
Taiwan Digital Communications Co., Ltd.	Subsidiary
Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Subsidiary (the former VoPier Communications (Taiwan) Co., Ltd., as a subsidiary from September 7, 2007, merged the former TT&T and remained as TT&T on September 1, 2008.)
TFN Investment Co., Ltd.	Subsidiary (change relationship on April 17, 2007)
Reach & Range Inc.	Subsidiary (change relationship on April 17, 2007)
Win TV Broadcasting Co., Ltd.	Subsidiary (change relationship on April 17, 2007)
TFN Media Co., Ltd. (TFNMC)	Subsidiary (change relationship on April 17, 2007)
Yeong Jialeh Cable TV Co., Ltd.	Subsidiary (change relationship on April 17, 2007)
Shin Ho Cable TV Co., Ltd.	Subsidiary (change relationship on April 17, 2007)
Mangrove Cable TV Corporation	Subsidiary (change relationship on April 17, 2007)
Phoenix Cable TV Co., Ltd.	Subsidiary (change relationship on April 17, 2007)
Globalview Cable TV Co., Ltd.	Subsidiary (change relationship on April 17, 2007)
Union Cable TV Co., Ltd.	Subsidiary (change relationship on April 17, 2007)
TFN HK LIMITED	Subsidiary (change relationship on April 17, 2007)
Hurray! Times Communications (Beijing) Ltd.	Subsidiary (change relationship on April 24, 2008)
Taiwan Mobile Foundation (TWM Foundation)	Over one third of the Foundation's issued fund came from the Corporation
Fubon Life Assurance Co., Ltd.	Same chairman
Fubon Securities Investment Trust Co., Ltd.	Related party in substance
Fubon Direct Marketing Consulting Co., Ltd.	Related party in substance
Fubon Financial Venture Capital Co., Ltd.	Related party in substance
Fubon Multimedia Technology Co., Ltd. (FMT)	Related party in substance
Fubon Asset Management Co., Ltd.	Related party in substance
Chung Hsing Construction Co., Ltd.	Related party in substance
Fubon Land Development Co., Ltd.	Related party in substance

(Continued)

Relationship with the Corporation

Related Party	Relationship with the Corporation
Fubon Financial Holding Company	Related party in substance
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	Related party in substance
Fubon Securities Co., Ltd.	Related party in substance
Fubon Future Co., Ltd.	Related party in substance
Fubon Investment Services Co., Ltd.	Related party in substance
Fubon Insurance Co., Ltd. (Fubon Ins.)	Related party in substance
Fubon Property Management Co., Ltd. (FPM)	Related party in substance
Taiwan Sport Lottery Corporation (TSL)	Related party in substance
Fu Yang Multimedia Co., Ltd.	Subsidiary (change relationship on April 17, 2007 and merged into TFN Media Co., Ltd. on December 1, 2007)
Mobitai Communications (Mobitai)	Subsidiary (merged into TAT on December 15, 2007)
The former Taiwan Fixed Network Co., Ltd. (The former TFN)	Subsidiary (change relationship on April 17, 2007 and merged into TFN on December 28, 2007)
Taiwan United Communication Co., Ltd. (TUC)	Subsidiary (merged into TFN on January 1, 2008)
TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary (liquidated on March 15, 2008)
TT&T Life Insurance Agency Co., Ltd.	Subsidiary (liquidated on May 15, 2008)
Taiwan Telecommunication Network Services Co., Ltd. (TTN)	Subsidiary (merged into TFN on August 1, 2008)
Taiwan Teleservices & Technologies Co., Ltd. (the former TT&T)	Subsidiary (merged into TT&T on September 1, 2008)
TransAsia Telecommunications Inc. (TAT)	Subsidiary (merged into the Corporation on September 2, 2008)
North Coast Cable TV Co., Ltd.	Subsidiary (change relationship on April 17, 2007, liquidated on October 1, 2008)

b. Significant transactions with related parties were summarized below:

1) Operating revenues

	Years Ended December 31		% of Total Revenues
	2008	2007	
	Amount	Amount	
TFN (including the former TFN)	\$ 2,087,756	\$ 1,638,666	4
TAT	459,338	584,457	1
TFCB	13,848	15,154	-
Mobitai	-	242,924	-
	<u>\$ 2,560,942</u>	<u>\$ 2,481,201</u>	

The Corporation mainly rendered telecommunications service to the above companies. The average collection period for notes and accounts receivable was approximately two months.

2) Operating costs

	Years Ended December 31		2007	
	2008	% of Total	2007	% of Total
	Amount	Costs	Amount	Costs
TFN (including the former TFN)	\$ 965,962	4	\$ 901,022	4
TAT	257,796	1	295,200	1
Fubon Ins.	58,406	-	81,044	-
Mobitai	-	-	185,391	1
	\$ 1,282,164		\$ 1,462,657	

These companies mainly rendered telecommunication, maintenance and insurance services to 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, 2007	Amount
Description		
The former TFN	Telecommunication equipment, construction in progress, miscellaneous equipment and deferred charges	\$ 13,172

4) Rental income

	Years Ended December 31	
	2008	2007
Leased Sites/Equipment		
TFN (including the former TFN)	Offices and BTS, etc.	\$ 70,390
FMT	Office appliance, etc.	29,972
TFNM	Offices	10,640
		\$ 111,002
		\$ 73,769

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

5) Cash in banks

	December 31		2007	
	2008	%	2007	%
Amount		Amount		
a) Cash in banks				
TFCB	\$ 275,104	18	\$ 58,456	2
b) Pledged time deposits				
TFCB	\$ 10,000	100	\$ 10,000	100

6) Receivables and payables

	December 31		2007	
	2008	%	2007	%
Amount		Amount		
a) Accounts receivable				
TFN	\$ 214,172	4	\$ 218,970	4
TAT	-	-	73,498	1
Other (Note)	5,469	-	3,872	-
	\$ 219,641		\$ 296,340	

Note: Leasehold receivables from TSL were as follows:

	Maturities of Over One Year (Classified Under Other Assets)		Total
	Current Portion	Assets	
December 31, 2008			
Leasehold receivables	\$ 2,995	\$ 10,732	\$ 13,727
Less unrealized interest income	(520)	(840)	(1,360)
	\$ 2,475	\$ 9,892	\$ 12,367

b) Other receivables (Note)

	December 31		2007	
	2008	%	2007	%
Amount		Amount		
TFMT	\$ 2,008,079	87	\$ 2,009,353	73
TFN	46,733	2	55,636	2
TFNM	-	-	250,487	9
TAT	-	-	217,895	8
Other	12,942	1	3,576	-
	\$ 2,067,754		\$ 2,536,947	

Note: Financing to related parties was as follows:

Related Party	Year Ended December 31, 2008		
	Ending Balance	Maximum Balance	Interest Rate (%)
Interest Income			
TFMT	\$ 2,000,000	\$ 2,005,000	2.417-2.568
TFNM	-	1,250,000	2.538-2.548
	\$ 2,000,000	\$ 3,255,000	
			\$ 61,662

