

**Taiwan Mobile Co., Ltd.**

**Financial Statements for the  
Six Months Ended June 30, 2007 and 2006 and  
Independent Auditors' Report**

## **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 June 30, 2007 and 2006, and the related statements of income, changes in shareholders' equity and cash flows for the six months 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 June 30, 2007 and 2006, and the results of its operations and its cash flows for the six months 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 8 to the financial statements, to position as an integrated telecom and media player down the road differentiating from competition and build growth momentum through exposure to higher margin lines of business, the Board of Directors of the Corporation's subsidiary, Taihsing International Telecommunication Co., Ltd. (TIT), resolved on March 1, 2007 and April 26, 2007 to acquire Taiwan Fixed Network Co., Ltd. (TFN) through a public tender offer. As of June 30, 2007, 5,459,804 thousand shares (84.6 percent of TFN's outstanding shares) had been acquired.

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

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 reviewed the consolidated balance sheets of the Corporation and its subsidiaries as of June 30, 2007 and 2006 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the six months then ended. We have issued modified unqualified review reports on those consolidated financial statements as of and for the six months ended June 30, 2007 and 2006.

July 13, 2007

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**

**JUNE 30, 2007 AND 2006**

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

ASSETS	2007		2006		LIABILITIES AND SHAREHOLDERS' EQUITY	2007		2006	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2, 4 and 20)	\$ 7,053,883	8	\$ 11,434,760	10	Accounts payable (Note 20)	\$ 1,390,164	1	\$ 1,263,630	1
Financial assets at fair value through profit or loss - current (Notes 2, 3 and 5)	-	-	7,314,212	6	Income taxes payable (Notes 2 and 16)	1,451,582	2	1,415,439	1
Available-for-sale financial assets - current (Notes 2, 3 and 6)	168,538	-	8,775,000	7	Accrued expenses (Note 20)	3,698,518	4	3,789,884	3
Notes receivable	7,333	-	7,227	-	Other payables (Note 2, 16 and 20)	17,678,907	19	16,452,253	13
Accounts receivable - third parties (Notes 2 and 7)	5,414,584	6	5,145,712	4	Advance receipts	835,759	1	564,129	1
Accounts receivable - related parties (Notes 2 and 20)	300,234	-	300,876	-	Current portion of long-term liabilities (Notes 2 and 13)	3,785,381	4	1,587,881	1
Other receivables - third parties	199,111	-	174,743	-	Guarantee deposits	31,271	-	65,707	-
Other receivables - related parties (Note 20)	307,054	-	489,776	1	Other current liabilities (Note 20)	884,584	1	577,461	1
Inventories (Note 2)	65,398	-	2,896	-					
Prepayments (Note 20)	471,526	1	327,908	-	Total current liabilities	29,756,166	32	25,716,384	21
Deferred income tax assets - current (Notes 2 and 16)	100,764	-	75,382	-					
Pledged time deposits (Notes 20 and 21)	10,000	-	10,000	-	<b>LONG-TERM LIABILITIES</b>				
Other current assets	8,707	-	5,333	-	Hedging derivative financial liabilities (Notes 2, 3, 19 and 23)	260,081	-	420,522	-
					Bonds payable (Notes 2 and 13)	10,000,000	11	14,050,544	12
Total current assets	14,107,132	15	34,063,825	28					
					Total long-term liabilities	10,260,081	11	14,471,066	12
<b>INVESTMENTS</b>					<b>OTHER LIABILITIES</b>				
Investments accounted for using equity method (Notes 2, 8 and 15)	10,303,770	11	16,019,566	13	Accrued pension cost (Notes 2 and 14)	-	-	139,035	-
Financial assets carried at cost - non-current (Notes 2, 3 and 9)	52,052	-	3,858,308	3	Guarantee deposits	260,285	-	232,591	-
					Deferred credits - gains on inter-affiliate accounts (Notes 2 and 8)	1,586,156	2	-	-
Total investments	10,355,822	11	19,877,874	16	Long-term investments credit balances (Notes 2, 8 and 15)	2,412,781	3	-	-
<b>PROPERTY AND EQUIPMENT (Notes 2 and 10)</b>					Total other liabilities	4,259,222	5	371,626	-
Cost									
Land	3,655,983	4	3,769,528	3	Total liabilities	44,275,469	48	40,559,076	33
Buildings	2,181,890	2	2,221,339	2					
Telecommunication equipment	70,479,259	76	69,251,102	56	<b>SHAREHOLDERS' EQUITY (Notes 2, 8 and 15)</b>				
Office equipment	110,222	-	99,915	-	Capital stock - NT\$10 par value				
Leased assets	1,276,190	2	1,276,190	1	Authorized: 6,000,000 thousand shares				
Miscellaneous equipment	1,957,581	2	1,258,597	1	Issued and outstanding: 5,000,414 thousand shares in 2007 and 4,975,656 thousand shares in 2006	50,004,141	54	49,756,558	41
Total cost	79,661,125	86	77,876,671	63	Entitlement certificates	-	-	31,030	-
Less accumulated depreciation	(27,790,703)	(30)	(23,423,134)	(19)	Capital surplus	8,771,786	9	8,386,740	7
	51,870,422	56	54,453,537	44	Retained earnings				
Construction in progress and advance payments	3,205,650	4	1,970,873	2	Legal reserve	11,745,475	13	10,128,401	8
					Special reserve	3,493,563	4	3,350,000	3
Net property and equipment	55,076,072	60	56,424,410	46	Unappropriated earnings	12,108,451	13	10,864,170	9
					Other equity				
<b>INTANGIBLE ASSETS (Note 2)</b>					Cumulative translation adjustments	7,495	-	3,426	-
3G concession	8,598,655	9	9,346,364	8	Unrealized gain (losses) of financial instruments	(268,846)	-	1,501,726	1
Computer software cost	44,354	-	90,665	-	Treasury stock	(37,746,803)	(41)	(2,079,542)	(2)
	8,643,009	9	9,437,029	8					
					Total shareholders' equity	48,115,262	52	81,942,509	67
<b>OTHER ASSETS</b>									
Assets leased to others (Notes 2, 11 and 20)	2,394,031	3	908,817	1					
Idle assets (Notes 2 and 11)	226,957	-	228,885	-					
Refundable deposits	283,618	1	272,226	-					
Deferred charges (Notes 2 and 12)	261,744	-	202,450	-					
Deferred income tax assets - non-current (Notes 2 and 16)	997,432	1	1,013,177	1					
Other (Note 14)	44,914	-	72,892	-					
Total other assets	4,208,696	5	2,698,447	2					
<b>TOTAL</b>	<b>\$ 92,390,731</b>	<b>100</b>	<b>\$ 122,501,585</b>	<b>100</b>	<b>Total</b>	<b>\$ 92,390,731</b>	<b>100</b>	<b>\$ 122,501,585</b>	<b>100</b>

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

(With Deloitte & Touche audit report dated July 13, 2007)

# TAIWAN MOBILE CO., LTD.

## STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

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

	2007		2006	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 20)				
Telecommunications service revenue	\$24,917,794	100	\$23,666,523	100
Other revenue	<u>115,205</u>	<u>-</u>	<u>87,572</u>	<u>-</u>
Total operating revenues	25,032,999	100	23,754,095	100
OPERATING COSTS (Notes 2, 18 and 20)	<u>10,828,558</u>	<u>43</u>	<u>9,890,498</u>	<u>42</u>
GROSS PROFIT	<u>14,204,441</u>	<u>57</u>	<u>13,863,597</u>	<u>58</u>
OPERATING EXPENSES (Notes 2, 18 and 20)				
Marketing	4,131,202	17	4,878,872	21
Administrative	<u>1,797,358</u>	<u>7</u>	<u>1,550,729</u>	<u>6</u>
Total operating expenses	<u>5,928,560</u>	<u>24</u>	<u>6,429,601</u>	<u>27</u>
OPERATING INCOME	<u>8,275,881</u>	<u>33</u>	<u>7,433,996</u>	<u>31</u>
NON-OPERATING INCOME AND GAINS				
Investment income recognized under the equity method, net (Notes 2 and 8)	2,105,469	9	1,405,635	6
Interest income (Note 20)	136,250	1	83,495	-
Penalty income	87,453	-	84,037	1
Rental income (Note 20)	53,503	-	32,274	-
Valuation gain on financial instruments, net (Note 2)	39,408	-	14,993	-
Gain on disposal of property and equipment (Notes 2 and 20)	3,824	-	10,327	-
Gain on disposal of investments, net (Note 2)	-	-	625,508	3
Other (Note 2)	<u>79,795</u>	<u>-</u>	<u>66,053</u>	<u>-</u>
Total non-operating income and gains	<u>2,505,702</u>	<u>10</u>	<u>2,322,322</u>	<u>10</u>
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal and retirement of property and equipment (Note 2)	244,928	1	1,394,283	6
Interest expenses (Note 2)	158,227	1	227,410	1
Other (Notes 2 and 11)	<u>19,176</u>	<u>-</u>	<u>77,640</u>	<u>-</u>
Total non-operating expenses and losses	<u>422,331</u>	<u>2</u>	<u>1,699,333</u>	<u>7</u>
INCOME BEFORE INCOME TAX	10,359,252	41	8,056,985	34
INCOME TAX EXPENSE (Notes 2 and 16)	<u>2,358,034</u>	<u>9</u>	<u>306,989</u>	<u>1</u>

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# TAIWAN MOBILE CO., LTD.

## STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

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

	2007		2006	
	Amount	%	Amount	%
INCOME AFTER INCOME TAX	\$ 8,001,218	32	\$ 7,749,996	33
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3)	-	-	35	-
NET INCOME	<u>\$ 8,001,218</u>	<u>32</u>	<u>\$ 7,750,031</u>	<u>33</u>

  

	2007		2006	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 17)				
Basic	<u>\$ 2.36</u>	<u>\$ 1.82</u>	<u>\$ 1.63</u>	<u>\$ 1.57</u>
Diluted	<u>\$ 2.36</u>	<u>\$ 1.82</u>	<u>\$ 1.62</u>	<u>\$ 1.55</u>

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

	2007	2006
NET INCOME BEFORE CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES	<u>\$ 8,001,218</u>	<u>\$ 7,749,996</u>
NET INCOME	<u>\$ 8,001,218</u>	<u>\$ 7,750,031</u>
EARNINGS PER SHARE		
Basic	<u>\$ 1.61</u>	<u>\$ 1.57</u>
Diluted	<u>\$ 1.61</u>	<u>\$ 1.55</u>

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

(With Deloitte & Touche audit report dated July 13, 2007)

(Concluded)

**TAIWAN MOBILE CO., LTD.**
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY  
SIX MONTHS ENDED JUNE 30, 2007 AND 2006  
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)**

