

**Taiwan Mobile Co., Ltd.**

**Financial Statements for the  
Three Months Ended March 31, 2008 and 2007 and  
Independent Accountants' Review Report**

## **INDEPENDENT ACCOUNTANTS' REVIEW REPORT**

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

We have reviewed the accompanying balance sheets of Taiwan Mobile Co., Ltd. (the "Corporation") as of March 31, 2008 and 2007, and the related statements of income and cash flows for the three months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 - "Standards for the Review of Financial Statements" of the Republic of China. A review consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

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

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

April 11, 2008

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 review such financial statements are those generally accepted and applied in the Republic of China.*

*For the convenience of readers, the accountants' review 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 accountants' review report and financial statements shall prevail.*

**TAIWAN MOBILE CO., LTD.**

**BALANCE SHEETS**

**MARCH 31, 2008 AND 2007**

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

(Reviewed, Not Audited)

ASSETS	2008		2007		LIABILITIES AND SHAREHOLDERS' EQUITY	2008		2007	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2, 4 and 22)	\$ 2,833,559	3	\$ 8,704,163	7	Short-term borrowing (Note 13)	\$ 16,945,609	18	\$ -	-
Financial assets at fair value through profit or loss - current (Notes 2 and 5)	-	-	7,910,615	7	Short-term notes and bills payable (Note 14)	4,292,812	4	-	-
Available-for-sale financial assets - current (Notes 2 and 6)	214,771	-	172,301	-	Accounts payable (Note 22)	2,036,718	2	1,833,616	1
Notes receivable	14,153	-	12,314	-	Income taxes payable (Notes 2 and 18)	1,759,094	2	2,696,807	2
Accounts receivable - third parties (Notes 2 and 7)	5,074,021	6	4,922,208	4	Accrued expenses (Note 22)	4,266,818	4	3,487,062	3
Accounts receivable - related parties (Notes 2 and 22)	294,170	-	282,227	-	Other payables (Note 22)	3,548,098	4	3,424,398	3
Other receivables - third parties	202,653	-	198,604	-	Advance receipts	727,388	1	888,657	1
Other receivables - related parties (Note 22)	3,835,666	4	275,907	-	Current portion of long-term liabilities (Notes 2, 15 and 21)	2,500,000	3	3,803,112	3
Inventories (Note 2)	110,852	-	77,820	-	Guarantee deposits	23,801	-	36,476	-
Prepayments (Note 22)	424,911	1	498,673	1	Other current liabilities (Note 22)	916,741	1	898,915	1
Deferred income tax assets - current (Notes 2 and 18)	83,911	-	102,740	-					
Pledged time deposits (Notes 22 and 23)	10,000	-	10,000	-	Total current liabilities	37,017,079	39	17,069,043	14
Other current assets	37,624	-	9,209	-					
Total current assets	13,136,291	14	23,176,781	19	<b>LONG-TERM LIABILITIES</b>				
					Hedging derivative financial liabilities (Notes 2, 21 and 25)	-	-	281,089	-
<b>INVESTMENTS</b>					Bonds payable (Notes 2, 15 and 21)	7,500,000	8	10,000,000	8
Investments accounted for using the equity method (Notes 2, 8 and 17)	25,202,627	27	31,190,627	25	Total long-term liabilities	7,500,000	8	10,281,089	8
Hedging derivative financial assets (Notes 2, 21 and 25)	32,282	-	-	-					
Financial assets carried at cost - non-current (Notes 2 and 9)	71,596	-	32,160	-	<b>OTHER LIABILITIES</b>				
Total investments	25,306,505	27	31,222,787	25	Guarantee deposits	253,760	-	247,022	-
					Deferred credits - gains on intercompany accounts (Notes 2, 8 and 9)	1,238,378	2	1,586,156	2
<b>PROPERTY AND EQUIPMENT (Notes 2, 10 and 22)</b>					Total other liabilities	1,492,138	2	1,833,178	2
Cost					Total liabilities	46,009,217	49	29,183,310	24
Land	3,758,511	4	3,667,983	3					
Buildings	2,256,748	3	2,184,696	2	<b>SHAREHOLDERS' EQUITY (Notes 2 and 17)</b>				
Telecommunication equipment	53,588,813	57	69,447,400	57	Capital stock - NTS\$10.00 par value				
Office equipment	111,664	-	105,860	-	Authorized: 6,000,000 thousand shares				
Leased assets	1,276,190	1	1,276,190	1	Issued: 3,800,925 thousand shares in 2008 and 4,999,757 thousand shares in 2007	38,009,254	40	49,997,573	40
Miscellaneous equipment	2,021,490	2	1,819,684	1	Capital surplus	12,270,891	13	8,756,090	7
Total cost	63,013,416	67	78,501,813	64	Retained earnings				
Less accumulated depreciation	(22,779,402)	(24)	(26,323,782)	(22)	Legal reserve	11,745,475	12	10,128,401	8
	40,234,014	43	52,178,031	42	Special reserve	3,493,563	4	3,350,000	3
Construction in progress and prepayments for equipment	1,986,268	2	3,142,242	3	Unappropriated earnings	14,912,402	16	23,033,286	19
Net property and equipment	42,220,282	45	55,320,273	45	Other equity				
					Cumulative translation adjustments	(14,606)	-	8,488	-
<b>INTANGIBLE ASSETS (Note 2)</b>					Net loss not recognized as pension cost	1,534	-	-	-
3G concession	8,037,873	8	8,785,582	7	Unrealized gains (losses) of financial instruments	34,609	-	(168,023)	-
Computer software cost	16,571	-	52,323	-	Treasury stock	(31,889,100)	(34)	(1,402,946)	(1)
Total intangible assets	8,054,444	8	8,837,905	7	Total shareholders' equity	48,564,022	51	93,702,869	76
<b>OTHER ASSETS</b>									
Assets leased to others (Notes 2, 11 and 22)	2,213,102	3	2,385,818	2					
Idle assets (Notes 2 and 11)	225,511	-	227,439	-					
Refundable deposits	305,310	-	287,108	1					
Deferred charges (Notes 2 and 12)	283,752	-	276,658	-					
Deferred income tax assets - non-current (Notes 2 and 18)	2,776,638	3	1,102,571	1					
Other (Notes 2 and 16)	51,404	-	48,839	-					
Total other assets	5,855,717	6	4,328,433	4					
<b>TOTAL</b>	<b>\$ 94,573,239</b>	<b>100</b>	<b>\$ 122,886,179</b>	<b>100</b>	<b>TOTAL</b>	<b>\$ 94,573,239</b>	<b>100</b>	<b>\$ 122,886,179</b>	<b>100</b>

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

(With Deloitte & Touche review report dated April 11, 2008)

# TAIWAN MOBILE CO., LTD.

## STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2008 AND 2007

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

(Reviewed, Not Audited)

	2008		2007	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2, 3 and 22)				
Telecommunication service revenue	\$ 13,002,427	99	\$ 12,251,653	100
Other revenue	<u>95,641</u>	<u>1</u>	<u>55,491</u>	<u>-</u>
Total operating revenues	13,098,068	100	12,307,144	100
OPERATING COSTS (Notes 2, 3, 20 and 22)	<u>5,584,371</u>	<u>42</u>	<u>5,330,993</u>	<u>43</u>
GROSS PROFIT	<u>7,513,697</u>	<u>58</u>	<u>6,976,151</u>	<u>57</u>
OPERATING EXPENSES (Notes 2, 3, 20 and 22)				
Marketing	2,413,121	19	2,019,771	17
Administrative	<u>827,953</u>	<u>6</u>	<u>898,429</u>	<u>7</u>
Total operating expenses	<u>3,241,074</u>	<u>25</u>	<u>2,918,200</u>	<u>24</u>
OPERATING INCOME	<u>4,272,623</u>	<u>33</u>	<u>4,057,951</u>	<u>33</u>
NON-OPERATING INCOME AND GAINS				
Investment income recognized under the equity method, net (Notes 2 and 8)	1,173,041	9	745,985	6
Penalty income	49,500	1	43,455	1
Rental income (Note 22)	30,310	-	26,142	-
Interest income (Note 22)	29,894	-	38,149	-
Valuation gain on financial assets, net (Note 2)	-	-	35,592	-
Gain on disposal of property and equipment (Note 2)	-	-	3,799	-
Other (Notes 2 and 7)	<u>41,963</u>	<u>-</u>	<u>41,576</u>	<u>1</u>
Total non-operating income and gains	<u>1,324,708</u>	<u>10</u>	<u>934,698</u>	<u>8</u>
NON-OPERATING EXPENSES AND LOSSES				
Interest expenses (Notes 2 and 10)	179,568	1	77,855	1
Loss on disposal and retirement of property and equipment (Note 2)	63,604	1	158,765	1
Other (Note 2)	<u>20,669</u>	<u>-</u>	<u>9,415</u>	<u>-</u>
Total non-operating expenses and losses	<u>263,841</u>	<u>2</u>	<u>246,035</u>	<u>2</u>
INCOME BEFORE INCOME TAX	5,333,490	41	4,746,614	39
INCOME TAX EXPENSE (Notes 2 and 18)	<u>1,141,318</u>	<u>9</u>	<u>936,882</u>	<u>8</u>
NET INCOME	<u>\$ 4,192,172</u>	<u>32</u>	<u>\$ 3,809,732</u>	<u>31</u>