	<u>Years Ended December 31</u> <u>2008</u>	<u>2007</u>
9) Insurance expenses		
Fubon Ins.	\$ 13,594	\$ 14,856
10) Other expenses		
FPM	\$ 21,537	\$ 18,863
11) Donation		
TWM Foundation	\$ 22,000	\$ 18,000
12) Repairs and Maintenance		
FPM	\$ 22,883	\$ 19,288
13) Advertisement expenses		
Taiwan Super Basketball Co., Ltd.	\$ 32,000	\$ 13,500

14) Financing from related parties was as follows:

Related Party	<u>Year-Ended December 31, 2008</u>		
	<u>Ending Balance</u>	<u>Maximum Balance</u>	<u>Interest Rate (%)</u>
TAT	\$ -	\$ 1,745,609	2.572-2.604
TFN	1,300,000	1,300,000	2.124-2.417
	<u>\$ 1,300,000</u>	<u>\$ 3,045,609</u>	<u>\$ 19,018</u>

15) Endorsement/guarantee provided

	<u>Years Ended December 31</u> <u>2008</u>	<u>2007</u>
Miscellaneous income - endorsement fee TFN (including the former TFN)	\$ 1,572	\$ 32,504

a) The Corporation provided \$18,000,000 thousand guarantee for TFN's bank loan. As of December 31, 2008, TFN had not made any drawdown on this loan. The Corporation also provide TFN \$11,171,900 thousand in promissory notes outstanding for its borrowings with banks.

b) The Corporation and its subsidiary, TFN, obtained \$13,500,000 thousand of syndicated loan from 9 banks led by Chinatrust Commercial Bank. The Corporation provided a guarantee for TFN's bank loan. As of December 31, 2008, TFN had not made any drawdown on this loan.

c) As of December 31, 2008, the Corporation had provided TFN \$50,000 thousand as performance guarantee for IDD calling card service issued by July 31, 2008 in accordance with NCC's new policy effective on April 1, 2007.

Related Party	<u>Year Ended December 31, 2007</u>		
	<u>Ending Balance</u>	<u>Maximum Balance</u>	<u>Interest Rate (%)</u>
TFMT	\$ 2,005,000	2,554,256	\$ 4,353
TFNM	250,000	2,538	487
The former TFN	-	3,500,000	2.94
TFN	-	12,500,000	2.474
	<u>\$ 2,255,000</u>	<u>\$ 18,255,000</u>	<u>\$ 223,143</u>

<u>December 31</u>		
<u>2008</u>	<u>2007</u>	
<u>Amount</u>	<u>Amount</u>	<u>%</u>

c) Prepayments

Fubon Ins.	\$ 43,604	7	\$ 48,864	9
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d) Accounts payable

TAT	\$ -	-	\$ 19,609	1
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e) Accrued expenses

TFN	\$ 197,416	4	\$ 134,734	3
TT&T	79,715	2	-	-
Taiwan Super Basketball Co., Ltd.	20,000	-	13,500	-
The former TT&T	-	-	159,147	3
	<u>\$ 297,131</u>	<u>\$ 307,381</u>		

f) Other payables

TFN	\$ 99,249	2	\$ 94,611	1
TAT	-	-	251,648	2
	<u>\$ 99,249</u>	<u>\$ 346,259</u>		

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

TFN	\$ 358,142	56	\$ 334,846	36
TAT	-	-	239,384	26
	<u>\$ 358,142</u>	<u>\$ 574,230</u>		

	<u>Years Ended December 31</u> <u>2008</u>	<u>2007</u>
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7) Telecommunications service expenses

TFN (including the former TFN)	\$ 79,002	\$ 85,676
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8) Professional service fees

TT&T (including the former TT&T)	\$ 911,679	\$ 875,660
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16) Compensation to directors, supervisors and managers:

	<u>Years Ended December 31</u>	
	<u>2008</u>	<u>2007</u>
Salaries, incentives and special compensation	\$ 190,169	\$ 239,353
Earnings paid as compensation to directors	41,470	18,116
Earnings paid as bonus to employees	77,293	33,465
Professional fee	<u>3,210</u>	<u>3,520</u>
	<u>\$ 312,142</u>	<u>\$ 294,454</u>

The compensation to directors, supervisors and managers for the year ended December 31, 2007 included the bonus appropriation from 2006 earnings approved in 2007 AGM. While that for the year ended December 31, 2008 included the broad's proposed bonus appropriation from 2007 earnings subject to approval in 2008 AGM. More detailed information may be referred in the Corporation's annual reports.

17) Other

For the years ended December 31, 2008 and 2007, the Corporation provided services to companies below and fees received by the Corporation, which were recorded as deductions from related costs and expenses. The Corporation's service charges were as follows:

	<u>Years Ended December 31</u>	
	<u>2008</u>	<u>2007</u>
TAT	\$ 488,422	\$ 578,125
TFN	377,035	63,686
Mobitai	<u>—</u>	<u>296,343</u>
	<u>\$ 865,457</u>	<u>\$ 938,154</u>

26. ASSETS PLEDGED

The assets pledged as collaterals for credit line of deposit overdraft were as follows:

	<u>December 31</u>	
	<u>2008</u>	<u>2007</u>
Time deposits	\$ 10,000	\$ 10,000

27. COMMITMENTS AND CONTINGENT EVENTS

a. To enhance 3G mobile communications, expand network coverage and increase the service functions, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2006. As of December 31, 2008, the purchase amount was \$3,229,863 thousand.

b. Future minimum rental payments as of December 31, 2008 for significant operating lease agreements were summarized as follows:

	<u>Amount</u>
2009	\$ 32,514
2010	27,976
2011	11,642
2012	5,367

28. ADDITIONAL DISCLOSURES

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

- a. Financing provided: Table 1 (attached).
- b. Endorsement/guarantee provided: Table 2 (attached).
- c. Marketable securities held: Table 3 (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 4 (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 5 (attached).
- h. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 6 (attached).
- i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 7 (attached).
- j. Derivative transactions
 - 1) The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on inverse floating interest rates of bonds, which are settled semiannually. Please refer to Note 24 for the related information.

<u>Financial Instrument</u>	<u>Term</u>	<u>Contract Amount</u>	<u>Due Date</u>
Interest rate swap contracts	Inverse floating interest rate in exchange for fixed interest rate of 2.25%	\$ 2,500,000	December 2007
	Inverse floating interest rate in exchange for fixed interest rate of 2.45%	5,000,000	December 2009

The Corporation entered into IRS contracts to hedge inverse floating interest rate fluctuation. For the years ended December 31, 2008 and 2007, the Corporation recognized losses of \$30,531 thousand and \$157,945 thousand, respectively, recorded as addition to interest expense.

2) The former TFN entered into IRS contracts in June 2005 to hedge interest floating rate fluctuations on syndicated loans, which are settled quarterly. The IRS contracts were all cleared on June 25, 2007, and the related information is as follows:

Financial Instrument	Term	Contract Amount
Interest rate swap contracts	Floating interest rate in exchange for fixed interest rate of 1.61%	\$ 500,000
	Floating interest rate in exchange for fixed interest rate of 1.60%	500,000
	Floating interest rate in exchange for fixed interest rate of 1.63%	500,000

The former TFN entered into IRS contracts to hedge floating interest rate fluctuation. TFN recognized gains of \$894 thousand in 2007.

k. Investment in Mainland China:

1) The name of the investee company in Mainland China, the main businesses and products, issued capital, method of investment, information on inflow or outflow of capital, ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Table 8 (attached).

