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myfone

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Letter to Shareholders

Dear Shareholders,

Despite the new challenges arising from the launch of 3G services and the implementation of mobile number portability, Taiwan Mobile Co., Ltd. ("TWM" or "the Company"), remaining true to its vision of "serving as the customer's best choice in telecommunications," was able to overcome these difficulties, sharpen its competitive edge and deliver exemplary results in 2005. The Company's standalone revenue grew 6% year-on-year to NT\$47.4bn, while its consolidated revenue, including TransAsia Telecommunications Inc. (TAT) Mobitai Communications (Mobitai), Taiwan Teleservices & Technologies Co., Ltd. and other subsidiaries amounted to NT\$60.1bn. Its consolidated EBITDA also grew 6% to NT\$28.1bn, net income reached NT\$16.2bn, and after-tax EPS amounted to NT\$3.31.

The Company's impressive 2005 operating performance was a product of the following efforts:

1. Focus on Providing the Best Customer Service

The quality of the Company's customer service has consistently been ranked number one by market surveys conducted by different media outlets. In 2005, the Company was the recipient of "Global Views' Excellent Service Award" by Global Views Monthly for providing the best customer service in the telecommunications sector. The Company's score far outpaced its peers' – a testament to the fact that the quality of the Company's customer service can withstand the toughest scrutiny.

2. Gatekeeper of Customer's Proprietary Information and Content

After nearly one-and-a-half years of hard work and cooperation among the Company's different departments, the Company was awarded an ISO27001 certification – the highest level of global certification for information security management. As a leading mobile operator in Taiwan, the Company firmly believes in corporate social responsibility. To ensure that customers are able to avail of the Company's quality services with ease and peace of mind, the Company proactively filters out adult content, fraud and other negative or adverse contents. The Company's efforts have been rewarded the past year with the "Corporate Social Responsibility Award" by Global Views Monthly and the "2005 Most Admired Company in Taiwan" by CommonWealth Monthly.

3. Continuous Improvements in Network Quality

In order to provide customers with the best network coverage, the Company's technical division undertook the massive task of integrating its 2G network

with those of TAT and Mobitai, as well as building out its 3G infrastructure. This has earned the Company commendations from its customers and allowed it to surpass its peers.

4. Providing Differentiated Products to Various Market Segments

A successful business must be able to anticipate and satisfy customers' needs before the issues arise. In 2005, the Company launched its "three-network-in-one" offer, allowing customers of TWM, TAT and Mobitai to enjoy lower on-net call rates. The Company also integrated its customer service and direct stores under the "myfone" brand. These were all done to allow customers to enjoy the benefits of the Company's resource integration and make the Company the best partner for all telecommunications service users in Taiwan.

5. Diverse Products and Service Offerings

Be it 2G or 3G, customers care about the same issues: Is the content diverse enough? Are there enough handset selections? Are the rate plans flexible? As such, when the Company officially launched its 3G services, it kept its flexible 2G rate plans so customers can easily upgrade to 3G services without having to adapt to new rate plans. Coupled with the offer of several exclusive handsets, the Company was able to surpass its 3G customer target and attract 150,000 3G subscribers by 2005 year-end.

6. Protecting Shareholders' Interests through Corporate Governance

The Company continues to strive to implement the best corporate governance practices to protect its shareholders' interests. Besides simplifying its investment holding structure, increasing its financial transparency, lowering its debt level and increasing the number of independent directors, the Company is committed to maintaining stable operating margins and distributing earnings back to investors in the form of cash dividends. The board of directors has already approved an earnings distribution plan with cash dividend of NT\$12,843,996,966 for this year. All of these have helped the Company maintain a QFII holding of over 30%.

The Company has defined 2006 as "Customer Care Year" and at the beginning of the year, it led its peers in accomplishing two very important tasks: The first is the launch of its innovative 268/568 rate plans; and the second is the receipt of the world's first ISO 27001 certification for information security management.



1

Company Highlights

Vision

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

Core Competency

The Company aims not only to satisfy customers’ existing needs, but also to anticipate and meet future needs. The Company also offers the best communication standards and customer service, and works continuously on improving the quality of its network and developing innovative products.

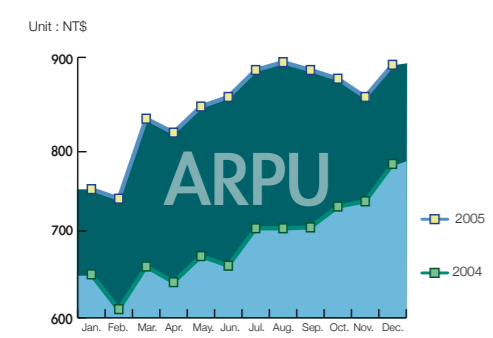


Company Profile

Taiwan Mobile Co., Ltd. was incorporated in the Republic of China (“ROC”) on February 25, 1997. The first non-state owned company to receive a GSM 1800 license, TWM was also the first private telecommunications company to go public and the first wireless operator to launch 3G services using Wideband Code-Division Multiple Access (WCDMA) technology. Since its inception, the Company has always strived to provide its customers with world-class telecommunications services. The Company aspires to be the best telecommunications service provider in network infrastructure, product offering, technology development and customer services. In the beginning of 2006, the Company

became the first company in the world to receive the ISO 27001 certification for information security. TWM will continue to strengthen its competitiveness in line with its goal of becoming the most reliable telecommunications operator in Taiwan and to create a paradigm for telecommunications services in the new era.

The operational scale of the Company has increased as a result of the popularization of mobile services and the integration of its businesses. In 1998, the Company’s subscriber base reached 1 million, making it the fourth largest GSM1800 telecommunications operator globally and the



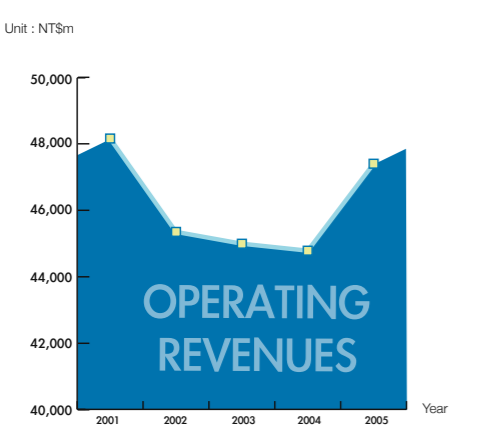
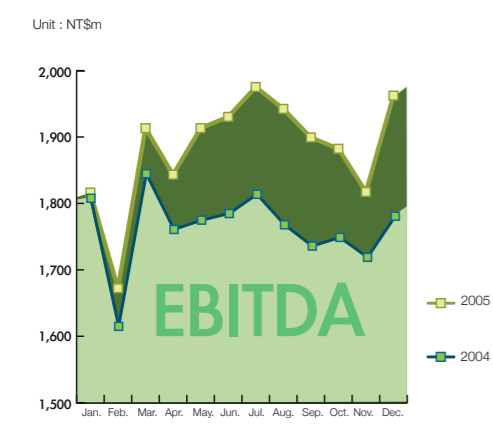
1. Launch of “myZone” 268/568 Rate Plans to Help Consumers Better Manage Their Budget

The “myZone” rate plans are not only a marketing innovation, but rate plans developed based on the collection and analysis of customers’ calling behavior. Designed with the customer in mind, myZone has been well received by the market and should help the Company’s operating performance further improve.

2. Recipient of the First ISO 27001 Certification to Ensure Customer Information Security

The Company’s objective is simple – to ensure that customers’ information is safe and secure. The Company believes that customers appreciate the efforts that it puts into maintaining a world-class information security management system. This in turn helps in developing customer loyalty, in line with the Company’s aim to become the telecommunications operator of choice for customers.

Looking ahead, the Company will continue to strive to fulfill its vision of caring for its customers and leading its peers with its offer of a “customer-centric” and “service-oriented” policy.



Chairman
Daniel Tsai

President
Harvey Chang

biggest operator in Asia. The following year, its subscriber base more than tripled to over 3 million and further rose to over 5 million in 2000. The Company was selected as one of "Asia's Top 100 Corporations" by HSBC in 2000, and as one of "Taiwan's Top 10 Businesses" by Far Eastern magazine in 2001.

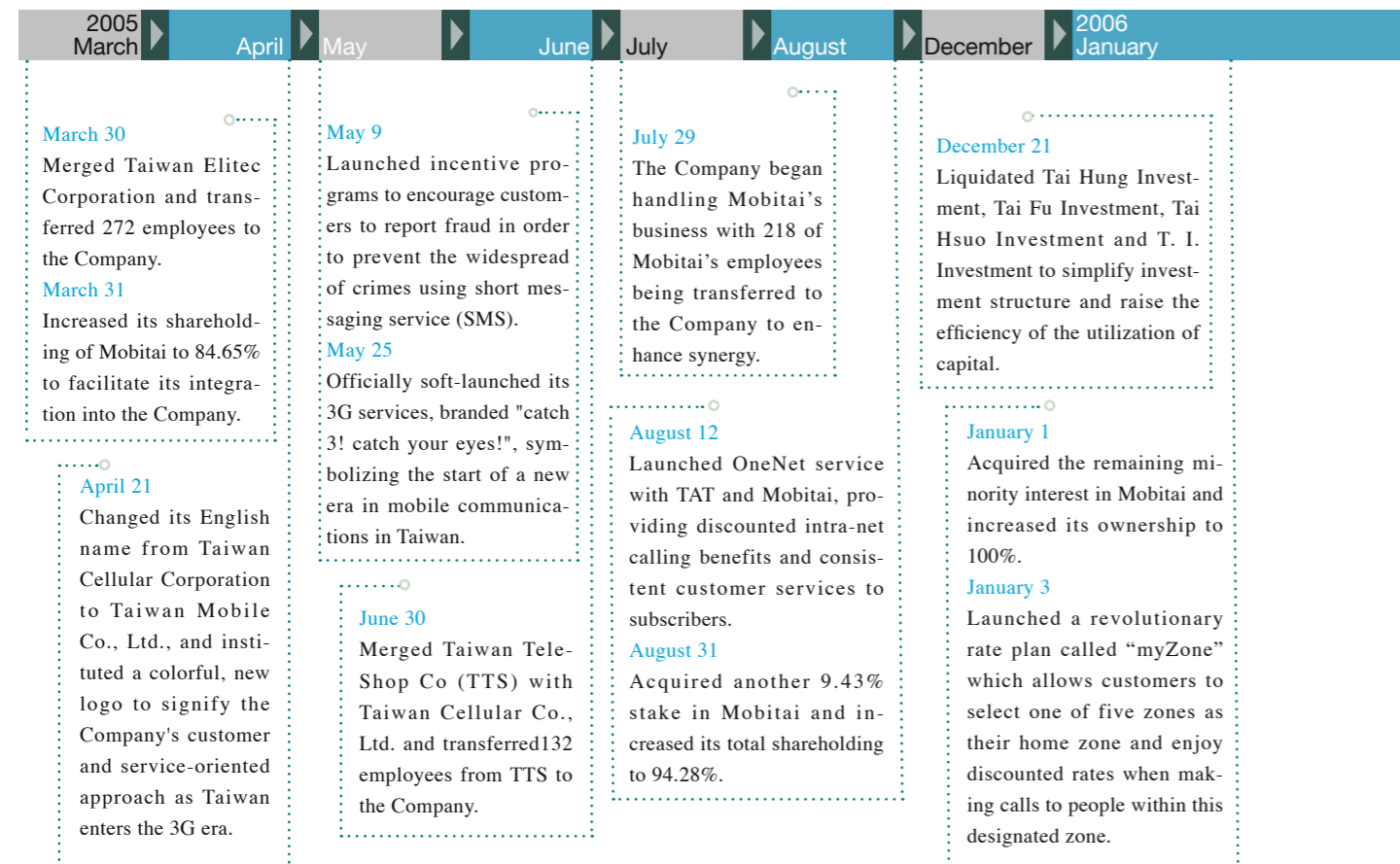
In July 2001, the Company acquired southern regional operator TransAsia Telecommunications Inc., boosting its consolidated subscriber base to 6.42 million. In June 2004, the Company further acquired central regional operator Mobitai Communications, and its consolidated subscriber base surged to 8.2 million while its consolidated revenue accounted for 31% of Taiwan's total mobile revenue, making it the largest mobile operator in Taiwan.

The Company's shares began traded on the ROC's Over-the-Counter Securities Exchange in 2000. In 2002, the Company's shares were listed on the Taiwan Stock Exchange (Ticker: 3045) and included in the Taiwan 50 Index and Morgan Stanley Composite Index. In 2004, in recognition of the improvements in its corporate governance, the Company was cited for "Best Corporate Governance" in

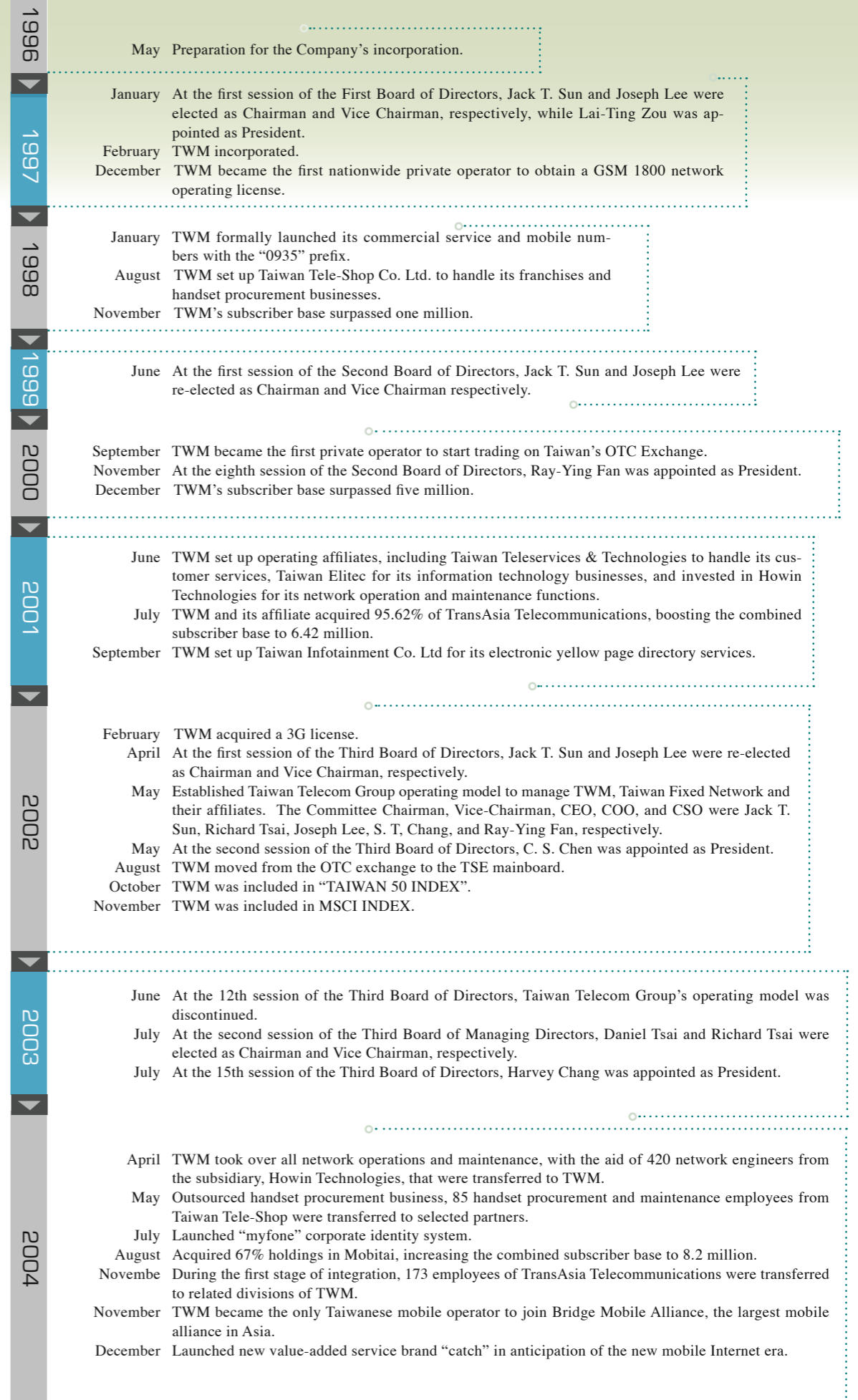
Taiwan by Euromoney. In 2006, the Company has met the certification requirements of Corporate Governance Association and is awarded "CG6001 Corporate Governance Association Certification". The Company's customer service has also won numerous commendations from different media outlets. In 2004, the Company won Next magazine's "Best Customer Service Mobile Telecom Operator in Taiwan" award. The following year, the Company garnered the "2005 Excellent Service Award" from Global Views Monthly and ranked No.1 in Taiwan's telecommunications service sector. A firm believer in promoting corporate social responsibility, the Company was the recipient of the "2005 Most Admired Company in Taiwan" award by CommonWealth monthly magazine and the "Corporate Social Responsibility Award" by Global Views Monthly.

Looking ahead, the Company will focus on improving its operating performance, simplifying its investment structure, increasing financial transparency, effectively controlling its costs, and developing products that best meet customers' needs. The Company is committed to maintaining its vision of providing customers with top-quality products and services.

Milestones 2005-2006



Milestones





2006

- February Received the first CG6001 certification from Corporate Governance Association
- January TWM and its subsidiary, Taiwan Teleservices & Technologies Co., Ltd., obtained the first worldwide ISO 27001 Information Security Management System certification. Also received certifications from England, Sweden and Norway, demonstrating the Company's commitment to providing information security.

2005

- November Led Taiwan delegation to participate in the first World Cyber Game Mobile Tournament and won one gold and one silver medal. Also won first and second place for the first Asia Mobile Tournament held by SingTel.
- October Awarded "2005 Most Admired Company in Taiwan" by Commonwealth magazine and ranked No.1 in Taiwan's telecommunications services sector.
- October Awarded "2005 Excellent Service Award" by Global Views Monthly and ranked No.1 in Taiwan's telecommunications services sector.
- May Awarded the "Corporate Social Responsibility Award" by Global Views Monthly and ranked No.1 in Taiwan's service sector.
- April Awarded SuperBrand by Reader's Digest for the second year in a row.

CommonWealth Magazine
2005 Most Admired Company in Taiwan



2004

- December Taiwan Ratings Corp. raised TWM's long-term corporate credit rating and its unsecured corporate bond rating from 'twA+' to 'twAA'.
- October Ranked No.1 by Next magazine for "Best Customer Service Mobile Telecom Operator in Taiwan."
- September Ranked No. 1 by Euromoney for "Best Corporate Governance in Taiwan."
- July Ranked No. 1 by Institutional Investor for "Most Improved Corporate Governance."
- June Ranked No. 1 by the Directorate General of Telecommunications for "Best Telecommunications Company" in respect to personal information and privacy.

Global Views Monthly
2005 Excellent Service Award



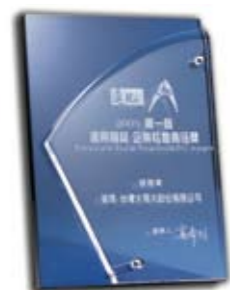
2003

- December Ranked No. 3 by The Asset for "Best Corporate Governance in Taiwan."
- December Ranked No. 1 and No. 2 by Asiamoney for "Most Improved Corporate Governance" and "Most Improved Investor Relations," respectively.

2002

- April Ranked No. 6 by Commonwealth Magazine for Top 500 companies in Taiwan's service sector.
- January Ranked as the most desirable brand among telecommunications operators in Taiwan by Breakthrough Marketing magazine.

Global Views Monthly
Corporate Social Responsibility Award



2001

- December Ranked as one of the top 10 companies in Taiwan by Far Eastern Economic Review magazine.
- October Voted by mobile subscribers as the "Best Mobile Service Provider" in Taiwan in a poll conducted by the Institute of Information Industry.
- September Ranked the 7th largest mobile operator in Asia Pacific by Asia Pacific Mobile Analyst.
- January Selected by Asiamoney magazine's poll as the "Best Newly Taiwan Listed Company" in 2000.

2000

- March Network engineering management accredited with ISO 9002 certification.

1999

- December Rated "excellent" by the Directorate General of Telecommunications (DGT) in service quality, based on three criteria – downtime, blocking rate and coverage in tunnel.
- July Customer service system accredited with ISO 9002 certification.

2

Market Overview

Macroeconomics

According to the statistics released by the Directorate General of Budget, Accounting and Statistics (DGBAS), Taiwan's GDP grew 4.09% in 2005. Wireless revenue rose 3.6% during the same period, a clear indication that the wireless market growth's is highly correlated to overall economic growth. With the DGBAS forecasting a GDP growth of 4.25% for 2006, the wireless market should experience a similar moderate expansion.