(Continued)

# TAIWAN MOBILE CO., LTD.

## STATEMENTS OF INCOME

THREE MONTHS ENDED MARCH 31, 2008 AND 2007

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

(Reviewed, Not Audited)

	2008		2007	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	\$ <u>1.83</u>	\$ <u>1.44</u>	\$ <u>0.96</u>	\$ <u>0.77</u>
Diluted			\$ <u>0.96</u>	\$ <u>0.77</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):

	<b>2008</b>
NET INCOME	<u>\$ 4,192,172</u>
EARNINGS PER SHARE	
Basic	<u>\$1.10</u>

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

(With Deloitte & Touche review report dated April 11, 2008)

(Concluded)

# TAIWAN MOBILE CO., LTD.

## STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2008	2007
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 4,192,172	\$ 3,809,732
Adjustments to reconcile net income to net cash provided by operating activities:		
Cash dividends received from equity-method investees	3,245,715	1,979,210
Depreciation	1,407,993	1,476,698
Investment income recognized under the equity method, net	(1,173,041)	(745,985)
Amortization	215,227	224,816
Bad debts	137,415	217,885
Deferred income taxes	93,422	341,198
Loss on disposal and retirement of property and equipment, net	63,604	154,966
Reversal of allowance for loss on inventories	(75)	(7,018)
Accrued interest compensation	-	504
Net changes in operating assets and liabilities		
Financial assets held for trading	-	3,198,592
Notes receivable	386	(908)
Accounts receivable - third parties	147,848	(80,862)
Accounts receivable - related parties	2,170	54,323
Other receivables - third parties	2,600	43,985
Other receivables - related parties	(298,719)	(21,047)
Inventories	(28,555)	(39,570)
Prepayments	131,454	65,773
Other current assets	(19,966)	7,215
Accounts payable	436,322	401,054
Income taxes payable	912,559	590,768
Accrued expenses	(326,306)	(278,599)
Other payables	8,859	257,594
Advance receipts	(380,614)	(105,573)
Other current liabilities	(10,142)	13,255
Net cash provided by operating activities	<u>8,760,328</u>	<u>11,558,006</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Financing provided to investees	(1,000,000)	-
Acquisition of property and equipment	(981,129)	(1,759,681)
Increase in deferred charges	(56,543)	(25,330)
Increase in refundable deposits	(9,315)	(12,122)
Proceeds from investees' capital reduction	2,688	3,458,463
Decrease in other assets	62	71
Increase in long-term investments accounted for using equity method	-	(12,740,430)
Proceeds of the disposal of property and equipment	-	4,479
Increase in computer software costs	-	(96)
Net cash used in investing activities	<u>(2,044,237)</u>	<u>(11,074,646)</u>

(Continued)

# TAIWAN MOBILE CO., LTD.

## STATEMENTS OF CASH FLOWS THREE MONTHS ENDED MARCH 31, 2008 AND 2007 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2008	2007
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash reduction	\$ (11,993,912)	\$ -
Increase in short-term borrowing	2,945,609	-
Increase in short-term notes and bills payable	2,698,059	-
Increase (decrease) in guarantee deposits	4,273	(11,134)
Transfer of treasury stock to employees	<u>-</u>	<u>29,474</u>
Net cash provided by (used in) financing activities	<u>(6,345,971)</u>	<u>18,340</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	370,120	501,700
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD</b>	<u>2,463,439</u>	<u>8,202,463</u>
<b>CASH AND CASH EQUIVALENTS, END OF PERIOD</b>	<u>\$ 2,833,559</u>	<u>\$ 8,704,163</u>
<b>SUPPLEMENTAL CASH FLOW INFORMATION</b>		
Interest paid	\$ 117,119	\$ -
Less: Interest capitalized	<u>(2,641)</u>	<u>-</u>
Interest paid - excluding interest capitalized	<u>\$ 114,478</u>	<u>\$ -</u>
Income taxes paid	<u>\$ 3,870</u>	<u>\$ 6,376</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Current portion of long-term liabilities	<u>\$ 2,500,000</u>	<u>\$ 3,803,112</u>
Conversion of convertible bonds to capital stock and entitlement certificates	<u>\$ -</u>	<u>\$ 11,841</u>
Reclassification of the corporation's shares held by its subsidiaries to treasury stock	<u>\$ 31,889,100</u>	<u>\$ -</u>
Participation in subsidiary's rights issue with TFN shares	<u>\$ -</u>	<u>\$ 5,287,100</u>
<b>CASH INVESTING AND FINANCING ACTIVITIES</b>		
Acquisition of property and equipment	\$ 953,852	\$ 1,414,943
Decrease in other payables	<u>27,277</u>	<u>344,738</u>
Cash paid for acquisition of property and equipment	<u>\$ 981,129</u>	<u>\$ 1,759,681</u>

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

(With Deloitte & Touche review report dated April 11, 2008)

(Concluded)



# **TAIWAN MOBILE CO., LTD.**

## **NOTES TO FINANCIAL STATEMENTS**

**THREE MONTHS ENDED MARCH 31, 2008 AND 2007**

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

**(Reviewed, Not Audited)**

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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 March 31, 2018.

As of March 31, 2008 and 2007, the Corporation had 2,552 and 2,136 employees, respectively.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

#### **Basis of Presentation**

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

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

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

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

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

## **Cash Equivalents**

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

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

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

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

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

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

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

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

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

## **Allowance for Doubtful Accounts**

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

## **Inventories**

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

## **Investments Accounted for Using the 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 (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 (loss) and recorded as other liabilities (assets). Gains or losses on the sales to the Corporation by equity-method investees that are not majority owned are deferred in proportion to the Corporation's ownership percentages in the investees until these sales are realized through transactions with third parties. Gains or losses from transactions between two equity-method investees are deferred in proportion to the Corporation's equivalent stock ownership in the investees if the Corporation has controlling power over each investee.

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

#### **Financial Assets Carried at Cost**

If there is no active market for an equity instrument and a reliable fair value can not be estimated, the equity instrument, including 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.

#### **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; telecommunications 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 refers to the payment for the 3G mobile telecommunication service - License C. The 3G concession is recorded at acquisition cost and is amortized over 13 years and 9 months starting from launch of 3G services.

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

## **Idle Assets**

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

## **Deferred Charges**

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

## **Asset Impairment**

If the carrying value of assets (including property and equipment, intangible assets, idle assets, assets leased to others, investments accounted for using equity method and deferred charges) 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 is 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 methods are 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 are treated as treasury stock and reclassified from investments accounted for using equity method to treasury stock.

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

### **Foreign-currency Transactions**

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

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

### **Revenue Recognition**

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

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

### **Promotion Expenses**

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

## Hedging Derivative Financial Instruments

The interest rate swap contracts which the Corporation entered into in order 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 three months ended March 31, 2007 have been reclassified to conform to the presentation of financial statements as of and for the three months ended March 31, 2008.

### 3. EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLES

In March 2007, the Accounting Research and Development Foundation issued an interpretation that requires companies and their subsidiaries to recognize as compensation expenses those bonuses to employees and remunerations to directors and supervisors starting from January 1, 2008. The mentioned bonuses and remunerations were previously recorded as appropriations from earnings. The adoption of this interpretation resulted in a decrease of \$92,773 thousand in net income and a decrease in basic earnings per share of \$0.03 for the three months ended March 31, 2008.

### 4. CASH AND CASH EQUIVALENTS

	<u>March 31</u>	
	<u>2008</u>	<u>2007</u>
Short-term notes and bills with repurchase rights	\$ 1,983,144	\$ 7,237,016
Cash in banks	656,705	570,265
Time deposits	167,609	863,235
Cash on hand	22,418	30,077
Revolving funds	<u>3,683</u>	<u>3,570</u>
	<u>\$ 2,833,559</u>	<u>\$ 8,704,163</u>

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

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

	<u>March 31</u>	
	<u>2008</u>	<u>2007</u>
<u>Financial assets held for trading</u>		
Beneficiary certificates		
Open-end funds	<u>\$ -</u>	<u>\$ 7,910,615</u>

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

	<u>March 31</u>	
	2008	2007
Domestic listed stocks		
Chunghwa Telecom Co., Ltd.	\$ <u>214,771</u>	\$ <u>172,301</u>

## 7. ACCOUNTS RECEIVABLE - THIRD PARTIES

	<u>March 31</u>	
	2008	2007
Accounts receivable	\$ 5,467,656	\$ 5,354,844
Less allowance for doubtful accounts	<u>(393,635)</u>	<u>(432,636)</u>
	<u>\$ 5,074,021</u>	<u>\$ 4,922,208</u>

For the first quarter of 2008, the Corporation entered into an accounts receivable factoring contract with HC Second Asset Management Co., Ltd. The Corporation sold \$1,122,544 thousand of the overdue accounts receivable, which had been written off, to HC Asset Management Co., Ltd. The aggregate selling price was \$15,358 thousand. Under this contract, the Corporation would no longer assume the risk on this receivable.