	Capital Stock			Capital Surplus	Retained Earnings				Cumulative Translation Adjustments	Unrealized Gain on Financial Instruments	Treasury Stock	Total Shareholders' Equity
	Capital Stock	Entitlement Certificates	Total		Legal Reserve	Special Reserve	Unappropriated	Total				
BALANCE, JANUARY 1, 2007	\$ 49,993,251	\$ -	\$ 49,993,251	\$ 8,748,571	\$ 10,128,401	\$ 3,350,000	\$ 19,228,424	\$ 32,706,825	\$ 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)	-	-	-	(43,231)
Bonus to employees - cash	-	-	-	-	-	-	(432,303)	(432,303)	-	-	-	(432,303)
Cash dividends - NT\$2.58757 per share	-	-	-	-	-	-	(12,880,151)	(12,880,151)	-	-	-	(12,880,151)
Balance after appropriation	49,993,251	-	49,993,251	8,748,571	11,745,475	3,493,563	4,112,102	19,351,140	3,860	(147,423)	(1,437,290)	76,512,109
Net income for the six months ended June 30, 2007	-	-	-	-	-	-	8,001,218	8,001,218	-	-	-	8,001,218
Adjustment in equity of subsidiaries	-	-	-	-	-	-	-	-	3,635	(150,290)	-	(146,655)
Transfer of treasury stock to employees	-	-	-	4,127	-	-	(4,869)	(4,869)	-	-	735,801	735,059
Conversion of convertible bonds to capital stock and entitlement certificates	10,890	-	10,890	19,088	-	-	-	-	-	-	-	29,978
Unrealized losses on financial instruments, net	-	-	-	-	-	-	-	-	-	28,867	-	28,867
Adjustments of treasury stock held by subsidiaries	-	-	-	-	-	-	-	-	-	-	(37,045,314)	(37,045,314)
<b>BALANCE, JUNE 30, 2007</b>	<b>\$ 50,004,141</b>	<b>\$ -</b>	<b>\$ 50,004,141</b>	<b>\$ 8,771,786</b>	<b>\$ 11,745,475</b>	<b>\$ 3,493,563</b>	<b>\$ 12,108,451</b>	<b>\$ 27,347,489</b>	<b>\$ 7,495</b>	<b>\$ (268,846)</b>	<b>\$ (37,746,803)</b>	<b>\$ 48,115,262</b>
BALANCE, JANUARY 1, 2006	\$ 49,492,065	\$ 29,871	\$ 49,521,936	\$ 7,905,337	\$ 8,504,731	\$ 2,201,631	\$ 19,175,425	\$ 29,881,787	\$ 3,240	\$ -	\$ (323,544)	\$ 86,988,756
Appropriation of the 2005 earnings												
Legal reserve	-	-	-	-	1,623,670	-	(1,623,670)	-	-	-	-	-
Special reserve	-	-	-	-	-	1,150,000	(1,150,000)	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	(1,631)	1,631	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	(40,394)	(40,394)	-	-	-	(40,394)
Bonus to employees - cash	-	-	-	-	-	-	(403,940)	(403,940)	-	-	-	(403,940)
Cash dividends - NT\$2.61677 per share	-	-	-	-	-	-	(12,843,997)	(12,843,997)	-	-	-	(12,843,997)
Balance after appropriation	49,492,065	29,871	49,521,936	7,905,337	10,128,401	3,350,000	3,115,055	16,593,456	3,240	-	(323,544)	73,700,425
Net income for the six months ended June 30, 2006	-	-	-	-	-	-	7,750,031	7,750,031	-	-	-	7,750,031
Adjustment in equity of subsidiaries	-	-	-	-	-	-	-	-	186	-	-	186
Transfer of treasury stock to employees	-	-	-	-	-	-	(916)	(916)	-	-	62,372	61,456
Conversion of convertible bonds to capital stock and entitlement certificates	264,493	1,159	265,652	481,403	-	-	-	-	-	-	-	747,055
Buyback of issued shares	-	-	-	-	-	-	-	-	-	-	(1,818,370)	(1,818,370)
Effect of the first time adoption of new issued SFAS No. 34	-	-	-	-	-	-	-	-	-	1,834,639	-	1,834,639
Unrealized losses on financial instruments, net	-	-	-	-	-	-	-	-	-	(332,913)	-	(332,913)
<b>BALANCE, JUNE 30, 2006</b>	<b>\$ 49,756,558</b>	<b>\$ 31,030</b>	<b>\$ 49,787,588</b>	<b>\$ 8,386,740</b>	<b>\$ 10,128,401</b>	<b>\$ 3,350,000</b>	<b>\$ 10,864,170</b>	<b>\$ 24,342,571</b>	<b>\$ 3,426</b>	<b>\$ 1,501,726</b>	<b>\$ (2,079,542)</b>	<b>\$ 81,942,509</b>

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

(With Deloitte & Touche audit report dated July 13, 2007)

# TAIWAN MOBILE CO., LTD.

## STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 8,001,218	\$ 7,750,031
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,019,232	2,637,166
Investment income recognized under the equity method, net	(2,105,469)	(1,405,635)
Cash dividends received from equity-method investees	1,979,210	-
Amortization	447,509	458,322
Deferred income taxes	443,061	(429,588)
Bad debts	408,451	357,926
Loss on disposal and retirement of property and equipment, net	241,104	1,383,956
Reversal of allowance for loss on inventory	(8,052)	-
Pension cost	(2,107)	-
Accrued interest compensation	910	34,209
Gains on disposal of available-for-sale financial assets	-	(625,506)
Loss on buyback of bonds payable	-	59,327
Impairment loss	-	2,005
Gains on disposal of long-term investments	-	(1)
Net changes in operating assets and liabilities		
Financial assets held for trading	11,109,207	(6,714,212)
Notes receivable	4,073	5,443
Accounts receivable - third parties	(765,748)	(534,618)
Accounts receivable - related parties	36,315	227,815
Other receivables - third parties	43,449	51,119
Other receivables - related parties	(52,194)	7,528
Inventories	(26,114)	(2,576)
Prepayments	92,920	147,235
Other current assets	7,717	1,917
Accounts payable	(42,399)	(214,778)
Income taxes payable	(654,457)	320,712
Accrued expenses	(67,143)	403,995
Other payables	792,466	512,585
Advance receipts	(158,471)	(456,727)
Other current liabilities	(1,077)	(217,956)
Net cash provided by operating activities	<u>22,743,611</u>	<u>3,759,694</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Increase in long-term investments accounted for using equity method	(12,740,430)	-
Financing provided to investee	(12,500,000)	-
Proceeds from investees' capital reduction	3,458,463	1,119,715
Acquisition of property and equipment	(2,782,491)	(2,388,891)
Increase in deferred charges	(35,912)	(33,600)
Increase in financial assets carried at cost - non-current	(19,892)	-
Increase in refundable deposits	(8,632)	(11,103)

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# TAIWAN MOBILE CO., LTD.

## STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2007 AND 2006 (In Thousands of New Taiwan Dollars)

	2007	2006
Proceeds from disposal of property and equipment	\$ 4,578	\$ 260
Decrease in other assets	142	624
Proceeds from disposal of available-for-sale financial assets	-	2,944,800
Proceeds from disposal of long-term investments	-	1,499,551
Proceeds from disposal of idle assets	<u>-</u>	<u>44,633</u>
Net cash provided by (used in) investing activities	<u>(24,624,174)</u>	<u>3,175,989</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Transfer of treasury stock to employees	735,059	61,456
Decrease in guarantee deposits	(3,076)	(5,523)
Buyback of issued shares	-	(1,818,370)
Decrease in bonds payable	-	(1,500,000)
Buyback of bonds payable	-	(1,335,201)
Decrease in other liabilities	<u>-</u>	<u>(1,289)</u>
Net cash provided by (used in) in financing activities	<u>731,983</u>	<u>(4,598,927)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,148,580)	2,336,756
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	<u>8,202,463</u>	<u>9,098,004</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 7,053,883</u>	<u>\$ 11,434,760</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid	\$ 89,116	\$ 168,807
Deduct: Interest capitalized	<u>16,928</u>	<u>5,582</u>
Interest paid - excluding interest capitalized	<u>\$ 72,188</u>	<u>\$ 163,225</u>
Income taxes paid	<u>\$ 2,069,430</u>	<u>\$ 355,132</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Current portion of long-term liabilities	<u>\$ 3,785,381</u>	<u>\$ 1,587,881</u>
Conversion of convertible bonds to capital stock and entitlement certificates	<u>\$ 25,700</u>	<u>\$ 644,000</u>
Reclassification of the corporation's shares held by its subsidiaries to treasury stock	<u>\$37,045,314</u>	<u>\$ -</u>
<b>CASH INVESTING AND FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	\$ 2,809,641	\$ 1,961,247
Decrease (increase) in other payables	<u>(27,150)</u>	<u>427,644</u>
Cash paid for acquisition of property and equipment	<u>\$ 2,782,491</u>	<u>\$ 2,388,891</u>

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

(With Deloitte & Touche audit report dated July 13, 2007)

(Concluded)

# TAIWAN MOBILE CO., LTD.

## NOTES TO FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2007 AND 2006

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

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

As of June 30, 2007 and 2006, the Corporation had 2,147 and 2,103 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, 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 assets value on the balance sheets 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 weighted-average method and the lower of cost or market value. Market value are evaluated on the basis of replacement cost or net realizable value.

## **Financial Assets Carried at Cost**

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

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

Long-term investments in which the Corporation 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 but instead tested annually for impairment. An impairment test is also required if there is evidence indicating that goodwill might be impaired as a result of specific events or changes in economic environment. If the fair value of identifiable net assets acquired exceeds the cost of investments, the excess should be assigned to non-current assets proportionately to their respective fair values (except for financial assets not under the 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 equity in the investee's net assets value is also no longer amortized and applies the same accounting treatment as goodwill.

Gains or losses from the Corporation's sales to its subsidiaries are deferred and included in deferred income and has been recorded as other liabilities. Gains or losses on the Corporation's equity accounted investee's sales to the Corporation are deferred in proportion to the Corporation's ownership percentages in the investees until realized through transactions with third parties.

Gains or losses from transactions between two investees that are both accounted for using equity method are deferred in proportion to the Corporation's equivalent stock ownership in the investees if the Corporation has controlling power over each investee. If the investor does not have controlling power over both investees that have reciprocal transactions, unrealized gains or losses from reciprocal transactions should be deferred in proportion to the common investor's ownership percentage in one investee multiplied by the ownership percentage in the other investee.

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

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

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

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

## **Intangible Assets**

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

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

### **Idle Assets**

Property 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, bill issuance costs and issuance costs of bonds are amortized by the straight-line method over 5 to 7 years or contract periods.

### **Asset Impairment**

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

### **Pension Costs**

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

### **Bonds Payable**

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

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

### **Income Taxes**

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

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

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

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

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

### **Treasury Stock**

The purchase of issued shares is accounted for by debiting treasury stock, which is a reduction of shareholders' equity. The Corporation's shares held by its subsidiaries is 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. The gains resulted from disposal of the treasury stock held by the subsidiaries and cash dividends received by the subsidiaries from the Corporation are recorded under capital surplus - treasury stock transaction.

### **Foreign-currency Transactions**

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

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

Non-monetary assets or liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the 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 principal banks.

### **Revenue Recognition**

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

Service revenues from wireless services and value-added services, net of any applicable discount, are billed at predetermined rates. 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

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

## Reclassification

Certain accounts in the financial statements as of and for the six months ended June 30, 2006 have been reclassified to conform to the presentation of financial statements as of and for the six months ended June 30, 2007.

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

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

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

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

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

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

The changes in accounting policy resulted in a decrease in income after income tax of \$35 thousand for the six months ended June 30, 2006, but had no effect on net income and earnings per share (net of tax).

- b. Starting on January 1, 2006, the Corporation adopted newly revised SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5, "Long-term Investments in Equity Securities," and SFAS No. 25, "Business Combinations - Accounting Treatment under Purchase Method." These revisions primarily included that goodwill is no longer amortized and that the difference between the cost of acquisition and the equity in the investee's net assets value is subjected to an initial analysis. If defined as goodwill, the difference is no longer amortized but instead tested annually for impairment. These adoptions had no effect on the income from continuing operations and the cumulative effect of changes in accounting principle for the six months ended June 30, 2006.

#### 4. CASH AND CASH EQUIVALENTS

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Short-term notes and bills with repurchase rights	\$ 5,605,625	\$ 5,336,005
Time deposits	897,148	1,264,300
Cash in banks	514,828	570,919
Cash on hand	32,662	23,406
Revolving funds	3,620	3,072
Government bonds with repurchase rights	<u>-</u>	<u>4,237,058</u>
	<u>\$ 7,053,883</u>	<u>\$ 11,434,760</u>

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

Information on the financial assets held for trading is as follows:

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
<u>Financial assets held for trading</u>		
Beneficiary certificates		
Open-end mutual funds	<u>\$ -</u>	<u>\$ 7,314,212</u>

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

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Domestic listed stocks		
Chunghwa Telecom Co., Ltd.	<u>\$ 168,538</u>	<u>\$ 8,775,000</u>

In the six months ended June 30, 2006, the Corporation recognized a gain of \$625,506 thousand from selling 50,000 thousand shares of Chunghwa Telecom Co., Ltd.



## 7. ACCOUNTS RECEIVABLE - THIRD PARTIES

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Accounts receivable	\$ 5,840,154	\$ 5,504,319
Less allowance for doubtful accounts	<u>(425,570)</u>	<u>(358,607)</u>
	<u>\$ 5,414,584</u>	<u>\$ 5,145,712</u>

## 8. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>June 30</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Carrying Value</u>	<u>% of Ownership</u>	<u>Carrying Value</u>	<u>% of Ownership</u>
TransAsia Telecommunications Inc. (TAT, formerly TAT International Telecommunications Co., Ltd.)	\$ 10,303,770	100.00	\$ 13,103,301	100.00
Taiwan Cellular Co., Ltd. (TCC, formerly Taihsing Den Syun Co., Ltd.)	<u>-</u>	-	<u>2,916,265</u>	100.00
	<u>\$ 10,303,770</u>		<u>\$ 16,019,566</u>	
Credit balance (recorded as other liabilities)				
Taiwan Cellular Co., Ltd. (TCC, formerly Taihsing Den Syun Co., Ltd.)	<u>\$ 2,412,781</u>	100.00	<u>\$ -</u>	-

### a. TransAsia Telecommunications Inc.

On January 26, 2006, the Corporation established TAT International Telecommunications Co., Ltd. (TATIT) and acquired 100% equity in TATIT with 328,645 thousand shares of TransAsia Telecommunications Inc. (the former TAT). TATIT's Board of Directors proposed, on January 26, 2006, and decided, on June 15, 2006, to merge the former TAT with TATIT, with TATIT as the surviving company. TATIT thus assumed all the former TAT's rights and obligations and was renamed as TransAsia Telecommunications Inc. (TAT) on the record date, June 27, 2006. TAT mainly provides wireless services.