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

29. SEGMENT INFORMATION

a. Industry

The Corporation is primarily a wireless communication services provider.

b. Foreign operations

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

c. Foreign revenues

The Corporation has no foreign revenues.

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

Company	Years Ended December 31		Percentage of Operating Revenue
	2008	2007	
Chungghwa Telecom Co., Ltd.	\$ 8,956,659	\$ 9,194,171	18

TABLE 1

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

No.	Lending Company	Borrowing Company	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate	Financing Purpose	Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Lending Limit for Each Borrowing Company (Note)	Lending Company's Lending Amount Limits (Note)
											Item	Value		
0	Taiwan Mobile Co., Ltd. (the "Corporation")	Tai Fu Media Technology Co., Ltd. TFN Media Co., Ltd.	Other receivables Other receivables	\$ 2,005,000 1,250,000	\$ 2,000,000 -	2.417%-2.568% 2.538%-2.548%	Short-term financing Short-term financing	\$ - -	To meet its financing needs in acquiring minorities To meet its financing needs in acquiring minorities	- -	- -	\$ 20,361,039 (Note 1) 20,361,039 (Note 1)	\$ 20,361,039 (Note 1) 20,361,039 (Note 1)	
1	TransAsia Telecommunications Inc.	The Corporation Taiwan Cellular Co., Ltd.	Other receivables Other receivables	1,745,609 900,000	- -	2.572%-2.604% 2.477%	Short-term financing Short-term financing	- -	Transactions To meet its financing needs in setting up subsidiaries	- -	- -	(Note 2) (Note 3)	(Note 2) (Note 3)	
2	Taiwan Cellular Co., Ltd.	Taiwan Fixed Network Co., Ltd. TFN Media Co., Ltd.	Other receivables Other receivables	2,500,000 1,250,000	- 250,000	2.558% 2.417%-2.538%	Short-term financing Short-term financing	- -	To pay off bank loan To meet its financing needs in acquiring minorities	- -	- -	21,178,762 (Note 1) 21,178,762 (Note 1)	21,178,762 (Note 1) 21,178,762 (Note 1)	
3	Taiwan Fixed Network Co., Ltd.	TFN Investment Co., Ltd. TFN Media Co., Ltd. The Corporation	Other receivables Other receivables Other receivables	1,150,000 1,500,000 1,300,000	- 1,050,000 1,300,000	2.560% 2.574%-2.604% 2.124%-2.417%	Short-term financing Short-term financing Short-term financing	- - -	Transactions Transactions Transactions	- - -	- - -	20,859,012 (Note 1) 20,859,012 (Note 1) 20,859,012 (Note 1)	20,859,012 (Note 1) 20,859,012 (Note 1) 20,859,012 (Note 1)	
4	TFN Investment Co., Ltd.	TFN Media Co., Ltd. TFN Media Co., Ltd.	Other receivables Other receivables	1,000,000 3,000,000	1,000,000 2,900,000	2.417%-2.538% 2.602%	Short-term financing Short-term financing	- -	To meet its financing needs in acquiring minorities Business requirements	- -	- -	10,290,577 (Note 1) 10,290,577 (Note 1)	10,290,577 (Note 1) 10,290,577 (Note 1)	
5	Union Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables - related parties	560,000	540,000	2.168%-2.604%	Transactions	266,206	Business requirements	-	-	13,500,000 (Note 4)	13,500,000 (Note 4)	
6	North Coast Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables - related parties	205,000	-	2.538%-2.597%	Transactions	7,239	Business requirements	-	-	(Note 5)	(Note 5)	
7	Mangrove Cable TV Corporation	TFN Media Co., Ltd.	Other receivables - related parties	138,000	138,000	2.463%-2.594%	Transactions	23,145	Business requirements	-	-	12,000,000 (Note 4)	12,000,000 (Note 4)	
8	Globalview Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables - related parties	400,000	350,000	2.199%-2.604%	Transactions	207,494	Business requirements	-	-	12,000,000 (Note 4)	12,000,000 (Note 4)	
9	Phoenix Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables - related parties	500,000	500,000	2.199%-2.594%	Transactions	545,446	Business requirements	-	-	12,000,000 (Note 4)	12,000,000 (Note 4)	
10	Shin Ho Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables - related parties	247,700	207,700	2.168%-2.604%	Transactions	8,934	Business requirements	-	-	12,000,000 (Note 4)	12,000,000 (Note 4)	
11	Yeong Hsieh Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables - related parties	180,000	130,000	2.591%-2.594%	Transactions	403,871	Business requirements	-	-	24,000,000 (Note 4)	24,000,000 (Note 4)	

(Continued)

Note 1: For the entities which have short-term financing needs (loaning entities) the aggregate amount of loaning fund shall not exceed 40 percent of the financing company's net worth. The individual loaning fund shall be limited to the lowest amount of the following items: 1) 40 percent of the financing company's net worth; 2) the amount that the financing company invests in the loaning entities; or 3) the amount = (the share portion of the loaning entities that the financing company invests) * (the total loaning amounts of the loaning entities). In the event that a financing company directly or indirectly 100% owns a counter-party, the individual lending amount and the aggregate amount of loaning funds shall not exceed 40% of the financing company's net worth.

Note 2: TransAsia Telecommunications Inc merged into the Corporation on September 2, 2008. The limitation is zero.

Note 3: Assumed all MBT's financing provided to others due to merger.

Note 4: Where funds are loaned for reasons of business dealings, the individual lending amount and the aggregate amount of loaning funds shall be both limited to the higher amount of the following items: 1) a multiple of the financing company's capital, or 2) the amount of business dealing.

Note 5: North Coast Cable TV Co., Ltd. liquidated on October 1, 2008.

(Concluded)

TABLE 2

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

No.	Endorsement/Guarantor (A)	Receiving Party		Maximum Guarantee/ Endorsement Amount Can Be Provided to Each Receiving Party (Note 3)	Maximum Balance for the Period (Note 1)	Ending Balance (Note 1)	Value of Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Worth of the Guarantor (Note 1)	Maximum Guarantee/ Endorsement Can Be Provided by the Guarantor/Endorser
		Name (B)	Nature of Relationship (B is A's)						
0	Taiwan Mobile Co., Ltd. (the "Corporation")	Taiwan Fixed Network Co., Ltd. (TFN)	(Note 2)	\$ 80,000,000 (Note 3)	\$ 24,748,120	\$ 24,721,900	\$ -	48.57%	\$ 50,902,598
1	TransAsia Telecommunications Inc. (TAT)	The Corporation	(Note 4)	18,000,000 (Note 3)	1,000,000	-	-	-	(Note 5)
2	TFN Investment Co., Ltd. (TFNI)	WinTV Broadcasting Co., Ltd.	(Note 6)	252,141 (Note 7)	50,000	-	-	-	25,736,442 (Note 7)
3	Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Taiwan Fixed Network Co., Ltd. (TFN)	(Note 4)	20,000 (Note 8)	223	146	-	0.15%	97,609 (Note 8)

Note 1: Maximum guarantee/endorsement amount for the period and the ending balance are the amount allowed, not actual appropriation.