## 8. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>March 31</u>			
	<u>2008</u>		<u>2007</u>	
	Carrying Value	% of Owner- ship	Carrying Value	% of Owner- ship
TransAsia Telecommunications Inc. (TAT)	\$ 10,013,558	100.00	\$ 9,595,137	100.00
Taiwan Cellular Co., Ltd. (TCC)	15,118,096	100.00	21,595,490	100.00
Wealth Media Technology Co., Ltd. (WMT)	<u>70,973</u>	100.00	<u>-</u>	-
	<u>\$ 25,202,627</u>		<u>\$ 31,190,627</u>	

### a. TransAsia Telecommunications Inc.

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.

To integrate enterprise resources and enhance the operating efficiency, TAT's Board of Directors decided on December 14, 2007 to merge Mobitai Communications (Mobitai) with TAT as the surviving company. Mobitai was a wireless operator, incorporated in November 2005. TAT assumed all of Mobitai's rights and obligations in this cash merger with purchase price of \$2,562,000 thousand (\$12.81 per share) on the record date of December 15, 2007.

b. Taiwan Cellular Co., Ltd.

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

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

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

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

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

As of March 31, 2008, TFN and its subsidiary held 811,918 thousand shares of the Corporation. Based on SFAS No. 30, "Treasury Stock", the Corporation's shares held by subsidiaries are treated as treasury stock. This accounting treatment increased the Corporation's treasury share account by \$31,889,100 thousand. Please refer to note 17 for details.

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

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



c. Wealth Media Technology Co., Ltd

To integrate enterprise resources, the Corporation established Wealth Media Technology Co., Ltd. (WMT) on August 7, 2007. As of March 31, 2008, the Corporation owned 100% of WMTC with \$87,000 thousand investment.

d. Equity in investees' net gains or losses

The financial statements used as basis for calculating the carrying values of equity-method investments and the related income or losses were all unreviewed, except the financial statements of TAT, TFN, TTN, TFN Media and its subsidiaries for the three months ended March 31, 2008 and the financial statements of TAT, Mobitai and TFN for the three months ended March 31, 2007. (The Corporation's management considered that, had these financial statements been reviewed, any adjustments would have been immaterial and would thus have had no material effects on the Corporation's financial statements.)

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

	<b>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
TAT	\$ 337,283	\$ 478,723
TCC	847,499	267,262
WMT	<u>(11,741)</u>	<u>-</u>
	<u>\$ 1,173,041</u>	<u>\$ 745,985</u>

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

	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
Foreign unlisted stocks		
Bridge Mobile Pte Ltd.	<u>\$ 71,596</u>	<u>\$ 32,160</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 participate in the capital injection of TCC with all its shares of the former TFN. Please refer to the description in note 8.

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

	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
Buildings	\$ 287,589	\$ 229,616
Telecommunications equipment	21,158,252	25,056,771
Office equipment	69,661	47,766
Leased assets	372,222	308,413
Miscellaneous equipment	<u>891,678</u>	<u>681,216</u>
	<u>\$ 22,779,402</u>	<u>\$ 26,323,782</u>

Interest expenses capitalized for the three months ended March 31, 2008 and 2007 \$2,641 thousand and \$9,287 thousand, respectively, with interest rates ranging both from 2.40%-2.64%.

#### 11. ASSETS LEASED TO OTHERS AND IDLE ASSETS

	<u>March 31</u>	
	<u>2008</u>	<u>2007</u>
Assets leased to others		
Cost	\$ 2,326,371	\$ 2,495,102
Less accumulated depreciation	(102,678)	(98,693)
Less accumulated impairment	<u>(10,591)</u>	<u>(10,591)</u>
	<u>\$ 2,213,102</u>	<u>\$ 2,385,818</u>
Idle assets		
Cost	\$ 643,781	\$ 2,460,027
Less allowance for value decline	(187,519)	(1,432,190)
Less accumulated depreciation	(102,187)	(671,536)
Less accumulated impairment	<u>(128,564)</u>	<u>(128,862)</u>
	<u>\$ 225,511</u>	<u>\$ 227,439</u>

#### 12. DEFERRED CHARGES

	<u>March 31</u>	
	<u>2008</u>	<u>2007</u>
Interior decoration costs	\$ 253,248	\$ 264,764
Arrangement fee for syndicated bank loans	20,250	-
Other	<u>10,254</u>	<u>11,894</u>
	<u>\$ 283,752</u>	<u>\$ 276,658</u>

#### 13. SHORT-TERM BORROWING

	<u>March 31</u>	
	<u>2008</u>	<u>2007</u>
Unsecured loans - provided by financial institutions	\$ 16,900,000	\$ -
Others - provided by related party	<u>45,609</u>	<u>-</u>
	<u>\$ 16,945,609</u>	<u>\$ -</u>
Interest rate	2.432%-2.62%	-

#### 14. SHORT-TERM NOTES AND BILLS PAYABLE

	<u>March 31</u>	
	<u>2008</u>	<u>2007</u>
Commercial paper payable		
The Shanghai Commercial & Saving Bank, Ltd.	\$ 2,000,000	\$ -
China Bills Finance Corporation	850,000	-
International Bills Financial Corporation	850,000	-
Mega Bills Financial Corporation	<u>600,000</u>	<u>-</u>
	4,300,000	-
Less: Discount on short-term notes and bills payable	<u>(7,188)</u>	<u>-</u>
Net carrying value	<u>\$ 4,292,812</u>	<u>\$ -</u>
Interest rate	2.042%-2.26%	-

#### 15. BONDS PAYABLE

	<u>March 31</u>			
	<u>2008</u>		<u>2007</u>	
	<u>Current</u>	<u>Non-current</u>	<u>Current</u>	<u>Non-current</u>
Domestic unsecured bonds	\$ 2,500,000	\$ 7,500,000	\$ 3,750,000	\$ 10,000,000
2nd domestic convertible bonds	-	-	45,700	-
Add accrued interest compensation	<u>-</u>	<u>-</u>	<u>7,412</u>	<u>-</u>
	<u>\$ 2,500,000</u>	<u>\$ 7,500,000</u>	<u>\$ 3,803,112</u>	<u>\$ 10,000,000</u>

##### a. Domestic unsecured bonds

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

	<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>		

Future repayments of corporate bonds are as follows:

Year	Amount
From the second to fourth quarter, 2008	\$ 2,500,000
2009	<u>7,500,000</u>
	<u>\$ 10,000,000</u>

b. 2nd domestic convertible bonds

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

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

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

## 16. PENSION PLAN

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

The new LPA provides for a defined contribution pension plan. Starting from July 1, 2005, the Corporation should contribute monthly an amount equal to 6% of the employees' monthly wages to the employees' individual pension accounts. The contributed amount was \$26,691 thousand and \$22,493 thousand for the three months ended March 31, 2008 and 2007, 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 Bank of Taiwan (formerly in the Central Trust of China, which was merged into the Bank of Taiwan in July 2007.) (Approved by Department of Labor, Taipei City Government on April 13, 2007 and January 22, 2008, the Corporation suspended contributing from February 2007 to January 2009.)

## 17. 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 and may be made only within prescribed limits each time.

Capital surplus as of March 31, 2008 and 2007 were as follows:

	<u>March 31</u>	
	<u>2008</u>	<u>2007</u>
Premium of convertible bonds	\$ 8,775,819	\$ 8,756,090
Surplus from treasury stock transactions	3,493,759	-
Arising from long-term investments	<u>1,313</u>	<u>-</u>
	<u>\$ 12,270,891</u>	<u>\$ 8,756,090</u>

### b. Appropriation of earnings and dividend policy

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

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

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

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

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

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

For the three months ended March 31, 2008, the bonuses to employees and remuneration to directors and supervisors were accrued based on a respective 3% and 0.3% of net income after setting aside 10% net income as legal reserves. The significant difference between annual accruals and the amount approved by the Board shall be adjusted in 2008's P&L. If the board's approval differs from the amount ratified at the AGM (Annual General Shareholders' Meeting), the difference will be treated as changes in accounting estimation and will be adjusted in 2009's P&L.

The 2007 earnings appropriations proposed by the Board of Directors on January 31, 2008 and the 2006 earnings appropriations resolved by the shareholders in their meetings on June 15, 2007 were as follows:

	<u>Appropriation of Earnings</u>		<u>Dividend Per Share</u> (NT\$)	
	<u>For Fiscal Year 2007</u>	<u>For Fiscal Year 2006</u>	<u>For Fiscal Year 2007</u>	<u>For Fiscal Year 2006</u>
Appropriation of legal reserve	\$ 661,300	\$ 1,617,074		
Appropriation of special reserve	-	143,563		
Reversal of special reserve	(86,819)	-		
Remuneration to directors and supervisors	18,116	43,231		
Cash bonus to employees	181,155	432,303		
Cash dividends	<u>7,601,851</u>	<u>12,880,151</u>	\$ 2.0	\$ 2.58757
	<u>\$ 8,375,603</u>	<u>\$ 15,116,322</u>		

As of April 11, 2008, the independent auditors' report date, the appropriation of the Corporation's 2007 earnings had not been approved by the shareholders' meeting. Information on the appropriation of 2007 earnings and the bonuses to employees, directors and supervisors proposed by the Board of Directors is available on the Market Observation Post System website of the Taiwan Stock Exchange.

c. Cash reduction

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

d. 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>Three months ended March 31, 2008</u>				
Shares held by subsidiaries	1,368,250 (Note)	-	556,332	811,918
<u>Three months ended March 31, 2007</u>				
To be transferred to employees	46,537	-	1,112	45,425

Note: Shares held before capital reduction.