Industry Development

Slow Growth in 3G Services

Taiwan's telecommunications industry entered a new era in 2005 with the launch of 3G services. At the end of May, the Company became the first local operator to launch WCDMA 3G services. By the end of 2005, four other mobile service providers – Chunghwa Telecom (CHT), Far EasTone (FET), VIBO and Asia-Pacific Broadband Wireless (APBW) (CDMA-2000) – have joined the Company in offering 3G services. As for the 2G GSM market, there are still four nationwide operators and two regional operators. Since 3G handset pricing is still relatively expensive and the choice of models is limited, the demand for 3G value-added services has been slow to take off. As such, the number of 3G Universal Subscriber Identity Module (USIM) card holders using 2G handsets is higher than the number of 3G USIM card holders using 3G handsets.

Minimal Impact from Mobile Number Portability

Although mobile number portability (MNP) went into effect in October 2005, it has had little impact on the market. For December 2005, the total number of subscribers who successfully availed of this service accounted for a mere 0.2% of the whole market. With MNP applications on the decline, the mobile service market remains an oligopoly dominated by the three main players – the Company, CHT and FET.

Mobile Number Portability Statistics:

	2005/10/13-2005/10/31	2005/11/1-2005/11/30	2005/12/1-2005/12/31
No. of successful porting	5,803	46,553	41,502
No. of applications	44,266	53,923	55,231
Total no. of mobile subscribers	19,970,510	19,889,101	19,876,128
No. of successful porting as a % of total subscribers	0.0%	0.2%	0.2%

2005 Market Share by 2G Subscribers

As of Dec. 31, 2005

Operator	Subscriber no.	Market share
TWM	4,500,830	22.64%
MBT	465,579	2.34%
TAT	986,585	4.96%
CHT	7,861,485	39.55%
FET	3,957,860	19.91%
KGT	2,103,789	10.58%
Total	19,876,128	100.00%

Source: Ministry of Transportation and Communications (Note: The figures do not include 3G subscribers)

Opportunities and Challenges

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

1. Positive Factors:

- (1) MNP has not caused any significant shift in subscribers. Operators with a solid foundation will continue to enjoy their competitive advantages.
- (2) The oligopoly structure remains intact, and competition remains benign. There has not been any irrational price competition by the three dominant operators.

3 Operating Strategy

- (3) The increase in handset functions, improvement in handset quality, and decrease in handset prices should increase the frequency in which customers use telecommunications services.
- (4) The mobile phone has become a “must have” communication tool in daily life, and the mobile phone bill as a percentage of personal consumption continues to increase.
- (5) The increase in adoption of wireless communication technology as a management tool and operation platform for enterprise customers has become more pronounced.
- (6) The “digital era” is seeing the convergence of the information, communication and media industries, and telecommunications companies are poised to play a pivotal role in the delivery of multimedia content to customers.
- (7) Central and local governments have been promoting the deployment of WiFi technology and “dual-net” (cellular + WiFi) products to allow users the convenience of anytime access.
- (8) 3G’s high-speed environment will allow additional mobile content to be delivered at faster connections with better quality, leading to higher subscriber usage and increased revenue for the telecommunications companies.

2. Negative Factors:

- (1) Limited subscriber growth potential as the market is saturated.
- (2) The constant upgrading of technology and sales initiatives to retain customer loyalty requires more resources, which translates into higher costs.
- (3) With the implementation of MNP and the launch of 3G services, the cost of enrolling new customers and retaining existing customers is expected to increase.
- (4) During the initial stage of 3G services’ introduction, higher expenditures in equipment, research and development and marketing is expected, but customer acceptance may not be immediate.

Maximizing customer value to increase company value is the Company’s core operating strategy. In 2005, faced with a mature telecommunications market, the Company sought to achieve a win-win situation for both itself and its customers through growing sales, upgrading customer’s contribution and providing leading products and services.

Products and Services

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

The Company provides mobile services with the following prefixes—0935、0939、0922、0920、0918、0952、0953、0958、0914、0961、0970、0987—and services, as categorized below:

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

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

Revenue Breakdown for the Past Two Years:

	2005		2004	
	Amount (NT\$’000)	%	Amount (NT\$’000)	%
Telecommunications service revenue	47,216,688	99.60%	44,531,866	99.43%
Voice revenue	44,543,250	93.96%	42,324,858 (Note 2)	94.50%
Data revenue	2,673,438	5.64%	2,207,008 (Note 2)	4.93%
Other revenue (Note 1)	191,884	0.40%	254,143	0.57%
Total revenue	47,408,572	100.00%	44,786,009	100.00%

Note 1: Other revenue does not include labor service revenue from TAT and Mobitai.

Note 2: Due to the reclassification of data services, all 2004 figures, except for telecommunications service revenue, shown here differ from those in the 2004 annual report.

Revenue for the Past Two Years:

	2005			2004		
	Domestic		Overseas	Domestic		Overseas
	Avg. # of subscribers	Revenue (NT\$’000)	Revenue (NT\$’000)	Avg. # of subscribers	Revenue (NT\$’000)	Revenue (NT\$’000)
Telecommunications services	4,671,721	47,216,688	-	5,440,157	44,531,866	-

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



Competitive Advantages and Strategies

Backed by a powerful network coverage, extensive after-sales service, continuous product upgrading and innovative marketing strategies, the Company has been able to generate excellent operating results despite a competitive environment. Over the years, the Company has managed to maintain its competitive edge by improving its client portfolio, promoting synergies from the integration of TAT and Mobitai, and forming international alliances.

1. Best Customer Service:

With the consolidation of Mobitai and TAT, the Company now boasts over 450 direct and franchise stores, about 3,000 agent stores, and over 1,900 customer-care call agents that work 24 hours to provide quality service. TWM takes the lead in terms of numbers of service centers and resources devoted to customer services and was the recipient of Global Views' 2005 Outstanding Service Award in the telecommunications category.

2. Improving Client Portfolio:

Aside from expanding its market share, TWM also focuses on improving the quality of its client base. The Company's average revenue per user (ARPU) has improved along with the stable growth of its new subscriber base. For example, revenue from high ARPU customers in 2005 increased 10% compared with the previous year; overall ARPU during the same period also improved by 23%. This demonstrates the potential in ARPU growth in the future.

3. Synergies from the Integration of Three Brands:

The Company has successfully achieved synergies from the integration of Mobitai and TAT. Both front-office and back-end costs have decreased and operating efficiency has improved. Existing sales stability in central and southern Taiwan, coupled with the strong regional marketing know-how of both Mobitai and TAT, have further defined and strengthened the Company's competitive edge.

4. Leading 3G Service:

TWM led the market by becoming the first operator to launch 3G services in May 2005. The Company not only provides the most flexible rate plans, but also offers exclusive handsets and comprehensive value-added services (VAS), allowing customers of TWM, Mobitai and TAT to easily upgrade to 3G. The Company attracted 150,000 3G customers from May to the end of 2005, surpassing its target and becoming a driving force for VAS revenue growth going forward.

5. International Alliance:

TWM is Taiwan's sole member in the "Bridge Alliance," the largest alliance of mobile operators in Asia. The alliance consolidates Asian leading telecommunications companies, including SingTel of Singapore, Maxis of Malaysia, CSL of Hong Kong, Bharti of India, Telkomsel of Indonesia, Globe of the Philippines, and Optus of Australia. The group's total number of combined customers exceeds 70 millions. Backed by its economics of scale and alliance with global market reach, TWM is in a leading position to procure and develop the most advanced handsets, content and technologies.

6. Value-Added Services:

The total number of subscribers that have signed up for the Company's mobile Internet services through the catch portal now accounts for more than 20% of its total subscribers. Mobile Internet users have also grown by nearly 40% compared with the previous year, fully securing and solidifying the Company's future as a 3G service provider.

"2005 Excellent Service Award" by Global Views Monthly

Global Views Monthly's customer service survey was conducted in conjunction with Taiwan's largest ISO certification company, SGS Taiwan Ltd. The scope of the survey encompassed 10 different service industries, 78 leading brands, and 281 stores. TWM ranked number one in Taiwan's telecommunications services sector by successfully passing the grueling tests conducted by undercover Qualicert certified inspectors.



Operating Status

Segmented Marketing to Create Growth Momentum

The Company is focused on strengthening existing customer's loyalty and designing voice and data products and services that are tailored to specific markets' needs. The Company is also proactively exploring new market's with strong growth potential:

1. Postpaid Products and Services

The Company not only has a strong existing market base, but also complete sales channels in northern, central and southern Taiwan after consolidating Mobitai and TAT. With the addition of Mobitai and TAT's products in the regional markets, TWM has increased its monthly new subscribers volume by nearly 50% by the end of 2005 compared with the beginning.

(1) "My TWM" rate plans: Since the Company designed specific rate plans targeting various market segments in 2004, the "My TWM" rate plans have been warmly received in the market with the "401" rate plan accounting for more than 500,000 new customers in 2005. In addition, TWM launched the innovative "Mobile Secretary" service for business users, and was the first one to provide 3G service in Taiwan among others.

(2) Revolutionary "myZone" rate plans: In the beginning of 2006, the Company launched a brand new regional zone-based rate plan called "myZone," creating a paradigm shift in the industry for subscriber rate

plans. Different from the conventional method of offering on-net and off-net rates, "myZone" provides the subscriber with a much more consumer-friendly choice. The subscriber can designate one of five regional zones as his/her "myZone" and enjoy the same rate when calling from within the zone to any mobile network anywhere in Taiwan. This new rate plan accounted for 30% of new subscribers within a month after its launch.

(3) Loyalty Programs: In addition to designing new competitive products to maintain subscriber interest and satisfaction, the Company has loyalty programs to secure its customer base and effectively lower churn rates. For high ARPU customers, the Company has a program called "A+ VIP Club." The Company also has a credit card program that allows customers to earn rebates based on their phone bills.

2. Prepaid Services

The Company is targeting the market for elementary and junior high school students with its FUN prepaid cards to expand its share in this relatively untapped market. The Company is also expanding its position in the foreign workers' market as a means of maintaining its leading edge in the prepaid market. In 2005, the government issued new regulations governing prepaid cards that limit their distribution channels to company-operated stores and the number of prepaid card to one per person. As a result, the prepaid subscriber base declined slightly. However, prepaid revenue has remained stable and prepaid ARPU has improved to NT\$580 per subscriber at the end of 2005.



- (1) First to explore the youth market: The Company began to actively target the high mobile usage youth market in 2005 to sustain the growth momentum in the prepaid market and to further widen the subscriber base for mobile services. In 4Q 2004, the Company became the first operator to offer a prepaid card that can designate hotlines for family and friends. In the future, depending on the maturity of the prepaid market, the Company plans to roll out prepaid products with more value-added services that will satisfy the diverse data needs of this segment.
- (2) Strengthen distribution channels by providing diverse promotions: The Company's plan for the foreign laborers' market is to increase its market share in the Thai and Vietnamese worker segments, and to further broaden the lead that "OK prepaid card" has over its competitors. The Company will also launch a very competitive new product to penetrate the Philippine and Indonesian worker segments.

During 2006, the Company will continue to launch various promotional programs and channel incentive schemes to encourage customers to top-up their prepaid cards in order to lower prepaid churn rates and improve overall profit margin in the prepaid market.

3. Value-Added Services

In anticipation of the mobile Internet and 3G era, the Company is keen on providing diverse services and establishing "Catch" as the premier brand for quality data services. The Company was the first to provide customer search functions for music, games and online communities. The Company also worked together with major handset manufacturers to provide customized handsets that allow users single-key access to these value-added services. These efforts not only enabled the Company to differentiate its products and increase customer satisfaction, but also led to exponential growth in data ARPU.

In 2Q 2005, the Company became the first operator to launch 3G services, enabling its customers to enter the new era of "Visual Telephony" in 3G mobile communications. Mobile Internet revenue per subscriber from 3G customers also more than doubled that of 2G subscribers. In 2006, value-added services will focus on the following main areas:

- (1) Launching innovative services to satisfy various mobile needs: The Company will focus on music, business, games, messaging, community and blog-related services, and strengthen its relationship with Bridge Mobile Alliance to provide quality services that can be differentiated from its competitors' offerings.
- (2) Utilizing the latest technology to strengthen multimedia-related services: Main emphasis includes video telephony, multimedia messaging, and streaming videos. The Company also plans to incorporate an IP multimedia subsystem, high-speed downlink packet access, DVB-H, and assisted global positioning system related services.
- (3) Rolling out customized handsets and working closer with service providers: The Company plans to expand data card market share and smart phone-related data services to serve as the growth momentum for increasing revenue from value added-services.
- (4) Effectively integrate resources from TWM, TAT and Mobitai: By integrating the value-added services platforms of TWM, TAT and Mobitai, the Company can improve its operating efficiency, enhance content variety, and increase time-to market in order to satisfy the diverse data services needs of various market segments.

4. Enterprise Customers' Services

The mobile communication industry today is moving into a new era, characterized by a new architecture of networks and the new business models it enables. TWM calls this "Service-oriented Business." Since 2005, the Company has made significant improvements in strengthening its capabilities to help clients become on demand businesses, and to communicate its understanding of the concept to them and to its employees and partners. To maintain its leadership in wireless solutions, the Company not only provides the best seamless coverage, such as MVPN, but also facilitates vertical integration of operations for Intelligent Transportation System, Fleet Management, Global System Positioning in the mobile terminal. On the side, the strength of mobile data solutions like MDVPN, M e-mail, from a horizontal Integration point of view, has increased the consolidation in market power.

Adherence to those three principles has led the Com-

pany's Business Solutions Division ahead. With these principles, which are incorporated into the design of the Company's solutions and services, the Company has coordinated and streamlined all of its businesses for the future.

Operating Results Review

With the success of the abovementioned initiatives, the Company was able to grow its overall telecommunications service revenue in 2005 by 6% year-on-year. Voice revenue rose a steady 5% and data revenue grew 20% for the second straight year, accounting for 6% of total revenue versus 5% a year ago.

In terms of profitability, with the increase in minutes of usage (MOU) and the launch of 3G services, the Company's operating costs also increased 6% due to increases in interconnection fee, 3G amortization, depreciation and base station related expenses. Selling expenses increased 11% due to 3G promotions and the higher volume of new subscriptions. With the revenue growth and effective cost control, the Company's EBITDA margin increased from 47.3% in 2004 to 47.6% in 2005.

With stable operating profits and sound capital expenditure planning and control, the Company further reduced its net debt to equity ratio from 34% in 2004 to 12% in 2005, raising the Company's capacity to pay cash dividends.

Business Development and Strategies

Looking forward, the Company plans to strengthen communications quality, provide varied services and increase customer and service quality in order to retain customer loyalty, boost consumption and raise its overall operating results.

Short-Term Goals:

1. Maintain Communications Quality: Maintain a low blockage, low cut-offs and wide communication coverage environment.
2. Strengthen Regional Advantages Following Brand Consolidation to Boost Competitiveness: The Company will utilize the strong sales channels and regional marketing experience of Mobitai and TAT in the central and south in order to strengthen brand equity and local identity and to distinguish itself from its competitors. With the consoli-

dation, TWM not only possesses abundant resources as a nationwide operator, but also the regional advantage to offer products and services that cater to specific market needs. This flexible and strategic operation can work as a hedge against mobile number portability, thus, enabling the Company to further increase its market share.

3. Increase 3G Market Share: The Company provides the same 2G rate plans to 3G subscribers, making it easy for users to upgrade without sacrificing original voice benefits or adopting new rates. The Company also provides exclusive handsets and offers customer-oriented data services. This seamless upgrade strategy is expected to expand its 3G subscriber base and increase its market share.
4. Provide Customized Solutions to Corporate Customers: Based on the diverse needs of different-scale enterprises, the Company offers tailored solutions that integrate data, hardware and software for its clients. The Company also plans to promote enterprise numbers and MVPN to establish a clustering effect, increase regional distribution channels, expand its enterprise market, and build up brand recognition.
5. Strengthen Personal Information Management: The Company plans to roll out push-mail and additional products targeted at business executives in light of the need for personal information management in the 3G era.

Long-Term Goals:

Confronted by a maturing mobile phone industry and increasing market competition, the Company has set three core strategies as its long-term goals. These are raising customer consumption, maintaining service quality and sharpening its competitiveness. In line with these objectives, the Company plans to:

1. Develop Regional Markets: The Company will continue to develop its regional markets by offering different products for different targeted regions, integrating all the Company's resources in the north, central and south, and optimizing sales channels. The Company is working on a flexible operational scheme that includes internal human resource allocation, organizational and functional support to fit the regional strategy. These strategies are expected to increase customer awareness, brand recognition and competitiveness.



