



April 30, 2004

NT\$bn	<u>1Q04</u>	<u>4Q03</u>	<u>1Q03</u>	<u>QoQ</u>	<u>YoY</u>
Revenue	11.02	11.01	10.95	0%	1%
EBITDA	5.28	5.03	4.97	5%	6%
Operating Income	4.07	3.80	3.80	7%	7%
Non-op. Income (Expense)	1.11	(0.36)	(0.24)	NM	NM
Pre-tax Income	5.19	3.44	3.56	51%	46%
(Less Tax)	(0.50)	(0.22)	(0.30)	126%	64%
Net Income	4.69	3.22	3.26	46%	44%
EPS (NT\$)	1.02	0.70	0.71	46%	44%
EBITDA margin	47.88%	45.70%	45.44%	5%	5%
Operating margin	36.97%	34.52%	34.69%	7%	7%
Effective tax rate	9.57%	6.38%	8.50%	50%	13%

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Highlights of 1Q04 results

In the first quarter of 2004, TCC continued to pursue a balance between growth and profitability, which makes the company to record the highest EBITDA margin in the past eight quarters. EBITDA margin expansion resulted not only from selling expense cut, but also from slashing bad debt expense, bill collecting cost, call center expense, among others. Our focus on high-spending customers led to a 12% increase in blended ARPU and sustained total revenue at NT\$11bn, despite 200K subscriber net loss during the quarter.

Non-operating income in 1Q04 grew to NT\$1.11bn, compared to NT\$360m loss a quarter ago, owing to reduction in interest expense, increasing investment income from TransAsia Telecom, and Chunghwa Telecom disposal gains.

The company's 46% year-on-year pre-tax income increase in 1Q04 is driven by healthy core business growth and strong non-operating performance. On the recurring basis, TCC's 1Q04 pre-tax income still saw a 27% increase from a year earlier.

TCC made a major progress in simplifying investment structure in the quarter, with around NT\$8bn cash to be recouped from affiliate companies in 2004 and 2005. We plan to gain more controls on operating affiliates and further reduce the non-core investment portfolio. Healthy cash generation enabled us to arrive at lower gearing at the end of March, which will give us more business flexibility in the future.

2004 Outlook

Our revenue expects to grow at low single digit from a year ago. Revenue increase will come largely from ARPU enhancing, rather than subscriber growth. More new marketing initiatives will enable us to see further improvement in ARPU throughout the year. EBITDA margin for 2004 is expected to reach similar level in 2003. Although we estimate to realize close to NT\$0.8bn cost savings via business streamlining, our investments for future growth, including 3G, CRM, ERP, and doubling the number of company stores, are likely to offset the aforementioned cost savings. Total capital expenditure is budgeted at around NT\$7bn, of which 3G spending will make up some 46% while the balance is for 2G, CRM, ERP, and number portability. The increase in capex on the cash flow basis is due partially to payments for contracts awarded prior to 2004.

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I. Revenue Analysis

Table 1. Key Operational Data

	1Q04	4Q03	1Q03	QoQ	YoY
Revenue (NT\$bn)					
-Voice Revenue	10.48	10.54	10.53	-1%	0%
- VAS Revenue	0.54	0.47	0.42	14%	29%
- Data Rev as % to Total	4.9%	4.3%	3.8%		
End Subscribers (K)	5,611	5,811	6,626	-3%	-15%
-Postpaid	4,361	4,570	5,288	-5%	-18%
-Prepaid	1,250	1,241	1,338	1%	-7%
Monthly Churn	4.6%	6.1%	2.8%		
MOU (bn)	2.87	2.86	2.82	0%	2%
ARPM (NT\$)	3.84	3.85	3.88	0%	-1%

Table 2. Per Sub Spending & Usage

	1Q04	4Q03	1Q03	QoQ	YoY
ARPU (NT\$)	640	608	569	5%	12%
-Postpaid	748	712	631	5%	19%
-Prepaid	175	173	204	1%	-14%
-Domestic Roaming & Others	19	13	15	46%	27%
MOU (minute)	167	158	147	6%	14%

Revenue Analysis

TCC's revenue in the March quarter was NT\$11bn, flat both year-on-year and sequentially. Value-added service (VAS), at 5% of total revenue, showed 29% growth versus flattish voice revenue. Total MOU in 1Q04 did not increase from the previous quarter due to 200K reduction in the subscriber base. Pricing remained stable in the quarter with ARPM flat QoQ. We achieved better customer mix, evidenced by rising ARPU and usage, with new subs' ARPU at 2x that of churned subs.