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

### b. Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)

To integrate enterprise resources and enhance operating efficiency, The Board of Directors of Taihsing Den Syun Co., Ltd. (TDS) decided, on March 30, 2006, to merge Taiwan Cellular Co., Ltd. (the former TCC) for \$1,527,583 thousand at NT\$33.85 per share, with TDS as the surviving company. TCC, incorporated in November 1997, is engaged in general investing activities. The record date of the merger was May 1, 2006. TDS thus assumed all of TCC's rights and obligations and was renamed as Taiwan Cellular Co., Ltd. (TCC).

On March 30, 2006, TCC's Board of Directors decided to reduce TCC's capital by \$1,119,715 thousand, resulting in the cancellation of 111,972 thousand shares and the return to investors of their cash investments. On the record date (June 1, 2006), the Corporation was entitled to receive \$1,119,715 thousand based on its equity of 100% in TCC.

TCC's Board of Directors resolved the rights issue of 50,000 thousand shares at \$10 dollars on October 26, 2006. On the record date (October 31, 2006), the Corporation subscribed for all the shares and TCC was still a wholly-owned subsidiary.

On March 1, 2007, TCC's Board of Directors resolved to issue 18,028 thousand new 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) at NT\$8.3 each. After the capital injection, TCC is still a wholly-owned subsidiary of the Corporation.

TCC owned 100% of the common shares of TIT. 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 NT\$8.3 per share. After the capital injection, TIT is still a wholly-owned subsidiary of TCC.

Based on the revised Statement of Financial Accounting Standards 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 June 30, 2007, the amount recognized by the Corporation and TCC was deferred credits \$1,586,156 thousand and deferred debits \$2,194 thousand, respectively.

To position as an integrated telecom and media player down the road differentiating from competition and build growth momentum through exposure to higher margin lines of business, TIT's Board of Directors, resolved on March 1, 2007 and April 26, 2007 to tender offer TFN at NT\$8.3 per share. As of June 30, 2007, 5,459,804 thousand shares had been acquired (84.6 percent of TFN's outstanding shares). Moreover, Board of Directors resolved, on June 29, 2007, to merge TFN at NT\$8.3 per share, with TIT as the surviving company and renamed to Taiwan Fixed Network Co., Ltd. on the record date. The record date will be resolved after approval of the authorities.

As of June 30, 2007, TFN and its subsidiary held 1,368,250 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 share account by \$37,045,314 thousand and reversed other receivable by \$12,500,000 thousand and long-term investment by \$24,545,314 thousand, leading to long-term investment credit balance of \$2,412,781 thousand. Please refer to note 15 for details.

TIT reclassified investments in 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 TFN for the period from January 1 to April 16 should be therefore accrued retroactively. Given that the Corporation controlled TFN through TIT (100% owned) and TFN held over 20% stake in the Corporation, the Corporation and TFN recognized investment income from each other based on treasury stock method.

On June 6, 2007, TCC invested in Taiwan Digital Communications Co., Ltd. (TDC) to bid WiMax (Worldwide Interoperability for Microwave Access) license.

c. 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 unaudited financial statements, except the financial statements of TAT and Mobitai Communications (Mobitai) for the six months ended June 30, 2007 and 2006, and the financial statements of TFN for the six months ended June 30, 2007 which were determined on the basis of audited financial statements (the Corporation's management considered that the adjustment might be immaterial if 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:

	<b>Six Months Ended</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
TAT	\$ 1,187,356	\$ 644,838
TCC (formerly TDS)	918,113	729,600
The former TCC (formerly Taihsing Den Den Co., Ltd.)	-	31,198
The former TAT	<u>-</u>	<u>(1)</u>
	<u>\$ 2,105,469</u>	<u>\$ 1,405,635</u>

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

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

	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Domestic emerging stocks		
Taiwan Fixed Network Co., Ltd.	\$ -	\$ 3,826,148
Foreign unlisted stocks		
Bridge Mobile Pte Ltd.	<u>52,052</u>	<u>32,160</u>
	<u>\$ 52,052</u>	<u>\$ 3,858,308</u>

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

On March 1, 2007, the Board of Directors of the Corporation resolved to attend the capital injection of TCC with all its TFN shares. Please refer to the description in note 8.

## 10. PROPERTY AND EQUIPMENT - ACCUMULATED DEPRECIATION

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Buildings	\$ 240,910	\$ 252,480
Telecommunication equipment	26,393,269	22,398,082
Office equipment	53,722	40,290
Leased assets	324,366	260,556
Miscellaneous equipment	<u>778,436</u>	<u>471,726</u>
	<u>\$ 27,790,703</u>	<u>\$ 23,423,134</u>

Interest expenses capitalized for the six months ended June 30, 2007 and 2006 amounted to \$16,928 thousand and \$5,582 thousand, respectively, with interest rates ranging from 2.40%-2.64% and from 2.28%-3.12%, respectively.

## 11. ASSETS LEASED TO OTHERS AND IDLE ASSETS

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Assets leased to others		
Cost	\$ 2,507,510	\$ 962,976
Less accumulated depreciation	(102,888)	(43,568)
Less accumulated impairment	<u>(10,591)</u>	<u>(10,591)</u>
	<u>\$ 2,394,031</u>	<u>\$ 908,817</u>
Idle assets		
Cost	\$ 2,460,027	\$ 2,788,470
Less allowance for losses	(1,432,190)	(1,592,960)
Less accumulated depreciation	(672,018)	(736,515)
Less accumulated impairment	<u>(128,862)</u>	<u>(230,110)</u>
	<u>\$ 226,957</u>	<u>\$ 228,885</u>

The impairment losses of idle property were determined based on their appraised values and net realizable value, respectively, and the Corporation recognized impairment losses of \$2,005 thousand for the six months ended June 30, 2006.

## 12. DEFERRED CHARGES

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Interior decoration	\$ 250,828	\$ 185,934
Other	<u>10,916</u>	<u>16,516</u>
	<u>\$ 261,744</u>	<u>\$ 202,450</u>

### 13. BONDS PAYABLE

	<b>June 30</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Domestic unsecured bonds	\$ 3,750,000	\$ 10,000,000	\$ 1,250,000	\$ 13,750,000
1st domestic convertible bonds	-	-	272,900	-
2nd domestic convertible bonds	30,200	-	-	265,000
Add accrued interest compensation	<u>5,181</u>	<u>-</u>	<u>64,981</u>	<u>35,544</u>
	<u>\$ 3,785,381</u>	<u>\$ 10,000,000</u>	<u>\$ 1,587,881</u>	<u>\$ 14,050,544</u>

a. Domestic secured bonds

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

b. Domestic unsecured bonds

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

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

c. 1st domestic convertible bonds

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

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

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

d. 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued \$6,000,000 thousand of five-year domestic 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 NT\$23.6 per share since July 20, 2006. As of June 30, 2007, bonds amounting to \$5,425,100 thousand have been converted to 210,360 thousand of common shares. Bonds amounting to \$544,700 thousand were purchased and canceled by the Corporation.

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

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

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

<b>Year</b>	<b>Amount</b>
From the third to fourth quarter, 2007	\$ 3,750,000
2008	2,500,000
2009	<u>7,500,000</u>
	<u>\$ 13,750,000</u>

#### **14. PENSION PLAN**

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

The new LPA provides for a defined contribution pension plan. Starting from July 1, 2005, the Corporation should contribute monthly an amount equal to 6% of the employees' monthly wages to the employees' individual pension accounts. The Corporation recognized a pension cost of \$45,399 thousand and \$40,597 thousand for the six months ended June 30, 2007 and 2006, respectively.

The 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 Central Trust of China. (Approved by Department of Labor, Taipei City Government on April 13, 2007, the Corporation stops contributions from February 2007 to January, 2008.)

## 15. 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.

### 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 to in the financial statements of that year.

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

The 2006 and 2005 earnings appropriations resolved by the shareholders in their meetings on June 15, 2007 and June 15, 2006 were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividend Per Share (NT\$)</u>	
	<u>For Fiscal Year 2006</u>	<u>For Fiscal Year 2005</u>	<u>For Fiscal Year 2006</u>	<u>For Fiscal Year 2005</u>
Appropriation of legal reserve	\$ 1,617,074	\$ 1,623,670		
Appropriation of special reserve	143,563	1,150,000		
Reversal of special reserve	-	(1,631)		
Remuneration to directors and supervisors	43,231	40,394		
Cash bonus to employees	432,303	403,940		
Cash dividends	<u>12,880,151</u>	<u>12,843,997</u>	\$ 2.58757	\$ 2.61677
	<u>\$ 15,116,322</u>	<u>\$ 16,060,370</u>		

To increase ROE (Return of Equity) and maintain stable EPS (Earnings per Share) and dividend, the Corporation's AGM (Annual General Shareholders' Meeting) resolved on June 15, 2007, a capital reduction of \$12,000,000 thousand, representing 24% of outstanding shares. A record date will be set followed by subsequent related procedures after the authority's approval.

c. Treasury stock

<u>Purpose of Buyback</u>	<u>(Shares in Thousands)</u>			
	<u>Beginning Shares</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Shares</u>
<u>Six months ended June 30, 2007</u>				
To be transferred to employees	46,537	-	23,824	22,713
Shares held by subsidiaries	-	1,368,250	-	1,368,250
<u>Six months ended June 30, 2006</u>				
To be transferred to employees	11,551	57,804	2,023	67,332

1) Transfer of stock to employees

For the six months ended June 30, 2007, the Corporation transferred the bought-back treasury stocks through various tranches to employees of 23,824 thousand shares at NT\$28.17 and NT\$31.16 per share, respectively, resulting in a reduction of retained earnings, amounting to \$4,869 thousand and an increase on paid-in capital, amounting to \$4,127 thousand.

For the six months ended June 30, 2006, the Corporation transferred the treasury stock through various tranches to employees of 2,023 thousand shares at NT\$30.47 per share, resulting in a reduction of retained earnings, amounting to \$916 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

TFN and TFN Investment Co., Ltd., its subsidiary, have become the subsidiaries of the Corporation since April 17, 2007. On June 30, 2007, the market value of the treasury stocks which held by TFN and its subsidiary is \$55,072,072 thousand. The Corporation reclassified \$37,045,314 thousand from investments accounted for using equity method to treasury stock based on holding shares of 84.6%. Although these shares are treated as treasury stock in the consolidated financial statement, the shareholders are entitled to excise their rights on these shares, except for participation in capital injection by cash. In addition, based on the ROC Company Act, the shareholders of treasury stocks can not exercise the voting right.

d. Unrealized gains (losses) on financial instruments

Unrealized gains or losses on financial instruments for the six months ended June 30, 2007 and 2006 were summarized as follows:

	<b>Six Months Ended</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Available-for-sale financial assets		
Balance, beginning of period	\$ 40,652	\$ -
Effect of the first time adoption of new issued SFAS No. 34	-	2,082,823
Fair value changes recognized directly in equity	5,645	359,800
Transfer to current gains or loss upon sales of financial assets	<u>-</u>	<u>(625,506)</u>
	<u>46,297</u>	<u>1,817,117</u>
Changes in unrealized gains (losses) of cash flow hedge		
Balance, beginning of period	(218,284)	-
Effect of the first time adoption of new issued SFAS No. 34	-	(248,184)
Fair value changes recognized directly in equity	<u>23,222</u>	<u>(67,207)</u>
	<u>(195,062)</u>	<u>(315,391)</u>
Recognition of investees' changes in unrealized gains or losses by the equity method		
Balance, beginning of period	30,209	-
Fair value changes recognized directly in equity	<u>(150,290)</u>	<u>-</u>
	<u>(120,081)</u>	<u>-</u>
Unrealized gain (losses) on financial instruments	<u>\$ (268,846)</u>	<u>\$ 1,501,726</u>

## 16. INCOME TAX EXPENSE

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

	<b>Six Months Ended</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Tax on pretax income at statutory tax rate (25%)	\$ 2,589,803	\$ 2,014,236
Add (deduct) tax effects of		
Permanent differences		
Investment income from domestic investees accounted for using equity method	(526,367)	(351,409)
Gain on disposal of marketable securities	(23,286)	(156,572)
Other	5,733	(61,120)
Temporary differences	(444,777)	27,294
Tax-exempt income	-	(188,124)
Income tax (10%) on unappropriated earnings	105,442	132,470
Investment tax credits	(252,589)	(716,012)
Deferred income taxes	443,061	(429,588)
Prior year's adjustment	451,943	35,808
Tax on short-term bills	<u>9,071</u>	<u>6</u>
Income tax expense	<u>\$ 2,358,034</u>	<u>\$ 306,989</u>

- b. Deferred income tax assets were as follows:

	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Provision for doubtful accounts	\$ 745,887	\$ 631,140
Provision for impairment losses on idle assets	294,773	389,080
Unrealized loss on retirement of property and equipment	281,070	245,321
Unrealized loss on financial liabilities	65,020	105,131
Accrued interest compensation	1,295	25,131
Accrued pension cost	(273)	16,729
Other	<u>8,154</u>	<u>-</u>
	1,395,926	1,412,532
Less valuation allowance	<u>(297,730)</u>	<u>(323,973)</u>
	<u>\$ 1,098,196</u>	<u>\$ 1,088,559</u>
Deferred income tax assets		
Current	\$ 100,764	\$ 75,382
Non-current	<u>997,432</u>	<u>1,013,177</u>
	<u>\$ 1,098,196</u>	<u>\$ 1,088,559</u>

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

<u>Equipment Expansion Projects</u>	<u>Tax-Exempt Period</u>
Switches, BTS and related telecommunication equipment, acquired from September 30, 2000 to September 30, 2001	2002 to 2006

d. Integrated income tax information was as follows:

	<u>June 30</u>	
	<u>2007</u>	<u>2006</u>
Balance of imputation credit account (ICA)	<u>\$ 3,733,789</u>	<u>\$ 1,893,203</u>

As of June 30, 2007, there were no unappropriated earnings generated before January 1, 1998. The estimated creditable ratio for the 2006 earnings appropriation and the actual creditable ratio for the 2005 earnings appropriation were 19.42% and 9.88%, 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 2006 earnings appropriation may be adjusted when the imputation credits are distributed.

e. Income tax returns through 2003 had been examined by the tax authorities. However, the Corporation disagreed with the examination result of the income tax returns from 1999 to 2001, and filed requests for reexamination. And income tax returns from 2002 to 2003 are estimated to file an appeal for the reexamination in August, 2007.