Note 2: Direct/Indirect subsidiary

Note 3: For over 100% direct/indirect owned subsidiaries, the aggregate endorsement/guarantee amount provided shall not exceed the net worth of the Corporation, and the upper-limit to each subsidiary shall be the double of the investment amount.

Note 4: Direct/Indirect subsidiary.

Note 5: TransAsia Telecommunications Inc merged into the Corporation on September 2, 2008. The maximum endorsement/guarantee amount provided by TAT is zero.

Note 6: Direct subsidiary.

Note 7: For over 50% direct/indirect owned subsidiaries, the aggregate endorsement/guarantee amount provided shall not exceed the net worth of TFNI, and the upper-limit to each subsidiary shall be the amount of investment in TFNI.

Note 8: TT&T is directly and indirectly 100% owned by TFN. The endorsement/guarantee amount provided by TT&T, shall be limited within the net worth of TT&T, and not over double of the investment amount in TT&T.

TABLE 3

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2008

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

Investing Company (A)	Marketable Securities Invested (B)	Relationship with the Investing Company (B is A's)	Financial Statement Account	December 31, 2008			Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	
Taiwan Mobile Co., Ltd. (the "Corporation")	Stock Chunghwa Telecom Co., Ltd.	-	Available-for-sale financial assets - current	3,252	\$ 174,008	0.028	\$ 174,008 (Note 5)
	Bridge Mobile Pte Ltd.	-	Financial assets carried at cost - non-current	2,200	60,064	10.00	56,119 (Note 3)
	Yes Mobile Holdings Company	-	Financial assets carried at cost - non-current	74	-	0.19	-
	Wealth Media Technology Co., Ltd.	Subsidiary	Long-term investments - equity method	27,200	(Note 2)	100.00	(Note 3)
	Taiwan Cellular Co., Ltd.	Subsidiary	Long-term investments - equity method	149,958	225,735	100.00	225,735
	Taipei New Horizons Co., Ltd.	-	Prepayment for long-term investments	-	15,125,451 (Note 4)	-	52,946,904
					249,500		
Wealth Media Technology Co., Ltd.	Stock Tai Fu Media Technology Co., Ltd.	Subsidiary	Long-term investments - equity method	27,000	224,049	100.00	224,049
Tai Fu Media Technology Co., Ltd.	Stock Global Wealth Media Technology Co., Ltd.	Subsidiary	Long-term investments - equity method	8,400	88,291	100.00	88,291
	Fu Jia Leh Media Technology Co., Ltd.	Subsidiary	Long-term investments - equity method	117,100	2,001,200	100.00	2,001,200
	Fu Sin Media Technology Co., Ltd.	Subsidiary	Long-term investments - equity method	13,500	139,721	100.00	139,721
	Global Forest Media Technology Co., Ltd.	Subsidiary	Long-term investments - equity method	100	925	100.00	925
Global Wealth Media Technology Co., Ltd.	Stock Globalview Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	3,460	83,469	6.179	40,142
Fu Sin Media Technology Co., Ltd.	Stock Phoenix Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	2,272	132,485	3.34	32,206
Taiwan Cellular Co., Ltd.	Stock Arcoa Communication Co., Ltd.	-	Financial assets carried at cost - non-current	6,998	67,731	5.21	- (Note 3)
	Parawin Venture Capital Corp.	-	Financial assets carried at cost - non-current	3,000	22,202	3.00	- (Note 3)
	Transportation High Tech Inc.	-	Financial assets carried at cost - non-current	1,200	-	12.00	- (Note 3)
	WEB Point Co., Ltd.	-	Financial assets carried at cost - non-current	803	(Note 2) 6,773	3.17	- (Note 3)
Tai Yi Digital Broadcasting Co., Ltd. TWM Holding Co. Ltd.		Subsidiary Subsidiary	Long-term investments - equity method Long-term investments - equity method	2,495 1 share	21,528 6,089	49.90 100.00	(Note 3) 21,528 6,089 US\$

(Continued)

Investing Company (A)	Marketable Securities Invested (B)	Relationship with the Investing Company (B is A's)	Financial Statement Account	December 31, 2008			Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	
TWM Holding Co., Ltd.	Taiwan Fixed Network Co., Ltd.	Subsidiary	Long-term investments - equity method	4,000,000	\$ 52,147,530	100.00	\$ 52,147,530
	Taiwan Digital Communication Co., Ltd.	Subsidiary	Long-term investments - equity method	1,200	11,081	100.00	11,081
Taiwan Fixed Network Co., Ltd.	ADS Hurray! Holding Co., Ltd.	-	Available-for-sale financial assets - current	1,080	US\$ 2,052	4.94	US\$ 2,052 (Note 5)
	Stock Hurray! Times Communications, Beijing	Subsidiary	Long-term investments - equity method	-	US\$ 3,916	100.00	US\$ 2,956
TFN Investment Co., Ltd.	Stock The Corporation	Ultimate parent	Available-for-sale financial assets - non-current	456,295	\$ 22,221,555	12.00	\$ 22,221,555 (Note 5)
	TFN Investment Co., Ltd.	Subsidiary	Long-term investments - equity method	2,061,939	23,227,228	100.00	25,726,442
	TFN HK LIMITED	Subsidiary	Long-term investments - equity method	1,300	2,957	100.00	2,957
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Long-term investments - equity method	1,000	97,609	100.00	97,609
TT&T Holdings Co., Ltd.	Taiwan High Speed Rail Corporation	-	Financial assets carried at cost - non-current	225,531	2,120,829	3.82	- (Note 3)
	Preferred stock New Century InfoComm Technology Co., Ltd.	-	Financial assets carried at cost - non-current	33,684	187,042	0.84	- (Note 3)
Taiwan Teleservices & Technologies Co., Ltd.	Stock IT & T Holdings Co., Ltd.	Subsidiary	Long-term investments - equity method	1,300	US\$ 1,363	100.00	US\$ 1,363
	Taiwan Super Basketball Co., Ltd.	Subsidiary	Long-term investments - equity method	2,000	20,044	100.00	20,044
TFN Investment Co., Ltd.	Stock Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary	Long-term investments - equity method	-	US\$ 1,362	100.00	US\$ 1,362
	Stock The Corporation	Ultimate parent	Available-for-sale financial assets - non-current	355,623	17,318,833	9.36	17,318,833 (Note 5)
TFN Investment Co., Ltd.	Reach & Range Inc.	Subsidiary	Long-term investments - equity method	2,400	33,542	100.00	26,471
	WinTV Broadcasting Co., Ltd.	Subsidiary	Long-term investments - equity method	25,214	181,865	98.50	179,047
	TFN Media Co., Ltd.	Subsidiary	Long-term investments - equity method	230,526	3,732,745	100.00	3,423,783
	Great Taipei Broadband Co., Ltd.	-	Financial assets carried at cost - non-current	10,000	50,528	6.67	- (Note 3)
TFN Investment Co., Ltd.	Preferred stock Taiwan High Speed Rail Corporation Unlisted Convertible Preferred Stock - Series A	-	Bonds measured at amortized cost - non-current	50,000	500,000	1.08	- (Note 3)

(Continued)

Investing Company (A)	Marketable Securities Invested (B)	Relationship with the Investing Company (B is A's)	Financial Statement Account	December 31, 2008			Note	
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership		Market Value (Note 1)
TFN Media Co., Ltd.	Stock Yeong Jialeh Cable TV Co., Ltd. Shin Ho Cable TV Co., Ltd. Mangrove Cable TV Corporation Phoenix Cable TV Co., Ltd. Union Cable TV Co., Ltd. Globalview Cable TV Co., Ltd.	Subsidiary Subsidiary Subsidiary Subsidiary Subsidiary Subsidiary	Long-term investments - equity method Long-term investments - equity method Long-term investments - equity method Long-term investments - equity method Long-term investments - equity method Long-term investments - equity method	33,940 20,000 21,160 65,818 170,441 51,733	\$ 2,113,439 695,449 557,279 3,157,539 2,023,231 1,222,722	100.00 100.00 100.00 96.66 99.99 92.38	\$ 588,959 208,560 294,104 93,034 1,818,483 600,202	Note 6 Note 6

Note 1: Based on the investee's net worth as shown in its latest financial statements if market value was not available.