Benefiting from acquiring higher-usage new subs, stable ARPU of existing users, and churning away low-yield customers, we boosted the post-paid ARPU by 19% YoY and 5% QoQ to NT\$748. Blended ARPU also saw a healthy 12% increase from a year earlier, driven by 14% rise in minutes of use.

II. Cost and Expense Analysis

Table 3. Total Cost & Expense

NT\$bn	1Q04	4Q03	1Q03	QoQ	YoY
Revenue	11.02	11.01	10.95	0%	1%
Cost of service	4.47	4.41	4.32	1%	4%
Selling expense	1.74	1.86	2.04	-6%	-14%
G & A expense	0.73	0.94	0.79	-22%	-8%
Total cost & expense	6.94	7.21	7.15	-4%	-3%
Operating income	4.08	3.80	3.80	7%	7%

Table 4. Network Cost Breakdown

NT\$bn	1Q04	4Q03	1Q03	QoQ	YoY
Network cost	4.47	4.41	4.32	1%	4%
- Depreciation	1.06	1.06	1.01	0%	5%
- Interconnection	1.92	1.96	1.83	-2%	5%
- BTS & leased line rental	0.78	0.77	0.73	1%	7%

Table 5. Expense Breakdown

NT\$bn	1Q04	4Q03	1Q03	QoQ	YoY
Total Op. Exp.	2.47	2.80	2.83	-12%	-13%
Selling Exp.	1.74	1.86	2.04	-6%	-14%
- Acquisition & retention	1.17	1.19	1.39	-2%	-15%
- Advertising	0.09	0.11	0.10	-12%	-1%
- Others	0.48	0.56	0.55	-15%	-15%
G&A Exp.	0.73	0.94	0.79	-22%	-8%

Table 6. Non-operating Item

NT\$bn	1Q04	4Q03	1Q03	QoQ	YoY
Non-Operating Items	1.11	(0.36)	(0.24)	NM	NM
-Net interest income (expense)	(0.32)	(0.36)	(0.46)	-11%	-31%
-Net investment income (loss)	1.01	0.77	0.17	31%	496%
-Disposal gains	0.37	0.00	0.03		
Investment Income/(Loss)	1.01	0.77	0.17	31%	496%
TAT (92.32%)	0.90	0.65	0.12	38%	672%
TFN (9.76%)	0.08	0.00	0.03	NM	117%
Others	0.03	0.12	0.02	-74%	90%

Cost /Expense Analysis

TCC continued reaping benefits of effective cost and expense controls and improved EBITDA margin to 48% in 1Q04, up from 46% in 4Q03 and 45% in 1Q03. During the quarter, total cost & expense declined 3% YoY, which led to a 7% growth in operating income.

Network cost is still on the rise but the magnitude of increase is well-contained in 1Q. Network cost increase still came largely from rising cell-site and leased-line rental expenses. We view 1Q network cost is the lowest level for the year and expect both depreciation and BTS & leased-line rental expense to climb up throughout the year when we take delivery more equipment and have more 3G system up and running.

Total subscriber acquisition cost (SAC) and retention cost (SRC) remained stable on a QoQ comparison, suggesting minimal change in market competition. On a year-on-year comparison, total SAC and SRC expense declined 15% due largely to a drop in subscriber acquisition number. Nonetheless, SRC was on the rise in 1Q04, indicating our main emphasis on retention. Call center cost decline also resulted in selling expense reduction in 1Q. General and administrative expense saw a noticeable 22% sequential decrease, due to a combination of falling bad debts and bill collecting costs.

TCC booked NT\$1.11bn non-operating income in 1Q04. The surge in non-operating profits was attributable to reduction in interest expense, escalating investment income, and Chunghwa Telecom (CHT) disposal gains.

The company recorded NT\$365m gains from the sale of 93m CHT in 1Q. Separately, investment income from TransAsia Telecom (TAT) advanced 6.7x YoY, driven by 225% growth in recurring profits and NT\$341m gains from the disposal of CHT shares in 1Q.

III. Cash Flow Analysis

Table 7. Cash Flow

NT\$bn	1Q04	4Q03	1Q03
Net Income	4.69	3.21	3.26
Deprec. & Amort.	1.20	1.23	1.18
Other Op Sources/(Uses)	(0.12)	2.09	(0.39)
Total Op Sources/(Uses)	5.77	6.53	4.05
Net Investing Sources/(Uses)	4.16	0.05	4.62
Net Financing Sources/(Uses)	(9.07)	(7.43)	(12.58)
Net Cash Position Changes	0.86	(0.85)	(3.91)

Table 8. Capex & FCF

NT\$bn	1Q04	4Q03	1Q03
Capex-2G	0.03	0.00	0.09
Capex-3G	0.12	0.00	0.08
Total Capex	0.15	0.00	0.17
% of Revenue	1.4%	0.0%	1.6%
Free Cash Flow*	5.62	6.53	3.88

Free cash flow: operating cash flow minus capex

Cash Flow Analysis

Operating cash flow in 1Q04 came in at NT\$5.77bn, up 42% from same-quarter a year ago.