## 17. EARNINGS PER SHARE

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

(In New Taiwan Dollar)

	<u>Six Months Ended June 30</u>			
	<u>2007</u>		<u>2006</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>	<u>Before Income Tax</u>	<u>After Income Tax</u>
Basic EPS				
Income before cumulative effect of changes in accounting principles	\$ 2.36	\$ 1.82	\$ 1.63	\$ 1.57
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$ 2.36</u>	<u>\$ 1.82</u>	<u>\$ 1.63</u>	<u>\$ 1.57</u>
Diluted EPS				
Income before cumulative effect of changes in accounting principles	\$ 2.36	\$ 1.82	\$ 1.62	\$ 1.55
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$ 2.36</u>	<u>\$ 1.82</u>	<u>\$ 1.62</u>	<u>\$ 1.55</u>

	<u>Amounts (Numerator)</u>		<u>Shares (Denominator) (Thousands)</u>	<u>EPS (NT\$)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Six months ended June 30, 2007</u>					
Basic EPS					
Income of common shareholders	\$ 10,359,252	\$ 8,001,218	4,395,383	\$ <u>2.36</u>	\$ <u>1.82</u>
Add effect of potentially dilutive convertible bonds 2nd convertible bonds (with implied yield rate of 3.3%)	<u>910</u>	<u>683</u>	<u>2,069</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	\$ <u>10,360,162</u>	\$ <u>8,001,901</u>	<u>4,396,452</u>	\$ <u>2.36</u>	\$ <u>1.82</u>
<u>Six months ended June 30, 2006</u>					
Basic EPS					
Income of common shareholders	\$ 8,057,020	\$ 7,750,031	4,938,328	\$ <u>1.63</u>	\$ <u>1.57</u>
Add effect of potentially dilutive convertible bonds 1st convertible bonds (with implied yield rate of 4.5%)	22,900	17,175	36,931		
2nd convertible bonds (with implied yield rate of 3.3%)	<u>11,309</u>	<u>8,482</u>	<u>25,543</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	\$ <u>8,091,229</u>	\$ <u>7,775,688</u>	<u>5,000,802</u>	\$ <u>1.62</u>	\$ <u>1.55</u>

## 18. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	<u>Six Months Ended June 30</u>					
	<u>2007</u>			<u>2006</u>		
	<u>Classified as Operating Cost</u>	<u>Classified as Operating Expenses</u>	<u>Total</u>	<u>Classified as Operating Cost</u>	<u>Classified as Operating Expenses</u>	<u>Total</u>
Labor cost						
Salary	\$ 254,611	\$ 722,296	\$ 976,907	\$ 169,073	\$ 538,790	\$ 707,863
Labor and health insurance	14,755	38,968	53,723	10,398	32,091	42,489
Pension	11,092	26,132	37,224	9,516	28,591	38,107
Other	<u>14,326</u>	<u>33,176</u>	<u>47,502</u>	<u>10,247</u>	<u>43,004</u>	<u>53,251</u>
	\$ <u>294,784</u>	\$ <u>820,572</u>	\$ <u>1,115,356</u>	\$ <u>199,234</u>	\$ <u>642,476</u>	\$ <u>841,710</u>
Depreciation	\$ 2,761,583	\$ 248,369	\$ 3,009,952	\$ 2,462,515	\$ 168,955	\$ 2,631,470
Amortization	382,245	60,468	442,713	384,888	69,065	453,953

## 19. FINANCIAL INSTRUMENT TRANSACTIONS

### a. Fair value information

	June 30			
	2007		2006	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Non-derivative financial instruments</u>				
Liabilities				
Bonds payable (including current portion)	\$ 13,785,381	\$ 13,718,734	\$ 15,638,425	\$ 15,625,381

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

- 1) Financial assets at fair value through profit or loss and available-for-sale financial assets - based on quoted prices in an active market on the balance sheet date.
- 2) Because there is no active market and a reliable fair value could only be verified at a more than reasonable cost, the fair values of investments in unlisted stocks carried at cost or accounted for using equity method can be measured by net worth of investee or estimate of the book value.
- 3) Bonds payable - based on the over-the-counter quotations in June.
- 4) Derivative financial instruments - based on valuation results provided by banks. As of June 30, the financial instrument held by the Corporation turned into financial liability, evaluated by the bid price of counter party.
- 5) The above financial instruments do not include cash and cash equivalents, notes and accounts receivables, pledged time deposits, refundable deposits, notes and accounts payable and guarantee deposits. Because of the short maturities of these instruments, the carrying values represent a reasonable basis to estimate fair values.

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

### d. The financial assets exposed to fair value interest rate risk amounted to \$6,512,773 thousand and \$10,847,363 thousand as of June 30, 2007 and 2006, respectively, and the financial liabilities exposed to fair value interest rate risk amounted to \$6,285,381 thousand and \$8,138,425 thousand as of June 30, 2007 and 2006, respectively. The financial assets exposed to cash flow interest rate risk amounted to \$508,681 thousand and \$550,852 thousand as of June 30, 2007 and 2006, respectively, and the financial liabilities exposed to cash flow interest rate risk amounted to \$7,760,081 thousand and \$7,920,522 thousand as of June 30, 2007 and 2006, respectively.

### e. Information on financial risks:

#### 1) Market risk

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

## 2) Credit risk

Credit risk represents the potential impacts to financial assets that the Corporation might encounter if counter-parties or third parties breach the contracts. Factors that affect the impacts include credit risk concentration, components of financial instruments, contract amount and other receivables. The Corporation's evaluation of credit risk exposure as of June 30, 2007 and 2006 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 entered into IRS transactions to hedge cash flow risks. Because the IRS contracts are settled at net amounts, the expected cash demand is insignificant. The Corporation has sufficient working capital to meet cash demand.

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

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

## 20. RELATED-PARTY TRANSACTIONS

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

<u>Related Party</u>	<u>Relationship with the Corporation</u>
TransAsia Telecommunications Inc. (TAT; formerly TAT International Telecommunications Co., Ltd.)	Subsidiary
Taiwan Cellular Co., Ltd. (TCC; formerly Taihsing Den Syun Co., Ltd.)	Subsidiary
Mobitai Communications (Mobitai; formerly Tai Ya International Telecommunications Co., Ltd. (TYIT))	Subsidiary (merged with the former Mobitai on January 1, 2006 and renamed as Mobitai Communications)
Tai Yi Digital Broadcasting Co., Ltd.	Equity-method investee under control of TCC (formerly Taihsing Den Syun Co., Ltd.)

(Continued)

<b>Related Party</b>	<b>Relationship with the Corporation</b>
TWM Holding Co. Ltd. (formerly Simax Investment Holdings Ltd.)	Subsidiary
Taiwan Digital Communications Co., Ltd.	Subsidiary
Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Subsidiary
TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary
TT&T Life Insurance Agency Co., Ltd.	Subsidiary
TT&T Holdings Co., Ltd.	Subsidiary
Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary
Taihsing International Telecommunications Co., Ltd. (TIT)	Subsidiary
Taiwan United Communication Co., Ltd.	Subsidiary
Taiwan Fixed Network Co., Ltd. (TFN)	Subsidiary (change relationship on April 17, 2007)
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 Ltd.	Subsidiary (change relationship on April 17, 2007)
Fu Yang Multimedia Co., Ltd	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)
North Coast Cable TV Co., Ltd.	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)
Taiwan Mobile 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
Chung Hsing Constructions Co., Ltd.	Related party in substance
Fubon Land Development Co., Ltd.	Related party in substance
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	Related party in substance
Fubon Securities Co., Ltd. (FSC)	Related party in substance
Fubon Insurance Co., Ltd. (Fubon Ins.)	Related party in substance
Fubon Property Management Co., Ltd.	Related party in substance
Mobitai Communications (the former Mobitai)	Subsidiary (merged into TYIT on January 1, 2006)
Taiwan Cellular Co., Ltd. (the former TCC)	Subsidiary (merged into TCC (formerly Taihsing Den Syun Co., Ltd.) on May 1, 2006)
TransAsia Telecommunications Inc. (the former TAT)	Subsidiary (merged into former TAT International on June 27, 2006)
Howin Technologies Co., Ltd. (HTC)	Equity-method investee of TCC (formerly Taihsing Den Syun Co., Ltd.) and the former TAT (all shares were sold in June 2006)
Dalian Xinkai Teleservices & Technologies Ltd.	Subsidiary (all shares were sold in July 2006)
Hong Yuan Investment Co., Ltd.	Subsidiary (merged into TFN Investment Co., Ltd. on June 5, 2007)
TFN US LTD.	Subsidiary (liquidated on June 8, 2007)
TFN Digital Co., Ltd.	Subsidiary (merged into TFN Investment Co., Ltd. on June 30, 2007)

b. Significant transactions with related parties were summarized below:

1) Operating revenues

	<b>Six Months Ended June 30</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Amount</b>	<b>% of Total Revenues</b>	<b>Amount</b>	<b>% of Total Revenues</b>
TFN	\$ 746,516	3	\$ 722,635	3
TAT (including the former TAT)	308,752	1	657,234	3
Mobitai	<u>131,428</u>	1	<u>154,562</u>	1
	<u>\$ 1,186,696</u>		<u>\$ 1,534,431</u>	

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

2) Operating costs

	<b>Six Months Ended June 30</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Amount</b>	<b>% of Total Costs</b>	<b>Amount</b>	<b>% of Total Costs</b>
TFN	\$ 423,319	4	\$ 429,515	4
TAT (including the former TAT)	149,768	1	295,955	3
Mobitai	103,407	1	74,000	1
Fubon Ins.	<u>43,828</u>	-	<u>44,686</u>	-
	<u>\$ 720,322</u>		<u>\$ 844,156</u>	

These companies 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

<b>Six Months Ended June 30, 2007</b>		
	<b>Description</b>	<b>Amount</b>
TFN	Miscellaneous equipment and deferred charges	<u>\$ 10,476</u>
<b>Six Months Ended June 30, 2006</b>		
	<b>Description</b>	<b>Amount</b>
TT&T	Office equipment, miscellaneous equipment and deferred charges	<u>\$ 59,476</u>



4) Operating lease income

		<b>Six Months Ended June 30</b>	
<b>Leased Sites/Equipment</b>		<b>2007</b>	<b>2006</b>
TFN	Offices and BTS, etc.	\$ <u>37,719</u>	\$ <u>14,212</u>

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

5) Cash in banks

		<b>June 30</b>			
		<b>2007</b>		<b>2006</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
a) Cash in banks					
	TFCB	\$ <u>105,006</u>	1	\$ <u>216,312</u>	2
b) Pledged time deposits					
	TFCB	\$ <u>10,000</u>	100	\$ <u>10,000</u>	100

6) Receivables and payables

		<b>June 30</b>			
		<b>2007</b>		<b>2006</b>	
		<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
a) Accounts receivable					
	TFN	\$ 213,354	4	\$ 127,188	2
	TAT	66,024	1	143,562	3
	Mobitai	17,055	-	14,506	-
	Other	<u>3,801</u>	-	<u>15,620</u>	-
		<u>\$ 300,234</u>		<u>\$ 300,876</u>	
b) Other receivables					
	TAT	\$ 122,733	24	\$ 227,916	34
	Mobitai	97,624	19	241,901	36
	TIT	67,781	13	-	-
	TFN	12,656	3	4,789	1
	Other	<u>6,260</u>	1	<u>15,170</u>	-
		<u>\$ 307,054</u>		<u>\$ 489,776</u>	
c) Prepayments					
	Fubon Ins.	\$ <u>29,579</u>	6	\$ <u>29,046</u>	16
d) Accounts payable					
	TAT	\$ <u>20,257</u>	1	\$ <u>15,647</u>	1

	<b>June 30</b>			
	<b>2007</b>		<b>2006</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
e) Accrued expenses				
TT&T	\$ 146,588	4	\$ 227,063	6
TFN	108,264	3	52,589	1
TCC	<u>13,782</u>	-	<u>-</u>	-
	<u>\$ 268,634</u>		<u>\$ 279,652</u>	
f) Other payables				
TAT	\$ 286,917	2	\$ 296,760	1
Mobitai	139,578	1	167,878	1
TFN	<u>52,592</u>	-	<u>87,901</u>	1
	<u>\$ 479,087</u>		<u>\$ 552,539</u>	
g) Other current liabilities - collections and temporary credits for the following				
TAT	\$ 182,887	21	\$ 85,698	-
Mobitai	96,603	11	61,703	12
TFN	<u>229,665</u>	26	<u>23,518</u>	5
	<u>\$ 509,155</u>		<u>\$ 170,919</u>	

	<b>Six Months Ended</b>	
	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
7) Telecommunication service expenses		
TFN	<u>\$ 51,692</u>	<u>\$ 23,088</u>
8) Professional service fees		
TT&T	<u>\$ 430,908</u>	<u>\$ 526,077</u>
9) Miscellaneous purchases		
TT&T	<u>\$ -</u>	<u>\$ 15,300</u>
10) Other expenses		
TT&T	<u>\$ -</u>	<u>\$ 24,109</u>
11) Interest income		
TIT	<u>\$ 67,781</u>	<u>\$ -</u>

## 12) Endorsement/guarantee provided

The Corporation provides guarantee contracts for related party. Please see note 22.