1) Transfer of stock to employees

For the three months ended March 31, 2007, the Corporation transferred the treasury stock through various tranches to employees of 1,112 thousand shares at \$28.17 per share, resulting in a reduction of retained earnings, amounting to \$4,869 thousand.

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

2) Shares held by subsidiaries

On March 31, 2008, TFN and TFN Investment Co., Ltd., its subsidiary, held the carrying and market value of the treasury stocks, amounting to \$47,497,180 thousand. The Corporation reclassified \$31,889,100 thousand from investments accounted for using equity method to treasury stock based on SFAS No. 30, "Treasury Stock". Although these shares are treated as treasury stock in the consolidated financial statements, the shareholders are entitled to exercise their rights on these shares, except for participation in capital injection by cash. In addition, based on the ROC Company Act, the shareholders of treasury stocks can not exercise the voting right.

For the three months ended March 31, 2008, TFN sold 300,000 thousand shares of the Corporation for \$13,509,828 thousand. Disposal gain from the sales resulted in a NT\$3,485,732 thousand increase in capital surplus. Separately, the Corporation's shares held by subsidiaries were reduced by 256,332 thousand shares due to the Corporation's capital reduction.

e. Unrealized losses on financial instruments

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

	<b>Three Months Ended March 31</b>	
	<b>2008</b>	<b>2007</b>
Available-for-sale financial assets		
Balance, beginning of year	\$ 57,560	\$ 40,652
Fair value changes recognized directly in equity	<u>37,659</u>	<u>9,408</u>
	<u>95,219</u>	<u>50,060</u>
Changes in unrealized gains (losses) of cash flow hedge		
Balance, beginning of year	(38,749)	(218,284)
Fair value changes recognized directly in equity	<u>62,961</u>	<u>7,467</u>
	<u>24,212</u>	<u>(210,817)</u>
Recognition of investees' changes in unrealized gains or losses by the equity method		
Balance, beginning of year	(82,854)	30,209
Fair value changes recognized directly in equity	<u>(1,968)</u>	<u>(37,475)</u>
	<u>(84,822)</u>	<u>(7,266)</u>
Unrealized gains (losses) on financial instruments	<u>\$ 34,609</u>	<u>\$ (168,023)</u>

## 18. 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>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
Tax on pretax income at statutory tax rate (25%)	\$ 1,333,363	\$ 1,186,644
Add (deduct) tax effects of:		
Permanent differences		
Investment income from domestic investees accounted for using equity method	(293,260)	(186,496)
Gain on disposal of marketable securities	-	(7,178)
Other	(2,154)	(7,841)
Temporary differences	(92,406)	(358,240)
Investment tax credits	(32,774)	(36,122)
Deferred income tax	93,422	341,198
Prior years' adjustment	133,324	-
Tax on short-term bills	<u>1,803</u>	<u>4,917</u>
Income tax expense	<u>\$ 1,141,318</u>	<u>\$ 936,882</u>

- b. Deferred income tax assets were as follows:

	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
Unrealized loss on retirement of property and equipment	\$ 2,380,997	\$ 375,141
Provision for doubtful accounts	725,314	740,710
Provision for impairment losses on idle assets	63,897	303,815
Unrealized loss (gain) on financial liabilities	(8,071)	70,272
Accrued interest compensation of bonds payables	-	1,853
Other	<u>(805)</u>	<u>8,471</u>
	3,161,332	1,500,262
Less valuation allowance	<u>(300,783)</u>	<u>(294,951)</u>
	<u>\$ 2,860,549</u>	<u>\$ 1,205,311</u>
Deferred income tax assets		
Current	\$ 83,911	\$ 102,740
Non-current	<u>2,776,638</u>	<u>1,102,571</u>
	<u>\$ 2,860,549</u>	<u>\$ 1,205,311</u>

- c. Integrated income tax information was as follows:

	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
Balance of imputation credit account (ICA)	<u>\$ 3,247,495</u>	<u>\$ 1,671,100</u>

As of March 31, 2008, there were no unappropriated earnings generated before January 1, 1998. The estimated creditable ratio for the 2007 earnings appropriation and the actual creditable ratio for the 2006 earnings appropriation were 38.19% and 18.49%, 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 2007 earnings appropriation may be adjusted when the imputation credits are distributed.

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

## 19. EARNINGS PER SHARE

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

	<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>Three months ended March 31, 2008</u>					
Basic EPS					
Income of common shareholders	<u>\$ 5,333,490</u>	<u>\$ 4,192,172</u>	<u>2,916,344</u>	<u>\$ 1.83</u>	<u>\$ 1.44</u>
<u>Three months ended March 31, 2007</u>					
Basic EPS					
Income of common shareholders	\$ 4,746,614	\$ 3,809,732	4,953,938	<u>\$ 0.96</u>	<u>\$ 0.77</u>
Add effect of potentially dilutive convertible bonds 2nd convertible bonds (with implied yield rate of 3.3%)	<u>504</u>	<u>378</u>	<u>2,306</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$ 4,747,118</u>	<u>\$ 3,810,110</u>	<u>4,956,244</u>	<u>\$ 0.96</u>	<u>\$ 0.77</u>

## 20. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	<u>Three Months Ended March 31</u>					
	<u>2008</u>			<u>2007</u>		
	<u>Classified as Operating Costs</u>	<u>Classified as Operating Expenses</u>	<u>Total</u>	<u>Classified as Operating Costs</u>	<u>Classified as Operating Expenses</u>	<u>Total</u>
Labor cost						
Salary	\$ 195,006	\$ 378,915	\$ 573,921	\$ 127,551	\$ 357,094	\$ 484,645
Labor and health insurance	10,299	20,658	30,957	7,286	19,515	26,801
Pension	7,638	15,077	22,715	6,016	14,054	20,070
Other	<u>9,271</u>	<u>17,624</u>	<u>26,895</u>	<u>6,832</u>	<u>15,483</u>	<u>22,315</u>
	<u>\$ 222,214</u>	<u>\$ 432,274</u>	<u>\$ 654,488</u>	<u>\$ 147,685</u>	<u>\$ 406,146</u>	<u>\$ 553,831</u>
Depreciation	\$ 1,287,438	\$ 117,090	\$ 1,404,528	\$ 1,349,854	\$ 122,203	\$ 1,472,057
Amortization	189,497	25,397	214,894	191,371	31,047	222,418

## 21. FINANCIAL INSTRUMENT TRANSACTIONS

### a. Fair value information

	March 31			
	2008		2007	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Non-derivative financial instruments</u>				
Liabilities				
Bonds payable (including current portion)	\$ 10,000,000	\$ 9,946,414	\$ 13,803,112	\$ 13,731,265

### 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 March.
- 4) Derivative financial instruments - based on valuation results provided by banks. As of March 31, 2008, the financial instrument held by the Corporation turned into financial asset, 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, short-term bank loans, short-term notes and bills payable, notes and accounts payable and guarantee deposits. Because of the short maturities of these instruments, the carrying values represent a reasonable basis to estimate fair values.

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

### d. The financial assets exposed to fair value interest rate risk amounted to \$2,160,753 thousand and \$8,110,251 thousand as of March 31, 2008 and 2007, respectively, and the financial liabilities exposed to fair value interest rate risk amounted to \$26,238,421 thousand and \$6,303,112 thousand as of March 31, 2008 and 2007, respectively. The financial assets exposed to cash flow interest rate risk amounted to \$681,867 thousand and \$563,295 thousand as of March 31, 2008 and 2007, respectively, and the financial liabilities exposed to cash flow interest rate risk amounted to \$5,000,000 thousand and \$7,781,089 thousand as of March 31, 2008 and 2007, respectively.

### e. Information on financial risks:

#### 1) Market risk

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

## 2) Credit risk

Credit risk represents the potential impacts to financial assets that the Group 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 Group's evaluation of credit risk exposure as of March 31, 2008 and 2007 were both zero because all counter-parties are reputable financial institutions with good credit ratings.