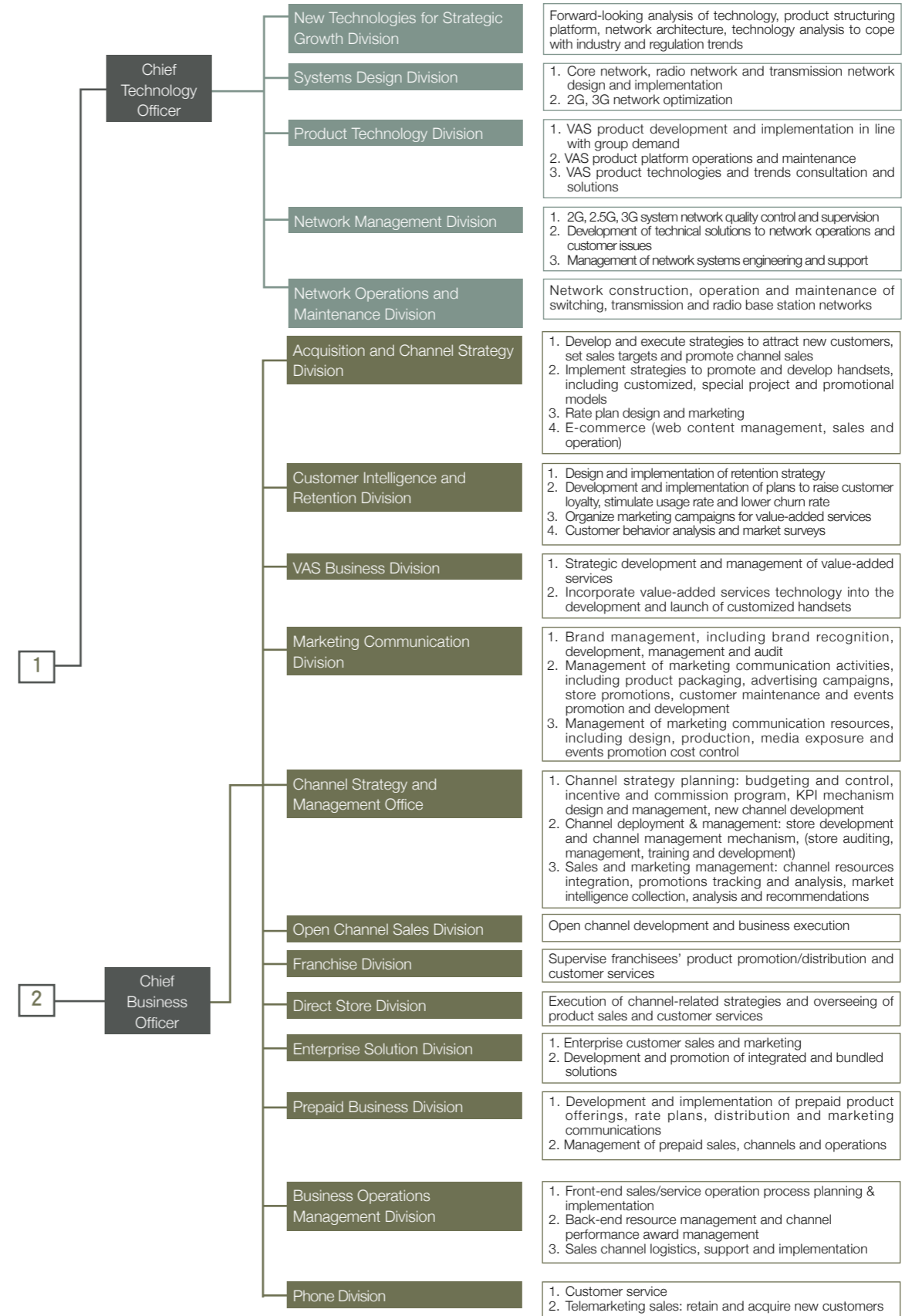
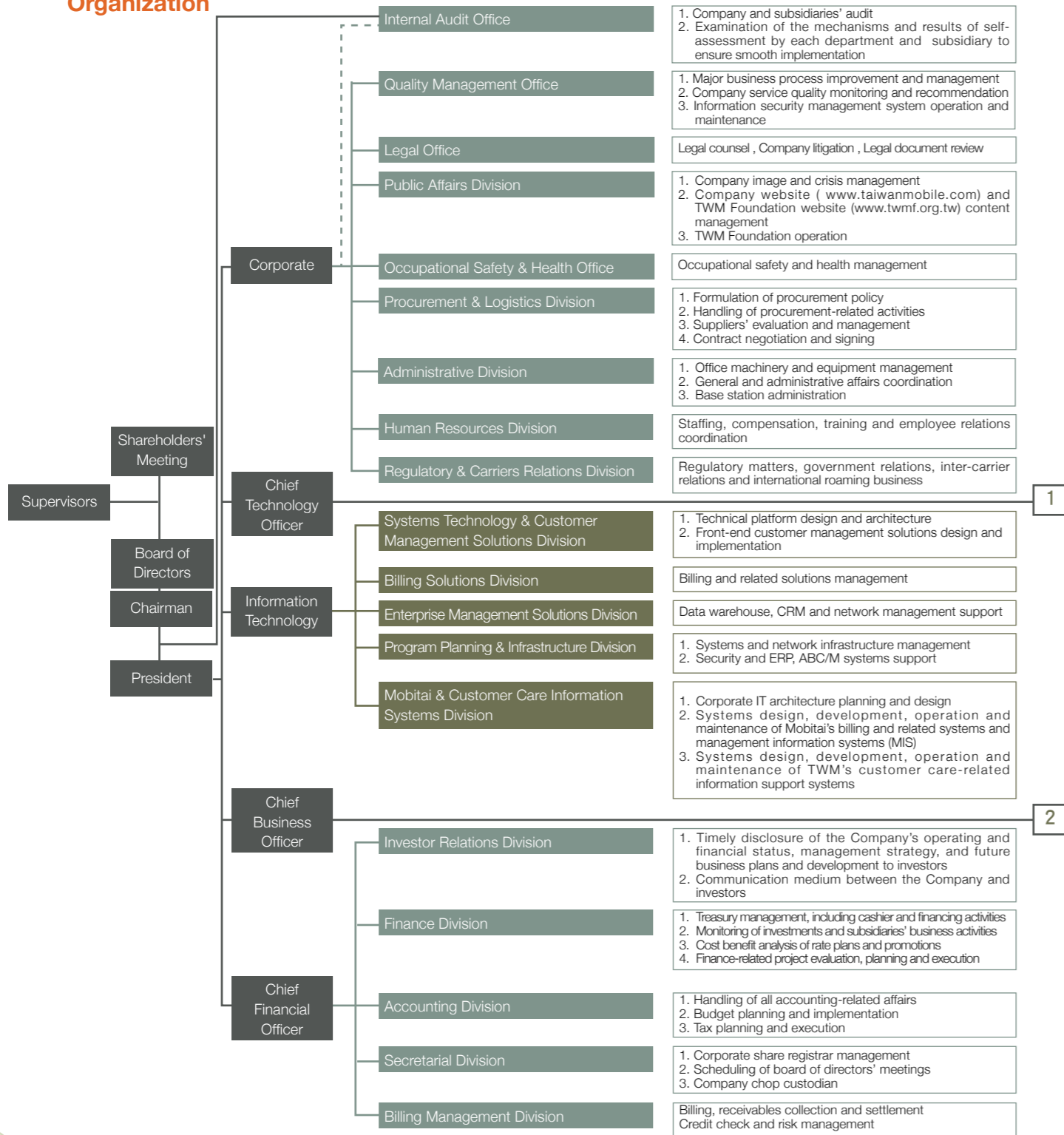
2. Provide More Diverse Products to Satisfy Customer Needs: Instead of engaging in a price war, the Company will continue to provide different, flexible and segmented rate plans to maintain customer satisfaction as well as build its reputation for innovativeness and customer care. Not only will this effectively reduce mobile number portability's impact on revenue but also increase ARPU, thereby creating a win-win situation.
3. Expand Cooperation with Upstream and Downstream Vendors: This involves integrating resources from service and content providers to expand the value chain and create a win-win situation for all parties concerned.
4. Strengthen Working Relationship with Fixed-line Operators: Through joint marketing, information sharing and product integration, the Company can provide one-stop shopping for all communication needs.
5. Promote Globalization: From its internal management to outside alliances, the Company is working on promoting and meeting international standards in line with its goal of becoming a world-ranked telecommunications company, differentiating it from other local mobile communication service providers.
6. Expand and Provide Innovative Services: Adapting to the new communications era, the Company continues to research and develop new technologies, products and services. It also uses integrated communication services, rich mobile content and diverse functions to anticipate customers' future needs. The Company expects to increase revenue from non-voice (data related) value-added services to maintain its growth momentum.
7. Build the "Customer Care" Brand Value: The Company will seek to maintain its communications service quality, design innovative products and services, and provide excellent customer service to satisfy the needs of different customer groups and become the telecommunications company of choice.



4 Organization

To protect the interest of investors, the Company has, pursuant to laws, set up a board of directors to represent the investors in supervising the management team. The Company's major divisions are organized by functions. Since 2005, the Company has also actively sought to integrate the human and business resources of its affiliates – Mobitai Communications and Taiwan Tele-Shop – to further strengthen the Company's core competitiveness.

Organization



Board of Directors

The board of directors, acting on behalf of the Company's shareholders, is charged with the task of supervising the management team. The board, elected and approved during the AGM on June 14, 2005, is composed of 12 members, including three independent directors and one independent supervisor. This more than fulfills current regulations requiring public companies to have at least two independent directors and one independent supervisor. Information regarding the Company's Fourth Board of Directors is detailed below:



Chairman **Daniel Tsai**

Vice Chairman **Richard Tsai**

Managing Director **Nita Ing**

Representative of Fu-Chi Venture Corp.
Date elected 2005.06.14
Term expires 2008.06.13

Shareholding when elected
Shares 4,235,569
% 0.086%

Current shareholding
Shares 4,235,569
*106,109,964
% 0.086%
*2.144%

Spouse/minor's shareholdings
Shares 8,155,618
% 0.165%

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

Current position(s) in other companies
Chairman, Fubon Financial Holding Co.
Vice Chairman, Taipei Fubon Commercial Bank
Chairman, Fubon Land Development Co.
Chairman, Taiwan Fixed Network Co., Ltd.
Chairman, TransAsia Telecommunications Inc.
Chairman, Mobitai Communications

Managers who are spouse or consanguineous within two degrees
Title: Vice Chairman
Name: Richard Tsai
Relationship: Brother

Representative of Fu-Chi Venture Corp.
Date elected 2005.06.14
Term expires 2008.06.13

Shareholding when elected
Shares 4,235,569
% 0.086%

Current shareholding
Shares 4,235,569
*106,105,964
% 0.086%
*2.144%

Spouse/minor's shareholdings
Shares 8,895,965
% 0.180%

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

Current position(s) in other companies
Vice Chairman and CEO, Fubon Financial Holding Co.
Chairman, Fubon Life Assurance Co., Ltd.
Chairman, Fubon Asset Management
Director, Taiwan Fixed Network Co., Ltd.
Vice Chairman, TransAsia Telecommunications Inc.
Director, Mobitai Communications

Managers who are spouse or consanguineous within two degrees
Title: Chairman
Name: Daniel Tsai
Relationship: Brother

Representative of Ching Shang Zhen Corp.
Date elected 2005.06.14
Term expires 2008.06.13

Shareholding when elected
Shares 2,246,617
% 0.046%

Current shareholding
Shares 2,246,617
*7,362,232
% 0.045%
*0.149%

Spouse/minor's shareholdings
Shares -
% -

Education and experience
University of California, Los Angeles

Current position(s) in other companies
President, Continental Engineering Co., Ltd.
Director, Taiwan Synthetic Rubber Co., Ltd.
Chairman, Hao Ran Foundation
Chairman, Taiwan High Speed Rail Corp.
Chairman, Voice of Taipei Broadcasting Co., Ltd.
Director, Taiwan Fixed Network Co., Ltd.
Chairman, 921 Earthquake Relief Foundation

Managers who are spouse or consanguineous within two degrees
Title: -
Name: -
Relationship: -

* Personal shareholding



Director **Piere Chen**

Director **Yu-Lon Chiao**

Director **Harvey Chang**

Representative of Taiwan Fixed Network Co., Ltd.
Date elected 2005.06.14
Term expires 2008.06.13

Shareholding when elected
Shares 900,352,762
% 18.241%

Current shareholding
Shares 900,352,762
*None
% 18.194%
*None

Spouse/minor's shareholdings
Shares 2,833,741
% 0.057%

Education and experience
Dept. of Engineering Science, National Cheng Kung University

CEO, Yageo Corp.
Vice Chairman, Yageo Corp.

Current position(s) in other companies
Chairman, Global Testing Corp.
Chairman, Yageo Corp.
Director, Taiwan Fixed Network Co., Ltd.

Managers who are spouse or consanguineous within two degrees
Title: -
Name: -
Relationship: -

Representative of Taiwan Fixed Network Co., Ltd.
Date elected 2005.06.14
Term expires 2008.06.13

Shareholding when elected
Shares 900,352,762
% 18.241%

Current shareholding
Shares 900,352,762
*None
% 18.194%
*None

Spouse/minor's shareholdings
Shares -
% -

Education and experience
BBA, University of Washington

Current position(s) in other companies
Chairman, Walsin Lihwa Corp.
Vice Chairman, Taipei Financial Center Corp.
Director, Taishin Financial Holding Co., Ltd.
Supervisor, Taiwan Fixed Network Co., Ltd.

Managers who are spouse or consanguineous within two degrees
Title: -
Name: -
Relationship: -

Representative of Kuo-Ki investment Co., Ltd.
Date elected 2005.06.14
Term expires 2008.06.13

Shareholding when elected
Shares 225,478
% 0.005%

Current shareholding
Shares 225,478
*7,306,000
% 0.005%
*0.148%

Spouse/minor's shareholdings
Shares -
% -

Education and experience

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

Current position(s) in other companies
President, Taiwan Mobile Co., Ltd.
Director & President, TransAsia Telecommunications Inc.
Director & President, Mobitai Communications
Supervisor, Taiwan Fixed Network Co., Ltd.
Director, Howin Technologies Corp.
Chairman & President, Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)
Chairman, Taiwan Teleservices & Technologies Co., Ltd.
Director, TT&T Life Insurance Agency Co., Ltd.
Director, TT&T Casualty & Property Insurance Agency Co., Ltd.
Director, Dalian Xinkai Teleservices & Technologies Ltd.
Director, Xiamen Taifu Teleservices & Technologies Ltd.
Director & President, Taihsing Den Den Co., Ltd.
Chairman, IC Broadcasting Co., Ltd.
Chairman, Tai Yi Digital Broadcasting Co., Ltd.
Chairman, Taiwan Fund Inc.
Director, CX Technology Corp.

Managers who are spouse or consanguineous within two degrees
Title - / Name - / Relationship -



Independent Director **J. Carl Hsu** Independent Director **Jack J.T. Huang** Independent Director **Wen-Li Yeh**

Date elected 2005.06.14 Term expires 2008.06.13	Date elected 2005.06.14 Term expires 2008.06.13	Date elected 2005.06.14 Term expires 2008.06.13
Shareholding when elected Shares - % -	Shareholding when elected Shares - % -	Shareholding when elected Shares - % -
Current shareholding Shares *- % *-	Current shareholding Shares *- % *-	Current shareholding Shares *- % *-
Spouse/minor's shareholdings Shares - % -	Spouse/minor's shareholdings Shares - % -	Spouse/minor's shareholdings Shares - % -
Education and experience BSEE, National Taiwan University Ph.D. & MS. Computer Science, UCLA Group President, Lucent Technologies Ex-ecutive Vice President, Bell Labs Senior Vice President, AT&T Professor, Taiwan Tsing-Hua University, Peking University, etc.	Education and experience LL.B., National Taiwan University LL.M., Northwestern University S.J.D., Harvard University Partner, Jones Day Attorneys-at-Law	Education and experience Dept. of Architecture, Chung-Yuan Christian University Master & Ph.D. Candidate, University of Paris Graduate Studies, University of California, Berkeley Planner, Council for Economic Planning and Development under the Executive Yuan Managing Director, United Pacific International Inc. President, United Communications Managing Director & Vice Chairman, United Advertising Co. Chairman, Carat-United Media Services (Taiwan) Ltd.
Current position(s) in other compa-nies Professor, Peking University and other universities	Current position(s) in other compa-nies Director, Yulon Motor Co., Ltd. Director, China Motor Corp. Independent Director, World Peace Industrial Co. Independent Director, Systex Corp.	Current position(s) in other compa-nies Chairman, Aegis Media Group Executive Director, Asatsu-DK Group Taiwan
Managers who are spouse or con-sanguineous within two degrees Title: - Name: - Relationship: -	Managers who are spouse or con-sanguineous within two degrees Title: - Name: - Relationship: -	Managers who are spouse or con-sanguineous within two degrees Title: - Name: - Relationship: -



Supervisor **Ray-Ying Fan** Supervisor **Victor Kung** Independent Supervisor **Tsung-Ming Chung**

Representative of Taiwan Fixed Network Co., Ltd. Date elected 2005.06.14 Term expires 2008.06.13	Representative of Fu-Chi Venture Corp. Date elected 2005.06.14 Term expires 2008.06.13	Date elected 2005.06.14 Term expires 2008.06.13
Shareholding when elected Shares 900,352,762 % 18.241%	Shareholding when elected Shares 4,235,569 % 0.086%	Shareholding when elected Shares - % -
Current shareholding Shares 900,352,762 % 18.194% *30 *0.000%	Current shareholding Shares 4,235,569 % 0.086% *None *None	Current shareholding Shares *- % *-
Spouse/minor's shareholdings Shares - % -	Spouse/minor's shareholdings Shares 2,960 % 0.000%	
Education and experience BS, University of Southern California MS, California Institute of Technology President, Taiwan Mobile Co., Ltd.	Education and experience MA in Economics and MBA in Finance, New York University EVP, Walden International Investment Group (WIG) Executive Director, Citicorp Capital Asia Ltd. Director of Direct Investments, AIG Investment Corp.	Education and experience MBA, National Chengchi University BBA, National Taiwan University CPA, ROC CPA, Connecticut, USA Partner, T.N. Soong & Co. Instructor, Dept. of Accounting, National Chengchi University
Current position(s) in other compa-nies President, Taiwan Fixed Network Co., Ltd. Chairman, Howin Technologies Corp. Supervisor, TransAsia Telecommunications Inc.	Current position(s) in other compa-nies Director/President, Fubon Financial Holding Director, Fubon Insurance Co. Supervisor, Fubon Life Assurance Co., Ltd. Director, World Vision Taiwan Supervisor, Taipei Fubon Bank Director, Fubon Asset Management Supervisor, Taipei Fubon Bank Charitable Foundation Supervisor, Fubon Asset Management Consulting Supervisor, Fubon Venture Capital Management Consulting Supervisor, Fubon Financial Holding Venture Capital Director, Fubon Bank (HK) Limited Director, Epoch Foundation	Current position(s) in other compa-nies Vice Chairman, Arima Optoelectronics Corp. Chairman & President, Dynapack Corp. Director & Supervisor, Arima Computer Group Independent Supervisor, Chroma Ate Inc. Independent Supervisor, Polytronics Technol-ogy Corp. Managing Supervisor, Far Eastern Int'l Bank Director, KYE Enterprise Director, Unity Opto Technology
Managers who are spouse or con-sanguineous within two degrees Title: - Name: - Relationship: -	Managers who are spouse or con-sanguineous within two degrees Title: - Name: - Relationship: -	Managers who are spouse or con-sanguineous within two degrees Title: - Name: - Relationship: -
Managers who are spouse or con-sanguineous within two degrees Title - / Name - / Relationship -	Managers who are spouse or con-sanguineous within two degrees Title - / Name - / Relationship -	

Major Shareholders of TWM's Institutional Investors

As of February 1, 2006

Institutional investors	Major shareholders of TWM's institutional investors
Fu-Chi Venture Corp.	Richard Tsai, Mei-Hui Ueng Tsai
Ching Shang Zhen Corp.	Dugan Co.
Kuo-Ki Investment Co., Ltd.	Daniel Tsai, Richard Tsai
Taiwan Fixed Network Co., Ltd.	Taiwan Mobile Co., Ltd., Acer Inc., Continental Engineering Co., Ltd., Fubon Insurance Co., Ltd., BenQ Corp., ASE Network Inc., Fubon Life Assurance Co., Ltd., EVA Airways Corp., Evergreen International Corp., China Development Industrial Bank

Company	Major shareholders
Dugan Co.	Long Reign Holdings Inc.
Taiwan Mobile Co., Ltd.	Taiwan Fixed Network Co., Ltd., TFN Investment, Chunghwa Post, Taiwan Hong Yuan Investment, Continental Engineering Co., Ltd., Fubon Insurance Co., Ltd., Fubon Life Assurance Co., Ltd., Fubon Securities, Daniel Tsai, Richard Tsai
Acer Inc.	Hung Rouan Investment Corp., Stan Shih, Grantham, Mavo, Van Otterloo & Co. LLC-Emerging Markets Fund, Management Board of Public Service Pension Fund, National Finance Stabilization Fund, Bureau of Labor Insurance, Chunghwa Post, Labor Retirement Fund Supervisory Committee
Continental Engineering Co., Ltd.	Yin Zuo He, Wei Dar Investment Co., Ltd.,
Fubon Insurance Co., Ltd.	Fubon Financial Holding Company
BenQ Corp.	Acer Inc., AU Optronics Corp., Bureau of Labor Insurance, Labor Retirement Fund Supervisor Committee, Chunghwa Post, Grantham, Mavo, Van Otterloo & Co. LLC-Emerging Markets Fund, Pictet & CIE, Nan Shan life insurance Co., Ltd., Management Board of Public Service Pension Fund, China Life Insurance Co., Ltd.
ASE Network Inc.	Advanced Semiconductor Engineering, Inc.
Fubon Life Assurance Co., Ltd.	Fubon Financial Holding Co.
EVA Airways Corp.	Evergreen Marine Corp., Evergreen International Corp.
Evergreen International Corp.	Chang Kuo-Hua, Chang Kuo-Ming, Chang Kuo-Cheng, Chang Kuo-Wei, Chang Yung-Fa Foundation
China Development Industrial Bank	China Development Financial Holding Corp.

Independence Criteria of Directors and Supervisors

As of February 1, 2006

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

*V denotes meeting the conditions specified above

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

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

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

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

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

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

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

*** also serves as an independent director in two other companies

**** also serves as independent supervisor in two other companies

Insignificant Changes in Shareholder Structure

For 2005 and up to the publication date for 2006, the Company's directors, supervisors and major shareholders that own more than 10% of Company's outstanding shares did not conduct any major share transfers or pledges. The Company has maintained a good relationship with its directors, supervisors and major shareholders. With maximizing

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

Unit: Shares

Title	Name	2005		2006 (as of February 1)	
		Net change in shareholding	Net change in shares pledged	Net change in shareholding	Net change in shares pledged
Chairman	Daniel Tsai, Representative of Fu-Chi Venture Corp.	0	0	0	0
Vice Chairman	Richard Tsai, Representative of Fu-Chi Venture Corp.	0	0	0	0
Managing Director	Nita Ing, Representative of Ching Shang Zhen Co., Ltd.	0	0	0	0
Director	Pieere Chen, Representative of Taiwan Fixed Network Co., Ltd.	0	0	0	0
Director	Yu-Lon Chiao, Representative of Taiwan Fixed Network Co., Ltd.	0	0	0	0
Director	Harvey Chang, Representative of Kuo-Ki Investment Co., Ltd.	0	0	0	0
Independent Director	J. Carl Hsu	0	0	0	0
Independent Director	Jack J.T. Huang	0	0	0	0
Independent Director	Wen-Li Yeh	0	0	0	0
Supervisor	Ray-Ying Fan, Representative of Taiwan Fixed Network Co., Ltd.	0	0	0	0
Supervisor	Victor Kung, Representative of Fu-Chi Venture Corp.	0	0	0	0
Independent Supervisor	Tsung-Ming Chung	0	0	0	0
President & Chief Executive Officer	Harvey Chang	5,186,000	0	0	0

Title	Name	2005		2006 (as of February 1)	
		Net change in shareholding	Net change in shares pledged	Net change in shareholding	Net change in shares pledged
Chief Financial Officer	Vivien Hsu	1,503,000	0	0	0
Chief Business Officer	Benny Chen	470,000	0	0	0
Chief Technology Officer	Teddy Huang	700,000	0	0	0
Vice President	Techi Juan	201,000	0	0	0
Vice President	D.S. Chiou	276,000	0	(50,000)	0
Vice President	Jerry Chu	329,000	0	0	0
Vice President	C.A. Chuang	276,000	0	(10,000)	0
Vice President	Andrew Wong	321,000	0	0	0
Vice President	Sean Hsieh	95,000	0	0	0
Vice President	Egon Chen	287,000	0	(18,000)	0
Vice President	Chien Chen	80,000	0	(18,000)	0
Vice President	Ariel Hwang	122,000	0	(70,000)	0
Vice President	James Yang	386,000	0	0	0
Vice President	Charles Shen	68,000	0	0	0
Vice President	Jay Hong	79,000	0	(10,000)	0
Vice President	Jerry Feng	130,000	0	0	0
Vice President	James Chang	340,000	0	(20,000)	0
Vice President	Simon Wang	302,000	0	0	0
Vice President	HS Wang	120,000	10,000	(108,000)	0
Vice President	Jeff Ku	120,000	0	0	0
Vice President	Paul Huang	0	0	0	0

Stock Trade with Related Party: None

Stock Pledged with Related Party: None

Employee Bonus and Compensation to Directors and Supervisors

Earnings Distribution Plan According to the Company's Article of Incorporation:

According to the Company's Article of Incorporation, the Company's annual net income – after paying income taxes, making up for any losses in the previous years, appropriating 10% thereof as legal reserve, and setting aside special reserves – should be appropriated in the following order, if there is any remainder:

1. Dividends and bonuses to preferred stockholders;
2. Maximum of 0.3% as compensation to directors and supervisors;
3. 1% to 3% as bonuses to employees;
4. Remainder thereafter, to be determined as stock/cash dividends to shareholders at the annual shareholders' meeting.