Note 2: Impairment loss recognized in 2004 reduced the value to zero.

Note 3: As of January 20, 2009, the independent auditors' report date, the investee's net worth was not available.

Note 4: Taiwan Mobile shares held indirectly by TFN and TFNI (both are subsidiaries of TCC) are classified as treasury shares. Therefore, TWM's carrying cost of \$52,946,904 on TCC shall be reduced by downward adjusting the latter's net worth by \$31,889,100 thousand, excluding \$5,934,549 thousand unrealized gain from financial assets investment, and adding back recognition of upstream transactions gains of \$2,196 thousand.

Note 5: Based on the closing price on December 31, 2008.

Note 6: Some shares are held under trustee accounts.

(Concluded)

TABLE 4

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED OR DISPOSED AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
 YEAR ENDED DECEMBER 31, 2009
 (In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal		Ending Balance (Note 1)	
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount
Taiwan Mobile Co., Ltd.	Beneficiary certificate Fubon Chi-Hsiang Fund	Financial assets at fair value through profit or loss - current	-	-	-	\$	13,497	\$	200,036	13,497	\$	-
	Stock Wealth Media Technology Co., Ltd. Taipei New Horizons Co., Ltd.	Long-term investments - equity method Prepayment for long-term investments	-	-	8,700	82,715	18,500	185,000	-	-	27,200	225,735 (Note 2) 249,500
TransAsia Telecommunications Inc.	Beneficiary certificate Fubon Chi-Hsiang Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	(Note 3)	-	-	-	-	-
Wealth Media Technology Co., Ltd.	Stock Tai Fu Media Technology Co., Ltd.	Long-term investments - equity method	-	-	8,500	80,876	18,500	185,000	200,036	27,000	224,049 (Note 4)	
Tai Fu Media Technology Co., Ltd.	Stock Fu Sin Media Technology Co., Ltd.	Long-term investments - equity method	-	-	100	900	13,400	134,000	-	13,500	139,721 (Note 5)	
Fu Sin Media Technology Co., Ltd.	Stock Phoenix Cable TV Co., Ltd.	Long-term investments - equity method	-	-	-	-	2,272	133,358	-	2,272	132,485 (Note 6)	
TWM Holding Co., Ltd.	Stock Hurray! Times Communications, Beijing	Long-term investments - equity method	-	-	-	-	-	US\$ 5,005	-	-	US\$ 3,916 (Note 7)	
Taiwan Fixed Network Co., Ltd.	Stock Taiwan Mobile Co., Ltd.	Available-for-sale financial assets - non-current	-	-	900,353	37,004,498	-	-	13,509,828	3,487,150	22,221,555 (Note 8)	
TFN Investment Co., Ltd.	Stock Fubon Financial Holding Company TFN Media Co., Ltd.	Available-for-sale financial assets - current Long-term investments - equity method	-	-	62,023	1,786,256	-	-	2,089,511	461,314	3,732,745 (Note 9)	
TFN Media Co., Ltd.	Stock Phoenix Cable TV Co., Ltd.	Long-term investments - equity method	-	-	214,518	2,951,824	16,008	535,714	-	65,818	3,157,539 (Note 10)	

Note 1: The amount of beginning and ending fund balance that belongs to marketable securities included the revaluation gain on financial assets.

Note 2: The amount included the investment loss adjustment of \$41,980 thousand.

Note 3: Taipei New Horizons Co., Ltd. has obtained registration approval on January 7, 2009.

Note 4: The amount included the investment loss adjustment of \$41,827 thousand.

Note 5: The amount included the investment income adjustment of \$4,821 thousand.

Note 6: The amount included the cash dividends adjustment of \$5,854 thousand and the investment income adjustment of \$4,981 thousand.

Note 7: The amount included the investment loss adjustment of US\$1,168 thousand and the recognition of cumulative translation adjustments of US\$79 thousand.

Note 8: The shares included the capital reduction adjustment of 144,038 thousand shares. The amount included the capital reduction adjustment of \$720,267 thousand and unrealized loss of \$5,480,532 thousand.

Note 9: The amount included the cash dividends adjustment of \$675,846 thousand, the investment income adjustment of \$918,617 thousand, paid in capital \$1,107 and net loss not recognized as pension cost adjustment of \$1,328 thousand.

Note 10: The amount included the cash dividends adjustment of \$169,589 thousand and the investment income adjustment of \$192,355 thousand.

TABLE 5

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

Company Name (A)	Related Party (B)	Nature of Relationship (B is A's)	Transaction Details			Transactions with Terms Different from Others		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	
Taiwan Mobile Co., Ltd. (the "Corporation")	TransAsia Telecommunications Inc.	Subsidiary	Sale	\$ (459,338)	(1)	Based on contract terms	-	\$ -	-	
	Taiwan Fixed Network Co., Ltd.	Subsidiary	Purchase	257,796	1	Based on contract terms	-	-	-	
	Taiwan Teleservices & Technologies Co., Ltd. (including the former TT&T)	Subsidiary	Sale	(2,087,756)	(4)	Based on contract terms	-	214,172	4	
			Purchase	965,962	4	Based on contract terms	-	(4,094)	-	
			Purchase	911,679	(Note 1)	Based on contract terms	-	(79,715)	(Note 2)	
TransAsia Telecommunications Inc.	The Corporation	Parent	Sale	(257,796)	(6)	Based on contract terms	-	-	-	
			Purchase	459,338	20	Based on contract terms	-	-	-	
Taiwan Teleservices & Technologies Co., Ltd. (including the former TT&T)	The Corporation	Ultimate parent	Sale	(911,827)	(81)	Based on contract terms	-	79,733	82	
Taiwan Fixed Network Co., Ltd.	The Corporation	Ultimate parent	Sale	(1,040,440)	(11)	Based on contract terms	-	227,065	22	
			Purchase	2,077,719	31	Based on contract terms	-	(3,125)	-	
TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	Subsidiary	Channel leasing fee	(433,687)	(20)	Based on contract terms	(Note 3)	108,422	33	
			Channel leasing fee	(325,323)	(15)	Based on contract terms	(Note 3)	81,331	25	
Yeong Jialeh Cable TV Co., Ltd.	Union Cable TV Co., Ltd.	Subsidiary	Channel leasing fee	(197,640)	(9)	Based on contract terms	(Note 3)	49,410	15	
			Channel leasing fee	(168,545)	(8)	Based on contract terms	(Note 3)	42,136	13	
Yeong Jialeh Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty of copyright	325,323	60	Based on contract terms	(Note 3)	(81,331)	(86)	
Phoenix Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty of copyright	433,687	63	Based on contract terms	(Note 3)	(108,422)	(87)	
Globalview Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty of copyright	168,545	57	Based on contract terms	(Note 3)	(42,136)	(87)	