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

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

## 3) Liquidity risk

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

## 22. 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)	Subsidiary
Taiwan Cellular Co., Ltd. (TCC)	Subsidiary
Wealth Media Technology Co., Ltd.	Subsidiary
Tai Fu Media Technology Co., Ltd.	Subsidiary
Global Wealth Media Technology Co., Ltd.	Subsidiary
Fu Sin Media Technology Co., Ltd.	Subsidiary
Fu Jia Leh Media Technology Co., Ltd.	Subsidiary
Tai Yi Digital Broadcasting Co., Ltd.	Equity-method investee of TCC
TWM Holding Co. Ltd.	Subsidiary
Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Subsidiary
TT&T Life Insurance Agency Co., Ltd.	Subsidiary

(Continued)

<b>Related Party</b>	<b>Relationship with the Corporation</b>
Taiwan Super Basketball Co., Ltd.	Subsidiary
TT&T Holdings Co., Ltd.	Subsidiary
Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary
Taiwan Fixed Network Co., Ltd. (TFN)	Subsidiary
Taiwan Digital Communications Co., Ltd.	Subsidiary
Taiwan Telecommunication Network Services Co., Ltd. (TTN)	Subsidiary (change relationship on September 7, 2007)
VoPier Communications (Taiwan) Co., Ltd.	Subsidiary (change relationship on September 7, 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 Co., Ltd. (TFNM)	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 (TWM Foundation)	Over one third of the Foundation's issued fund came from the Corporation
Fubon Life Assurance Co., Ltd.	Same chairman
Fubon Securities Investment Trust Co., Ltd.	Related party in substance
Chung Hsing Constructions Co., Ltd.	Related party in substance
Fubon Land Development Co., Ltd.	Related party in substance
Fubon Financial Holding Company	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. (FPMC)	Related party in substance
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)
Fu Yang Multimedia Co., Ltd.	Subsidiary (change relationship on April 17, 2007 and merged into TFN Media Co., Ltd. on December 1, 2007)
Mobitai Communications (Mobitai)	Subsidiary (merged into TAT on December 15, 2007)
The former Taiwan Fixed Network Co., Ltd. (The former TFN)	Subsidiary (change relationship on April 17, 2007 and merged into TFN on December 28, 2007)
Taiwan United Communication Co., Ltd. (TUC)	Subsidiary (merged into TFN on January 1, 2008)
TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary (liquidated on March 15, 2008)

(Concluded)

b. Significant transactions with related parties were summarized below:

1) Operating revenues

	<b>Three Months Ended March 31</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>% of Total Revenues</b>	<b>Amount</b>	<b>% of Total Revenues</b>
TFN (including the former TFN)	\$ 481,177	4	\$ 358,199	3
TAT	178,617	1	164,431	1
Mobitai	<u>-</u>		<u>66,914</u>	1
	<u>\$ 659,794</u>		<u>\$ 589,544</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>Three Months Ended March 31</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>% of Total Costs</b>	<b>Amount</b>	<b>% of Total Costs</b>
TFN (including the former TFN)	\$ 224,842	4	\$ 204,629	4
TAT	101,970	2	75,368	1
Mobitai	-	-	51,596	1
Fubon Ins.	<u>15,151</u>	-	<u>21,983</u>	-
	<u>\$ 341,963</u>		<u>\$ 353,576</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) Operating lease income

	<b>Leased Sites/Equipment</b>	<b>Three Months Ended March 31</b>	
		<b>2008</b>	<b>2007</b>
TFN (including the former TFN)	Offices and BTS, etc.	<u>\$ 14,105</u>	<u>\$ 18,724</u>

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

4) Cash in banks

	<b>March 31</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
a) Cash in banks				
TFCB	<u>\$ 264,845</u>	9	<u>\$ 75,459</u>	1
b) Pledged time deposits				
TFCB	<u>\$ 10,000</u>	100	<u>\$ 10,000</u>	100

5) Receivables and payables

	<b>March 31</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
a) Accounts receivable				
TFN	\$ 219,313	4	\$ -	
TAT	69,962	1	65,523	1
The former TFN	-	-	195,569	4
Mobitai	-	-	17,993	-
Other	<u>4,895</u>	-	<u>3,142</u>	-
	<u>\$ 294,170</u>		<u>\$ 282,227</u>	
b) Other receivables				
Tai Fu Media Technology Co., Ltd. (Note)	\$ 2,022,120	50	\$ -	-
TFN Media Co., Ltd. (Note)	1,259,187	31	-	-
TAT	406,614	10	151,637	32
TFN	136,491	3	-	-
Mobitai	-	-	98,809	21
The former TFN	-	-	21,365	5
Other	<u>11,254</u>	-	<u>4,096</u>	1
	<u>\$ 3,835,666</u>		<u>\$ 275,907</u>	

Note: Financing to related parties was as follows:

<b>Related Party</b>	<b>Three Months Ended March 31, 2008</b>			
	<b>Ending Balance</b>	<b>Maximum Balance</b>	<b>Interest Rate %</b>	<b>Interest Income</b>
Tai Fu Media Technology Co., Ltd.	\$ 2,005,000	\$ 2,005,000	2.554-2.568	\$ 12,767
TFNM	<u>1,250,000</u>	<u>1,250,000</u>	2.538-2.548	<u>5,910</u>
	<u>\$ 3,255,000</u>	<u>\$ 3,255,000</u>		<u>\$ 18,677</u>

	<b>March 31</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
c) Prepayments				
Fubon Ins.	<u>\$ 33,598</u>	8	<u>\$ 48,748</u>	10
d) Accounts payable				
TFN	\$ 40,923	2	\$ -	-
TAT	20,335	1	19,380	1
The former TFN	<u>-</u>	-	<u>11,233</u>	1
	<u>\$ 61,258</u>		<u>\$ 30,613</u>	

	<b>March 31</b>			
	<b>2008</b>		<b>2007</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
e) Accrued expenses				
TT&T	\$ 162,405	4	\$ 153,842	4
TFN	97,207	2	-	-
The former TFN	<u>-</u>	-	<u>63,931</u>	2
	<u>\$ 259,612</u>		<u>\$ 217,773</u>	
f) Other payables				
TAT	\$ 239,391	7	\$ 335,397	10
TFN	87,755	2	-	-
Mobitai	-	-	166,694	5
The former TFN	<u>-</u>	-	<u>48,872</u>	1
	<u>\$ 327,146</u>		<u>\$ 550,963</u>	
g) Other current liabilities - collections and temporary credits for the following				
TFN	\$ 346,345	38	\$ -	-
TAT	154,661	17	203,829	23
The former TFN	-	-	216,362	24
Mobitai	<u>-</u>	-	<u>102,507</u>	11
	<u>\$ 501,006</u>		<u>\$ 522,698</u>	

	<b>Three Months Ended</b>	
	<b>2008</b>	<b>2007</b>
6) Telecommunication service expenses		
TFN (including the former TFN)	<u>\$ 23,673</u>	<u>\$ 18,629</u>
7) Professional service fees		
TT&T	<u>\$ 232,362</u>	<u>\$ 219,296</u>

8) Financing from related parties was as follows:

Related Party	<b>Three Months Ended March 31, 2008</b>			
	<b>Ending Balance</b>	<b>Maximum Balance</b>	<b>Interest Rate</b>	<b>Interest Expense</b>
TAT	<u>\$ 45,609</u>	<u>\$ 1,700,000</u>	2.572	<u>\$ 3,324</u>

9) Endorsement/guarantee provided

- a) The Corporation provided \$18,000,000 thousand guarantee for TFN's bank loan. As of March 31, 2008, TFN had not made any drawdown on this loan. The Corporation also provide TFN USD\$2,000 thousand in promissory notes outstanding for its borrowings with banks.

- b) On February 21, 2008, to have revolving funds for their operations, the Corporation and its subsidiary, TFN, obtained \$13,500,000 thousand of syndicated bank loan from 9 banks led by Chinatrust Commercial Bank. The Corporation provided a guarantee for TFN's bank loan. As of March 31, 2008, the Corporation and TFN had not made any drawdown on this loan.
- c) As of March 31, 2008, the Corporation had provided TFN \$50,000 thousand as performance guarantee for IDD calling card service, in accordance with NCC's new policy effective on April 1, 2007.

10) Other

- a) As of March 31, 2008, TAT had provided the Corporation \$1,000,000 thousand as performance guarantee for prepaid card service in accordance with new policy set by NCC on April 1, 2007.
- b) The Corporation bought real estate from the former TFN based on the need for a base station. Only an individual 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 a fiduciary contract with the landholder in December 2006 and is applying for a transfer of ownership. The Corporation uses the land for operation purpose.
- c) For the three months ended March 31, 2008 and 2007, 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>Three Months Ended</b>	
	<b>March 31</b>	
	<b>2008</b>	<b>2007</b>
TAT	\$ 221,243	\$ 146,958
TFN	74,772	-
TTN	9,285	-
Mobitai	-	81,995
	<u>\$ 305,300</u>	<u>\$ 228,953</u>

**23. ASSETS PLEDGED**

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

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

**24. COMMITMENTS AND CONTINGENT EVENTS**

- a. To enhance 3G mobile communications, expand network coverage and increase the service functions, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2006. As of March 31, 2008, the purchase amount was \$1,537,723 thousand.
- b. Unused letters of credit for acquisition of equipment were EUR22 thousand as of March 31, 2008.



- c. Future minimum rental payments as of March 31, 2008 for significant operating lease agreements were summarized as follows:

	<b>Amount</b>
From the second to fourth quarter, 2008	\$ 24,480
2009	17,497
2010	17,965
2011	11,642
2012	5,367

## 25. ADDITIONAL DISCLOSURES

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

- a. Financing provided: Table 1 (attached)
- b. Endorsement/guarantee provided: Table 2 (attached)
- c. Marketable securities held: Table 3 (attached).
- d. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 4 (attached).
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: None.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 5 (attached).
- h. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 6 (attached).
- i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 7 (attached).
- j. Derivative transactions
  - 1) The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on inverse floating interest rates of bonds, which are settled semiannually. Please refer to Note 21 for the related information.