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

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

An employee bonus of NT\$383,613,000 and compensation to directors and supervisors of NT\$63,936,000, as approved in the 2004 board of directors' and shareholders' meetings, were duly paid in 2005.

2005 Employee Bonus and Compensation to Directors and Supervisors Proposal Adopted by Board of Directors

1. On January 26, 2006, the board of directors proposed to distribute employee cash bonus of NT\$403,939,784, and compensation to directors and supervisors of NT\$40,393,978. The above proposal is subject to approval by the annual shareholders meeting.
2. Proposed employee stock bonus as a percentage of retained earnings distributed: zero.
3. Pro forma earnings per share with employee bonus and compensation to directors and supervisors: NT\$3.22.

Compensation to Directors and Supervisors Over the Past Two Years:

Unit: NT\$

Type	Year	Compensation to directors	As % of net profit	Compensation to supervisors	As % of net profit	Net profit
On a stand-alone basis	2004	79,015,074	0.47%	14,510,475	0.09%	16,658,455,663
	2005	62,302,517	0.38%	9,891,461	0.06%	16,236,698,189
On a consolidated basis	2004	79,084,074	0.47%	14,510,475	0.09%	16,925,016,821
	2005	62,335,517	0.38%	9,894,461	0.06%	16,496,017,780

Compensation to Directors, Supervisors and Managers in 2005

1. Compensation to Directors

On a stand-alone basis

Unit: NT\$

Title	Name	Transportation allowance (Note 2)	Cash compensation	Earnings paid as compensation to directors	Employee profit sharing			Total compensation	As % of net profit	Employee stock option granted	Other Compensation
					Cash bonus	Stock bonus					
						Shares	Price				
Chairman	Daniel Tsai, Representative of Fu-Chi Venture Corp.	360,000	-	5,509,723	-	-	-	-	-	-	86,418
Vice Chairman	Richard Tsai, Representative of Fu-Chi Venture Corp.	360,000	-	3,411,735	-	-	-	-	-	-	30,710
Managing Director	Nita Ing, Representative of Ching Shang Zhen Corp.	90,000	-	2,754,863	-	-	-	-	-	-	-
Director	Pieere Chen, Representative of Taiwan Fixed Network Co., Ltd. (previous representative: George Huang)	360,000	-	1,296,402 (Note 3) 1,458,461 (Note 4)	-	-	-	-	-	-	-
Director	Yu-Lon Chiao, Representative of Taiwan Fixed Network Co., Ltd. (previous representative: Ray-Ying Fan)	180,000	-	1,296,402 (Note 3) 1,458,461 (Note 4)	-	-	-	-	-	-	-
Director	Harvey Chang Representative of Kuo-Ki Investment Co., Ltd.	360,000	-	2,754,863	-	-	-	-	-	-	933,192
Independent Director	J. Carl Hsu	370,000	-	2,115,333	-	-	-	-	-	-	-
Independent Director	Jack J.T. Huang	300,000	-	3,411,735	-	-	-	-	-	-	-
Independent Director	Wen-Li Yeh	390,000	-	3,411,735	-	-	-	-	-	-	-
Director	Pieere Chen, Representative of Kuo-Chung Investment Co., Ltd. (Note 1)	-	-	1,296,402	-	-	-	-	-	-	-
Director	Shi-Cheng Wang, Representative of Kuo-Ta Investment Co., Ltd. (Note 1)	-	-	1,296,402	-	-	-	-	-	-	-
Total		2,770,000	28,060,000	31,472,517	-	-	-	62,302,517	0.38%	-	1,050,320

Note 1: The directors for the third term resigned on June 14, 2005.

Note 2: Paid to natural persons attending the board meeting in 2005.

Note 3: Compensation for the third term.

Note 4: Compensation for the fourth term.

On a consolidated basis

Unit: NT\$

Title	Name	Transportation allowance (Note 2)	Cash compensation	Earnings paid as compensation to directors	Employee profit sharing			Total compensation	As % of net profit	Employee stock option granted	Other Compensation
					Cash bonus	Stock bonus					
						Shares	Price				
Chairman	Daniel Tsai, Representative of Fu-Chi Venture Corp.	372,000	-	5,509,723	-	-	-	-	-	-	86,418
Vice Chairman	Richard Tsai, Representative of Fu-Chi Venture Corp.	366,000	-	3,411,735	-	-	-	-	-	-	30,710
Managing Director	Nita Ing, Representative of Ching Shang Zhen Corp.	90,000	-	2,754,863	-	-	-	-	-	-	-
Director	Pieere Chen, Representative of Taiwan Fixed Network Co., Ltd. (previous representative: George Huang)	360,000	-	2,754,863	-	-	-	-	-	-	-
Director	Yu-Lon Chiao, Representative of Taiwan Fixed Network Co., Ltd. (previous representative: Ray-Ying Fan)	180,000	-	2,754,863	-	-	-	-	-	-	-
Director	Harvey Chang Representative of Kuo-Ki Investment Co., Ltd.	375,000	-	2,754,863	-	-	-	-	-	-	933,192
Independent Director	J. Carl Hsu	370,000	-	2,115,333	-	-	-	-	-	-	-
Independent Director	Jack J.T. Huang	300,000	-	3,411,735	-	-	-	-	-	-	-
Independent Director	Wen-Li Yeh	390,000	-	3,411,735	-	-	-	-	-	-	-
Director	Pieere Chen, Representative of Kuo-Chung Investment Co., Ltd. (Note 1)	-	-	1,296,402	-	-	-	-	-	-	-
Director	Shi-Cheng Wang, Representative of Kuo-Ta Investment Co., Ltd. (Note 1)	-	-	1,296,402	-	-	-	-	-	-	-
Total		2,803,000	28,060,000	31,472,517	-	-	-	62,335,517	0.38%	-	1,050,320

Note 1: The directors for the third term resigned on June 14, 2005.

Note 2: Paid to natural persons attending the board meeting in 2005.

Note 3: Compensation for the third term.

Note 4: Compensation for the fourth term.

Range of compensation to directors	Number of directors	
	2005	
	On a stand-alone basis	On a consolidated basis
NT\$0~NT\$1,999,999	2	2
NT\$2,000,000~NT\$4,999,999	7	7
NT\$5,000,000~NT\$9,999,999	-	-
NT\$10,000,000~NT\$49,999,999	2	2
50,000,000 and above	-	-
Total	11	11

2. Compensation to Supervisors

On a stand-alone basis

Unit: NT\$

Title	Name	Transportation allowance	Cash compensation	Earnings paid as compensation to supervisors	Total compensation	As % of net profit	Other compensation
Supervisor	Ray-Ying Fan, Representative of Taiwan Fixed Network Co., Ltd. (previous representative J. Carl Hsu)	280,000	-	1,296,402 (Note 1) - 1,458,461 (Note 2)	3,034,863	0.02%	-
Supervisor	Victor Kung, Representative of Fu-Chi Venture Corp	290,000	-	2,754,863	3,044,863	0.02%	-
Independent Supervisor	Tsung-Ming Chung	400,000	-	3,411,735	3,811,735	0.02%	-

Note 1: Compensation for the third term.

Note 2: Compensation for the fourth term.

On a consolidated basis

Unit: NT\$

Title	Name	Transportation allowance	Cash compensation	Earnings paid as compensation to supervisors	Total compensation	As % of net profit	Other compensation
Supervisor	Ray-Ying Fan, Representative of Taiwan Fixed Network Co., Ltd. (previous representative J. Carl Hsu)	283,000	-	2,754,863	3,037,863	0.02%	-
Supervisor	Victor Kung, Representative of Fu-Chi Venture Corp	290,000	-	2,754,863	3,044,863	0.02%	-
Independent Supervisor	Tsung-Ming Chung	400,000	-	3,411,735	3,811,735	0.02%	-

Range of compensation to supervisors	Number of supervisors	
	2005	
	On a stand-alone basis	On a consolidated basis
NT\$0~NT\$1,999,999	-	-
NT\$2,000,000~NT\$4,999,999	3	3
NT\$5,000,000~NT\$9,999,999	-	-
NT\$10,000,000~NT\$49,999,999	-	-
NT\$50,000,000 and above	-	-
Total	3	3

3. Management Compensation

- (1) The compensation scheme for management includes a base salary (fixed), plus year-end bonus and profit sharing (variable). Given the responsibility that goes with the title, management compensation varies greatly by rank.
- (2) The adjustments in base salary, year-end bonus and

profit sharing are determined based on the Company's profitability and individual performance. These are approved by the chairman of the board before implementation.

- (3) Management compensation as a percentage of net profit over the last two years is detailed below:

Unit: NT\$

Year	Type	Management compensation	% of net profit	Net profit
2004	On a stand-alone basis	134,116,525	0.81%	16,658,455,663
2005		215,970,311	1.33%	16,236,698,189
2004	On a consolidated basis	242,103,037	1.43%	16,925,016,821
2005		294,263,562	1.78%	16,496,017,780

On a stand-alone basis

Unit: NT\$

Title & Name		Resigned managers/ Managers that joined affiliated companies	Total		
President and Chief Executive Officer Harvey Chang, Chief Financial Officer Vivien Hsu, Chief Business Officer Benny Chen, Chief Technology Officer Teddy Huang, Vice President Tech Juan, Vice President D.S. Chiou, Vice President Jerry Chu, Vice President C.A. Chuang, Vice President Andrew Wong, Vice President Sean Hsieh, Vice President Egon Chen, Vice President Chien Chen, Vice President Ariel Hang, Vice President James Yang, Vice President Charles Shen, Vice President Jay Hong, Vice President Jerry Feng, Vice President James Chang, Vice President Simon Wang, Vice President H.S. Wang, Vice President Jeff Ku, Vice President Paul Huang, Director Henry Wang, Director Christine Yang					
Salary	33,222,618	48,274,919	81,497,537		
Performance-based salary	13,686,210	13,009,995	26,696,205		
Employee profit sharing	Cash	107,776,569	-	107,776,569	
	Stock	Shares	-	-	-
		Price	-	-	-
		Amount	-	-	-
	Total	107,776,569	-	107,776,569	
% of net profit	0.66%	0.00%	0.66%		
Total compensation	154,685,397	61,284,914	215,970,311		
As a % of net profit	0.95%	0.38%	1.33%		
Employee stock option granted	-	-	-		
Other compensation	9,642,635	3,538,509	13,181,144		

On a consolidated basis

Unit: NT\$

Title & Name		Resigned managers/ Managers that joined affiliated companies	Total		
President and Chief Executive Officer Harvey Chang, Chief Financial Officer Vivien Hsu, Chief Business Officer Benny Chen, Chief Technology Officer Teddy Huang, Vice President Tech Juan, Vice President D.S. Chiou, Vice President Jerry Chu, Vice President C.A. Chuang, Vice President Andrew Wong, Vice President Sean Hsieh, Vice President Egon Chen, Vice President Chien Chen, Vice President Ariel Hwang, Vice President James Yang, Vice President Charles Shen, Vice President Jay Hong, Vice President Jerry Feng, Vice President James Chang, Vice President Simon Wang, Vice President H.S. Wang, Vice President Jeff Ku, Vice President Paul Huang, Director Henry Wang, Director Christine Yang					
Salary	94,110,063	51,990,824	146,100,887		
Performance-based salary	26,906,111	13,479,995	40,386,106		
Employee profit sharing	Cash	107,776,569	-	107,776,569	
	Stock	Shares	-	-	-
		Price	-	-	-
		Amount	-	-	-
Total compensation	228,792,743	65,470,819	294,263,562		
As a % of net profit	1.39%	0.40%	1.78%		
Employee stock option granted	-	-	-		
Other compensation	10,965,709	3,538,509	14,504,218		



Range of compensation to management	Number of Senior Management	
	2005	
	On a stand-alone basis	On a consolidated basis
NT\$0~NT\$1,999,999	4	2
NT\$2,000,000~NT\$4,999,999	17	5
NT\$5,000,000~NT\$9,999,999	8	21
NT\$10,000,000~NT\$49,999,999	3	4
NT\$50,000,000 and above	-	-
Total	32	32

Execution of Major Resolutions at Shareholders' and Board Meetings for 2005 and year to Feb 1, 2006

1. Major resolutions at the 2005 shareholders' meeting:

Matters discussed and approved:

- (1) 2004 business and financial reports
- (2) 2004 earnings distribution proposal
- (3) Amendments to the Company's Articles of Incorporation
- (4) Election of Fourth Board of Directors and Supervisors
Ten directors and three supervisors were elected:
Directors:
Daniel Tsai, Representative of Fu-Chi Venture Corp.;
Richard Tsai, Representative of Fu-Chi Venture Corp.;
Nita Ing, Representative of Ching Shang Zhen Corp.;
Pieere Chen and Yu-Lon Chiao, Representative of Taiwan Fixed Network Co., Ltd.;
Harvey Chang, Representative of Kuo-Ki Investment Co., Ltd.;
Kuo-Ta Investment Co., Ltd. (did not appoint representative);
J. Carl Hsu ; Jack J.T. Huang; Wen-Li Yeh.
Supervisors:
Ray-Ying Fan, Representative of Taiwan Fixed Network Co., Ltd.;
Victor Kung, Representative of Fu-Chi Venture Corp.;
Tsong-Ming Chung;
- (5) The removal of the non-competition restrictions for directors

2. Execution of Shareholders' Meeting Resolutions:

Resolutions made in the 2005 general shareholders' meeting have all been duly executed.

3. Major Resolutions at Board Meetings:

- (1) Approved issuance of new shares for convertible bond conversions

- (2) Approved disposal of transmission equipment to Taiwan Fixed Network
- (3) Approved 2004 profit distribution proposal
- (4) Approved handling of TransAsia Telecommunications' operations
- (5) Approved 2005 capital expenditure
- (6) Reviewed the potential impact on asset value of SFAS No. 35
- (7) Approved holding of the 2005 general shareholders' meeting
- (8) Approved merger with the Company's subsidiary, Taiwan Elitec Corp.
- (9) Approved additional cash offer to TECO for shares of Mobitai Communications, increasing the Company's stake to 84.85%
- (10) Elected three managing directors for the board
- (11) Elected Daniel Tsai, Representative of Fu-Chi Venture Corp., as chairman of the board
- (12) Set cash dividend payment date
- (13) Reset CBI and CBII conversion prices
- (14) Approved handling of Mobitai's operations
- (15) Approved 1H 2005 financial reports
- (16) Approved condensed 3Q 2005 stand-alone and consolidated financial projection
- (17) Approved amendments to the agreements on system procurement and construction
- (18) Approved a third cash offer to TECO in exchange for a 9.43% stake in Mobitai Communications, increasing the Company's holding to 94.28%
- (19) Approved the establishment of Taihsing Den Syun Co., Ltd. using Mobitai Communications shares as capital
- (20) Approved third share buyback plan
- (21) Approved condensed 4Q 2005 stand-alone and consolidated financial projection

- (22) Approved the purchase of real estate located in the Wugu Industrial Park in Taipei County
- (23) Approved the establishment of TAT International Telecommunications Co., Ltd. using TransAsia Telecommunications shares as capital
- (24) Approved the change in Chief Financial Officer
- (25) Approved 2005 profit distribution proposal
- (26) Approved several capital expenditure projects for network optimization and 3G construction
- (27) Approved condensed 1Q 2006 stand-alone and consolidated financial projection

The above information is posted on <http://newmops.tse.com.tw>.

Management Team

The management team is composed of the Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Chief Business Officer and other professionals who, drawing from their diverse backgrounds, offer a wide range of innovative and international management skills. The Company's key management personnel are listed below:



Corporate

Harvey Chang
President and
Chief Executive Officer

Effective date / 2003.09.08

shareholding 7,306,000
% 0.148%

Spouse / minor's
shareholding -
% -

Education and experience

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

Current positions(s) in other companies

- Director & President, TransAsia Telecommunications Inc.
- Director & President, Mobitai Communications
- Supervisor, Taiwan Fixed Network Co., Ltd.
- Director, Howin Technologies Corp.
- Chairman & President, Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)
- Chairman, Taiwan Teleservices & Technologies Co., Ltd.
- Director, TT&T Life Insurance Agency Co., Ltd.
- Director, TT&T Casualty & Property Insurance Agency Co., Ltd.
- Director, Dalian Xinkai Teleservices & Technologies Ltd.
- Director, Xiamen Taifu Teleservices & Technologies Ltd.
- Director & President, Taihsing Den Syun Co., Ltd.
- Chairman, IC Broadcasting Co., Ltd.
- Chairman, Tai Yi Digital Broadcasting Co., Ltd.
- Chairman, Taiwan Fund Inc.
- Director, CX Technology Corp.

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title - / Name - / Relationship -

Corporate

Vice President

Jerry Chu

Effective date / 2003.12.01

shareholding 329,000
% 0.007%

Spouse / minor's
shareholding -
% -

Education and experience

- MBA, University of Toronto, Canada
- Director, KG Telecom
- Senior Country Operations Officer, Global Transaction Services, Citibank Taipei
- Vice President, Corporate Banking, Citibank Taipei

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

Corporate

Vice President

C.A. Chuang

Effective date / 2003.12.01

shareholding 327,000
% 0.007%

Spouse / minor's
shareholding -
% -

Education and experience

- MBA, International Institute for Management Development, Switzerland
- MS in Industrial Education, National Taiwan Normal University
- Manager, Human Resources Dept., China Steel Corp.
- Vice President, TransAsia Telecommunications Inc.

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

Corporate

Vice President

Ariel Hwang

Effective date / 2004.03.01

shareholding 52,000
% 0.001%

Spouse / minor's
shareholding -
% -

Education and experience

- LL.M., National Chung Hsing University
- Judge, Taoyuan District Court, Taiwan
- Judge, Banciao District Court, Taiwan
- Judge, Taipei District Court, Taiwan
- Judge, Taiwan High Court

Current positions(s) in other companies

- Legal consultant, Taiwan Fixed Network Co., Ltd
- Legal consultant, Fubon Financial Holding Co., Ltd

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

Corporate

Vice President

James Chang

Effective date / 2004.09.17

shareholding 320,000
% 0.006%

Spouse / minor's
shareholding -
% -

Education and experience

- MS in Computer Science, University of Illinois, Chicago
- District Manager, AT&T Laboratories
- IBM Global Services Senior Delivery Manager
- Senior Director, TBCommerce Network Corp.
- Director, AT&T Laboratories

Current positions(s) in other companies
None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

Corporate

Vice President

Simon Wang

Effective date / 2004.10.11

shareholding 395,000
% 0.008%

Spouse / minor's
shareholding -
% -

Education and experience

- BS in Telecommunications Engineering, National Chiao Tung University
- Manager, Technology & Quality Division, Philips Electronics Industry Co., Ltd.
- General Manager, Philips Optel Division Corp. Ltd.
- General Manager, Fu Shing Can Manufacturing Co., Ltd.
- General Manager, ICAN Manufacturing Co., Ltd.
- Director, TECO Optical Electronics Co., Ltd.
- Factory Manager, YATE P.C.B. Co., Ltd.
- Executive Vice President, TransAsia Telecommunications Inc.

Current positions(s) in other companies

- Director, TransAsia Telecommunications Inc.

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

Corporate

Vice President

Jeff Ku

Effective date / 2005.06.06

shareholding 120,000
% 0.002%

Spouse / minor's
shareholding -
% -

Education and experience

- EMBA, National Taiwan University
- MBA, University of Wollongong, Australia
- Director, Far EasTone Telecommunications Co., Ltd.
- Vice President, Taiwan High Speed Rail Corp.