(Continued)

Company Name (A)	Related Party (B)	Nature of Relationship (B is A's)	Transaction Details			Transactions with Terms Different from Others Payment Terms	Notes/Accounts Payable or Receivable Ending Balance	Note	
			Purchase/ Sale	Amount	% to Total				Payment Terms
Union Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty of copyright	\$ 197,640	54	Based on contract terms	(Note 3)	\$ (49,410)	(68)
Shin Ho Cable TV Co., Ltd.	Dai-Ka Ltd.	Related party in substance	Royalty of copyright	48,510	59	Based on contract terms	(Note 3)	(12,128)	(94)
Mangrove Cable TV Corporation	Dai-Ka Ltd.	Related party in substance	Royalty of copyright	106,689	56	Based on contract terms	(Note 3)	(26,672)	(86)

Note 1: Recognized as operating expenses.

Note 2: Recognized as accrued expenses.

Note 3: No comparables on such kind of transactions.

(Concluded)

TABLE 6

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

Company Name (A)	Related Party (B)	Nature of Relationship (B is A's)	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Taiwan Mobile Co., Ltd. (the "Corporation")	Taiwan Fixed Network Co., Ltd. Tai Fu Media Technology Co., Ltd.	Subsidiary Subsidiary	Accounts receivable \$ 214,172 Other receivables 46,733 Other receivables 2,008,079	8.65 - -	\$ - -	- - -	\$ - -	- - -
Taiwan Cellular Co., Ltd.	TFN Media Co., Ltd.	Subsidiary	Other receivables 251,010	-	-	-	-	-
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Accounts receivable 79,733	7.64	-	-	19	-
Taiwan Fixed Network Co., Ltd.	The Corporation	Ultimate parent	Accounts receivable 227,065 Other receivables 1,518,862	3.59 -	- -	- -	156,058 6,163	- -
TFN Media Co., Ltd.	TFN Media Co., Ltd.	Subsidiary	Accounts receivable 10,136 Other receivables 1,052,674	4.02 -	- -	- -	- -	- -
TFN Investment Co., Ltd.	TFN Media Co., Ltd.	Subsidiary	Other receivables 3,923,679	-	-	-	-	-
TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	Subsidiary	Accounts receivable 120,232	6.71	-	-	-	-
Shin Ho Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable 390 Other receivables 207,700	7.89 -	- -	- -	- -	- -
Phoenix Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable 6,272 Other receivables 500,118	10.05 -	- -	- -	- -	- -
Union Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable 6,830 Other receivables 540,042	7.31 -	- -	- -	- -	- -
Globalview Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable 2,151 Other receivables 350,040	11.14 -	- -	- -	- -	- -
Mangrove Cable TV Corporation	TFN Media Co., Ltd.	Parent	Accounts receivable 1,304 Other receivables 138,096	12.01 -	- -	- -	- -	- -
Yeong Jialeh Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable 4,429 Other receivables 130,000	9.82 -	- -	- -	- -	- -

TABLE 7

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Investor	Investee	Location	Main Business and Products	Investment Amount December 31, 2008	Shares (Thousands)	Balance as of December 31, 2008 Percentage of Ownership	Carrying Value	Net Income (Loss) of the Investee	Investment Income (Loss)	Note
Taiwan Mobile Co., Ltd.	Taiwan Cellular Co., Ltd.	Taipei, Taiwan	Telecom engineering and IT service	41,058,330	149,958	100.00	\$ 15,125,451 (Note 1)	\$ 6,139,145	\$ 3,003,228	
Wealth Media Technology Co., Ltd.	Wealth Media Technology Co., Ltd.	Taipei, Taiwan	Investment	272,000	27,200	100.00	225,755	(41,980)	(41,980)	
Tai Fu Media Technology Co., Ltd.	Tai Fu Media Technology Co., Ltd.	Taipei, Taiwan	Investment	270,000	27,000	100.00	224,049	(41,827)	NA	
Global Wealth Media Technology Co., Ltd.	Global Wealth Media Technology Co., Ltd.	Taipei County, Taiwan	Investment	84,000	8,400	100.00	88,291	4,193	NA	
Fu Jia Leh Media Technology Co., Ltd.	Fu Jia Leh Media Technology Co., Ltd.	Taipei, Taiwan	Investment	2,001,700	117,100	100.00	2,001,200	(11)	NA	
Fu Sin Media Technology Co., Ltd.	Fu Sin Media Technology Co., Ltd.	Taipei, Taiwan	Investment	135,000	13,500	100.00	139,721	4,821	NA	
Global Forest Media Technology Co., Ltd.	Global Forest Media Technology Co., Ltd.	Taipei, Taiwan	Investment	1,000	100	100.00	925	(75)	NA	
Global Wealth Media Technology Co., Ltd.	Globalview Cable TV Co., Ltd.	Taipei County, Taiwan	Cable TV service provider	82,882	3,460	6.179	83,469	69,715	NA	
Fu Sin Media Technology Co., Ltd.	Phoenix Cable TV Co., Ltd.	Kaohsiung County, Taiwan	Cable TV service provider	133,358	2,272	3.34	132,485	203,682	NA	
Taiwan Cellular Co., Ltd.	Tai Yi Digital Broadcasting Co., Ltd.	Taipei, Taiwan	Broadcasting business and agency of telecom service subscription	24,950	2,495	49.90	21,528	(3,966)	NA	
TWM Holding Co., Ltd.	TWM Holding Co., Ltd.	British Virgin Islands	Investment	US\$ 10,800	9,000	100.00	US\$ 6,089	(1,182)	NA	
Taiwan Fixed Network Co., Ltd.	Taiwan Fixed Network Co., Ltd.	Taipei, Taiwan	Fixed line service provider	40,000,000	4,000,000	100.00	52,147,530	6,110,349	NA	
Taiwan Digital Communication Co., Ltd.	Taiwan Digital Communication Co., Ltd.	Taipei, Taiwan	Telecom engineering and IT service	12,000	1,200	100.00	11,081	(91)	NA	
TWM Holding Co., Ltd.	Hurray Times Communications, Beijing	Beijing, China	Telecom product innovation and design	US\$ 5,005	-	100.00	US\$ 3,916	(983)	NA	
Taiwan Fixed Network Co., Ltd.	TFN Investment Co., Ltd.	Taipei, Taiwan	Investment	19,669,138	2,061,939	100.00	23,227,228	1,349,441	NA	
Taiwan Fixed Network Co., Ltd.	TFN HK LIMITED	Hong Kong	Telecommunications service provider	5,816	1,300	100.00	2,957	(160)	NA	
Taiwan Teleservices & Technologies Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	Taipei, Taiwan	Call center service and ISR (international simple resales)	10,000	1,000	100.00	97,609	75,151	NA	
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Holdings Co., Ltd.	Samon	Investment	US\$ 1,300	1,300	100.00	US\$ 1,363	(43)	NA	
Taiwan Teleservices & Technologies Co., Ltd.	Taiwan Super Basketball Co., Ltd.	Taipei, Taiwan	Basketball team management	20,000	2,000	100.00	20,044	39	NA	
TT&T Holdings Co., Ltd.	Xiamen Taifu Teleservices & Technologies Ltd.	Xiamen, China	Call center service	US\$ 1,300	1,300	100.00	US\$ 1,362	(40)	NA	
TFN Investment Co., Ltd.	Reach & Range Inc.	Taipei, Taiwan	Telecommunications equipment installment and IT service provider	31,764	2,400	100.00	33,542	2,107	NA	
TFN Investment Co., Ltd.	WinTV Broadcasting Co., Ltd.	Taipei, Taiwan	TV program provider	252,141	25,214	98.50	181,865	(74,207)	NA	
TFN Media Co., Ltd.	TFN Media Co., Ltd.	Taipei, Taiwan	Cable broadband and value added service provider	2,035,714	230,526	100.00	3,732,745	927,766	NA	
TFN Media Co., Ltd.	Ysong Jaleh Cable TV Co., Ltd.	Taipei County, Taiwan	Cable TV service provider	1,616,824	33,940	100.00	2,113,439	179,955	NA	
TFN Media Co., Ltd.	Shin Ho Cable TV Co., Ltd.	Taipei County, Taiwan	Cable TV service provider	661,781	20,000	100.00	695,449	(1,283)	NA	
TFN Media Co., Ltd.	Mangrove Cable TV Corporation	Taipei County, Taiwan	Cable TV service provider	397,703	21,160	100.00	557,279	64,730	NA	
Phoenix Cable TV Co., Ltd.	Phoenix Cable TV Co., Ltd.	Kaohsiung County, Taiwan	Cable TV service provider	2,294,967	65,818	96.66	3,157,539	203,682	NA	
Union Cable TV Co., Ltd.	Union Cable TV Co., Ltd.	Yilan County, Taiwan	Cable TV service provider	1,904,440	170,440	99.99	2,023,231	103,502	NA	
Globalview Cable TV Co., Ltd.	Globalview Cable TV Co., Ltd.	Taipei County, Taiwan	Cable TV service provider	841,413	51,733	92.38	1,222,722	69,715	NA	