The NT\$4.16bn net cash inflow from investing activities stemmed largely from sales proceed of CHT shares. Cash outflow for equipment purchase was a mere NT\$151m in 1Q04.

NT\$9.1bn cash outflow from financing activity was mainly for NT\$7.7bn debt repayment and NT\$1.4bn customer deposits refunded or deducted against month bills during the quarter.

Capex and Free Cash Flow

Although net cash outflow on capital expenditure is only NT\$151m in 1Q04, TCC added NT\$781m worth of fixed assets with the majority payable due in two months. Based on our payment schedule, we expect cash outflow for telecom equipment purchase amount to NT\$2.11bn in 2Q04. Taking delivery of more equipment will lead to higher depreciation and cell site related expense for the rest of the year.

IV. Balance Sheet Analysis

Table 9. Balance Sheet

NT\$bn	1Q04	4Q03	1Q03
Total Assets	126.92	130.32	134.00
Current Assets	21.97	26.07	10.22
- Cash & Cash Equivalents	2.75	1.88	3.09
- Other Current Assets	19.22	24.19	7.13
Long-Term Investment	27.78	26.77	45.72
Property and Equipment	62.36	62.51	62.77
Liabilities	52.55	61.13	66.18
Current Liabilities	16.89	17.19	8.68
- ST Debts	8.17	7.95	2.55
- Other Current Liabilities	8.72	9.24	6.13
Long-Term Borrowings	35.52	43.81	53.95
Other Liabilities	0.14	0.13	3.55
Shareholders' Equity	74.37	69.19	67.82

Table 10. Ratios

	1Q04	4Q03	1Q03
Current Ratio	130%	152%	118%
Interest Coverage (x)	17.15	10.52	8.42
Net Debt to Equity	55%	72%	77%
ROE (annualised)	26%	20%	20%
ROA (annualised)	15%	11%	10%

Balance Sheet

Our divestment of Chunghwa Telecom shares in January resulted in a decrease in other current assets and an increase in cash in 1Q04. The investment income increased total long-term investment value by NT\$1bn in 1Q. Total debts reduced by NT\$8bn in the quarter. Convertible bond outstanding decreased by NT\$445m to NT\$11bn, as of the end of March. Separately, early repayment of long-term debt amounted to NT\$7.7bn in the quarter. As such, net debt level declined to NT\$41bn, at 55% of equity.

Ratio Analysis

De-leveraging efforts coupled with non-core asset divestments resulted in higher interest coverage, lower gearing, and higher ROE & ROA.

V. TransAsia Telecom

Table 11. P&L

NT\$bn	1Q04	4Q03	1Q03	QoQ	YoY
Revenue	2.83	2.94	2.62	-3%	8%
EBITDA	1.16	1.05	0.56	10%	106%
PBT-recurring	0.91	0.72	0.26	27%	2.5x
Reported PBT	1.25	0.80	0.26	56%	375%
Tax (Credit)	0.11	(0.06)	0.02	NM	566%
Net Income	1.15	0.86	0.25	34%	363%

Table 12. Operational Result

	1Q04	4Q03	1Q03	QoQ	YoY
MOU (m)	550	579	520	-5%	6%
Ending Subscriber (m)	2.00	2.20	2.05	-9%	-3%
Avg. Subscriber (m)	2.10	2.30	1.97	-9%	7%
Blended ARPU (NT\$)	438	416	436	5%	0%
ARPM (NT\$)	5.02	4.97	4.95	1%	1%
MOU per sub	87	84	88	4%	-1%

Table 13. Balance Sheet

NT\$bn	1Q04	4Q03	1Q03
Total Assets	12.37	12.09	14.50
Current Assets	5.56	4.95	3.15
Fixed Assets	6.25	6.49	6.56
Shareholders' Equity	9.98	8.83	8.64

Table 14. Consolidated P& L-TCC & TAT only

NT\$bn	Jan-04	Feb-04	Mar-04
Revenue	4.57	4.26	4.48
EBITDA	2.22	2.00	2.21
EBITDA margin	48.70%	46.88%	49.27%

TAT recorded 2.5x YoY rise in pre-tax recurring income in 1Q04, driven by a surge in EBITDA margin to 41%, up from 36% in 4Q03 and 21% in 1Q03. Higher-than-expected EBITDA margin in 1Q is due partially to under-spending of sales and marketing expense, which will accelerate in the rest of the year.