Current positions(s) in other companies

- Director, Tai Yi Digital Broadcasting Co., Ltd

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -



CFO

Vivien Hsu

Chief Financial Officer

Effective date / 2004.01.09

shareholding 1,503,000
% 0.030%

Spouse / minor's
shareholding -
% -

Education and experience

- MBA, National Chengchi University
- MBA, University of New South Wales, Australia
- Manager, Grand Cathay Securities Co., Ltd
- Manager, China Development Corp.
- SVP, China Securities Investment Trust
- EVP & CFO, KG Telecom Co.
- President & CEO, Lambda Net Co.
- President & CEO, KGEX.com Co.
- President, KG Satellite Communication Co., Ltd.
- CFO, Cathay Financial Holding Co.
- Chief of Staff, Taiwan Mobile Co., Ltd.
- Chairman, Taiwan Tele-Shop Co., Ltd.

Current positions(s) in other companies

- Chairman, TT&T Life Insurance Agency Co., Ltd.
- Chairman, TT&T Casualty & Property Insurance Agency Co., Ltd.
- Supervisor, TransAsia Telecommunications Inc.
- Supervisor, Mobitai Communications
- Supervisor, Taihsing Den Syun Co., Ltd.
- Supervisor, Tai Yi Digital Broadcasting Co., Ltd.
- Supervisor, Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)
- Director, Taiwan Teleservices & Technologies Co., Ltd.
- Director, Dalian Xinkai Teleservices & Technologies Co., Ltd.
- Director, Xiamen Taifu Teleservices & Technologies Ltd.

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -



CTO

Teddy Huang

Chief Technology Officer

Effective date / 2005.05.16

shareholding 700,000
% 0.014%

Spouse / minor's
shareholding -
% -

Education and experience

- Ph.D. in Electrical Engineering, Purdue University
- M.S. in Electrical Engineering, Massachusetts Institute of Technology
- EMBA, University of Chicago
- Managing Director, Lucent Technologies AP/China
- Deputy General Director, CCL of ITRI
- President, Mobitai Communications

Current positions(s) in other companies

- Director, Mobitai Communications
- Director, Taihsing Den Syun Co., Ltd

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CTO

Vice President

Techi Juan

Effective date / 2002.05.21

shareholding 208,891
% 0.004%

Spouse / minor's
shareholding 1,339
% 0.000%

Education and experience

- MS in EE, University of Missouri, Columbia
- Engineer, Lucent Technologies Telecommunications Taiwan Co.
- Technical Manager, Asia Pacific Intellectual Property Association
- Senior Director, Taiwan Mobile Co., Ltd.

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CTO

Vice President

Egon Chen

Effective date / 2004.02.16

shareholding 453,554
% 0.009%

Spouse / minor's
shareholding -
% -

Education and experience

- BS in Electronics Engineering, Tamkang University
- Project Manager, Siemens Telecommunication Systems Ltd.
- Director, Suretone Telecom Inc.
- Director, Taiwan Mobile Co., Ltd.
- Senior Director, Taiwan Fixed Network Co., Ltd.
- Vice President, Howin Technologies

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CTO

Vice President

Chien Chen

Effective date / 2004.02.16

shareholding 62,000
% 0.001%

Spouse / minor's
shareholding -
% -

Education and experience

- National Taipei Institute of Technology
- Manager, Siemens Telecommunication Systems Ltd.
- Vice President, Taiwan Fixed Network Co., Ltd.
- Vice President, Howin Technologies

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CTO

Vice President

Charles Shen

Effective date / 2004.03.31

shareholding 224,702
% 0.005%

Spouse / minor's
shareholding 1,000
% 0.000%

Education and experience

- MS of CTI DePaul University, Chicago
- Supervisor, Lucent Taiwan
- Member of Technical Staff, Lucent Bell Lab, USA
- Assistant Engineer, 4E System & Software Inc., USA
- Director, Suretone Telecom. Inc.,
- Senior Director, Taiwan Fixed Network Co., Ltd.
- Vice President, Howin Technologies

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CTO

Vice President

HS Wang

Effective date / 2005.05.01

shareholding 119,159
% 0.002%

Spouse / minor's
shareholding 924
% 0.000%

Education and experience

- Ph.D. in Electrical and Computer Engineering, Rutgers, The State University of New Jersey
- Lecturer/Assistant Professor, Information Engineering Dept., The Chinese University of Hong Kong
- Vice President, Mediatec Corp.
- Vice President, First International Telecom

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -



CBO

Benny Chen

Chief Business Officer

Effective date / 2005.06.16

shareholding 470,000
% 0.009%

Spouse / minor's
shareholding -
% -

Education and experience

- MBA, Southern Illinois University, USA
- Country Business Manager, Consumer Banking, Citigroup in China
- Deputy President, Consumer Banking Group, Chinatrust Financial Holding
- Chief Business Strategy & Marketing Officer, Far EasTone Telecommunications Co., Ltd.

Current positions(s) in other companies

- Director, Taiwan Teleservices & Technologies Co., Ltd.

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CBO

Vice President

D.S. Chiou

Effective date / 2002.05.21

shareholding 289,506
% 0.006%

Spouse / minor's
shareholding 5,608
% 0.000%

Education and experience

- MS in Computer Science, University of California, Riverside, USA
- Project Manager, Siemens Telecommunication Systems Ltd.
- Senior Director, Taiwan Mobile Co., Ltd.

Current positions(s) in other companies

- Director & President, Taiwan Teleservices & Technologies Co., Ltd.
- Director & President, TT&T Life Insurance Agency Co., Ltd.
- Director & President, TT&T Casualty & Property Insurance Agency Co., Ltd.
- Director, TT&T Holdings Co., Ltd.
- Director, Dalian Xinkai Teleservices & Technologies Co., Ltd.
- Chairman, Xiamen Taifu Teleservices & Technologies Ltd.

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CBO

Vice President

Andrew Wong

Effective date / 2003.12.01

shareholding 321,000
% 0.006%

Spouse / minor's
shareholding -
% -

Education and experience

- MBA, George Washington University
- Manager, Johnson, Bassin & Shaw
- Manager, MCI Communications
- Vice President, Far EasTone Telecommunications Co., Ltd.

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CBO

Vice President

Sean Hsieh

Effective date / 2003.12.08

shareholding 256,000
% 0.005%

Spouse / minor's
shareholding -
% -

Education and experience

- BS in Business Administration and Sociology, Fu Jen Catholic University
- University of Texas, Austin
- Account Supervisor, Bozell CCAA
- Group Account Director, Series DMB&B Communications
- Marketing & Sales Manager, PUMA North Asia Ltd., Taiwan Branch
- Marketing Director, TransAsia Telecommunications Inc.
- Vice President, TransAsia Telecommunications Inc.
- Vice President, Enterprise Solution & Open Channel Sales, Taiwan Mobile Co., Ltd.

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CBO

Vice President

James Yang

Effective date / 2004.03.08

shareholding 913,504
% 0.018%

Spouse / minor's
shareholding 56,592
% 0.001%

Education and experience

- BS in Transportation & Communications Management, National Cheng Kung University
- Manager, Siemens Telecommunication Systems Ltd.
- Sales Director, Best Way Telecom.
- Senior Director, Taiwan Mobile Co., Ltd.
- President, Taiwan Tele-Shop Co., Ltd.

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CBO

Vice President

Jay Hong

Effective date / 2004.05.06

shareholding 200,000
% 0.004%

Spouse / minor's
shareholding -
% -

Education and experience

- EMBA, National Sun Yat-Sen University
- Engineering Supervisor, Engineering Division, Nan Ya Plastics
- Director, TransAsia Telecommunications Inc
- Vice President, TransAsia Telecommunications Inc.

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CBO

Vice President

Jerry Feng

Effective date / 2004.08.01

shareholding 130,000
% 0.003%

Spouse / minor's
shareholding -
% -

Education and experience

- MS in Business Administration, Majored in Business Information System and Quantitative Analysis, Mississippi State University, USA
- General Manager, Regional Sales & Business Alliance, Greater China, CPCNet Hong Kong Ltd.
- General Manager, PCCW-HKT Taiwan Branch Office

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

CBO

Vice President

Paul Huang

Effective date / 2005.10.19

shareholding -
% -

Spouse / minor's
shareholding -
% -

Education and experience

- MS in Computer Science, Bradley University, USA
- Supervisor, Siemens Telecommunication Systems Ltd.
- Account Manager & Project Manager, Nortel, Taiwan Branch
- Vice President, Business Development, Hong Kong Telecom, Taiwan Branch
- Vice President, Sales & Services, Far EasTone Telecommunications Co., Ltd.
- Vice President, Business & Operation, Far Eastern Electronic Toll Collection Co., Ltd.

Current positions(s) in other companies

None

Officers, directors or supervisors who are spouse or consanguineous within two degrees

Title: -
Name: -
Relationship: -

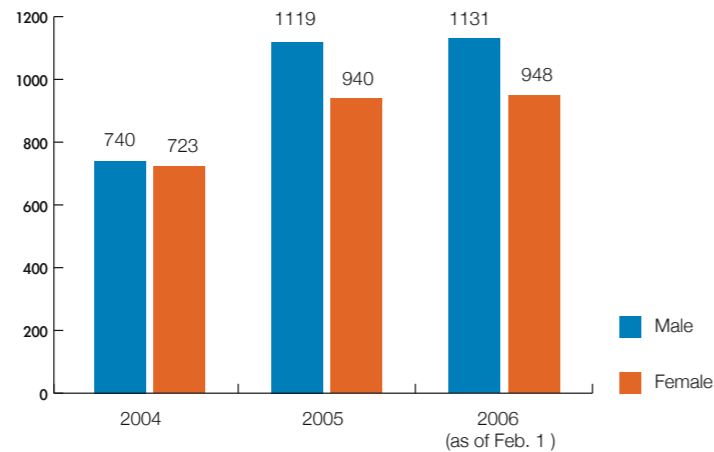
Human Resources

A wealth of outstanding and professional talents is the Company's most valued resources. In 2005, the Company further benefited from the integration of Mobitai Communications and Taiwan Tele-Shop Co., boosting the diversity and richness of its manpower resources.

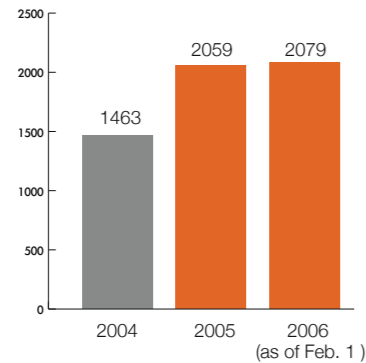
Human Resources Composition

1. Employee Statistics for the Most Recent Two Years and up to the Publication Date for 2006

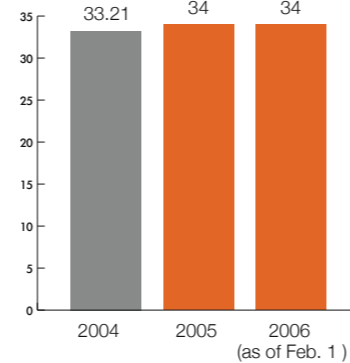
Number of employees



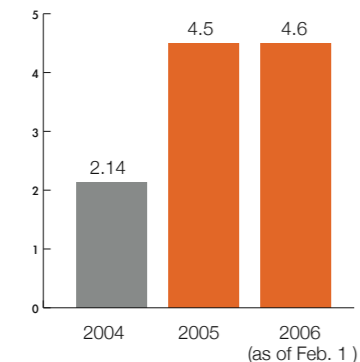
Total number of employees



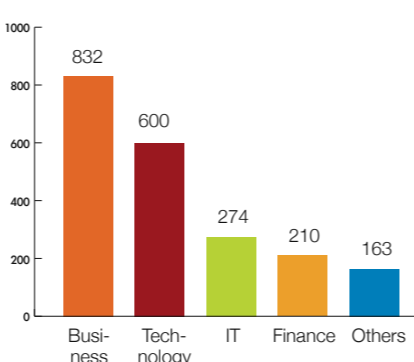
Average age



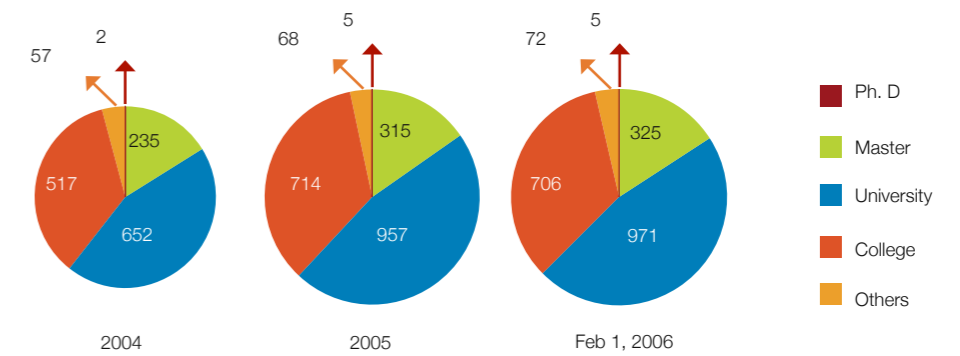
Average years of service



Employee Statistics by Division



Education Level



Employee Benefits and Employee Rights Protection

The Company has set up an employee conduct/ethical standards policy to serve as guidelines for employee behavior and development. To motivate employees, the Company has launched various compensation and benefits programs that are performance based. Overall, the Company's human resources policies surpass basic labor law requirements, such as the Labor Standards Law. These policies are detailed as follows:

1. Employee Behavior/Ethical Standards

The Company has established policies and rules as a guide for employees' conduct, rights, responsibilities and ethical standards. They are detailed as follows:

(1) Distribution of Responsibility

a. Authorization guidelines and limitations

Aims to streamline the business process, strengthen the distribution of responsibility, as well as specify management's authority in each job level.

b. Empowerment and delegation rules

Designed to ensure smooth and normal business operations.

c. Job ranking, title and organizational structure policy

Formulated to correspond to employees' career plan.

(2) Work Regulations

The Company's work regulations clearly define the rules and responsibility of both management and labor. A prime example of modern management, these have effectively promoted cooperation among employees and benefited the Company.

(3) Divisions' Responsibilities

The Company's major divisions are separated by functions. With each division tasked with specific job responsibilities, this separation of functions has strengthened the core competency of the Company.

(4) Rewards and Punishments Policies

The Company has drawn up a number of policies on rewards and punishments to encourage employees who have made special contributions to the Company as well as discourage employees from behaving in a manner that might be deemed damaging to the Company. These policies are stated in Article 14 and Article 47 to Article 58 in the Company's "Work Regulations."

(5) Employee Assessment Policy

Supervisors provide feedback, assistance and map out individual development plan based on the employee's performance.

(6) Attendance and Leave Policy

Enforcement of this policy – designed to serve as a guideline for employees – helps enhance work quality.

(7) Business Confidentiality Policy

To safeguard the Company's advantages and competitiveness, employees are required to sign a "Confidentiality and Intellectual Property Rights



Statement” and “Employment Contract” in order to protect the Company against potential damage from the disclosure of business secrets. The Company provides employees with related training courses and information to strengthen the concept of information security.

(8) **Sexual Harassment Prevention and Handling Procedures**

To prevent sexual harassment in the workplace and promote gender equality, the Company has established related rules as specified in the “Work Regulations.” The Company has publicly promoted related laws and procedures for filing complaints on sexual harassment in its intranet to serve as a guideline for employees.

2. Benefits Policies and Implementations

- (1) All employees are entitled to labor insurance, national health insurance and group insurance coverage starting from the first day of work.
- (2) The Company has an employee treasury stock subscription plan, an annual bonus plan and an employee profit-sharing plan.
- (3) An Employees’ Welfare Committee was established in July 1998 to handle and implement employee benefits policies. The committee is in charge of a number of benefits designed to raise employees’ quality of life and promote physical and mental well-being, including club activities, company outings, family day and benefits for special occasions such as weddings, festivals and funerals.

3. Employee Stock Ownership Plan

The Employee Stock Ownership Plan is implemented from January 2006. Employees and the company invest certain amount of money to buy company stocks every month. It’s a benefit program to retain employees.

4. Employee Training & Education Program

- (1) To help employees develop their expertise in telecommunications technologies and business admin-

istration, the Company has a scholarship program designed to provide employees with the opportunity to study locally or abroad. The Company is also committed to the life-time training and development of its employees in order to create a win-win situation for both the Company and its employees.

- (2) The Company sends annually a large number of employees to attend local and international telecommunications conferences, management forums, consulting seminars, and vendor training programs. These activities exercise a profound influence in upgrading the Company’s technologies, developing new products, introducing innovative new ideas and improving managerial skills.
- (3) The Company provides external training reimbursement to all employees annually. Employees can select external training courses related to their jobs and needs. Employees can also combine their interest and competence development to maximize training effectiveness.
- (4) Orientation for new employees includes an introduction to the corporate culture, company organization, telecommunications market, IT system, as well as labor safety training.
- (5) Job-related training for new employees includes on-the-job training, introduction to the department’s functions, business process and duties, as well as enhancement of professional expertise and knowledge of new technologies.
- (6) Core competency development: Focus on the common competencies, including problem solving, decision making, communication, project management, basic legal knowledge of telecommunications market, team building and service skills.
- (7) Management training and development: Separate training programs for entry-level management, middle management and senior management. Training courses include performance management, leadership, inspirational skills, management game, strategy management, project management, team dynamics skills, and organizational development skills.

(8) Employees whose jobs are related to the release of the Company’s financial information are encouraged to obtain certifications in related fields. Certification details are as follows:

- a. Certified Internal Auditor (CIA): Three employees in the Auditing Department have CIA licenses; one in

Finance Division.

b. Basic examination on internal control held by the Securities and Futures Institute: None.

c. Qualified Internal Auditor (QIA): One employee in the Finance Division; three in Internal Audit Office; one in Accounting Division.

d. Certified Public Accountants (CPA): Three employees in the Accounting Division; One in Finance Division

5. Retirement Structure and Implementation

- (1) The Company has drafted specific Employee Retirement Guidelines.
- (2) The Company has set up a Labor Pension Supervisory Committee, which was approved by the Taipei Municipal Government in February 1998. Since May 1988, the Company has been allocating, on a monthly basis, a retirement pension equivalent to 2% of the employees’ monthly salaries.
- (3) The Company implemented the New Labor Pension System in July 2005.
- (4) In accordance with Issue No. 18 of the Financial Accounting Standards of the ROC, the Company retains the services of an actuary to assess and calculate the labor pension reserve and provide a detailed report.

6. Employee Safety and Sanitary Policy

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

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

Management/Labor Relations

1. Losses due to management/labor disputes for 2005 and year to Feb.1 of 2006: None.

2. Estimate of current and potential losses due to management/labor disputes and preventative policies:

The Company, working under the management and labor as one concept and belief that a win/win situation can be achieved when the two sides work together, has followed relevant labor laws and associated rules, respected employees, and valued employee benefits to build up a satisfactory management/labor relationship. The Company has therefore not experienced any losses due to management/labor disputes and does not foresee the situation occurring in the future.

3. Management/labor negotiations: None.

4. Items still pending negotiation between management/labor: None.

5. Labor rights’ protection:

The Company holds a management/labor conference each quarter.



5

Corporate Governance



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

Execution Principles

- Timely disclosure of material information
- Sound check and balance between the board and the management team
- Establish an audit committee to ensure the independence of external auditors as well as integrity of financial reporting
- Reserve a number of board seats based on a set ratio for independent board members and supervisors
- Adopt a cash dividend policy based on high earnings payout ratio
- Distribute all employee profit sharing in the form of cash

Current Practice

To better execute the Company's corporate governance principles, the Company has implemented a number of changes to its corporate governance structure. On April 26, 2002, the Company revised the "Shareholders' Meeting Rules," which was originally established on January 30, 1997. On June 5, 2002, the Company revised the "Affiliated Companies & Personal Transactions Procedures," which was first established on August 31, 1999. On April 30, 2004, the Company established the "Corporate Governance Committee Charter" and the "Audit Committee Charter." And, on October 28, 2005, the Company established the "Board of Directors' Meeting Rules." These changes have allowed the company's corporate governance structure to not only meet Taiwan's Securities and Exchange Law, but adhere to the highest international standards.

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

2005 Implementation

Corporate Governance Committee and Audit Committee

The Company's corporate governance structure is composed of two committees: an audit committee and a corporate governance committee.

1. Corporate Governance Committee and Audit Committee

Jack J. T. Huang serves as the committee chairman and Wen-Li Yeh and J. Carl Hsu are the committee members. Their main responsibility is to shape the Company's corporate governance policy, including:

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

2. Audit Committee:

Tsung-Ming Chung serves as the committee chairman, and Wen-Li Yeh, Jack J.T. Huang and J. Carl Hsu are the committee members. Their main responsibility is to assist the board in overseeing the following:

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

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

2005 Specific Implementations and Results

1. Simplification of the Company's investment structure:

Divested non-core investments to simplify the complex cross-holding structure and transferred all operating

affiliates under one investment vehicle, Taiwan Cellular Corporation (formerly Taihsing Den Den Co., Ltd.). Specific results include the merger of Taiwan Elitec Corp. and the liquidation of four investment holding companies.