Note 1: Taiwan Mobile shares held indirectly by TFN and TFNI (both are subsidiaries of TCC) are classified as treasury shares. Therefore, TWM's carrying cost of \$52,946,904 thousand on TCC shall be reduced by downward adjusting the latter's net worth by \$31,889,100 thousand, excluding \$5,934,549 thousand unrealized gain from financial assets investment, and adding back recognition of upstream transactions gains of \$2,196 thousand.

Note 2: Some shares are held under trustee accounts.

TABLE 8

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2008

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

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of December 31, 2007	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2008	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 3)	Carrying Value as of December 31, 2008	Accumulated Inward Remittance of Earnings as of December 31, 2008
					Outflow	Inflow					
Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	US\$ 1,300 (NT\$ 42,725)	Indirect investment in the Companies in Mainland China through a third place subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$ 1,300 (NT\$ 42,725)	\$ -	\$ -	US\$ 1,300 (NT\$ 42,725)	US\$ (40) (NT\$ (1,315))	US\$ 1,362 (NT\$ 44,762)	\$ -	
Hurray! Times Communications, Beijing	Telecom product innovation and design	US\$ 3,000 (NT\$ 98,595)	Indirect investment in the Companies in Mainland China through a third place subsidiary, Taiwan Cellular Co., Ltd.	-	US\$ 4,617 (NT\$ 151,738)	-	US\$ 4,617 (NT\$ 151,738)	US\$ (1,168) (NT\$ (38,386))	US\$ 3,916 (NT\$ 128,699)	-	

Accumulated Investment in Mainland China as of December 31, 2008	Investment Amounts Authorized by Investment Commission, MOEA (Note 2)	Upper Limit on Investment Authorized by Investment Commission, MOEA (Note 2)
US\$ 1,300 (NT\$ 42,725)	US\$ 1,300 (NT\$ 42,725)	\$97,609
US\$ 4,617 (NT\$ 151,738)	US\$ 5,300 (NT\$ 174,185)	\$52,946,904

Note 1: The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1=NT\$32.865 and RMB1=NT\$4.8086 as of December 31, 2008.

Note 2: The indirect investment made by Taiwan Teleservices & Technologies Co., Ltd. and Taiwan Cellular Co., Ltd., subsidiaries of the Corporation.

Note 3: Calculation was based on audited financial statements.

SCHEDULE 2

TAIWAN MOBILE CO., LTD.
ACCOUNTS RECEIVABLE
DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

Client	Amount
Related parties	\$ 214,172
Taiwan Fixed Network Co., Ltd.	5,469
Other	<u>219,641</u>
Third parties	799,759
Chunghwa Telecom Co., Ltd.	5,469,782
Other (Note)	6,269,541
Less allowance for doubtful accounts	<u>(452,302)</u>
	<u>\$ 6,036,880</u>

Note: Each of the account was less than 5% of the total account balance.

SCHEDULE 1

TAIWAN MOBILE CO., LTD.
CASH AND CASH EQUIVALENTS
DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Item	Due Date	Amount
Short-term bills with repurchase rights	January 8, 2009	\$ 391,879
Government bonds with repurchase rights	January 8, 2009	<u>485,439</u>
Cash in banks		1,490
Foreign-currency deposits		47,884
(EUR)32,016.63, exchange rate at EUR1=NT\$46.543)		8,072
(US\$)1,456,975.73, exchange rate at US\$1=NT\$32.865)		<u>463,778</u>
Checking deposits		521,224
Demand deposits		<u>115,107</u>
Time deposits		25,923
Foreign-currency deposit		4,803
(US\$)3,502,429.24, exchange rate at US\$1=NT\$32.865)		<u>1,544,375</u>
Cash on hand		<u>4,803</u>
Revolving funds		<u>\$ 1,544,375</u>

SCHEDULE 3

TAIWAN MOBILE CO., LTD.

CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

	Par Value	Beginning Balance		Increase		Decrease		Adjustments on Equity Method (Note 3)		Ending Balance		Market Price or Net Asset Value (Notes 4 and 5)
		Thousand Shares	Amount	Thousand Shares	Amount (Note 1)	Thousand Shares	Amount (Note 2)	Thousand Shares	% of Ownership	Thousand Shares	Amount	
Taiwan Cellular Co., Ltd.	NT\$10	364,958	\$ 3,791,398	-	\$ 12,092,861	215,000	\$ 3,741,325	\$ 2,982,517	149,958	100	\$ 15,125,451	\$ 52,946,904
Wealth Media Technology Co., Ltd.	NT\$10	8,700	82,715	18,500	185,000	-	-	(41,980)	27,200	100	225,735	255,735
TransAsia Telecommunications Inc.	NT\$10	900,000	11,330,665	33,000	-	933,000	12,461,898	1,131,233	-	-	-	-
Total			\$ 15,204,778		\$ 12,277,861		\$ 16,203,223				\$ 15,351,186	

Note 1: The increase in equity-method investments included the following:

- Reclassification of gain on disposal of the Corporation's shares held by a subsidiary to capital surplus.
- Adjustment on disposal of the Corporation's shares held by a subsidiary
- Rights issue of Wealth Media Technology Co., Ltd.