## 13) Other

- a) As of June 30, 2007, TAT had provided the Corporation \$1,000,000 thousand as performance guarantee for customers when issuing prepaid card in accordance with new policy set by NCC on April 1, 2007.
- b) The Corporation bought a real estate from TFN based on the need for base station. Only a natural person could be the owner of the farmland due to the related regulations. The Corporation bought the farmland located in Yang-Mei, Taoyuan for the amount of \$12,000 thousand through setting up of a fiduciary contract with the landholder in December 2006 and is applying for the transfer of the ownership. The Corporation uses the land for operation purpose.
- c) For the six months ended June 30, 2007 and 2006, the Corporation provided business services for service charges, which were recorded as deductions from related costs and expenses. The Corporation's service charges were as follows:

	<b>Six Months Ended June 30</b>	
	<b>2007</b>	<b>2006</b>
TAT (including the former TAT)	\$ 286,439	\$ 352,335
Mobitai	<u>159,460</u>	<u>192,891</u>
	<u>\$ 445,899</u>	<u>\$ 545,226</u>

## 21. ASSETS PLEDGED

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

	<b>June 30</b>	
	<b>2007</b>	<b>2006</b>
Time deposits	<u>\$ 10,000</u>	<u>\$ 10,000</u>

## 22. 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 June 30, 2007, payments of \$272,740 thousand has been made.
- b. To enhance the intensity and widen the coverage of the 3G signal and to increase the service functions and items provided by 3G mobile telecommunications, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2004. In accordance with the terms of the contract, as of June 30, 2007, payments of \$3,926,346 thousand has been made.
- c. Unused letters of credit for acquisition of equipment were EUR76 thousand as of June 30, 2007.
- d. The Corporation provided a \$18,000,000 thousand guarantee for TIT's bank loan. As of June 30, 2007, TIT had drawn down a bank loan of \$14,190,000 thousand under this guarantee.

- e. As of June 30, 2007, the Corporation had provided TFN \$50,000 thousand as performance guarantee for customers, when issuing international phone card, in accordance with NCC's new policy effective on April 1, 2007.
- f. Future minimum rental payments as of June 30, 2007 for significant operating lease agreements were summarized as follows:

	<b>Amount</b>
From the third to fourth quarter, 2007	\$ 18,480
2008	30,355
2009	11,197
2010	11,476
2011	11,642

### 23. 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

The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on anti-floating interest rates of bonds, which are settled semiannually. Please refer to Note 19 for the related information.

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

The Corporation entered into IRS contracts to hedge anti-floating interest rate fluctuation. For the six months ended June 30, 2007 and 2006, the Corporation recognized losses of \$79,271 thousand and \$56,989 thousand, respectively, recorded as addition to interest expense.

k. Investment in Mainland China:

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

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## FINANCING PROVIDED

JUNE 30, 2007

(In Thousands of New Taiwan Dollars)

No.	Financing Company	Counter-party	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		Financing Limit for Each Borrowing Company (Note)	Financing Company's Financing Amount Limits (Note)
											Item	Value		
0	The Corporation	Taihsing International Telecommunications Co., Ltd.	Other receivables	\$ 12,500,000	\$ 12,500,000 (Note 1)	2.474%	Short-term financing	\$ -	To meet its financing need in acquiring TFN	\$ -	-	-	\$ 19,246,105 (Note 2)	\$ 19,246,105 (Note 2)
1	Mobitai Communications	Taiwan Cellular Co., Ltd.	Other receivables	900,000	900,000	2.477%	Short-term financing	-	To finance subsidiaries to bid WiMAX license	-	-	-	1,025,114 (Note 2)	1,025,114 (Note 2)
2	Union Cable TV Co., Ltd.	Fu Yang Multimedia Co., Ltd.	Other receivables - related parties	160,000	160,000	2.8937% - 2.9516%	Transactions	19,200	-	-	-	-	13,500,000 (Note 3)	13,500,000 (Note 3)
3	North Coast Cable TV Co., Ltd.	Fu Yang Multimedia Co., Ltd.	Other receivables - related parties	140,000	140,000	2.8937% - 2.9516%	Transactions	5,129	-	-	-	-	12,000,000 (Note 3)	12,000,000 (Note 3)
4	Mangrove Cable TV Corporation	Fu Yang Multimedia Co., Ltd.	Other receivables - related parties	43,000	43,000	2.8937% - 2.9516%	Transactions	6,701	-	-	-	-	12,000,000 (Note 3)	12,000,000 (Note 3)
5	Globalview Cable TV Co., Ltd.	Fu Yang Multimedia Co., Ltd.	Other receivables - related parties	210,000	210,000	2.8937% - 2.9516%	Transactions	16,884	-	-	-	-	12,000,000 (Note 3)	12,000,000 (Note 3)
6	Shin Ho Cable TV Co., Ltd.	Fu Yang Multimedia Co., Ltd.	Other receivables - related parties	107,700	107,700	2.8937% - 2.9516%	Transactions	6,854	-	-	-	-	12,000,000 (Note 3)	12,000,000 (Note 3)

Note 1: To conform the reclassification of the Corporation's stock held by its subsidiaries treated as treasury stocks, the credit balance of long-term investment account was to reduce the loan of \$12,500,000 thousand to TIT. Therefore, the balance of book value is zero.

Note 2: The amount of financing provided, including short-term financing, shall not exceed 40% of the net worth of the financing company, the same as each counter-party.

Note 3: The limited amount of financing provided should not exceed the higher amount between a multiple of capital or the amount of transactions plus business cooperation.

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## ENDORSEMENT/GUARANTEE PROVIDED

JUNE 30, 2007

(In Thousands of New Taiwan Dollars)

No.	Endorsement/Guarantor (A)	Receiving Party		Maximum Guarantee/ Endorsement Amount Allowed for Receiving Party	Maximum Balance for the Period (Note 4)	Ending Balance (Note 4)	Value of Collateral Property	Ratio of Accumulated Amount of Endorsement/Guarantee to Net Equity of the Latest Financial Statement (Note 4)	Maximum Total Guarantee/ Endorsement Allowed to Be Provided by the Guarantor/Endorser
		Name (B)	Nature of Relationship (B is A's)						
0	The Corporation	Taihsing International Telecommunications Co., Ltd.	(Note 1)	\$ 36,138,400 (Note 5)	\$ 18,000,000	\$ 18,000,000	\$ -	37.41%	\$ 48,115,262 (Note 5)
0	The Corporation	Taiwan Fixed Network Co., Ltd.	(Note 1)	45,314,058 (Note 5)	50,000	50,000	-	0.1%	48,115,262 (Note 5)
1	TransAsia Telecommunications Inc.	The Corporation	(Note 2)	10,303,769 (Note 6)	1,000,000	1,000,000	-	9.71%	10,303,769 (Note 6)
2	TFN Investment Co., Ltd.	WinTV Broadcasting Co., Ltd.	(Note 3)	24,414,822 (Note 8)	200,000	200,000	-	1%	24,414,822 (Note 8)
3	TFN Media Ltd.	TFN Media Ltd.	(Note 1)	15,000,000 (Note 7)	7,000,000 (Note 9)	7,000,000 (Note 9)	6,416,290	254%	15,000,000 (Note 7)
4	Fu Yang Multimedia Co., Ltd.	Fu Yang Multimedia Co., Ltd.	(Note 1)	13,000,000 (Note 7)			8,865,269	103%	13,000,000 (Note 7)
5	Union Cable TV Co., Ltd.	Union Cable TV Co., Ltd.	(Note 1)	13,500,000 (Note 7)			208,607	399%	13,500,000 (Note 7)
6	North Coast Cable TV Co., Ltd.	North Coast Cable TV Co., Ltd.	(Note 1)	12,000,000 (Note 7)			40,480	3,065%	12,000,000 (Note 7)
7	Mangrove Cable TV Corporation	Mangrove Cable TV Corporation	(Note 1)	12,000,000 (Note 7)			56,170	3,121%	12,000,000 (Note 7)
8	Globalview Cable TV Co., Ltd.	Globalview Cable TV Co., Ltd.	(Note 1)	12,000,000 (Note 7)			273,422	1,143%	12,000,000 (Note 7)
9	Phoenix Cable TV Co., Ltd.	Phoenix Cable TV Co., Ltd.	(Note 1)	12,000,000 (Note 7)			420,496	829%	12,000,000 (Note 7)
10	Shin Ho Cable TV Co., Ltd.	Shin Ho Cable TV Co., Ltd.	(Note 1)	12,000,000 (Note 7)			13,855	3,123%	12,000,000 (Note 7)
11	Yeong Jialeh Cable TV Co., Ltd.	Yeong Jialeh Cable TV Co., Ltd.	(Note 1)	24,000,000 (Note 7)			431,330	1,492%	24,000,000 (Note 7)

Note 1: Direct/indirect subsidiary

Note 2: Parent company

Note 3: Direct subsidiary

Note 4: Maximum guarantee/endorsement amount for the period and the ending balance are the amount allowed, not actual appropriation.

Note 5: The Corporation limits the endorsement/guarantee amount for the company that directly or indirectly entitled the whole percentage of voting rights within net value of the corporation, and the endorsement/guarantee amount for each counter-party.

Note 6: The Corporation limits the endorsement/guarantee amount for directly or indirectly entitled the whole percentage of TAT within the net value of TAT, and the endorsement/guarantee amount should not exceed double TAT's investment amount.

Note 7: The limits amount of maximum guarantee/endorsement should not exceed the amount between higher a multiple of capital or the amount of transactions plus business cooperation.

Note 8: The limits amount of maximum guarantee/endorsement for each subsidiary and counter-party should not exceed the amount between higher the net worth of the corporation and the amount of transactions plus business cooperation.

Note 9: TFNM, FYM, UCTV, NCCTV, MCTV, GCTV, PCTV, SHCTV and YJCTV are issued sureties for each other to obtain a syndicate loan from Chinatrust Commercial Bank and other financial institutions. The credit line was \$7,000,000 thousand. Those nine companies are jointly liable for this loan. As of June 30, 2007, the Corporation had drawn down a bank loan of \$5,324,931 thousand under this credit line.



## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

JUNE 30, 2007

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

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2007				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Assets Value (Note 1)	
Taiwan Mobile Co., Ltd.	<u>Stock</u> Chunghwa Telecom Co., Ltd.	-	Available-for-sale financial assets - current	2,688	\$ 168,538	0.028	\$ 168,538 (Note 2)	
	Bridge Mobile Pte Ltd.	-	Financial assets carried at cost - non-current	1,600	52,052	10.81	43,511	
	TransAsia Telecommunications Inc.	Subsidiary	Long-term investments - equity method	900,000	10,303,770	100	10,303,770	
	Taiwan Cellular Co., Ltd.	Subsidiary	Long-term investments - equity method	343,028	- (Note 3)	100	22,132,533	
Taiwan Cellular Co., Ltd.	<u>Stock</u> Arcoa Communication Co., Ltd.	-	Financial assets carried at cost - non-current	6,998	67,731	5.21	- (Note 4)	
	Parawin Venture Capital Corp.	-	Financial assets carried at cost - non-current	3,000	22,202	3	- (Note 4)	
	Transportation High Tech Inc.	-	Financial assets carried at cost - non-current	1,200	- (Note 5)	12	- (Note 4)	
	WEB Point Co., Ltd.	-	Financial assets carried at cost - non-current	803	6,773	3.17	- (Note 4)	
	Sunnet Technologies Co., Ltd.	-	Financial assets carried at cost - non-current	375	2,583	1.51	1,925 (Note 6)	
	Mobitai Communications	Subsidiary	Long-term investments - equity method	200,000	2,562,785	100	2,562,785	
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Long-term investments - equity method	30,000	185,698	100	185,698	
	Tai Yi Digital Broadcasting Co., Ltd.	Subsidiary	Long-term investments - equity method	2,495	24,021	49.9	24,021	
	TWM Holding Co. Ltd.	Subsidiary	Long-term investments - equity method	1 share	US\$ 8,165	100	US\$ 8,165	
	Taihsing International Telecommunications Co., Ltd.	Subsidiary	Long-term investments - equity method	1,806,920	18,317,761	100	18,317,761	
	Taiwan Digital Communication Co., Ltd.	Subsidiary	Long-term investments - equity method	26,000	259,269	100	259,269	
	TWM Holding Co. Ltd.	<u>ADS</u> Hurray! Holding Co., Ltd.	-	Available-for-sale financial assets - current	1,080	US\$ 4,860	5.02	US\$ 4,860 (Note 2)

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2007				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Assets Value (Note 1)	
Mobitai Communications	<u>Stock</u> Yes Mobile Holdings Company	-	Financial assets carried at cost - non-current	74	\$ - (Note 5)	0.19	\$ - (Note 4)	
Taiwan Teleservices & Technologies Co., Ltd.	<u>Stock</u> TT&T Life Insurance Agency Co., Ltd.	Subsidiary	Long-term investments - equity method	300	2,991	100	\$ 2,991	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary	Long-term investments - equity method	300	2,670	100	2,670	
	TT & T Holdings Co., Ltd.	Subsidiary	Long-term investments - equity method	1,300	US\$ 1,283	100	US\$ 1,283	
TT&T Holdings Co., Ltd.	<u>Stock</u> Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary	Long-term investments - equity method	-	US\$ 1,278	100	US\$ 1,278	
Taihsing International Telecommunications Co., Ltd.	<u>Stock</u> Taiwan United Communication Co., Ltd.	Subsidiary	Long-term investments - equity method	100	926	100	926	
	Taiwan Fixed Network Co., Ltd.	Subsidiary	Long-term investments - equity method	5,459,804	45,694,239	84.60	62,554,858	
Taiwan Fixed Network Co., Ltd.	<u>Stock</u> Taiwan Mobile Co., Ltd.	The Corporation	Available-for-sale financial assets - non-current	900,353	33,909,473	18.09	33,909,473 (Note 2)	
	TFN Investment Co., Ltd.	Subsidiary	Long-term investments - equity method	2,061,939	24,414,773	100	24,414,822	
	TFN HK LIMITED	Subsidiary	Long-term investments - equity method	1,299	3,361	99.99	3,361	
	Taiwan High Speed Rail Corporation	-	Financial assets carried at cost - non-current	225,531	2,255,310	4.44	671,444 (Note 6)	
TFN Investment Co., Ltd.	<u>Beneficiary certificates</u> ING Taiwan Income Fund	-	Available-for-sale financial assets - current	16,745	267,144	-	267,144 (Note 7)	
	<u>Stock</u> Taiwan Mobile Co., Ltd.	The Corporation	Available-for-sale financial assets - non-current	467,897	17,622,155	9.4	17,622,155 (Note 2)	
	Reach & Range Inc.	Subsidiary	Long-term investments - equity method	2,400	31,764	100	24,692	
	WinTV Broadcasting Co., Ltd.	Subsidiary	Long-term investments - equity method	59,100	332,970	98.5	335,211	
	TFN Media Ltd.	Subsidiary	Long-term investments - equity method	156,240	2,569,145	93.06	2,569,300	
	Fu Yang Multimedia Co., Ltd.	Subsidiary	Long-term investments - equity method	170,231	2,992,610	29.4	2,001,630	

(Continued)

Holding Company Name	Marketable Securities Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2007				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Assets Value (Note 1)	
	Great Taipei Broadband Co., Ltd.	-	Financial assets carried at cost - non-current	10,000	\$ 52,563	6.67	\$ 52,589 (Note 6)	
	Sun Net Technology Co., Ltd.	-	Financial assets carried at cost - non-current	1,840	9,237	7.4	9,434 (Note 6)	
	Fubon Financial Holding Company	Related parties	Available-for-sale financial assets - current	87,938	2,638,134	1.14	2,638,134 (Note 2)	
	<u>Preferred stock</u> Taiwan High Speed Rail Corporation - Unlisted Convertible Preferred Stock - series A	-	Bonds measured at amortized cost-non - current	50,000	500,000	-	-	
TFN Media Ltd.	<u>Beneficiary certificate</u> ING Taiwan Bond Fund	-	Available-for-sale financial assets - current	2,925	44,404	-	44,044 (Note 7)	
	<u>Stock</u> Fu Yang Multimedia Co., Ltd.	Subsidiary	Long-term investments - equity method	408,786	6,416,290	70.6	4,806,636	Total pledge
Fu Yang Multimedia Co., Ltd.	<u>Stock</u> Yeong Jialeh Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	20,000	1,993,584	100	469,172	Total pledge
	Shin Ho Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	20,000 (Note 8)	711,016	100 (Note 8)	224,144	Total pledge
	Mangrove Cable TV Corporation	Subsidiary	Long-term investments - equity method	21,160 (Note 8)	487,438	100 (Note 8)	224,262	Total pledge
	North Coast Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	21,160	520,211	100	228,373	Total pledge
	Phoenix Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	37,798	2,003,930	70	590,832	Total pledge
	Union Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	170,441	1,960,927	99.99	1,756,227	Total pledge
	Globalview Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	51,733	1,188,160	92.38	565,674	Total pledge
Reach & Range Inc.	<u>Beneficiary certificate</u> Capital Income Fund	-	Available-for-sale financial assets - current	1,251	18,634	-	18,634 (Note 7)	
	NITC Taiwan Bond Fund	-	Available-for-sale financial assets - current	729	10,276	-	10,276 (Note 7)	

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

Note 2: Based on the closing price on June 30, 2007.

Note 3: A book value of \$22,132,533 thousand and a loan of \$12,500,000 thousand to TIT has been reclassified to treasury stock. The debit amount has been recognized upon other liabilities - long-term investments credit balance, amounting to \$2,412,781 thousand.

Note 4: As of June 30, 2007, the independent auditors' report date, the investee's net value was unavailable.

Note 5: Deducted impairment loss recognized in 2004.

Note 6: Calculation was based on unaudited financial statements.

Note 7: Based on the net assets value of the fund on June 30, 2007.

Note 8: Partial shares are held as trusts.

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
SIX MONTHS ENDED JUNE 30, 2007  
(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		
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
Taiwan Mobile Co., Ltd.	<u>Beneficiary certificate</u> Fuhwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	45,175	\$ 602,192	-	\$ -	45,175	\$ 604,649	\$ 604,649	\$ -	-	\$ -
	ING Taiwan Income Fund	Financial assets at fair value through profit or loss - current	-	-	25,387	401,917	-	-	25,387	403,656	403,656	-	-	-
	ING Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	126,959	1,913,171	-	-	126,959	1,920,610	1,920,610	-	-	-
	ING Taiwan Select Bond Fund	Financial assets at fair value through profit or loss - current	-	-	35,432	401,565	-	-	35,432	401,827	401,827	-	-	-
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	153,928	1,962,733	-	-	153,928	1,968,901	1,968,901	-	-	-
	Dresdner Bond Dam Fund	Financial assets at fair value through profit or loss - current	-	-	130,038	1,506,803	-	-	130,038	1,512,928	1,512,928	-	-	-
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	81,999	1,002,954	-	-	81,999	1,007,112	1,007,112	-	-	-
	NITC Bond Fund	Financial assets at fair value through profit or loss - current	-	-	17,122	2,817,260	-	-	17,122	2,826,608	2,826,608	-	-	-
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	13,686	200,015	-	-	13,686	200,500	200,500	-	-	-
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	19,702	300,597	-	-	19,702	301,824	301,824	-	-	-
	<u>Stock</u> Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Long-term investments - equity method	-	-	325,000	3,877,659	18,028	18,027,530	-	-	-	-	343,028	-
	Taiwan Fixed Network Co., Ltd.	Financial assets carried at cost - non-current	Taiwan Cellular Co., Ltd.	Subsidiary	637,000	3,700,944	-	-	637,000	8.3	3,700,944	-	-	(Note 2)
												(Note 3)		
TransAsia Telecommunications Inc.	<u>Beneficiary certificate</u> ING Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	46,758	704,606	-	-	46,758	706,382	706,382	-	-	-
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	71,000	905,330	-	-	71,000	907,488	907,488	-	-	-
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	37,966	554,861	-	-	37,966	556,205	556,205	-	-	-
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	42,808	653,130	-	-	42,808	654,757	654,757	-	-	-
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	12,267	150,035	24,522	300,000	36,789	451,112	451,112	-	-	-
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	<u>Stock</u> Taihsing International Telecommunications Co., Ltd.	Long-term investments - equity method	-	-	-	-	1,806,920	18,069,200	-	-	-	-	1,806,920	18,317,761
	Taiwan Fixed Network Co., Ltd.	Financial assets carried at cost - non-current	Taiwan Mobile Co., Ltd	parent	4,900	42,864	637,000	5,287,100	641,900	8.3	5,329,964	-	-	(Note 4)
	Taiwan Digital Communications Co., Ltd.	Long-term investments - equity method	-	-	-	-	26,000	260,000	-	-	-	-	26,000	259,269
												(Note 5)	(Note 6)	
Taihsing International Telecommunications Co., Ltd.	<u>Stock</u> Taiwan Fixed Network Co., Ltd.	Long-term investments - equity method	-	-	-	-	5,459,804	45,314,058	-	-	-	-	5,459,804	45,694,239
														(Note 7)
Taiwan Fixed Network Co., Ltd.	<u>Beneficiary certificate</u> Fubon Jin-Ju-I Fund	Available-for-sale financial assets - current	-	-	57,696	705,702	-	-	57,696	710,087	697,743	12,344	-	-
	Fubon Chi-Hsiang Fund	Available-for-sale financial assets - current	-	-	32,588	474,301	-	-	32,588	477,065	460,272	16,793	-	-
	ING Taiwan Income Fund	Available-for-sale financial assets - current	-	-	31,345	496,241	-	-	31,345	499,590	482,440	17,150	-	-
	NITC Bond Fund	Available-for-sale financial assets - current	-	-	2,303	378,968	-	-	2,303	381,266	376,422	4,844	-	-

(Continued)

Company Name	Marketable Securities Type and Issuer	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance			
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount	
TFN Investment Co., Ltd.	ING Taiwan Bond Fund	Available-for-sale financial assets - current	-	-	28,577	\$ 430,627	-	\$ -	28,577	\$ 433,302	\$ 428,521	\$ 4,781	-	\$ -	
	Fuhwa Apex Bond Fund	Available-for-sale financial assets - current	-	-	10,426	123,066	-	-	10,426	123,396	123,031	365	-	-	
	JF (Taiwan) Bond Fund	Available-for-sale financial assets - current	-	-	13,110	200,016	-	-	13,110	201,238	200,000	1,238	-	-	
	Capital Income Fund	Available-for-sale financial assets - current	-	-	13,432	200,009	-	-	13,432	201,269	200,000	1,269	-	-	
	Prudential Financial Bond Fund	Available-for-sale financial assets - current	-	-	6,842	100,000	-	-	6,842	100,602	100,000	602	-	-	
	Fuhwa Advantage Bond Fund	Available-for-sale financial assets - current	-	-	11,510	120,005	-	-	11,510	120,322	120,000	322	-	-	
	Fuhwa Advantage Bond Fund	Available-for-sale financial assets - current	-	-	-	-	19,009	243,719	19,009	244,487	243,719	768	-	-	
	<u>Beneficiary certificate</u>														
	ING Taiwan Bond Fund	Available-for-sale financial assets - current	-	-	26,669	401,881	46,329	700,000	72,998	1,107,087	1,100,000	7,087	-	-	
	ING Taiwan Income Fund	Available-for-sale financial assets - current	-	-	9,837	155,733	23,108	368,000	16,200	258,180	257,227	953	16,745	267,144	
	JF (Taiwan) Bond Fund	Available-for-sale financial assets - current	-	-	6,624	101,072	13,095	200,000	19,719	302,760	300,529	2,231	-	-	
	JF (Taiwan) First Bond Fund	Available-for-sale financial assets - current	-	-	-	-	14,192	200,000	14,192	200,663	200,000	663	-	-	
	Capital Income Fund	Available-for-sale financial assets - current	-	-	-	-	56,930	850,000	56,930	853,129	850,000	3,129	-	-	
	NITC Bond Fund	Available-for-sale financial assets - current	-	-	61	10,083	1,031	170,000	1,092	180,849	179,834	1,015	-	-	
	NITC Taiwan Bond Fund	Available-for-sale financial assets - current	-	-	-	-	38,924	550,000	38,924	551,907	550,000	1,907	-	-	
	Fubon Chi-Hsiang Fund	Available-for-sale financial assets - current	-	-	12,322	179,343	-	-	12,322	180,423	178,086	2,337	-	-	
	Fubon Jin-Ju-I Fund	Available-for-sale financial assets - current	-	-	28,751	351,658	84,371	1,034,267	113,122	1,392,522	1,384,237	8,285	-	-	
	Pca Well Pool Fund	Available-for-sale financial assets - current	-	-	-	-	23,896	300,000	23,896	301,054	300,000	1,054	-	-	
	Upame James Bond Fund	Available-for-sale financial assets - current	-	-	-	-	16,160	250,000	16,160	250,827	250,000	827	-	-	
Fuhwa Bond Fund	Available-for-sale financial assets - current	-	-	-	-	23,399	300,000	23,399	301,006	300,000	1,006	-	-		
Globalview Cable TV Co., Ltd.	<u>Beneficiary certificate</u>														
	IBT Ta Chong Bond Fund	Available-for-sale financial assets - current	-	-	7,679	100,003	-	-	7,679	100,700	100,000	700	-	-	
Shin Ho Cable TV Co., Ltd.	<u>Beneficiary certificate</u>														
	Fubon Jin-Ju-I Fund	Available-for-sale financial assets - current	-	-	5,724	70,009	-	-	5,724	70,523	70,000	523	-	-	

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 (a) the cash dividend adjustment of \$544,114 thousand; (b) the investment income adjustment of \$918,113 thousand; (c) the recognition of cumulative translation adjustments of \$3,635 thousand; and (d) unrealized loss of \$150,290 thousand on financial asset. Moreover, a book value of \$22,132,533 thousand and a loan of \$12,500,000 thousand to TIT has been reclassified to treasury stock. The debit amount has been recognized upon other liabilities, amounting to \$2,412,781 thousand.