2. Upstream affiliates' excess cash to the Company:

Used cash received from divestments of non-core investments and equity reduction of subsidiaries to reduce long-term debt and buy back convertible bonds in order to lower net debt to equity ratio and interest expense and, as such, reduce the company's financial risks.

3. Minimized capitalization to prevent dilution in EPS:

Bought back convertible bonds, increased earnings payout ratio and distributed earnings in cash dividends only. All employee bonuses were also paid in cash.

4. Discontinued the Taiwan Telecom Group operating model:

The company and Taiwan Fixed Network now operate as two entirely independent entities. As of July 19, 2005, the company and Taiwan Fixed Network are no longer affiliated companies.

5. Improved the Company's financial transparency:

Released monthly financial results, held quarterly investors conference calls, and actively participated in international investors conferences.

6. Improved the Board of Directors' independence:

Decreased the number of management team members that serves on the Company's board and increased the number of independent directors. Three out of the nine directors on the board are independent directors.

Additional Information

1. Attendance of board members and supervisors at board meetings:



The Third Board of Directors convened 31 times as of May 12, 2005.

Title	Name	Total Meetings	Meetings Attended	Attendance Rate (%)	Supervisors' Attendance #
Chairman	Daniel Tsai	31	30	96.78	
Vice Chairman	Richard Tsai	31	31	100.00	
Managing Director	Nita Ing	31	30	96.78	
Director	Shi-Cheng Wang	31	15	48.39	
Director	Ray-Ying Fan	31	28	90.32	
Director	Harvey Chang	31	30	96.78	
Director	Pieere Chen	31	26	83.87	
Director	George Huang	31	29	93.55	
Independent Director	Jack J.T. Huang	19	19	100.00	
Independent Director	Wen-Li Yeh	19	18	94.74	
Supervisor	J. Carl Hsu				13
Independent Supervisor	Tsung-Ming Chung				5
Supervisor	Victor Kung				12

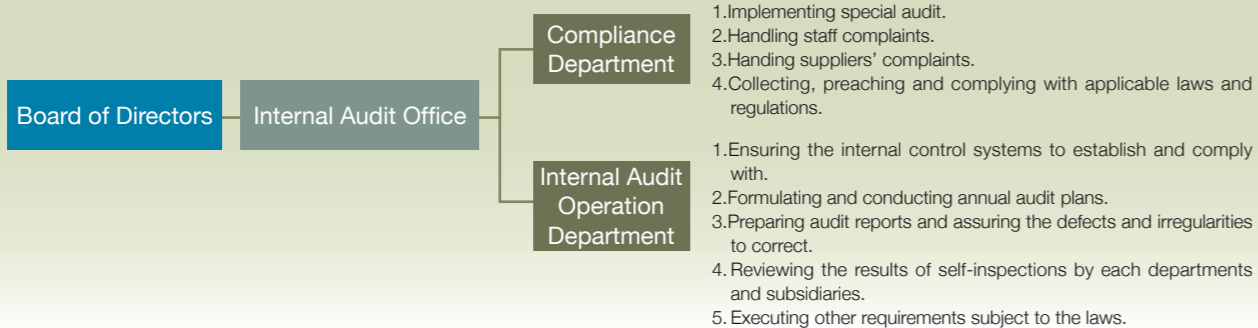
The Fourth Board of Directors convened 6 times as of February 1, 2006.

Title	Name	Total Meetings	Meetings Attended	Attendance Rate (%)	Supervisors' Attendance #
Chairman	Daniel Tsai	6	6	100.00	
Vice Chairman	Richard Tsai	6	5	83.33	
Managing Director	Nita Ing	6	6	100.00	
Director	Pieere Chen	6	5	83.33	
Director	Yu-Lon Chiao	6	5	83.33	
Director	Harvey Chang	6	6	100.00	
Independent Director	J. Carl Hsu	6	3	50.00	
Independent Director	Jack J.T. Huang	6	6	100.00	
Independent Director	Wen-Li Yeh	6	6	100.00	
Supervisor	Ray-Ying Fan				2
Supervisor	Victor Kung				2
Independent Supervisor	Tsung-Ming Chung				4

2. Training program for directors and supervisors:

Title	Name	Date elected	Date of training		Organization	Training program	Hours	Note 1
			from	to				
Director, Representative of Kuo-Ki Investment Co., Ltd.	Harvey Chang	2003/10/17	2003/12/09	2003/12/11	Harvard University	The CEO Workshop.	20.0	Yes
			2004/12/11	2004/12/12	China Eisenhower Fellowships Conference	Building Vibrant Economies	8.0	Yes
			2005/03/17	2005/03/17	Taiwan Academy of Banking and Finance	Corporate Governance Forum	2.0	Yes
			2005/09/23	2005/09/23	Taiwan Academy of Banking and Finance	Corporate Governance Forum	2.0	Yes
			2005/11/10	2005/11/10	Corporate Governance Association	Creating the Corporate's Core Value	3.0	Yes
Independent Director	J. Carl Hsu	2004/09/10	2005/09/14	2005/09/14	Corporate Governance Association	Corporate Governance	3.0	Yes
Independent Director	Jack J.T. Huang	2003/06/25	2004/08/16	2004/08/16	Securities & Futures Institutes	Speaker for "M&A and Legal Responsibility of Directors and Supervisors"	3.0	Yes
			2004/11/24	2004/11/24	Securities & Futures Institutes	Common questions about Financial Statements and legal responsibility	3.0	Yes
			2005/08/09	2005/8/09	Corporate Governance Association	How to maintain shareholders' interest in M&A deals	1.0	Yes
			2005/10/13	2005/10/13	Securities & Futures Institute	Speaker for "M&A and Legal Responsibility of Directors and Supervisors"	2.0	Yes
			2005/12/19	2005/12/19	Securities & Futures Institute	Speaker for "M&A and Legal Responsibility of Directors and Supervisors"	3.0	Yes
Independent Director	Wen-Li Yeh	2003/06/25	2005/09/14	2005/09/14	Corporate Governance Association	Corporate Governance	3.0	Yes
Supervisor, Representative of Taiwan Fixed Network Co., Ltd.	Ray-Ying Fan	2002/04/26	2005/09/14	2005/09/14	Corporate Governance Association	Corporate Governance	3.0	Yes
Supervisor, Representative of Fu-Chi Venture Corp.	Victor Kung	2002/04/26	2003/11/14	2003/11/14	College of Management, National Taiwan University	Corporate Governance Forum	1.0	Yes
			2003/11/26	2003/11/26	Securities and Futures Bureau	Corporate Governance Forum	1.0	Yes
			2003/12/06	2003/12/06	Chinese Management Association	Corporate Governance and Risk Management Forum	1.0	Yes
Independent Supervisor	Tsung-Ming Chung	2004/06/15	2003/07/12	2003/07/12	Taiwan Academy of Banking and Finance	Classes for senior management of mutual funds	6.0	Yes
			2003/12/09	2003/12/09	Corporate Governance Association	Corporate Governance	4.0	Yes
			2004/04/26	2004/04/26	Corporate Governance Association	Corporate Governance and Risk Management	3.0	Yes
			2005/08/23	2005/08/23	Securities & Futures Institute	Raising Capital and Shareholders' Interest	3.0	Yes

Note 1: The director or supervisor has fulfilled the training requirements



3. Directors adhere to the Company rules to avoid conflict of interest.

4. The Company has purchased liability insurance for its directors and supervisors.

5. The Company places a high value on social responsibility and has a foundation that provides funds for telecommunications research, emergency rescues, public speeches, and charity events.

Awards and Recognitions

The Company has stood by its principle of providing financial transparency to investors. In 2005, the company proactively participated in the "CG6001 Corporate Governance Certification" program and successfully received the certification. The Company was publicly honored by the Corporate Governance Association and the Taiwan Stock Exchange.

The Company is committed to implementing the best corporate governance practices that meet international standards. The receipt of this certification is an acknowledgement of the Company's efforts in the past as well as a declaration to all investors that the Company will continue in this direction in the future.

Internal Control Status

The Company's Internal Audit Office is an independent unit that reports directly to the Board of Directors and briefs the CEO on a regular and as needed basis.

The Internal Audit Office is responsible for the examination and assessment of the internal controls of the Company's financial, sales, operations and management. All departments and subsidiaries are subject to its audits.

Regular internal audits are executed according to the annual audit plan. Special audit projects are implemented as needed. These audits ensure the quality of the internal control system, and provide timely recommendations for future improvements. In accordance with the spirit of corporate governance, audit reports are regularly submitted to and reviewed by the CEO as well as the Audit Committee.

The Internal Audit Office also examines the mechanisms and results of self-inspections by each department and subsidiaries to ensure the quality of implementation. In addition, the Internal Audit Office generates and consolidates related inspection reports for the CEO and the Board of Directors to evaluate the overall efficiency of existing internal control systems before generating the Internal Control System Statements.

Since its inception in 2003, the Corporate Governance Association has dedicated itself to facilitating the promotion of Corporate Governance in Taiwan. The CG6001 Corporate Governance Certification program is designed to measure the level of corporate governance practices implemented by publicly listed companies. There are six main sections and 78 measurements. The six main sections are:

1. Maintaining shareholder interest
2. Transparency of ownership and board
3. Board structure and effectiveness
4. Supervisors' functions
5. Discipline and communication of senior management team
6. Respect for shareholder rights



Internal Control Statement

Date: January 26, 2006

Taiwan Mobile Co., Ltd.
Internal Control Statement

Taiwan Mobile (TWM) states the following with regard to its internal control system during the period from January 1, 2005 to December 31, 2005, based on the findings of a self-evaluation:

1. TWM is fully aware that establishing, operating, and maintaining an internal control system are the responsibility of its Board of Directors and management. TWM has established such a system aimed at providing reasonable assurance of the achievement of objectives in the effectiveness and efficiency of operations (including profits, performance, and safeguard of asset security), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. No matter how perfectly designed, an effective internal control system can provide only reasonable assurance of accomplishing the three goals mentioned above. Furthermore, the effectiveness of an internal control system may change along with changes in environment or circumstances. The internal control system of the Company contains self-monitoring mechanisms, however, and the Company takes corrective actions as soon as a deficiency is identified.
3. TWM judges the design and operating effectiveness of its internal control system based on the criteria provided in the Regulations Governing the Establishment of Internal Control Systems by Public Companies promulgated by the Securities and Futures Bureau, Financial Supervisory Commission, Executive Yuan (herein below, the "Regulations"). The internal control system judgment criteria adopted by the Regulations divide internal control into five elements based on the process of management control: 1. Control environment, 2. Risk assessment, 3. Control activities, 4. Information and communications, 5. Monitoring. Each element further contains several items. Please refer to the Regulations for details.
4. TWM has evaluated the design and operating effectiveness of its internal control system according to the aforesaid criteria.
5. Based on the findings of the evaluation mentioned in the preceding paragraph, TWM believes that during the stated time period its internal control system (including its supervision of subsidiaries), encompassing internal controls for knowledge of the degree of achievement of operational effectiveness and efficiency objectives, reliability of financial reporting, and compliance with applicable laws and regulations, was effectively designed and operating, and reasonably assured the achievement of the above-stated objectives.
6. This Statement will become a major part of the content of the Company's Annual Report and Prospectus, and will be made public. Any falsehood, concealment, or other illegality in the content made public will entail legal liability under Articles 20, 32, 171, and 174 of the Securities and Exchange Law.
7. This statement has been passed by the Board of Directors Meeting of TWM held on January 26, 2006, where all of the 9 attending directors did not express dissenting opinion, and affirmed the content of this Statement.

Taiwan Mobile Co., Ltd.

Chairman:

President:

6

Financial Information

Capital and Shares

History of Capitalization

As of February 01/2006 Unit: shares / NT\$

Date	Par value (NT\$)	Authorized capital		Paid-in capital		Remarks	
		Shares	Amount (NT\$)	Shares	Amount (NT\$)	Source of capital (NT\$)	Effective date & cert. no.
Feb. 2005	10	6,000,000,000	60,000,000,000	4,916,096,374	49,160,963,740	Conversion of CB: NT\$658,088,240	N.A.
May 2005	10	6,000,000,000	60,000,000,000	4,935,906,784	49,359,067,840	Conversion of CB: NT\$198,104,100	N.A.
Aug. 2005	10	6,000,000,000	60,000,000,000	4,944,980,749	49,449,807,490	Conversion of CB: NT\$90,739,650	N.A.
Nov. 2005	10	6,000,000,000	60,000,000,000	4,948,615,399	49,486,153,990	Conversion of CB: NT\$36,346,500	N.A.

As of February 01, 2006 Unit: shares

	Authorized capital			Remarks
	Listed shares	Un-issued shares	Total	
Common stock	4,948,615,399	1,051,384,601	6,000,000,000	Including 11,551,000 shares of treasury stock bought during Oct. 2005 through Nov. 2005.

Shareholder Structure

As of July 20, 2005

	Government agencies	Financial institutions	Other institutions	Individuals	Foreign institutions & individuals	Total
No. of shareholders	1	20	267	62,402	544	63,234
Shareholding	1,500,000	417,932,849	2,280,410,589	703,842,780	1,539,936,514	4,943,622,732 (Note)
Holding percentage	0.031%	8.454%	46.128%	14.237%	31.150%	100.00%

Note: Adding 4,992,667 shares converted from CB in 2005, TWM's paid-in capital was 4,948,615,399 shares, as of February 01, 2006

Shareholding Distribution

Par value: NT\$10/share As of July 20, 2005

Shareholding range	Number of shareholders	Total shares owned	Holding percentage
1 ~ 999	21,464	6,213,489	0.126%
1,000 ~ 5,000	28,242	66,341,375	1.342%
5,001 ~ 10,000	6,247	47,252,550	0.956%
10,001 ~ 15,000	2,351	28,541,049	0.577%
15,001 ~ 20,000	1,337	23,535,953	0.476%
20,001 ~ 30,000	1,187	29,134,658	0.589%
30,001 ~ 50,000	907	35,411,880	0.716%
50,001 ~ 100,000	565	39,499,803	0.799%
100,001 ~ 200,000	273	38,436,239	0.777%
200,001 ~ 400,000	151	43,305,272	0.876%
400,001 ~ 600,000	85	41,931,917	0.848%
600,001 ~ 800,000	41	28,598,387	0.578%
800,001 ~ 1,000,000	57	52,112,756	1.054%
1,000,001 above	327	4,463,307,404	90.286%
Total	63,234	4,943,622,732	100.000%

Note: Adding 4,992,667 shares converted from CB in 2005, TWM's paid-in capital was 4,948,615,399 shares, as of February 01, 2006

Major Shareholders

As of July 20, 2005

Name	Total shares owned	Holding percentage
Taiwan Fixed Network Co., Ltd.	900,352,762	18.212%
TFN Investment Co., Ltd.	467,821,463	9.463%
Chunghwa Post Co., Ltd.	146,037,865	2.954%
Taiwan Hong-Yuan Investment Co., Ltd.	144,719,535	2.927%
Continental Engineering Corp.	124,804,583	2.525%
Fubon Insurance Co., Ltd.	122,404,191	2.476%
Fubon Life Assurance Co., Ltd.	120,871,734	2.445%
Fubon Securities Co., Ltd.	117,449,829	2.376%
Daniel Tsai	105,318,964	2.130%
Richard Tsai	105,315,964	2.130%

Direct and Indirect Investments in Affiliated Companies

As of December 31, 2005 Unit: shares, %

Long-term investments	Investment by TWM		Direct & indirect investments by TWM's directors, supervisors, and management		Total investment	
	Shares	Holding (%)	Shares	Holding (%)	Shares	Holding (%)
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	44,299,879	99.99	--	--	44,299,879	99.99
TransAsia Telecommunications Inc.	328,644,549	92.32	1,492,779	0.42	330,137,328	92.74
Mobitai Communications Co., Ltd.	29	0.00001	255,079,288	94.28	255,079,317	94.28
Taihsing Den Syun Co., Ltd.	386,971,500	100	--	--	386,971,500	100.00
Taiwan Fixed Network Co., Ltd. (Note 1)	637,000,000	9.87	40,612,400	0.63	677,612,400	10.50
Bridge Mobile Pte Ltd.	1,000,000	12.50	--	--	1,000,000	12.50

Note 1: Information as of July 16, 2005

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

Unit: NT\$, shares in thousand

		2004	2005	As of Feb. 01, 2006 (Note 3)	
Share price (NT\$)	High	35.60	36.00	29.45	
	Low	28.00	26.20	28.00	
	Average	32.54	31.13	28.67	
Net worth per share (NT\$)	Before earnings appropriation	16.79	17.62	17.62	
	After earnings appropriation	14.18	(Note 1)	(Note 1)	
Earnings per share (NT\$)	Adjusted weighted avg. outstanding shares	4,690,696	4,898,251	4,898,251	
	Earnings per share	Before adjustment	3.55	3.31	3.31
		After adjustment	3.55	(Note 1)	(Note 1)
Dividends per share (NT\$)	Cash dividends		2.47	(Note 1)	
	Stock dividends	Retained earnings	-	(Note 1)	
		Capital surplus	-	-	
	Accumulated unpaid dividends		-	-	
PE and dividend yield (Note 2)	Price earnings ratio (x)	Before adjustment	9.17	9.40	
		After adjustment	9.17	(Note 1)	
	Price to cash dividend (x)		13.17	-	
	Cash dividend yield (%)		7.59	-	

Note1: The appropriation amounts indicated above are based on resolutions passed at annual shareholders' meetings in the subsequent year. The appropriation amount for 2005 has not been approved yet.

Note2: Price earnings ratio = Average closing price / earnings per share.
Price to cash dividend = Average closing price / cash dividend per share
Cash dividend yield = Cash dividend per share / Average closing price

Note3: Net worth per share and earnings per share are based on the most recent audited financial statements. All others are as of February 01, 2006

Dividend Policy

1. Dividend policy under Articles of Incorporation

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

2. Proposed dividend allocation for approval at the annual shareholders' meeting

Cash dividend of NT\$12,843,996,966

3. Impact of stock dividend distribution on business performance & EPS

Not applicable: the board of directors proposes to distribute only cash dividend this year

Share buyback

As of February 01, 2006 Unit: NT\$, shares, %

Share buyback	2nd	3rd
Purpose	Transfer to employees	Transfer to employees
Buyback period	2002.11.21 ~ 2002.12.31	2005.10.07 ~ 2005.11.09
Buyback price range	NT\$26.81 ~ NT\$28.58	NT\$26.66 ~ NT\$29.73
Total number of shares bought back	84,829,000	11,551,000
Buyback amount (NT\$)	2,342,691,331 (Note1)	319,789,909
Number of shares cancelled/transferred	84,829,000	0
Treasury stock balance (shares)	0	11,551,000
As % of the Company's total issued shares (Note 2)	0%	0.233%

Note1: Actual disbursement amount was NT\$2,342,628,483, less discounts on transaction charges of NT\$62,848.

Note2: Total issued shares are 4,948,615,399, including 11,551,000 shares of treasury stock.