Note 2: The decrease in equity-method investments included the following:

- Distributing cash dividends by TransAsia Telecommunications Inc.
- Merged TransAsia Telecommunications Inc.
- Capital reduction of Taiwan Cellular Co., Ltd.
- Distributing cash dividends by Taiwan Cellular Co., Ltd.

Note 3: Other adjustment from evaluation included the following:

- Recognized investment income from investees.
- Recognized changes in cumulative translation adjustment of investees.
- Recognized changes in revaluation gain (loss) on financial assets of investees.
- Recognized changes in paid in capital of investees.
- Recognized changes in net loss not recognized as pension cost of investees.

Note 4: The net asset value of Taiwan Cellular Corporation and Wealth Medith Technology Co., Ltd. were calculated based on audited financial statements as of December 31, 2008.

Note 5: None of the above investments were provided as collateral.

SCHEDULE 5

TAIWAN MOBILE CO., LTD.
NON-OPERATING ASSETS
DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

	Cost	Accumulated Depreciation	Accumulated Net Carrying Value
Assets leased to others	\$ 1,661,570	\$ -	\$ 1,661,570
Land	814,132	123,224	690,908
Buildings	17,713	13,497	4,216
Other	\$ 2,493,415	\$ 1,36,721	2,356,694
Deferred charges, net			
Truck roll			2,148
			2,358,842
			(54,493)
			\$ 2,304,349
Idle assets			
Land	\$ 149,749	\$ -	\$ 149,749
Buildings	87,931	16,473	71,458
Telecommunication equipment	265,618	78,099	187,519
	\$ 503,298	\$ 94,572	408,726
Deferred charges, net			1,919
			410,645
Less allowance for losses			(187,519)
Less accumulated impairment			(84,447)
			\$ 138,679

SCHEDULE 4

TAIWAN MOBILE CO., LTD.
CHANGES IN PROPERTY AND EQUIPMENT
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

Cost	Changes for the Period			Ending Balance	
	Beginning Balance	Increase	Decrease		
Land	\$ 3,655,983	\$ -	\$ 102,528	\$ 107,778	\$ 3,866,289
Buildings	2,181,890	-	74,858	128,839	2,385,587
Telecommunication equipment	52,622,256	390,966	2,425,620	4,758,460	60,783,882
Office equipment	113,782	2,684	45,857	29,724	100,333
Leased assets	1,276,190	-	9,730	-	1,285,920
Miscellaneous equipment	1,965,778	388,847	428,573	73,440	2,065,596
	61,815,879	782,497	(2,900,050)	(5,019,016)	70,487,407
Accumulated depreciation					
Buildings	263,553	48,421	-	11,530	343,780
Telecommunication equipment	19,948,510	5,505,605	1,332,401	(8,150)	4,040,175
Office equipment	65,371	24,757	41,037	-	69,825
Leased assets	356,270	64,033	-	-	420,303
Miscellaneous equipment	778,991	503,974	407,148	-	920,166
	21,412,695	6,146,794	(1,780,586)	(3,380)	29,907,813
Construction in progress and advance payments	2,165,454	(5,125,577)	3,380	(4,851,460)	2,439,097
	\$ 49,568,638				\$ 43,018,691

Note 1: The total insurance for property and equipment and assets leased to others amounted to \$30,378,276 thousand.

Note 2: The increase of the construction in progress and advance payments included capitalized interests amounting to \$11,296 thousand.

Note 3: TransAsia Telecommunication Inc. (TAT) merged into the Corporation on September 2, 2008.

SCHEDULE 6

TAIWAN MOBILE CO., LTD.

ACCOUNTS PAYABLE
DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

Suppliers	Amount
National Communication Commission	\$ 1,692,332
Other (Note)	<u>474,346</u>
	\$ 2,166,678

Note: Each of the account was less than 5% of the total account balance.

SCHEDULE 7

TAIWAN MOBILE CO., LTD.

ACCRUED EXPENSES
DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

Nature	Amount
Salaries and bonuses	\$ 1,266,519
Commissions	1,021,574
Bonus to directors supervisors and employees	456,167
Repair and maintenance expenses	454,218
Professional service fees	332,260
BTS expenses	168,162
Advertising	142,975
Other (Note)	<u>844,326</u>
	\$ 4,686,201

Note: Each of the item was less than 5% of the total account balance.

SCHEDULE 9

TAIWAN MOBILE CO., LTD.

OPERATING REVENUES
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

Item	Amount
Telecom service revenues	
Interconnecting revenue (Note 1)	\$ 15,533,763
Airtime usage	18,527,570
Monthly access fee and activation fee	19,548,039
	<u>53,609,372</u>
Other operating revenues (Note 2)	702,233
	<u>\$ 54,311,605</u>

Note 1: Including revenues from other telecommunication operator's use of the Corporation's networks and IDD delivery revenues.

Note 2: Including commissions from receipts under custody and payments on behalf of others and revenues from handsets sales.

SCHEDULE 8

TAIWAN MOBILE CO., LTD.

OTHER PAYABLE
DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)

Item	Amount
Payables for equipment and constructions	
Value-added tax payables	\$ 1,662,116
Other	121,823
	<u>2,287,808</u>
	<u>\$ 4,071,747</u>

SCHEDULE 10**TAIWAN MOBILE CO., LTD.****OPERATING COSTS
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)**

Item	Amount
Telecom service costs	
Interconnection cost (Note 1)	\$ 9,128,887
Depreciation	5,626,974
2G concession fee and 3G license amortization	1,771,932
Rents	1,544,457
Leased-line charges	1,363,184
Cost of goods sold	1,110,095
Maintenance materials and constructions	857,493
Administrative and utilities expense of radio base stations	840,521
Frequency usage fee	429,280
Other (Note 2)	1,417,747
	<u>\$ 24,090,570</u>

Note 1: Including airtime and interconnection charges paid to other telecommunication service providers.

Note 2: Including expenses for maintaining telecommunication network and equipment.

- 63 -

SCHEDULE 11**TAIWAN MOBILE CO., LTD.****OPERATING EXPENSES
YEAR ENDED DECEMBER 31, 2008
(In Thousands of New Taiwan Dollars)**

Item	Marketing	Administrative	Total
Commissions	\$ 6,567,805	\$ -	\$ 6,567,805
Salaries and pension	840,008	976,091	1,816,099
Professional service fees	906,264	262,951	1,169,215
Bad debts	-	626,110	626,110
Service charges	38,324	519,481	557,805
Depreciation	60,939	458,877	519,816
Telecommunication and postage expenses	100,931	218,990	319,921
Advertising	270,743	44,089	314,832
Other (Note)	807,318	644,490	1,451,808
	<u>\$ 9,592,332</u>	<u>\$ 3,751,079</u>	<u>\$ 13,343,411</u>

Note: Each of the item was less than 5% of the total account balance.

- 64 -