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

The Corporation entered into IRS contracts to hedge inverse floating interest rate fluctuation. For the three months ended March 31, 2008 and 2007, the Corporation recognized losses of \$18,585 thousand and \$39,396 thousand, respectively, recorded as addition to interest expense.

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

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

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

k. Investment in Mainland China:

- 1) The name of the investee company in Mainland China, the main businesses and products, issued capital, method of investment, information on inflow or outflow of capital, ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Table 8 (attached).
- 2) Significant direct or indirect transactions with the investee company, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: None.

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

FINANCING PROVIDED  
THREE MONTHS ENDED MARCH 31, 2008  
(In Thousands of New Taiwan Dollars)

No.	Lending Company	Borrowing Company	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate	Financing Purpose	Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Lending Limit for Each Borrowing Company (Note)	Lending Company's Lending Amount Limits (Note)
											Item	Value		
0	Taiwan Mobile Co., Ltd. (the "Corporation")	Tai Fu Media Technology Co., Ltd.	Other receivables	\$ 2,005,000	\$ 2,005,000	2.554%-2.568%	Short-term financing	\$ -	To meet its financing needs in acquiring minorities	\$ -	-	-	\$ 19,425,609 (Note 1)	\$ 19,425,609 (Note 1)
		TFN Media Co., Ltd.	Other receivables	1,250,000	1,250,000	2.538%-2.548%	Short-term financing	-	To meet its financing needs in acquiring minorities	-	-	-	19,425,609 (Note 1)	19,425,609 (Note 1)
1	TransAsia Telecommunications Inc.	Taiwan Cellular Co., Ltd.	Other receivables	900,000	-	2.477%	Short-term financing	-	To meet its financing needs in setting up subsidiaries	-	-	-	- (Note 3)	4,005,423 (Note 1)
		The Corporation	Other receivables	1,700,000	45,609	2.572%	Short-term financing	-	Operating capital	-	-	-	4,005,423 (Note 1)	4,005,423 (Note 1)
2	Taiwan Cellular Co., Ltd.	Taiwan Fixed Network Co., Ltd.	Other receivables	2,500,000	-	2.558%	Short-term financing	-	To pay off bank loan	-	-	-	24,041,138 (Note 1)	24,041,138 (Note 1)
		TFN Media Co., Ltd.	Other receivables	1,250,000	1,250,000	2.538%	Short-term financing	-	To meet its financing needs in acquiring minorities	-	-	-	24,041,138 (Note 1)	24,041,138 (Note 1)
3	TFN Investment Co., Ltd.	TFN Media Co., Ltd.	Other receivables	1,000,000	1,000,000	2.538%	Short-term financing	-	To meet its financing needs in acquiring minorities	-	-	-	11,272,146 (Note 1)	11,272,146 (Note 1)
		TFN Media Co., Ltd.	Other receivables	3,000,000	3,000,000	2.602%	Short-term financing	-	Operating capital	-	-	-	11,272,146 (Note 1)	11,272,146 (Note 1)
4	Taiwan Fixed Network Co., Ltd.	TFN Investment Co., Ltd.	Other receivables	1,150,000	800,000	2.56%	Short-term financing	-	Operating capital	-	-	-	22,857,980 (Note 1)	22,857,980 (Note 1)
5	Union Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables - related parties	460,000	460,000	2.538%-2.570%	Transactions	66,116	Business requirements	-	-	-	13,500,000 (Note 2)	13,500,000 (Note 2)
6	North Coast Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables - related parties	140,000	140,000	2.538%-2.570%	Transactions	7,339	Business requirements	-	-	-	12,000,000 (Note 2)	12,000,000 (Note 2)
7	Mangrove Cable TV Corporation	TFN Media Co., Ltd.	Other receivables - related parties	43,000	43,000	2.538%-2.570%	Transactions	4,593	Business requirements	-	-	-	12,000,000 (Note 2)	12,000,000 (Note 2)
8	Globalview Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables - related parties	290,000	290,000	2.538%-2.570%	Transactions	51,231	Business requirements	-	-	-	12,000,000 (Note 2)	12,000,000 (Note 2)
9	Shin Ho Cable TV Co., Ltd.	TFN Media Co., Ltd.	Other receivables - related parties	207,700	207,700	2.538%	Transactions	2,895	Business requirements	-	-	-	12,000,000 (Note 2)	12,000,000 (Note 2)

(Continued)

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

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

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

(Concluded)

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED  
THREE MONTHS ENDED MARCH 31, 2008  
(In Thousands of New Taiwan Dollars)

No.	Endorsement/Guarantor (A)	Receiving Party		Maximum Guarantee/ Endorsement Amount Can Be Provided to Each Receiving Party	Maximum Balance for the Period (Note 4)	Ending Balance (Note 4)	Value of Collaterals	Ratio of Accumulated Endorsement/ Guarantee to Net Worth of the Guarantor (Note 4)	Maximum Guarantee/ Endorsement Can Be Provided by the Guarantor/Endorser
		Name (B)	Nature of Relationship (B is A's)						
0	The Corporation	Taiwan Fixed Network Co., Ltd. (TFN)	(Note 1)	\$ 80,000,000 (Note 5)	\$ 11,430,000	\$ 110,804	\$ -	0.23%	\$ 48,564,022 (Note 5)
1	TransAsia Telecommunications Inc. (TAT)	The Corporation	(Note 2)	18,000,000 (Note 6)	1,000,000	1,000,000	-	9.99%	10,013,558 (Note 6)
2	TFN Investment Co., Ltd. (TFNI)	WinTV Broadcasting Co., Ltd.	(Note 3)	591,000 (Note 7)	50,000	50,000	-	0.18%	28,180,365 (Note 7)
3	VoPier Communications (Taiwan) Co., Ltd. (VoPier)	Taiwan Telecommunication Network Services Co., Ltd. (TTN)	(Note 2)	240,000 (Note 8)	223	204	-	1.74%	11,722 (Note 8)

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: For over 50% direct/indirect owned subsidiaries, the aggregate endorsement/guarantee amount provided shall not exceed the net worth of the Corporation, and the upper-limit to each subsidiary shall be the amount of investment from the Corporation. But for 100% direct/indirect owned subsidiaries, the upper-limit mentioned above could be raised to double of the investment amount.

Note 6: The endorsement/guarantee amount provided by TAT to its parent company, the Corporation, shall be limited within the net worth of TAT, and not over double of the investment amount from the Corporation.

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

Note 8: The endorsement/guarantee amount provided by VoPier to its parent company, TTN, shall be limited within the net worth of VoPier, and not over double of the investment amount from TTN.

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

MARCH 31, 2008

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

Investing Company (A)	Marketable Securities Invested (B)	Relationship with the Investing Company (B is A's)	Financial Statement Account	March 31, 2008				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value (Note 1)	
Taiwan Mobile Co., Ltd.	<u>Stock</u> Chunghwa Telecom Co., Ltd.	-	Available-for-sale financial assets - current	2,688	\$ 214,771	0.028%	\$ 214,771 (Note 2)	
	Bridge Mobile Pte Ltd.	-	Financial assets carried at cost - non-current	2,200	71,596	10.00%	55,225	
	TransAsia Telecommunications Inc.	Subsidiary	Long-term investments - equity method	900,000	10,013,558	100.00%	10,013,558	
	Wealth Media Technology Co., Ltd.	Subsidiary	Long-term investments - equity method	8,700	70,973	100.00%	70,973	
	Taiwan Cellular Co., Ltd.	Subsidiary	Long-term investments - equity method	364,958	15,118,096 (Note 3)	100.00%	60,102,844	
TransAsia Telecommunications Inc.	<u>Stock</u> Yes Mobile Holdings Company	-	Financial assets carried at cost - non-current	74	- (Note 5)	0.19%	- (Note 4)	
Wealth Media Technology Co., Ltd.	<u>Stock</u> Tai Fu Media Technology Co., Ltd.	Subsidiary	Long-term investments - equity method	8,500	69,175	100.00%	69,175	
Tai Fu Media Technology Co., Ltd.	<u>Stock</u> Global Wealth Media Technology Co., Ltd.	Subsidiary	Long-term investments - equity method	8,400	85,228	100.00%	85,228	
	Fu Jia Leh Media Technology Co., Ltd.	Subsidiary	Long-term investments - equity method	117,100	2,001,195	100.00%	2,001,195	
	Fu Sin Media Technology Co., Ltd.	Subsidiary	Long-term investments - equity method	100	886	100.00%	886	
Global Wealth Media Technology Co., Ltd.	<u>Stock</u> Globalview Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	3,460	85,185	6.179%	41,861	
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	3.00%	- (Note 4)	
	Transportation High Tech Inc.	-	Financial assets carried at cost - non-current	1,200	- (Note 5)	12.00%	- (Note 4)	
	WEB Point Co., Ltd.	-	Financial assets carried at cost - non-current	803	6,773	3.17%	- (Note 4)	
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Long-term investments - equity method	30,000	258,871	100.00%	258,871	
	Tai Yi Digital Broadcasting Co., Ltd.	Subsidiary	Long-term investments - equity method	2,495	23,295	49.90%	23,295	
	TWM Holding Co. Ltd.	Subsidiary	Long-term investments - equity method	1 share	US\$ 6,296	100.00%	US\$ 6,296	
Taiwan Fixed Network Co., Ltd.	Subsidiary	Long-term investments - equity method	4,000,000	57,144,950	100.00%	57,144,950		
Taiwan Digital Communication Co., Ltd.	Subsidiary	Long-term investments - equity method	1,200	11,078	100.00%	11,078		