Note 3: For its reorganization, the Corporation resolved to attend the capital injection of Taiwan Cellular Co., Ltd. with all its shares of Taiwan Fixed Network Co., Ltd. The spread between the original cost and the disposal price of the TFN shares, \$1,586,156 thousand, was recognized by the Corporation as deferred credits. There was no gain or loss on this transaction.

Note 4: The amount included (a) the investment income adjustment of \$337,979 thousand; (b) the recognition of cumulative translation adjustment of \$753 thousand and (c) unrealize gain of \$90,171 thousand on financial assets.

Note 5: For its reorganization, TCC resolved to attend the capital injection of Taihsing International Telecommunications Co., Ltd. with all its shares of Taiwan Fixed Network Co., Ltd. The spread between the original cost and the disposal price of the TFN shares, \$2,194 thousand, was recognized by TCC as deferred debits. There was no gain or loss on this share transaction.

Note 6: The amount included the investment loss adjustment of \$731 thousand.

Note 7: The amount included (a) the investment income adjustment of \$258,120 thousand; (b) the difference between the cost of acquisition and the equity in the investee's net asset value, amount to \$211,479; (c) the recognition of cumulative translation adjustment of \$753 thousand and (d) unrealized loss of \$90,171 thousand on financial assets.

## 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  
SIX MONTHS ENDED JUNE 30, 2007  
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details				Other Transaction		Notes/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Taiwan Mobile Co., Ltd.	TransAsia Telecommunications Inc.	Subsidiary	Sale	\$ (308,752)	1	Based on contract terms	-	-	\$ 66,024	1	
			Purchase	149,768	1	Based on contract terms	-	-	(20,257)	1	
	Taiwan Fixed Network Co., Ltd.	Subsidiary	Sale	(746,516)	3	Based on contract terms	-	-	213,354	4	
			Purchase	423,319	4	Based on contract terms	-	-	-	-	
	Mobitai Communications	Subsidiary	Sale	(131,428)	1	Based on contract terms	-	-	17,055	-	
			Purchase	103,407	1	Based on contract terms	-	-	(1,058)	-	
Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Purchase	430,908	(Note 1)	Based on contract terms	-	-	(146,588)	(Note 2)		
TransAsia Telecommunications Inc.	The Corporation	Parent	Sale	(149,768)	5	Based on contract terms	-	-	20,257	3	
			Purchase	308,752	21	Based on contract terms	-	-	(67,876)	29	
Mobitai Communications	The Corporation	Ultimate Parent	Sale	(103,169)	6	Based on contract terms	-	-	4,575	1	
			Purchase	131,428	15	Based on contract terms	-	-	(18,294)	11	
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Sale	(430,933)	94	Based on contract terms	-	-	146,623	91	
Taiwan Fixed Network Co., Ltd.	The Corporation	Ultimate Parent	Sale	(454,712)	12	Based on contract terms	-	-	267,956	29	
			Purchase	734,924	22	Based on contract terms	-	-	(12,428)	1	
TFN Media Ltd.	Yeong Jialeh Cable TV Co., Ltd.	Subsidiary	Sale	(141,082)	20	90 days	-	-	53,971	24	
	Phoenix Cable TV Co., Ltd.	Subsidiary	Sale	(213,694)	31	90 days	-	-	79,877	35	
Yeong Jialeh Cable TV Co., Ltd.	TFN Media Ltd.	Parent	Royalty	141,082	62	Based on contract terms	(Note 3)	(Note 3)	(47,027)	75	
Phoenix Cable TV Co., Ltd.	TFN Media Ltd.	Parent	Royalty	213,694	66	90 days	(Note 3)	(Note 3)	(74,259)	62	

Note 1: Recognized as operating expenses

Note 2: Recognized as accrued expenses

Note 3: No comparables on such kind of transactions

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
SIX MONTHS ENDED JUNE 30, 2007  
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
Taiwan Mobile Co., Ltd.	TransAsia Telecommunications Inc.	Subsidiary	Accounts receivable \$ 66,024	8.45	\$ -	-	\$ -	\$ -
			Other receivables 122,733		-	-	836	-
	Mobitai Communications	Subsidiary	Accounts receivable 17,055	11.20	-	-	-	-
			Other receivables 97,624		-	-	-	-
	Taiwan Fixed Network Co., Ltd.	Subsidiary	Accounts receivable 213,354	6.85	-	-	14,058	-
			Other receivables 12,656		-	-	1,255	-
TransAsia Telecommunications Inc.	The Corporation	Parent	Accounts receivable 20,257	13.56	-	-	-	-
			Other receivables 469,512		-	-	307	-
Mobitai Communications	The Corporation	Ultimate parent	Accounts receivable 4,575	47.54	-	-	-	-
			Other receivables 236,181		-	-	139,578	-
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Accounts receivable 146,433	5.76	-	-	-	-
			Other receivables 190		-	-	-	-
Taiwan Fixed Network Co., Ltd.	The Corporation	Ultimate parent	Accounts receivable 267,956	1.81	-	-	45,424	-
			Other receivables 13,187		-	-	-	-
North Coast Cable TV Co., Ltd.	Fu Yang Multimedia Co., Ltd.	Parent	Accounts receivable 2,524		-	-	-	-
			Other receivables 146,261		-	-	-	-
Globalview Cable TV Co., Ltd.	Fu Yang Multimedia Co., Ltd.	Parent	Accounts receivable 8,360		-	-	-	-
			Other receivables 224,282		-	-	-	-
Shin Ho Cable TV C., Ltd.	Fu Yang Multimedia Co., Ltd.	Parent	Accounts receivable 3,411		-	-	-	-
			Other receivables 115,210		-	-	-	-
Mangrove Cable TV Corporation	Fu Yang Multimedia Co., Ltd.	Parent	Accounts receivable 2,796		-	-	-	-
			Other receivables 48,804		-	-	-	-
Union Cable TV Co., Ltd.	Fu Yang Multimedia Co., Ltd.	Parent	Accounts receivable 9,371		-	-	-	-
			Other receivables 165,366		-	-	-	-



## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE  
SIX MONTHS ENDED JUNE 30, 2007  
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2007			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 2007	January 1, 2007	Shares (Thousands)	Percentage of Ownership	Carrying Value			
Taiwan Mobile Co., Ltd.	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taipei, Taiwan	Equipment installation and IT service	\$ 21,277,530	\$ 3,250,000	343,028	100	\$ - (Note 1)	\$ 901,789	\$ 918,113	
	TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	9,000,000	12,458,463	900,000	100	10,303,770	1,144,299	1,187,356	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Mobitai Communications	Taipei, Taiwan	Wireless service provider	2,000,000	2,000,000	200,000	100	2,562,785	511,429	NA	
	Taiwan Teleservices & Technologies Co., Ltd.	Taipei, Taiwan	Call center service	5,294	405,294	30,000	100	185,698	43,762	NA	
	Tai Yi Digital Broadcasting Co., Ltd.	Taipei, Taiwan	Broadcasts business and cell phone number agency	24,950	24,950	2,495	49.9	24,021	(779)	NA	
	TWM Holding Co. Ltd.	British Virgin Islands	Investment	US\$ 9,000	US\$ 9,000	1 share	100	US\$ 8,165	US\$ 29	NA	
Taihsing International Telecommunications Co., Ltd.	Taihsing International Telecommunications Co., Ltd.	Taipei, Taiwan	Investment	18,069,200	-	1,806,920	100	18,317,761	337,979	NA	
	Taiwan Digital Communications Co., Ltd.	Taipei, Taiwan	Equipment installation and IT service	260,000	-	26,000	100	259,269	(731)	NA	
Taihsing International Telecommunications Co., Ltd.	Taiwan United Communication Co., Ltd.	Taipei, Taiwan	Equipment installation and IT service	1,000	-	100	100	926	(74)	NA	
	Taiwan Fixed Network Co., Ltd.	Taipei, Taiwan	Fixed network service	45,314,058	-	5,459,804	84.6	45,694,239	1,311,425	NA	
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	3,000	3,000	300	100	2,991	(22)	NA	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	3,000	3,000	300	100	2,670	(33)	NA	
	TT&T Holdings Co., Ltd.	Samoa	Investment	US\$ 1,300	US\$ 1,300	1,300	100	US\$ 1,283	US\$ (22)	NA	
TT&T Holdings Co., Ltd.	Xiamen Taifu Teleservices & Technologies Ltd.	Xiamen	Call center service	US\$ 1,300	US\$ 1,300	-	100	US\$ 1,278	US\$ (23)	NA	
Taiwan Fixed Network Co., Ltd.	TFN Investment Co., Ltd.	Taipei, Taiwan	Investment	20,085,359	17,500,000	2,061,939	100	24,414,773	549,755	NA	
	TFN HK Limited	Hong Kong	Telecommunications	5,816	5,816	1,299	99.99	3,361	(207)	NA	
TFN Investment Co., Ltd.	Reach & Range Inc.	Taipei, Taiwan	Service, telecommunication equipment installment and IT service	31,764	60,258	2,400	100	31,764	(381)	NA	
	Fu Yang Multimedia Co., Ltd.	Taipei, Taiwan	Management, IT service, advertisement and other service	2,761,748	2,446,410	170,231	29.4	2,992,610	364,155	NA	
	TFN Media Ltd.	Taipei, Taiwan	Type II telecommunication services	1,500,000	-	156,240	93.06	2,569,145	378,428	NA	
	WinTV Broadcasting Co., Ltd.	Taipei, Taiwan	Broadcasts business	591,000	-	59,100	98.5	332,970	(63,443)	NA	
TFN Media Ltd.	Fu Yang Multimedia Co., Ltd.	Taipei, Taiwan	Management, IT service, advertisement and other service	5,668,820	5,668,820	408,786	70.6	6,416,290	364,155	NA	
Fu Yang Multimedia Co., Ltd.	Yeong Jialeh Cable TV Co., Ltd.	Sinhuangshih Township	Cable television system	1,616,824	1,616,824	20,000	100	1,993,584	76,329	NA	
	Shin Ho Cable TV Co., Ltd.	Sinhuangshih Township	Cable television system	661,781	661,781	20,000	100	711,016	17,962	NA	
	Mangrove Cable TV Corporation	Danshueijhen Township	Cable television system	397,703	397,703	21,160	100	487,438	(1,043)	NA	
	North Coast Cable TV Co., Ltd.	Danshueijhen Township	Cable television system	399,193	399,193	21,160	100	520,211	4,264	NA	
	Phoenix Cable TV Co., Ltd.	Kaohsiung County	Cable television system	1,229,257	1,229,257	37,798	70	2,003,930	102,001	NA	
	Globalview Cable TV CO., LTD.	Sijhih Township	Cable television system	841,413	841,413	51,733	92.38	1,188,160	41,110	NA	
Union Cable TV Co., Ltd.	Yilan City	Cable television system	1,904,440	1,904,440	170,441	99.99	1,960,927	52,152	NA		

Note 1: A book value of \$22,132,533 thousand investment and a loan of \$12,500,000 thousand to TIT has been reclassified to treasury stock. The credit balance of long-term investment account has been reclassified as other liabilities, amounting to \$2,412,781 thousand.

Note 2: Partial shares are held as trusts.