Corporate Bond Issuance

Corporate Bonds

As of February 01, 2006

Issuance	First Secured Corporate Bond	First Unsecured Corporate Bond
Issue date	February 1, 2001	December 13, 2002
Denomination	NT\$1,000,000	NT\$5,000,000
Issuance and listing	Not applicable	Not applicable
Issue price	100%	100%
Total amount	NT\$3,000,000,000	NT\$15,000,000,000
Coupon	5.31% p.a.	IA ~ IL: 2.60% p.a. IIA ~ IIL: 5.21% p.a. minus floating rate but not lower than 0% IIIA ~ IIIM: 2.80% p.a. IVA ~ IVM: 5.75% p.a. minus floating rate but not lower than 0% The floating rate is based on the USD\$ 6-month LIBOR rate quoted on page 3750 of Hong Kong Bridge Telerate at 11 a.m. London time
Term	5-year, 12 separate series: A~L, maturing from Feb. 1, 2006 to Feb. 16, 2006	5-year, maturing from Dec. 13, 2007 to Dec. 30, 2007 7-year, maturing from Dec. 13, 2009 to Dec. 31, 2009
Guarantor	Syndicated by ICBC and 15 other banks	None
Trustee	Bank SinoPac, Trust Division	Bank SinoPac, Trust Division
Underwriter	None	None
Legal counsel	None	None
Auditor	Arthur Lee, CPA, and Jason Hsia, CPA, Deloitte & Touche	Peter Lin, CPA, and Morris Yang, CPA, Deloitte & Touche
Repayment	Repayment of half of the principal at the end of the 4th year and the remaining half at the end of the 5th year	IA ~ IL: repayment of 50% of the principal at the end of 4th year and the remaining 50% at the end of the 5th year IIA ~ IIL: repayment in full upon maturity IIIA ~ IIIM: repayment of 50% of the principal at the end of 6th year and the remaining 50% at the end of the 7th year IVA ~ IVM: repayment in full upon maturity
Outstanding balance	NT\$1,500,000,000	NT\$15,000,000,000
Early repayment clause	None	None
Covenants	1. During the effective period of the syndicated credit agreement, the current ratio at the end of each year must be maintained at greater than 100%. 2. During the effective period of the syndicated credit agreement, the debt to equity ratio at the end of each year must be maintained at less than 100%. 3. Starting in 2001, long-term solvency ratio must be at least 150%	None
Credit rating agency, rating date, company credit rating	Not applicable	Taiwan Rating Co., Ltd, 2002.11.20, twAA- Taiwan Rating Co., Ltd, 2003.03.18, twA+ Taiwan Rating Co., Ltd, 2004.12.22, twAA
Ancillary rights	Amount converted/ exchanged into common shares, ADRs or other securities	Not applicable
	Rules governing issuance or conversion (exchanged or subscription)	Not applicable
Dilution and other effects on shareholders' equity	Not applicable	Not applicable
Custodian	Not applicable	Not applicable

(Continued)

As of February 01, 2006

Issuance	First Unsecured Convertible Bond	Second Unsecured Convertible Bond
Issue date	August 25, 2001	August 16, 2002
Denomination	NT\$100,000	NT\$100,000
Issuance and listing	Not applicable	Not applicable
Issuing price	100%	100%
Total amount	NT\$10,000,000,000	NT\$6,000,000,000
Coupon	Zero coupon	Zero coupon
Tenure	5-year, redemption date is Aug. 24, 2006	5-year, redemption date is Aug. 15, 2007
Guarantor	None	None
Trustee	Bank SinoPac, Trust Division	Bank SinoPac, Trust Division
Underwriter	Fubon Securities Co., Ltd.	Fubon Securities Co., Ltd.
Legal counsel	Esq. Tsai-Sheng Lin	Esq. Tsai-Sheng Lin
Auditor	Arthur Lee, CPA, and Jason Hsia, CPA, Deloitte & Touche	Jason Hsia, CPA, and Morris Yang, CPA, Deloitte & Touche
Repayment	Except for early conversions to common shares pursuant to Articles 10 and 18 of the rule governing the issuance of convertible bonds, or redemptions by the Company pursuant to Article 18 of the rule, or bondholders selling the bond back to the issuing company pursuant to Article 19 of the rule, repayment is due in full by cash payment upon maturity.	Except for early conversions to common shares pursuant to Articles 10 and 17 of the rule governing the issuance of convertible bonds, or redemptions by the Company pursuant to Article 17 of the rule, or bondholders selling the bond back to the issuing company pursuant to Article 18 of the rule, repayment of face value plus interest compensation is due in full by cash payment upon maturity.
Outstanding balance	NT\$1,476,300,000	NT\$746,400,000
Redemption or early repayment clause	After the third month of the issuance to 40 days before maturity, in the event the closing price of the Company's common share exceeds 50% of the current conversion price for 30 consecutive business days, and the convertible bonds' outstanding balance is lower than 10% of the total issuance amount, then the Company may opt for compulsory conversion or redemption to convert the bonds to entitlement certificates at the current conversion price or redeem the bonds in cash at par value from the bondholder.	After the third month of the issuance to 40 days before maturity, in the event the closing price of the Company's common share exceeds 50% of the current conversion price for 30 consecutive business days, and the convertible bonds' outstanding balance is lower than 10% of the total issuance amount, then the Company may opt for compulsory conversion or redemption to convert the bonds to common stocks at the current conversion price or redeem the bonds in cash at par value from the bondholder.
Covenants	For covenants pertaining to cash dividend distribution and preferred shares issuance, please refer to Articles 7 and 26 of the rule for issuance and conversion of this unsecured convertible bond.	For covenants pertaining to cash dividend distribution and preferred shares issuance, please refer to Articles 7 and 25 of the rule for issuance and conversion of this unsecured convertible bond.
Credit rating agency, rating date, company credit rating	Not applicable	Not applicable
Ancillary Rights	Amount converted/ exchanged into common shares, ADRs or other securities Rules governing issuance or conversion (exchanged or subscription)	Amount converted/ exchanged into common shares, ADRs or other securities Rules governing issuance or conversion (exchanged or subscription)
Dilution and other effects on shareholders' interest	As of February 01, 2006, dilution effect of outstanding CB is 1.28%; no major impact on shareholders' interest	As of February 01, 2006, dilution effect of outstanding CB is 0.61%; no major impact on shareholders' interest
Custodian	Not applicable	Not applicable

Convertible Bond Information

As of February 01, 2006 Unit: NT\$

Issuance	First unsecured convertible bond			Second unsecured convertible bond		
	2004	2005	2006 (as of Feb. 01)	2004	2005	2006 (as of Feb. 01)
Market price (denomination of the bond)						
High	146.00	142.10	121.50	137.30	138.00	129.00
Low	120.00	120.20	121.50	115.25	120.00	110.70
Average	127.70	133.36	121.50	124.69	130.21	120.18
Conversion price (NT\$)	24.30	23.30	23.30	25.70	24.70	24.70
Issue date and conversion price (NT\$) on issue date	2001.08.25 39.00	2001.08.25 39.00	2001.08.25 39.00	2002.08.16 41.20	2002.08.16 41.20	2002.08.16 41.20
Method of conversion	Issue new shares	Issue new shares	Issue new shares	Issue new shares	Issue new shares	Issue new shares

Exchangeable Bond: None

Shelf Registration Issuance: None

Bond with Warrant: None

Mergers and Acquisitions: None

Other Issuance:

Preferred Shares: None

Depository Receipt Issuance: None

Employee Stock Options: None

Private Placement of Marketable Securities: None

TWM Shares Held / Disposed by Subsidiaries: None

In the course of operating its business, the Company faces four major types of internal and external risks, namely industry risk, financial risk, credit risk and operating risk. The Company realizes the damages these risks may cause and therefore has set forth risk management policies and a risk management committee to minimize any particular incident's effect on the Company's operations.

Industry Risk

Technology Changes and Development

1. Telecommunicational technology development

(1) Potential threat from WiMAX

As of 2005, 3G network operators have reached close to a hundred worldwide. With the sharp rise in the number of handset manufacturers capable of making 3G mobile phones, the prices of 3G devices are expected to fall in 2006, allowing 3G to become the mainstream telecommunications system. However, Orthogonal Frequency Division Multiplexing (OFDM) based communication protocols have also been attracting a lot of attention. Among them, Worldwide Interoperability for Microwave Access, or WiMAX, is considered to be the technology that poses the greatest threat to 3G. WiMAX is designed to be a wireless alternative to replace the last mile in a traditional fixed network. This is also called "Broadband Wireless Access." With this, a new fixed network operator can use WiMAX to implement a wireless infrastructure and compete with incumbent operators. The technology evolution of WiMAX is heading toward providing mobility, and a number of manufacturers have invested in research and development work. WiMAX might have an impact on the mobile communications business if the following four conditions are met: 1. The WiMAX protocol for mobile users is completed; 2. The product features match the design specifications; 3. Market demand continues to grow; and, 4. The prices for infrastructure and terminal devices become competitive after a strong demand is created. WiMAX technology development is supported by the government, and many networks are completing trial runs this year. The government is expected to release WiMAX frequencies and licenses by 2007. The Company shall continue to monitor this development.

(2) Countermeasures

- a. WiMAX is still a year or two away from commercial launch: "How convenient will WiMAX be?" is a frequently asked question. In the past year, buoyed by the expectations of some equipment manufacturers and venture capital firms, WiMAX appeared to be a fast-rising star. However, according to the testing schedule announced by the WiMAX Forum, even though the mobile WiMAX protocol "IEEE 802.16e" has been completed, the equipment interoperability test will not be ready until the second half of 2007. It would thus be difficult for any operator to commercially launch a WiMAX network before 2008. For its part, the Company will actively participate in WiMAX and 3G system integration platform development projects supported by the government. It will also build up core technologies to control development opportunities for dual-network platforms so that it will be able to provide more advanced data and multimedia services.
- b. High Speed Downlink Packet Access (HSDPA) is a technologically mature protocol in the technological development of 3G. Connection speeds achieved are comparable to WiMAX. Multimedia Broadcast and Multicast Service (MBMS) enables audio and video clips to be efficiently transmitted in a 3G network.
- c. The Company will implement HSDPA to enhance downlink speed and actively participate in research and trials on High Speed Uplink Packet Access (HSUPA) technology. With these new technologies, consumer expectations of uplink bandwidth based applications such as video telephony, data upload and e-mail can be fulfilled, and the potential impact from WiMAX can be reduced.

2. Development and popularization of internet protocol

(1) Significant changes to internet protocol

The development and popularization of Internet Protocol (IP) has brought increasing traffic that is transmitted via packet to existing telecommunications infrastructures. This has resulted in major changes to the communications network structure and the emergence of the "convergence phenomenon," with IP telephony expected to have the largest impact on

the mobile telecommunications business. Technological and digital convergence will change the industry structure, allowing digital content and services to be transmitted across carriers, across systems and across platforms. This convergence phenomenon will further accelerate the merger of the communications and media business and market.

(2) Countermeasures

Even though traffic is increasingly being transmitted via IP, all the packet transmissions are still based upon a physical network. Therefore, the Company can gradually transform its islandwide radio and transmission network into an IP network infrastructure. Building an IP core network is crucial in light of the growing popularity of IP telephony and network convergence. The IP multimedia subsystem (IMS) will serve as the foundation for the Company's next generation network (NGN). With a clear insight into the latest industrial and technology development trends, the Company will have an advanced NGN and business model to continue providing customers with the most convenient and caring services.

Regulatory Changes

1. Establishment of National Communications Commission (NCC)

(1) Impact

The Directorate General of Telecommunications (DGT), in the 8th strategy review board meeting of 1998, approved and submitted a proposal to the Cabinet for the establishment of a regulatory agency that would oversee the telecommunications, broadcasting and information services industries. Pursuant to this, the Cabinet set up a "Preparatory Committee for the Establishment of the National Communications Commission" in February 2003. The "Communications Basic Law" and "Organic Law of the National Communications Commission" were also passed by presidential order on January 7, 2004 and November 9, 2005, respectively, marking significant changes in communications regulations. The NCC officially began its function after the premier appointed 12 NCC commissioners on February 17, 2006. The NCC's powers and functions comprise the former Broadcasting Division of the Government Information Office (GIO) and the DGT. All other mat-

ters involving overall planning of communications resources and industrial assistance are to be defined by the Cabinet in the future. While the "Communications Basic Law" covers regulatory principles on communications and broadcasting, a large number of related laws and regulations are still waiting to be revised. The NCC's task would be to revise these laws and regulations in accordance with the provisions in the "Communications Basic Law," WTO standards, and global regulatory precepts to refine the legal environment for the convergence of communications and broadcasting.

(2) Countermeasures

With the establishment of the NCC, telecommunications operators face not only a change in the regulatory agency but also a more complex and increasingly competitive market given the trend toward digital convergence. During the initial stage of its operation, the NCC's primary mission will be to build up a solid, legal foundation. The Company will actively participate in the enactment or revisions to related laws and regulations to maintain its customers' and shareholders' best interests.

2. Restrictions on applications for mobile telecommunications services

(1) Impact

To prevent the use of counterfeit names in applying for mobile telecommunications services, the DGT began on April 29, 2004 to require anyone applying for mobile telecommunications services to register their national identification card or National Health Insurance card (or any other valid form of identification). Moreover, to prevent individuals/groups from using prepaid SIM cards for criminal activities, the DGT restricts prepaid SIM card ownership for both locals and foreigners to one each and limits sales of such cards to the telecommunications operators' own sales channels starting on March 7, 2005.

(2) Countermeasures

In response to the DGT's implementation of these policies to block criminal activities, the Company will:

- a. Open additional Company-operated stores in select areas;
- b. Increase marketing and promotion to inform the public about the new application process;
- c. Exert tighter control over the application process;

- and,
d. Offer new promotions for prepaid top-up cards.

3. Implementation of mobile number portability

(1) Impact

Fixed and mobile telecommunications operators have jointly set up a Committee on Number Portability Service Database to monitor the establishment, operation and management of a centralized database. The database has been entrusted to the Telecommunications Technology Center to handle the data processing.

Implemented on October 13, 2005, the MNP service has attracted about 220,000 applications as of February 1, 2006, with a success rate of 77%. After deducting applications in review and duplicate applications, the success rate is near 90%. However, demand for the service appears to have peaked out with the number of applications gradually declining.

(2) Countermeasures

A review of the MNP service's processes and procedures shows that the operation is well on track. The Company will continue to strengthen its relationship with customers by providing superior service quality.

4. Release of E.164 numbers to VoIP providers

(1) Impact

Competition in the telecommunications market looks set to intensify with the introduction of Voice-over Internet Protocol (VoIP), which is viewed – to a certain extent – as a substitute for traditional phone service. The DGT has agreed to issue E.164 numbers with a prefix of 070 to VoIP service providers, and has detailed regulations governing VoIP service, including inspections of subscribers' personal data, acquisition of subscribers' numbers, and full disclosure of service information. Moreover, given public security concerns, operators are required to provide real-time display of the calling numbers to the network receiver in line with communications supervision requirements.

(2) Countermeasures

Type II telecommunications operators engaged in VoIP service will have to negotiate with Type I telecommunications operators on network interconnection charges. The Company will continue to

work with VoIP operators to arrive at a reasonable pricing on interconnection. It will also keep an eye on whether VoIP will supplant traditional phones and work out possible solutions.

5. WiMAX licenses to be released

(1) Impact

Wireless access technology – especially WiMAX – is gradually taking off as the technology matures. Take IEEE 802.16-2004 as an example, its iteration coverage can reach a maximum distance of 30 miles (about 50 kilometers) and transmission rates can reach 75Mbps. In response to the government's "Dual Network Plan", the Cabinet unveiled its "Taiwan WiMAX Development Roadmap" in 2005 to encourage local firms to invest in base stations, terminal equipment and IC chip manufacturing. The DGT plans to release commercial frequency bands for WiMAX using the 3G model. According to the DGT, no less than three licenses will be issued with the licensing process to be completed by the end of 2006.

(2) Countermeasures

Given the potential impact from WiMAX and VoIP, the Company will closely monitor the DGT's licensing policy and explore the possibility of upgrading its broadband technology to High Speed Downlink Packet Access to satisfy the demand for broadband wireless services.

6. Mobile base stations related legislation

(1) Impact

Domestic protests against mobile base stations have been on the rise since the latter half of 2005. The issue of whether electromagnetic waves emitted by base stations exceed safety levels has turned into a contentious social and political debate on whether they are harmful to health and the environment and whether mobile base stations are illegal constructions. In response, some local governments have drafted legislation limiting the installation of mobile stations in a residential area to the roofs of public

buildings. On the national level, some legislators have also proposed amending the "Telecommunications Act" to demand that telecommunications operators obtain a written consent from the apartment management committee before installing base stations on the roof of a building.

(2) Countermeasures

Given that mobile base stations' emissions are still below the national standard of 1/6,000 to 1/10,000 and their installations are legal, the Company will continue to cooperate with the DGT in handling domestic protests and negotiating with local officials and legislators to reduce their impact on operations.

Environmental Protection and Expenditure

The Company is a telecommunications operator and has neither environmental waste problems nor losses due to environmental waste issues.

Financial Risk

Impact of Fluctuations in Interest Rates, Exchange Rates and Inflation on the Company's Earnings and Countermeasures

1. Impact of interest rate fluctuations

As of the end of 2005, the majority of the Company's bank loans with floating interest rates have been fully repaid. The impact of interest rate fluctuations on its profits will be minimal.

The Company has pegged the floating interest rate for its first unsecured corporate bond with a total value of NT\$7.5 billion at 2.25% and 2.45% through interest rate swap agreements upon issuance. All other issued corporate bonds have fixed interest rates. The Company is thus completely hedged against interest rates fluctuations.

2. Impact of exchange rate fluctuations

The Company's main business is providing mobile phone services and its main service area is Taiwan. Except for its international roaming business, all operating revenues and operating costs are denominated in NT dollars.

At the end of 2005, foreign exchange gain totaled

NT\$4.49m. Exchange rate fluctuations have had a minimal impact on the Company. In the future, some of the Company's capital expenditures will be denominated in euros and US dollars. In order to minimize impact from foreign exchange rate fluctuations, the Company will hedge the risk through foreign currency deposits and forward contracts.

3. Impact of inflation

Inflation has made a minimal impact on the Company's operating performance for the past year up until the publication date.

Credit Risk

In 2005, the Company further reduced its debt level by paying off all outstanding debts except for corporate bonds. Given a solid cash flow and healthy earnings, the Company's ability to pay off its debts remains strong. The Company's long-term debt rating from Taiwan Ratings Corp. is a solid "twAA".

Operating Risk

Investment Policy and Reasons for Gains & Losses for High-Risk/High-Leverage Financial Products, Derivatives, Loans to Others, and Guarantees of Debts

1. The Company did not engage in high-risk and high-leverage financial investment activities, nor did it lend to others in recent years.

2. The Company's time deposit as collateral for Taiwan Cellular Company's (formerly Taihsing Den Den Co., Ltd.) bank loans ceased as of July 2005, in accordance with the its "Procedure for making loans and providing debt guarantees." The Company currently has no existing debt guarantees.

3. In December 2002, the Company issued NT\$7.5bn of 5-year and 7-year straight bonds with inverse floating interest rates. To hedge against interest rate risks, the Company entered into an IRS with a bank and exchanged the floating interest rate of its unsecured bonds for fixed interest rates. From a cash-flow perspective, the Company in essence issued 5-year and 7-year straight bonds with fixed coupon rates of

2.25% and 2.45%, respectively.

The IRS is settled semi-annually and is classified as a “cash-flow hedge.” Based on the fair market valuation provided by banks, as of January 13, 2006, the Company has a mark-to-market loss of around NT\$330m from the IRS. This loss does not affect the income statement and is instead booked in shareholders’ equity.

The main factors affecting the mark-to-market estimation are the US interest rate, the yield curve and US\$-to-NT\$ interest rate differential. When the bond matures and the IRS terminates, the gain/loss associated with the IRS will cease.

Mergers & Acquisitions

1. Merger and acquisition update

- (1) Acquisition of Mobitai: Through a series of share purchases between August 2004 and August 2005, the Company acquired a 94.28% equity stake (255,079 thousand shares) in Mobitai Communications (“Mobitai”) for NT\$3,440,452,000. At the end of 2005, the Company acquired full 100% equity in Mobitai through a merger between Mobitai and the Company’s subsidiary, Taihsing Den Syun Co., Ltd.
- (2) Merger with Taiwan Elitec Corp. (TEC): On March 25, 2005, TEC merged with the Company, with the latter as the surviving Company.

2. Expected benefits and potential risks

- (1) Expected benefits
 - a. Acquisition of Mobitai: Expansion of market share in central Taiwan and an increase in the Company’s total subscriber base and revenues. In light of better economies of scale, the Company expects to realize more operational synergies through this transaction.
 - b. Merger with Taiwan Elitec Corp.: Integrate enterprise resources and enhance operating efficiency.
- (2) Potential risks

The potential risk is likely to be higher-than-expected turnover due to job uncertainties during the merger process, which may result in lower-than-expected earnings from the merged company.

Supply and Distribution Concentration (Supplier and Customer Risk)

The Company’s main supplier is Chunghwa Telecom (CHT) for leased lines and network interconnections. In 2005, these costs accounted for about 23% of total operating costs. To diversify supplier risk, the Company has been increasing usage of leased lines supplied by other fixed line operators (e.g. Taiwan Fixed Network).

On the revenue side, CHT is the Company’s largest customer due to interconnection revenue. However, in terms of customers for its mobile services, the Company has a very diversified subscriber base. As such, there is no customer concentration risk.

Due to the addition of new players in the telecommunications sector, the Company anticipates its supplier and customer risk will continue to decrease over the coming years.

1. Top Supplier (over 10% of total operating costs)

	Company	Chunghwa Telecom
2005	Amount (NT\$’000)	4,492,186
	% of operating costs	23.21%
2004	Company	Chunghwa Telecom
	Amount (NT\$’000)	4,552,177
	% of operating costs	24.57%

Reason for change	Changes to interconnection fee
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2. Top Customer (over 10% of total revenue)

	Company	Chunghwa Telecom
2005	Amount (NT\$’000)	9,484,888
	% of operating costs	20.01%
2004	Company	Chunghwa Telecom
	Amount (NT\$’000)	9,760,115
	% of revenue	21.65%

Reason for change	Decrease in minutes of fixed to mobile calls
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Changes in Management Control

Not applicable.