(Continued)

Investing Company (A)	Marketable Securities Invested (B)	Relationship with the Investing Company (B is A's)	Financial Statement Account	March 31, 2008				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value (Note 1)	
Taiwan Teleservices & Technologies Co., Ltd.	<u>Stock</u> TT&T Life Insurance Agency Co., Ltd.	Subsidiary	Long-term investments - equity method	300	\$ 3,035	100.00%	\$ 3,035	
	TT&T Holdings Co., Ltd.	Subsidiary	Long-term investments - equity method	1,300	US\$ 1,365	100.00%	US\$ 1,365	
	Taiwan Super Basketball Co., Ltd.	Subsidiary	Long-term investments - equity method	2,000	9,169	100.00%	9,169	
TT&T Holdings Co., Ltd.	<u>Stock</u> Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary	Long-term investments - equity method	-	US\$ 1,359	100.00%	US\$ 1,359	
TWM Holding Co. Ltd.	<u>ADS</u> Hurray! Holding Co., Ltd.	-	Available-for-sale financial assets - current	1,080	US\$ 2,981	4.97%	US\$ 2,981 (Note 2)	
Taiwan Fixed Network Co., Ltd.	<u>Stock</u> Taiwan Mobile Co., Ltd.	Ultimate parent	Available-for-sale financial assets - non-current	456,295	26,693,243	12.00%	26,693,243 (Note 2)	
	TFN Investment Co., Ltd.	Subsidiary	Long-term investments - equity method	2,061,939	25,491,609	100.00%	28,180,365	
	TFN HK Limited	Subsidiary	Long-term investments - equity method	1,299	2,859	99.99%	2,859	
	Taiwan Telecommunication Network Service Co., Ltd.	Subsidiary	Long-term investments - equity method	108,193	1,527,238	99.53%	984,035	
	Taiwan High Speed Rail Corporation	-	Financial assets carried at cost - non-current	225,531	2,120,829	3.95%	- (Note 4)	
TFN Investment Co., Ltd.	<u>Stock</u> Taiwan Mobile Co., Ltd.	Ultimate parent	Available-for-sale financial assets - non-current	355,623	20,803,937	9.36%	20,803,937 (Note 2)	
	Reach & Range Inc.	Subsidiary	Long-term investments - equity method	2,400	33,135	100.00%	26,044	
	WinTV Broadcasting Co., Ltd.	Subsidiary	Long-term investments - equity method	59,100	233,757	98.50%	230,955	
	TFN Media Co., Ltd.	Subsidiary	Long-term investments - equity method	230,526	3,100,063	100.00%	2,788,605	
	Great Taipei Broadband Co., Ltd.	-	Financial assets carried at cost - non-current	10,000	50,528	6.67%	- (Note 4)	
	<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	1.04%	-	
	TFN Media Co., Ltd.	<u>Stock</u> Yeong Jialeh Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	33,940	2,125,043	100.00%	600,709
	Shin Ho Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	20,000	733,183	100.00%	246,328 (Note 6)	

(Continued)

Investing Company (A)	Marketable Securities Invested (B)	Relationship with the Investing Company (B is A's)	Financial Statement Account	March 31, 2008				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value (Note 1)	
	Mangrove Cable TV Corporation	Subsidiary	Long-term investments - equity method	21,160	\$ 535,913	100.00%	\$ 272,765 (Note 6)	
	North Coast Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	21,160	508,852	100.00%	217,011	
	Phoenix Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	65,818	3,178,362	96.66%	953,946	
	Union Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	170,441	2,042,768	99.99%	1,838,168	
	Globalview Cable TV Co., Ltd.	Subsidiary	Long-term investments - equity method	51,733	1,248,303	92.38%	626,850	
Taiwan Telecommunication Network Services Co., Ltd.	<u>Stock</u> VoPier Communications (Taiwan) Co., Ltd.	Subsidiary	Long-term investments - equity method	12,000	11,722	100.00%	11,722	
	<u>Preferred stock</u> New Century InfoComm Technology Co., Ltd.	-	Financial assets carried at cost - non-current	33,684	239,817	0.84%	- (Note 4)	

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

Note 2: Based on the closing price on March 31, 2008.

Note 3: Taiwan Mobile shares held indirectly by Taiwan Fixed Network Co., Ltd. (TFN) and its subsidiary are classified as treasury shares. Therefore, TWM's carrying cost of TFN and its subsidiary was reduced by adjusting the latter's net worth by \$31,889,100 thousand and another \$13,095,048 thousand unrealized gain from financial assets investment from \$60,102,844 thousand.

Note 4: As of April 11, 2008, the independent auditors' report date, the investee's net worth was not available.

Note 5: Impairment loss recognized in 2004 reduced the value to zero.

Note 6: Some shares are held under trustee accounts.



## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED OR DISPOSED AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
THREE MONTHS ENDED MARCH 31, 2008  
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance (Note 1)		Acquisition		Disposal			Ending Balance (Note 1)		
					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.	<u>Stock</u> Fubon Financial Holding Company	Available-for-sale financial assets - current	-	-	62,023	\$ 1,786,256	-	\$ -	62,023	\$ 2,089,511	\$ 1,628,197	\$ 461,314	-	\$ -
	TFN Media Co., Ltd.	Long-term investments - equity method	-	-	214,518	2,951,824	16,008	535,714	-	-	-	-	230,526	3,100,063 (Note 4)
Taiwan Fixed Network Co., Ltd.	<u>Stock</u> Taiwan Mobile Co., Ltd.	Available-for-sale financial assets - non-current	-	-	900,353	37,004,498	-	-	300,000	13,509,828	10,022,678	3,487,150	456,295 (Note 2)	26,693,243 (Note 2)
TFN Media Co., Ltd.	<u>Stock</u> Phoenix Cable TV Co., Ltd.	Long-term investments - equity method	-	-	47,663	2,069,063	18,155	1,065,709	-	-	-	-	65,818	3,178,362 (Note 3)

Note 1: The amount of beginning and ending balance included the revaluation gain on financial assets.

Note 2: The shares included the capital reduction adjustment of 144,058 thousand shares. The amount included the capital reduction adjustment of \$720,267 thousand and unrealized gain of \$1,008,844 thousand.

Note 3: The amount included the investment income adjustment of \$43,590 thousand.

Note 4: The amount included the cash dividends adjustment of \$675,846 thousand and the investment income adjustment of \$288,371 thousand.

## 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  
THREE MONTHS ENDED MARCH 31, 2008  
(In Thousands of New Taiwan Dollars)

Company Name (A)	Related Party (B)	Nature of Relationship (B is A's)	Transaction Details				Transactions with Terms Different from Others		Notes/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
Taiwan Mobile Co., Ltd. (the "Corporation")	TransAsia Telecommunications Inc.	Subsidiary	Sale	\$ (178,617)	(1)	Based on contract terms	-	-	\$ 69,962	1	(Note 2)
			Purchase	101,970	2	Based on contract terms	-	-	(20,335)	(1)	
	Taiwan Fixed Network Co., Ltd.	Subsidiary	Sale	(481,177)	(4)	Based on contract terms	-	-	219,313	4	
			Purchase	224,842	4	Based on contract terms	-	-	(40,923)	(2)	
Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Purchase	232,362	(Note 1)	Based on contract terms	-	-	(162,405)	-		
TransAsia Telecommunications Inc.	The Corporation	Parent	Sale	(101,897)	(6)	Based on contract terms	-	-	20,335	3	
			Purchase	178,617	20	Based on contract terms	-	-	(71,688)	(16)	
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Sale	(232,379)	(97)	Based on contract terms	-	-	162,123	97	
Taiwan Fixed Network Co., Ltd.	The Corporation	Ultimate parent	Sale	(246,214)	(12)	Based on contract terms	-	-	160,472	21	
			Purchase	480,923	33	Based on contract terms	-	-	(920)	-	
TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	Subsidiary	Sale	(119,207)	(23)	Based on contract terms	(Note 3)	(Note 3)	119,752	34	
Phoenix Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Royalty	108,422	66	Based on contract terms	(Note 3)	(Note 3)	(108,422)	(83)	

Note 1: Recognized as operating expenses.

Note 2: Recognized as accrued expenses.

Note 3: No comparables on such kind of transactions.