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## INVESTMENT IN MAINLAND CHINA

SIX MONTHS ENDED JUNE 30, 2007

(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 June 30, 2006	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2007	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of June 30, 2007	Accumulated Inward Remittance of Earnings as of June 30, 2007
					Outflow	Inflow					
Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	US\$ 1,300 (NT\$ 42,687)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$ 1,300 (NT\$ 42,687)	\$ -	\$ -	US\$ 1,300 (NT\$ 42,687)	100% ownership of indirect investment by the Corporation's subsidiary	(US\$ 23) (NT\$ 745)	US\$ 1,278 (NT\$ 41,956)	\$ -

Accumulated Investment in Mainland China as of June 30, 2007	Investment Amounts Authorized by Investment Commission, MOEA (Note 2)	Upper Limit on Investment Authorized by Investment Commission, MOEA (Note 2)
US\$1,300 (NT\$42,687)	US\$1,300 (NT\$42,687)	\$80,000

Note 1: The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1=NT\$32.836 and RMB1=NT\$4.3104 as of June 30, 2007.

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

**SCHEDULE 1****TAIWAN MOBILE CO., LTD.****CASH AND CASH EQUIVALENTS****JUNE 30, 2007****(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)**

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<b>Item</b>	<b>Due Date</b>	<b>Amount</b>
Short-term bills with repurchase rights	2007.07.02- 2007.07.11	<u>\$ 5,605,625</u>
Time deposits		
(US\$6,918,292.51, exchange rate at US\$1=NT\$32.836)	2007.07.05- 2007.08.06	227,169
(EUR15,134,280.46, exchange rate at EUR1=NT\$44.269)	2007.07.05- 2007.07.23	<u>669,979</u>
		<u>897,148</u>
Cash in banks		
Foreign-currency deposits		
(EUR121,495.11, exchange rate at EUR1=NT\$44.269)		5,379
(US\$600,901.13, exchange rate at US\$1=NT\$32.836)		19,731
Checking deposits		6,147
Demand deposits		<u>483,571</u>
		<u>514,828</u>
Cash on hand		<u>32,662</u>
Revolving funds		<u>3,620</u>
		<u>\$ 7,053,883</u>

**SCHEDULE 2**

**TAIWAN MOBILE CO., LTD.**

**ACCOUNTS RECEIVABLE**

**JUNE 30, 2007**

**(In Thousands of New Taiwan Dollars)**

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<b>Client</b>	<b>Amount</b>
Related parties	
Taiwan Fixed Network Co., Ltd.	\$ 213,354
TransAsia Telecommunications Inc.	66,024
Mobitai Communications	17,055
Other	<u>3,801</u>
	<u>300,234</u>
Third parties	
Chunghwa Telecom Co., Ltd.	813,527
Other (Note)	<u>5,026,627</u>
	5,840,154
Less allowance for doubtful accounts	<u>(425,570)</u>
	<u>5,414,584</u>
	<u>\$ 5,714,818</u>

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

TAIWAN MOBILE CO., LTD.

CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD  
SIX MONTHS ENDED JUNE 30, 2007  
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

	Par Value	Beginning Balance		Increase		Decrease		Adjustments on Equity Method (Note 2)	Ending Balance			Market Price or Net Asset Value
		Thousand Shares	Amount	Thousand Shares	Amount	Thousand Shares	Amount (Note 1)		Thousand Shares	% of Ownership	Amount	
TransAsia Telecommunications Inc.	NT\$10	1,245,846	\$ 14,009,973	-	\$ -	345,846	\$ 4,893,559	\$ 1,187,356	900,000	100.00	\$ 10,303,770	\$ 10,303,770
Taiwan Cellular Co., Ltd.	NT\$10	325,000	3,877,659	18,028	18,027,530	-	22,676,647	771,458	343,028	100.00	-	22,132,533
Total			<u>\$ 17,887,632</u>		<u>\$ 18,027,530</u>		<u>\$ 27,570,206</u>	<u>\$ 1,958,814</u>				<u>\$ 10,303,770</u>
Long-term investments credit balances TCC (formerly TDS)			<u>\$ -</u>		<u>\$ 22,132,533</u>		<u>\$ 24,545,514</u>					<u>\$ (2,412,981)</u>

Note 1: The decrease in equity method investments included the following:

a. Capital reduction of TransAsia Telecommunications Inc.	\$ 3,458,463
b. Distributing cash dividends from TransAsia Telecommunications Inc.	1,435,096
c. Distributing cash dividends from Taiwan Cellular Co., Ltd.	544,114
d. The credit balance of long-term investments has been reclassified to other liabilities.	<u>22,132,533</u>
	<u>\$ 27,570,206</u>
e. Reclassified to treasury stock.	\$ 24,545,514
f. Other receivables reclassified to treasury stock.	<u>12,500,000</u>
The stocks held by subsidiaries transfer to treasury stock.	<u>\$ 37,045,514</u>

Note 2: Adjustments on equity method included the following:

a. Investment income recognized based on investees' financial statements	\$ 2,105,469
b. Cumulative translation adjustments.	3,635
c. Changes in unrealized gains of financial instruments.	<u>(150,290)</u>
	<u>\$ 1,958,814</u>

Note 3: The net asset value of TransAsia Telecommunications Inc. was calculated based on audited financial statements as of June 30, 2007.

Note 4: The net asset value of Taiwan Cellular Corporation was calculated based on unaudited financial statements as of June 30, 2007.

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

**TAIWAN MOBILE CO., LTD.**

**CHANGES IN PROPERTY AND EQUIPMENT  
SIX MONTHS ENDED JUNE 30, 2007  
(In Thousands of New Taiwan Dollars)**

	Beginning Balance	Changes for the Period			Ending Balance
		Increase	Decrease	Reclassification	
Cost					
Land	\$ 4,845,823	\$ -	\$ -	\$ (1,189,840)	\$ 3,655,983
Buildings	2,753,923	-	-	(572,033)	2,181,890
Telecommunication equipment	68,261,533	-	414,644	2,632,370	70,479,259
Office equipment	106,824	1,657	1,630	3,371	110,222
Leased assets	1,276,190	-	-	-	1,276,190
Miscellaneous equipment	<u>1,832,086</u>	<u>76,291</u>	<u>2,715</u>	<u>51,919</u>	<u>1,957,581</u>
	<u>79,076,379</u>	<u>\$ 77,948</u>	<u>\$ 418,989</u>	<u>\$ 925,787</u>	<u>79,661,125</u>
Accumulated depreciation					
Buildings	277,685	\$ 22,662	\$ -	\$ (59,437)	240,910
Telecommunication equipment	23,811,758	2,751,961	170,450	-	26,393,269
Office equipment	42,478	11,851	607	-	53,722
Leased assets	292,461	31,905	-	-	324,366
Miscellaneous equipment	<u>588,790</u>	<u>191,573</u>	<u>1,927</u>	<u>-</u>	<u>778,436</u>
	<u>25,013,172</u>	<u>\$ 3,009,952</u>	<u>\$ 172,984</u>	<u>\$ (59,437)</u>	<u>27,790,703</u>
Construction in progress and advance payments	<u>3,161,617</u>	<u>\$ 2,731,693</u>	<u>\$ -</u>	<u>\$ (2,687,660)</u>	<u>3,205,650</u>
Net property and equipment	<u>\$ 57,224,824</u>				<u>\$ 55,076,072</u>

Note 1: The total insurance for property and equipment and assets leased to others amounted to \$41,917,649 thousand.

Note 2: The increase of the construction in progress and advance payments included capitalized interests amounting to \$16,928 thousand.

**SCHEDULE 5****TAIWAN MOBILE CO., LTD.****NON-OPERATING ASSETS****JUNE 30, 2007****(In Thousands of New Taiwan Dollars)**

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Carrying Value</b>
Assets leased to others			
Land	\$ 1,661,886	\$ -	\$ 1,661,886
Buildings	<u>838,721</u>	<u>102,888</u>	<u>735,833</u>
	<u>\$ 2,500,607</u>	<u>\$ 102,888</u>	2,397,719
Deferred charges, net			
Interior decoration, etc.			<u>6,903</u>
			2,404,622
Less accumulated impairment			<u>(10,591)</u>
			<u>\$ 2,394,031</u>
Idle assets			
Land	\$ 238,960	\$ -	238,960
Buildings	137,010	22,584	114,426
Telecommunication equipment	2,081,505	649,314	1,432,191
Miscellaneous equipment	<u>633</u>	<u>120</u>	<u>513</u>
	<u>\$ 2,458,108</u>	<u>\$ 672,018</u>	1,786,090
Deferred charges, net			<u>1,919</u>
			1,788,009
Less allowance for losses			(1,432,190)
Less accumulated impairment			<u>(128,862)</u>
			<u>\$ 226,957</u>

**TAIWAN MOBILE CO., LTD.**

**ACCOUNTS PAYABLE**

**JUNE 30, 2007**

**(In Thousands of New Taiwan Dollars)**

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<b>Suppliers</b>	<b>Amount</b>
National communication commission	\$ 1,111,640
Other (Note)	<u>278,524</u>
	<u>\$ 1,390,164</u>

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



**SCHEDULE 7**

**TAIWAN MOBILE CO., LTD.**

**ACCRUED EXPENSES**

**JUNE 30, 2007**

**(In Thousands of New Taiwan Dollars)**

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<b>Nature</b>	<b>Amount</b>
Salaries and bonuses	\$ 965,867
Commissions	891,907
Repair and maintenance expenses	521,016
Professional service fees	326,046
Advertising	125,153
Other (Note)	<u>868,529</u>
	<u>\$ 3,698,518</u>

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

**SCHEDULE 8**

**TAIWAN MOBILE CO., LTD.**

**OTHER PAYABLE**

**JUNE 30, 2007**

**(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>
Dividends payable	\$ 12,880,717
Payables on equipment and constructions	2,233,637
Bonuses to employees	433,629
Value-added tax	162,881
Other (Note)	<u>1,968,043</u>
	<u>\$ 17,678,907</u>

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

**TAIWAN MOBILE CO., LTD.**

**BONDS PAYABLE**

**JUNE 30, 2007**

**(In Thousands of New Taiwan Dollars)**

Bond Type	Trustee	Date of Issuance	Payment Terms	Interest Rate	Issuance Amount	Repayment	Buyback	Conversion	Current Portion	Non-current Portion	Total
1st domestic unsecured bonds	Bank SinoPac, Trust Division	December 13, 2002	Note 13	Note 13	\$ 15,000,000	\$ 1,250,000	\$ -	\$ -	\$ 3,750,000	\$ 10,000,000	\$ 13,750,000
2nd domestic unsecured convertible bonds	Bank SinoPac, Trust Division	August 16, 2002	Note 13	-	<u>6,000,000</u>	<u>-</u>	<u>544,700</u>	<u>5,425,100</u>	<u>30,200</u>	<u>-</u>	<u>30,200</u>
					<u>\$ 21,000,000</u>	<u>\$ 1,250,000</u>	<u>\$ 544,700</u>	<u>\$ 5,425,100</u>	3,780,200	10,000,000	13,780,200
Add accrued interest compensation									5,181	-	5,181
									<u>\$ 3,785,381</u>	<u>\$ 10,000,000</u>	<u>\$ 13,785,381</u>

**TAIWAN MOBILE CO., LTD.****OPERATING REVENUES  
SIX MONTHS ENDED JUNE 30, 2007  
(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>
Telecom service revenues	
Network interconnection (Note 1)	\$ 7,543,878
Airtime usage	8,374,665
Monthly access fee and activation fee	<u>8,999,251</u>
	24,917,794
Other operating revenues (Note 2)	<u>115,205</u>
	<u>\$ 25,032,999</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.

**TAIWAN MOBILE CO., LTD.**

**OPERATING COSTS  
SIX MONTHS ENDED JUNE 30, 2007  
(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Amount</b>
Telecom service costs	
Network interconnection (Note 1)	\$ 4,344,447
Depreciation	2,761,583
Franchise fee (2G&3G)	872,935
Monthly leased-line charges	610,466
Rents	673,417
Frequency usage fee	200,934
Maintenance materials and constructions	456,624
Other (Note 2)	<u>908,152</u>
	<u>\$ 10,828,558</u>

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

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

**TAIWAN MOBILE CO., LTD.****OPERATING EXPENSES  
SIX MONTHS ENDED JUNE 30, 2007  
(In Thousands of New Taiwan Dollars)**

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<b>Item</b>	<b>Marketing</b>	<b>Administrative</b>	<b>Total</b>
Commissions	\$ 2,901,670	\$ -	\$ 2,901,670
Salaries and pension	335,802	412,626	748,428
Professional service fees	374,821	149,730	524,551
Bad debts	-	408,329	408,329
Service charges	13,316	224,795	238,111
Depreciation	39,826	208,543	248,369
Other (Note)	<u>465,767</u>	<u>393,335</u>	<u>859,102</u>
	<u>\$ 4,131,202</u>	<u>\$ 1,797,358</u>	<u>\$ 5,928,560</u>

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