The customer clean-up has been seeing some results with ARPU and MOU per sub rising by a respective 5% and 4% sequentially in 1Q04. Once when it achieves better customer mix, we expect both ARPU and MOU start to show healthier YoY improvements in the second half of this year.

As for its CHT divestment, its CHT holding reduced to only 5m shares at the end of March and booked NT\$341m disposal gains in 1Q04. This also allowed it to repay all its debts and become a net cash company as of the end of March.

Integration with TAT is in progress with corporate account, administrative offices (except for finance and accounting), and system network team are fully consolidated. The development of new data service on the same platform and billing system integration expect to lead to more synergy in terms of capex investments. Going forward, we expect to see more co-operations at sales & marketing activities to jointly promote the two brands.

For 2004, we project TAT to see a flat revenue growth but a 16% rise in recurring net profits, with EBITDA margin increasing to 30% plus vs. 25% in 2003.

In 1Q04, TCC and TAT consolidated revenue totaled NT\$13.3bn, after adjusted for inter-company transactions, largely traffic interconnecting. Consolidated EBITDA margin is a high 48.3% in 1Q04, compared to TCC's 47.9%.

VI. 2004 Outlook

Our revenue expects to grow at low single digit from a year ago. Revenue increase will come largely from ARPU enhancing, rather than subscriber base growth. More new marketing initiatives will lead to further improvement in ARPU throughout the year. EBITDA margin for 2004 is expected to reach similar level in 2003. Although we estimate to realize close to NT\$0.8bn cost savings via business streamlining, our investments for future growth, including 3G, CRM, ERP, and doubling the number of company stores, are likely to offset the aforementioned cost savings. Total capital expenditure is budgeted at around NT\$7bn, of which 3G spending will make up some 46%. The increase in capex on the cash flow basis is due partially to payments for contracts awarded prior to 2004.

VII. Management Remark

Investment Structure

We are glad to make a good progress in simplifying investment structure in the past six months. By the end of this year, we expect to complete capital reductions at six operating affiliates and to increase our stake in them. An approximate NT\$8bn cash (including TFN's cash repatriation) to be upstreamed to TCC through subsidiaries' capital reductions.

Table 15. Affiliates' Capital Reduction

in NT\$m	TCC stake	Capital reduction	Proceeds to TCC (2004)	Proceeds to TCC (2005)
TAT	92.32%	3,000	2,770	---
TFN	9.76%	27,660	2,700	---
TTS	50.02%	1,500	---	750
Howin	25.00%	4,800	---	1,200
TT&T	65.00%	400	---	260
Elitec	65.00%	300	---	195
Taiwan Infotainment	60.00%	365	---	219
Subtotal			5,470	2,624
Total				8,094

Sales & Marketing

Thanks to management's focus on high-usage sub retention and acquisition, post-paid ARPU and MOU have been on the uptrend. Looking ahead,

the management team will be putting more attention to refine pre-paid business by changing pricing scheme, innovation in channel distribution and expanding product offerings. We expect pre-paid business to see improvements by the end of this year. To increase our service and presence, we plan to open additional 32 company stores. The appointment of James Wilson, senior advisor to CBO (Chief Business Officer) expects to bring more successful initiatives to the company. Mr. Wilson served as President of TAT from 1997-2000 and was Senior EVP of SBC International.

Business Streamlining

TCC expects to continuously realize more cost savings through the following initiatives: 1) Outsourcing handset procurement to take effect on May 1, which would minimize handset inventory risks and eliminate related staff at our 50%-owned Taiwan Teleshop; 2) Cutting bill printing cost by consolidating monthly bills for the same household/account ID; 3) Reducing bad debt expense by 20% YoY through better credit controls. Separately, the management team is revisiting commission scheme to enhance marketing efficiency; and centralization of system network management and operation, previously undertaken by Howin Technology, at TCC to implement more stringent controls over network quality and equipment expenditure for both TCC and TAT.

Capital Management

In view of potential EPS dilution from convertible bond conversions and employee's subscription of treasury stocks (2%), TCC's board authorizes the management to buy back up to NT\$2.5bn worth of local convertible bonds for cancellation. On April 30, we bought back NT\$1.3bn worth of CBI. As the price is above the par value plus accrued interest expense, we incur NT\$170m loss. But this buyback is to eliminate 38.9m shares potential dilution. Our gearing (net debt to equity) expects to be slightly below 60% range by the end of this year, which gives us better business flexibility.

Corporate Governance

The corporate governance committee and audit committee have reviewed TCC's major accounting policies, related party transaction guidelines, and simplification of investment structure in the recent meetings. Corporate governance enhancement remains one of our key focuses.