(Concluded)

**TABLE 6**

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

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

**MARCH 31, 2008**

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

Company Name (A)	Related Party (B)	Nature of Relationship (B is A's)	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts	
					Amount	Action Taken			
Taiwan Mobile Co., Ltd. (the "Corporation")	TransAsia Telecommunications Inc.	Subsidiary	Accounts receivable	\$ 69,962	9.96	\$ -	-	\$ -	\$ -
			Other receivables	406,614		-	-	9	-
	Taiwan Fixed Network Co., Ltd.	Subsidiary	Accounts receivable	219,313	8.78	-	-	208	-
			Other receivables	136,491		-	-	1,027	-
Tai Fu Media Technology Co., Ltd. TFN Media Co., Ltd.	Subsidiary	Other receivables	2,022,120	-	-	-	-	-	
	Subsidiary	Other receivables	1,259,187	-	-	-	-	-	
TransAsia Telecommunications Inc.	The Corporation	Parent	Accounts receivable	20,335	20.33	-	-	-	-
			Other receivables	440,890		-	-	21	-
Taiwan Cellular Co., Ltd.	TFN Media Co., Ltd.	Subsidiary	Other receivables	1,260,343	-	-	-	-	
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Accounts receivable	162,123	5.79	-	-	-	-
			Other receivables	288		-	-	-	-
Taiwan Fixed Network Co., Ltd.	The Corporation TFN Investment Co., Ltd.	Ultimate parent Subsidiary	Accounts receivable	160,472	3.84	-	-	9,460	-
			Other receivables	166,869		-	-	68,228	-
			Other receivables	803,423		-	-	-	-
TFN Investment Co., Ltd.	TFN Media Co., Ltd.	Subsidiary	Other receivables	4,008,275	-	-	-	-	
TFN Media Co., Ltd.	Phoenix Cable TV Co., Ltd.	Subsidiary	Accounts receivable	119,752	-	-	-	-	
North Coast Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivables	1,262	-	-	-	-	
			Other receivables	143,425	-	-	-	-	
Shin Ho Cable TV C., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivables	1,789	-	-	-	-	
			Other receivables	211,150	-	-	-	-	
Union Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable	14,625	-	-	-	-	
			Other receivables	468,285	-	-	-	-	
Globalview Cable TV Co., Ltd.	TFN Media Co., Ltd.	Parent	Accounts receivable	5,037	-	-	-	-	
			Other receivables	295,552	-	-	-	-	

Note: Including accounts receivable of the former TFN.

TABLE 7

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

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

Investor	Investee	Location	Main Businesses and Products	Investment Amount		Balance as of March 31, 2008			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				March 31, 2008	December 31, 2007	Shares (Thousands)	Percentage of Ownership	Carrying Value			
Taiwan Mobile Co., Ltd.	Taiwan Cellular Co., Ltd.	Taipei, Taiwan	Telecom engineering and IT service	\$ 43,208,330	\$ 43,208,330	364,958	100	\$ 15,118,096	\$ 3,985,613	\$ 847,499	
	TransAsia Telecommunications Inc.	Taipei, Taiwan	Telecom service provider	9,000,000	9,000,000	900,000	100	10,013,558	337,448	337,283	
	Wealth Media Technology Co., Ltd.	Taipei, Taiwan	Investment	87,000	87,000	8,700	100	70,973	(11,741)	(11,741)	
Wealth Media Technology Co., Ltd.	Tai Fu Media Technology Co., Ltd.	Taipei, Taiwan	Investment	85,000	85,000	8,500	100	69,175	(11,701)	NA	
Tai Fu Media Technology Co., Ltd.	Global Wealth Media Technology Co., Ltd.	Taipei Country, Taiwan	Investment	84,000	84,000	8,400	100	85,228	1,131	NA	
	Fu Jia Leh Media Technology Co., Ltd.	Taipei, Taiwan	Investment	2,001,700	2,001,700	117,100	100	2,001,195	(15)	NA	
	Fu Sin Media Technology Co., Ltd.	Taipei, Taiwan	Investment	1,000	1,000	100	100	886	(14)	NA	
Global Wealth Media Technology Co., Ltd.	Globalview Cable TV Co., Ltd.	Sijhih Township	Cable TV service provider	82,882	82,882	3,460	6.179	85,185	18,554	NA	
Taiwan Cellular Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	Taipei, Taiwan	Call center service	5,294	5,294	30,000	100	258,871	9,988	NA	
	Tai Yi Digital Broadcasting Co., Ltd.	Taipei, Taiwan	Broadcasting business and agency of telecom service subscription	24,950	24,950	2,495	49.9	23,295	(425)	NA	
	TWM Holding Co. Ltd.	British Virgin Islands	Investment	US\$ 9,000	US\$ 9,000	1 share	100	US\$ 6,296	US\$ (26)	NA	
	Taiwan Fixed Network Co., Ltd.	Taipei, Taiwan	Fixed line service provider	40,000,000	40,000,000	4,000,000	100	57,144,950	3,964,981	NA	
	Taiwan Digital Communications Co., Ltd.	Taipei, Taiwan	Equipment installation and IT service	12,000	12,000	1,200	100	11,078	(95)	NA	
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	3,000	3,000	300	100	3,035	26	NA	
	TT&T Holdings Co., Ltd.	Samoa	Investment	US\$ 1,300	US\$ 1,300	1,300	100	US\$ 1,365	US\$ (6)	NA	
	Taiwan Super Basketball Co., Ltd.	Taipei, Taiwan	Basketball team management	20,000	20,000	2,000	100	9,169	(10,836)	NA	
TT&T Holdings Co., Ltd.	Xiamen Taifu Teleservices & Technologies Ltd.	Xiamen	Call center service	US\$ 1,300	US\$ 1,300	-	100	US\$ 1,359	US\$ (8)	NA	
Taiwan Fixed Network Co., Ltd.	TFN Investment Co., Ltd.	Taipei, Taiwan	Investment	17,897,639	17,897,639	2,061,939	100	25,491,609	669,219	NA	
	Taiwan Telecommunication Network Services Co., Ltd.	Taipei, Taiwan	Internet service provider	1,497,701	1,497,701	108,193	99.53	1,527,238	46,617	NA	
	TFN HK Limited	Hong Kong	Telecommunications service provider	5,816	5,816	1,299	99.99	2,859	(26)	NA	
TFN Investment Co., Ltd.	Reach & Range Inc.	Taipei, Taiwan	Telecommunications equipment installment and IT service provider	31,764	31,764	2,400	100	33,115	1,680	NA	
	WinTV Broadcasting Co., Ltd.	Taipei, Taiwan	TV program provider	591,000	591,000	59,100	98.5	233,757	(21,508)	NA	
	TFN Media Co., Ltd.	Taipei, Taiwan	Cable broadband and value added service provider	2,035,714	1,500,000	230,526	100	3,100,063	295,024	NA	
Taiwan Telecommunication Network Services Co., Ltd.	VoPier Communications (Taiwan) Co., Ltd.	Taipei, Taiwan	ISR (international simple resales) and international prepaid card service provider	120,000	120,000	12,000	100	11,722	(725)	NA	
TFN Media Co., Ltd.	Globalview Cable TV Co., Ltd.	Sijhih Township	Cable TV service provider	841,413	841,413	51,733	92.38	1,248,303	18,554	NA	
	Yeong Jialeh Cable TV Co., Ltd.	Sinhuangshih Township	Cable TV service provider	1,616,824	1,616,824	33,940	100	2,125,043	46,253	NA	
	Shin Ho Cable TV Co., Ltd.	Sinhuangshih Township	Cable TV service provider	661,781	661,781	20,000	100	733,183	3,536	NA	
	Mangrove Cable TV Corporation	Danshueijhen Township	Cable TV service provider	397,703	397,703	21,160	100	535,913	17,360	NA	
	North Coast Cable TV Co., Ltd.	Danshueijhen Township	Cable TV service provider	399,193	399,193	21,160	100	508,852	(7,621)	NA	
	Phoenix Cable TV Co., Ltd.	Kaohsiung County	Cable TV service provider	2,294,967	1,229,257	65,818	96.66	3,178,362	49,733	NA	
	Union Cable TV Co., Ltd.	Yilan City	Cable TV service provider	1,904,440	1,904,440	170,441	99.99	2,042,768	27,888	NA	

Note 1: Taiwan Mobile shares held indirectly by Taiwan Fixed Network Co., Ltd. (TFN) and its subsidiary are classified as treasury shares. Therefore, TWM's carrying cost of TFN and its subsidiary was reduced by adjusting the latter's net worth by \$31,889,100 thousand and another \$13,095,048 thousand unrealized gain from financial assets investment from \$60,102,844 thousand.

Note 2: Some shares are held under trustee accounts.

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

**INVESTMENT IN MAINLAND CHINA**  
**THREE MONTHS ENDED MARCH 31, 2008**  
(In Thousands of New Taiwan Dollars or U.S. Dollars)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2008	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2008	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 3)	Carrying Value as of March 31, 2008	Accumulated Inward Remittance of Earnings as of March 31, 2008
					Outflow	Inflow					
Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	US\$ 1,300 (NT\$ 39,523)	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\$ 39,523)	\$ -	\$ -	US\$ 1,300 (NT\$ 39,523)	100% ownership of indirect investment by the Corporation's subsidiary	US\$ (8) (NT\$ (243))	US\$ 1,359 (NT\$ 41,316)	\$ -

Accumulated Investment in Mainland China as of March 31, 2008	Investment Amounts Authorized by Investment Commission, MOEA (Note 2)	Upper Limit on Investment Authorized by Investment Commission, MOEA (Note 2)
US\$1,300 (NT\$39,523)	US\$1,300 (NT\$39,523)	\$103,548

Note 1: The above amounts were translated into New Taiwan dollars at the exchange rate of US\$1=NT\$30.402 and RMB1=NT\$4.3347 as of March 31, 2008.

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

Note 3: Calculation was based on unreviewed financial statements.