Expected Benefits and Risks related to Plant Facility Expansions

Not applicable.

Major Contracts

Nature	Counterpart	Contract period	Description	Restriction clauses
Sales & distribution	Synnex Technology International Corp.	2005.02.01~2006.01.31 (The contract extends to 2007.01.31)	Synnex is authorized to distribute TWM’s mobile phone services	Non-disclosure
Communication service agency agreement	TransAsia Telecommunications Inc.	2005.03.01~2007.12.31	Provides TransAsia related telecommunications services	Non-disclosure
	Mobitai Communications	2005.05.01~2007.12.31	Provides Mobitai related telecommunications services	Non-disclosure
Network interconnection	Chunghwa Telecom Co., Ltd.	2005.01.01 ~ 2005.12.31 (Under negotiation) (Note 1)	Network interconnection contract	Non-disclosure
	VIBO Telecom Co., Ltd.	2006.01.16~2007.01.15	Voice and short message service contract	Non-disclosure
	New Century InfoComm Tech Co., Ltd.	2005.05.01 ~ 2006.04.30	Network interconnection contract	Non-disclosure
	Taiwan Fixed Network Co., Ltd.	2004.07.01 ~ 2006.06.30	Network interconnection contract	Non-disclosure
	Asia Pacific Broadband Telecom Co., Ltd.	2005.10.15 ~ 2006.10.14	Network interconnection contract	Non-disclosure
	Asia Pacific Broadband Wireless Communications Inc.	2003.07.23~date	Voice and short message service contract	Non-disclosure
	TransAsia Telecommunications Inc.	2004.03.15 ~ 2005.03.14 (Under negotiation) (Note 2)	Voice and short message service contract	Non-disclosure
	Mobitai Communications	2004.09.13 ~ 2005.09.12 (Under negotiation) (Note 2)	Voice and short messaging service contract	Non-disclosure
	Far EasTone Telecommunications Co., Ltd.	2004.02.10 ~ 2005.02.09 (Under negotiation) (Note 2)	Voice and short messaging service contract	Non-disclosure
	KG Telecommunications Co., Ltd.	2004.03.01~2005.02.28 (Under negotiation) (Note 2)	Voice and short message service contract	Non-disclosure
First International Telecom Corp.	2005.05.01 ~ 2006.04.30	Voice and short message service contract	Non-disclosure	

(Continued)

Nature	Counterpart	Contract period	Description	Restriction clauses
Handset purchase	Synnex Technology International Corp.	2004.05.01~2005.04.30 (The contract extends to 2006.04.30)	TWM accepts Synnex's consignment to sell handsets and related products	Non-disclosure
Equipment purchase	Nokia Corporation	2004.09.12~date	Equipment contract for the supply of Phase II 3G system	Non-disclosure
Customer service	Taiwan Teleservices & Technologies Co., Ltd.	2005.01.01~2005.12.31 (Under negotiation)	Additional items in contract: Design integration, maintained and operation of 3G mobile telecommunications of customer service line and of CRM to specific appointed by TWM.	Non-disclosure; restriction on competition
Joint venture	Bharti (India), Globe Telecom Philippines), Maxis (Malaysia), Optus (Australia), SingTel(Singapore), Telkomsel (Indonesia)	2004.11.03~date	Joint venture agreement	Non-disclosure
Bank loans	ICBC, Industrial Bank of Taiwan and 14 other banks	2000.12.15~2008.06.12	NT\$3 billion guarantee and its subordinate debt, such as interest payable, etc.	Certain restrictions on debt ratios, current ratios, and long-term solvency ratios
	ICBC, Industrial Bank of Taiwan and 18 other banks	2003.06.26~2010.09.01	Syndicated loan of NT\$12 billion to adjust financial structure and raise working capital	Certain restrictions on debt ratios, current ratios, and long-term solvency ratios

Note 1: When the network interconnection contract expires, should the two parties not be able to conclude their negotiations within three months after their commencement, the process shall be as follows:

- (1) If the two parties concur to continue their negotiations, the contract terms will be the same as the originally negotiated terms, until a new agreement is reached.
- (2) Either party can appeal to the Directorate General of Telecommunications for a ruling. Prior to the date of such a ruling, the contract terms shall be the same as those originally negotiated. Following the ruling, the new contract terms will be formed based on the ruling.

Note 2: The negotiation for the agreement for the next year shall commence three months prior to the expiry date of the original agreement. If the negotiation is not finalized prior to the said expiry date, the parties agree to perform their obligations based on the original agreement until such time when the negotiation is finalized by the parties.

Significant Lawsuits and Non-litigious Matters

Summary of all material litigation, administrative proceedings, and other non-litigious matters in which the Company or its directors, supervisors, managers and major shareholders (with more than 10% shareholding), or subsidiaries were involved in the past two years up to the report's printing date, that may have a significant impact on shareholders' equity or the share price are listed below:

1. The Company

- (1) Damage claim against Chunghwa Telecom Co., Ltd.:
Parties Involved: The Company is the plaintiff and Chunghwa Telecom Co., Ltd. is the defendant
Amount Claimed: NT\$211,521,377
Date of Filing: July 26, 2004.
Grounds for Lawsuit: In accordance with the Agreement on Network Interconnection entered into by the Company and Chunghwa Telecom Co., Ltd., CHT shall not activate the type of calls not specified in the Agreement. However, CHT had completed the unlawfully switched communications generated from CityPhone and Best Way Telecommunication Co., Ltd. Such communications caused the Company great losses in interconnection fees. The Company thus filed a lawsuit demanding compensation for the amount stated above.
Status: The lawsuit is currently pending in the Taipei District Court.

- (2) Damage claim against Chunghwa Telecom Co., Ltd.:
Parties Involved: The Company is the plaintiff and Chunghwa Telecom Co., Ltd. is the defendant
Amount Claimed: NT\$239,080,365
Date of Filing: November 2005.
Grounds for Lawsuit: There was a shortfall in payment of interconnection charges associated with various categories of traffic transmitted to the Company during the period from September 2002 to March 2004 by CHT. Despite the Company's demand for payment, CHT failed to make up for the shortfall. The Company therefore sought and consequently obtained an administrative decision from the Directorate General of Telecommunications, under the Ministry of Transportation and Communications, against CHT on September 26, 2005, for CHT to make up for the aforementioned shortfall calculated based on the agreed rates for traffic transmissions specified in the relevant contract. The Company thereafter initiated a

legal action against CHT to claim damages incurred by it in this regard, calculated to be the aforementioned amount, on the grounds including non-performance of debt obligations by CHT pursuant to the relevant law.

Status: The lawsuit is currently pending in the Taipei District Court.

2. The Company's directors, supervisors, managers and major shareholders (with more than 10% shareholding): None.

3. The Company's subsidiaries

- (1) TransAsia Telecommunications Inc.
Damage claim by TransAsia Telecommunications Inc. (TAT) against Chunghwa Telecom Co., Ltd. (CHT):
Parties Involved: TAT is the plaintiff and CHT is the defendant
Amount Claimed: NT\$40,946,017
Date of Filing: July 26, 2004.
Grounds for Lawsuit: In accordance with the Agreement on Network Interconnection entered into by TAT and CHT, CHT shall not activate the type of calls not specified in the agreement. However, CHT had completed the unlawfully switched communications generated from CityPhone and Best Way Telecommunication Co., Ltd. Such communications caused TAT great losses in interconnection fees. TAT therefore filed a lawsuit demanding compensation for the amount stated above.
Status: The lawsuit is currently pending in the Taipei District Court.
- (2) Mobitai Communications Co., Ltd.
Damage claim by the Company's affiliate, Mobitai Communications Co., Ltd. (Mobitai) against Chunghwa Telecom Co., Ltd. (CHT)
Parties Involved: Mobitai is the plaintiff and CHT is the defendant.
Amount Claimed: NT\$18,216,593
Date of Filing: August 2005.
Grounds for Lawsuit: In accordance with the Agreement on Network Interconnection entered into by Mobitai and CHT, CHT shall not activate the type of calls not specified in the Agreement. However, CHT had completed the unlawfully switched communication generated from CityPhone and Best Way Telecommunication Co., Ltd. Such communication caused Mobitai great losses in interconnection fees and therefore Mobitai filed a lawsuit demanding com-

pensation for the amount stated above.
Status: The lawsuit is currently pending in the Taipei District Court.

Violation of Regulations and Internal Policies

1. Violation of regulations
 It was asserted by the Ministry of Transportation and Communications in its letter to the Company with reference number Chiao-Yu-I-Tze 0940006108, dated 3 June 2005, that the Company has failed to properly verify and deal with its subscribers' information, conduct weekly reviews of its subscribers' information, and properly implement the procedures for the execution of the service contracts with its subscribers. The Company was therefore in contravention of Articles 73, 74, and 78 of Regulations Governing Mobile Communication Business. As such, a fine of NT\$400,000 was imposed on the Company pursuant to Article 63 of the Telecommunications Act.

2. Violation of internal policies
 None

3. Improvement
 The aforementioned violation resulted from suspected distribution of a substantial number of forged pre-paid cards by a distributor. The Company has filed for damages from the relevant distributor and has requested its agents to exercise stringent control over the conduct of distributors. In addition, the Company now strictly enforces the official requirement of two personal identification documents for each application for subscription and restricts the number of pre-paid cards that can be subscribed to by foreigners. This should prevent forgery in this regard.

Impact of Changes in Brand Image to the Company's Risk Management Policies: None.

Risk Management Committee

Risk Management Policies

1. Promote a management (business) model based on risk management.

2. Establish a risk management structure that can effectively cite, evaluate, supervise and control risks.

3. Create a company-wide risk management structure that can limit risks to an acceptable range.

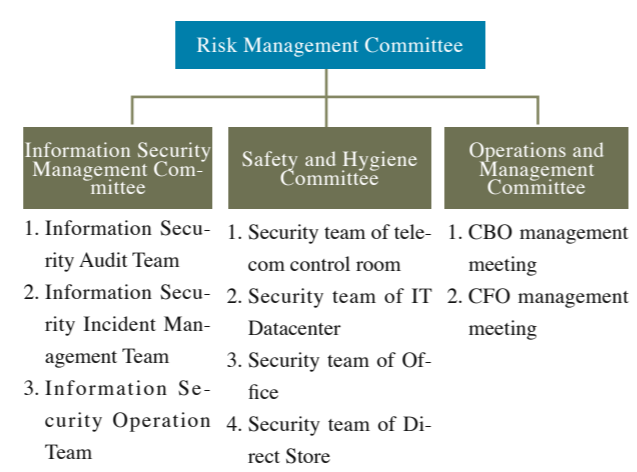
4. Set up good risk management practices and continue to improve upon them.

Risk Management Structure

1. The Company's risk management structure is made up of three committees. The functions of each committee are detailed as follows:

- (1) Operations and Management Committee: Conduct periodic reviews of business operating risks with regards to budget execution, financial control and the reliability of the Company's financial reports.
- (2) Safety and Hygiene Committee: Tasked with supervising and reducing potential risks to workers' health and safety.
- (3) Information Security Management Committee: Supervise important information assets for confidentiality, integrity, availability and regulations compliance to control and reduce operational risks to an effective and reasonable level.

2. Each committee is further divided into several sub-committees to support their work in managing risks. A brief organization chart follows:



The Company, under the principle of "Customer Care", continues to build upon its excellent brand image, improve its customer mix, and develop innovative technology to provide the best mobile services and solutions. The Company is also keen on giving back to society and fulfilling its role as a responsible corporate citizen. In 2005, the Company was awarded the "2005 Most Admired Company in Taiwan" by CommonWealth magazine, ranking first in the telecommunications services category.

Quality Customers

Significant contributions and loyal customers are the basis for the company's continuing success. In 2005, even though the Company's overall subscriber base dropped 3.7%, revenue still rose 6%, outpacing the industry's average growth rate of 3.6%. This can be attributed to the effects of having better quality customers due to the following:

- 1. Increase in Average Revenue per User: In 2005, the Company's blended ARPU increased 23% to NT\$845, a much higher growth rate compared to its competitors.
- 2. Decrease in Voluntary Churn Rate: Post-paid customers' monthly voluntary churn rate declined from 1.9% in 2004 to 1.6% in 2005. Even after the implementation of mobile number portability, the churn rate did not rise.
- 3. Increase in Percentage of Medium and High Contribution Customers: Percentage of medium and high contribution grew by around 10% compared with the previous year.

Excellent Brand Image

With the launch of 3G and the implementation of mobile number portability last year, the Company will continue to build upon its "Customer Care" motto. Through innovative product offerings, high quality customer services, excel-

lent distribution channels and a positive brand image, the Company strives to increase brand loyalty and become the telecommunications company of choice of customers.

First to Discover Customers' Needs

The Company's sales and marketing strategy is based on the concept of its "Customer Care" motto. The Company has the "My TWM" series, such as the "401/801/901" rate plans that fulfill the needs of various market segments. The Company also launched the "myZone 268/568" regional based rate plans that no longer differentiate between on-net and off-net calls. The Company is determined to continue to introduce innovative products to the market and be the first to realize and satisfy customers' needs.

Integration of Three Networks to Provide Better Service

Through the integration of TWM, Mobitai and TAT's networks, the Company is able to provide not only better network quality, but also better pricing and customer service with over 450 "myfone" stores. The Company was awarded the "2005 Excellent Service Award" by Global Views Monthly, ranking first in the telecommunications services sector in Taiwan.

Establish Brand Loyalty with the Youth Market

In order to develop brand loyalty among the youth and establish TWM as their telecommunications operator of choice for life, the Company launched the "fun" prepaid card program with the aim of making it the first SIM card for the youth. This has enabled the Company to maintain its leading positioning in the prepaid card market. The Company is further rolling out new and innovative content for value added-services to satisfy the taste of the youth market.

"2005 Most Admired Company Survey" by CommonWealth magazine

This survey was conducted in accordance with international standards and based on ten criteria. The companies selected to be surveyed are all profitable and revenue leaders within their respective industry. The scope of the survey encompassed a total of 304 companies covering 22 industries.





Tailored Services with the Customer in Mind

The Company was the first to soft launch its 3G services and provided users with a free trial period to let them test out 3G services. The Company also launched an “A+ VIP” club with various promotions and customized services for VIPs. As for enterprise customers, the Company has a “Business Solutions” package that provides tailored services.

The Company hopes to incorporate the “Brand Experience” concept into various media such as product design, advertising, public affairs and distribution channels. It also encourages all its employees to be motivated in satisfying customers’ needs and enhancing the Company’s brand value.

Innovative Research and Development

“Providing better service quality and more complete service functions to maintain its technological leadership” is the Company’s research and development team’s main objective. The Company’s research and development covers a wide range of areas – from basic voice and messaging services to advanced wireless and automated network services and 3G wireless services. The Company’s goal is to provide the best mobile services and enable mobile communications to create a new lifestyle for its customers.

Impact of Research and Development Plans on the Company’s Finances

Research and development costs and its percentage of total revenue for the last two years and up to the publication date for 2006 are shown in the table below. In 2006, the Company plans to spend another NT\$49.66m in research and development. All of the R&D plans will provide advanced technology aimed at increasing customer satisfaction. This in turn will increase revenues and further growth.

Year	2004	2005	As of February 01, 2006
R&D Expense (NT\$'000)	30,226	34,197	2,608
as % of total revenue	0.07%	0.07%	0.06

Major Research and Development Achievements

The Company’s research and development in 2005 was focused on implementing innovative 3G Catch services and related service platforms, including personalized 3G mobile portal, integrated user portal, video phone, TV streaming, MP3/MV download, video mail, 3G USIM phone book synchronization, IN (intelligent network) solution for prepaid data access, etc. These new service platforms were set up to effectively satisfy the diverse mobile broadband communication needs of its customers and increase the revenue from its data services.

The Company also made concrete progress in the integration of wireless technologies, including Parlay X (Mobile Web Service), WLAN/3G, etc. The “3G and WLAN Integrated video communication solution” also received strong support from the government and will serve as the benchmark for the nation’s future telecommunications development.

Type	Project Name	Project Details
	3G and WLAN integrated Video Communication Solution	Working in cooperation with Acer Inc. and funded by the Ministry of Economic Affairs, this project focuses on developing 3G and WLAN integrated video communication solution to provide 3G/WLAN seamless service network in the Nankang WLAN hot zone.
	Next Generation Mobile Service Integration Platform: Year II	This MOEA-sponsored R&D project, began in July 2004, is led by TWM and supported by CHT, FET, APBW and VIBO. Its goal is to develop next generation value-added services and content integration platforms in order to fulfill future 3G/WLAN wireless broadband service needs. Now in its second year, the project is focused on the development of innovative service platform technologies.
	Feasibility Study for 3G TDD Spectrum System Development	This is an MOEA-funded project. The alliance includes TWM, CHT, FET and VIBO. TWM is responsible for B3G/4G technologies study and the evaluation and analysis of the feasibility of using 3G on existing TDD spectrum.
New Network Related Services	GSM Communication Evaluation for Taiwan High Speed Railway	Study of radio signal quality on vehicle speeds > 250Km/Hr, based on GSM900/1800MHz technology
	Study of Communication Technologies Beyond 3G	Topics include: Multi-Input, Multi-Output OFDM technology “Carrier synchronization and recovery” of communication system under high speed
	Optimal Planning and Radio Positioning for Indoor/Outdoor Base Stations	Study and rollout of GSM coverage and electric magnitude simulation platform; study of GSM mobile positioning technology.
	Mobile Service Alliance – Mobile Game Technology Development Evaluation Project	This is a MOEA-funded mobile service technology development evaluation project. The R&D alliance includes TWM, CHT, FET, VIBO and APBW. TWM leads in mobile online game enabled technology development, R&D and related technologies.
	3G Value-Added Service Platforms Development	3G service platforms development for video mail, streaming TV, 3G online gaming, MP3 download, music video download, USIM phonebook synchronization, matching & chatting integrated with MMS, etc.
	Mobile Secretary Service Platform Development	Develop a platform that can play a personal secretary’s role such as answering incoming phone calls when user is not available
	Real Time Charging IN and Billing System for Prepaid Data Access	Develop real time charging IN (intelligent network) and billing system to provide prepaid users the same data access as postpaid users
New Services	Service Delivery and Management Platform Development	Designed for service providers, this provides an easier interface to deliver new services and promote the whole mobile Internet industry
	User Portal Development	Develop an interactive web portal for TWM subscribers and investors to increase user satisfaction, strengthen the brand image, create a membership mechanism, simplify user authentication process and provide flagship cyber e-commerce service



TVBS Live



FTV



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Future Research and Development Plans

1. Strategic Investments: Around NT\$6m in R&D expense (Hardware)

Project Name	Project Details	Status	Finish Date	Factors for Success
Next Generation Mobile Service Integration Platform – the third year project	The last 3 months of the total 18 months MOEA funding project. The effort will focus on to integrated with TWM backend system and billing mechanism integration.	The project is to close in Mar. 2006. Current focus is on system integration and service demo.	May 2006	TWM has possession of key technologies for NG mobile service integration platform and has been working with content providers to develop innovative services.
Voice/fax/Video FMC Integration Technologies Development	Plan to develop FMC (Fixed Mobile Convergent) platform to facilitate voice/fax/video services.	Working on WiFi/Cellular dual network integrated service platform development	Aug. 2006	TWM has possession of SIP/Media Gateway integration technologies.
Mobile Community Service Platform Interface Integration Technologies Development	Plan to develop mobile community service platform, including user authentication, IM (Instant Messaging), Presence, Location, voice call, payment, etc.	Working with content provider for service planning and innovative service development	Sep. 2006	TWM has possession of know-how and key technologies.
OMA DRM 2.0 Digital Right Management Technology Development for Digital Content	To develop the OMA DRM (Digital Right Management) 2.0 platform to provide digital content right protection of valuable contents.	Working on OMA DRM key management platform specification and key component design.	Oct. 2006	TWM has possession of the newest OMA specification and the handset roadmap for DRM.
M-Taiwan Project: M-University Mobile and WiFi/3G Dual Network Integrated Service Technologies Development	Funding by the Ministry of Economic Affairs, team up with Acer to develop mobile and WiFi/3G dual network integrated services platform to provide the innovative service in the university campus.	Service specification is finalized. Currently working on service development.	Oct. 2006	TWM has possession of WiFi/Cellular dual network service development technologies.
Mobile TV and 3G Integration Technologies Development	Plan to develop Mobile TV service management platform to facilitate the 3G return path to benefit TWM data service growth.	Working on mobile TV service management platform specification.	Dec. 2006	TWM has possession of DVB-H and ESG related technologies know-how, including service platform and E-commerce platform integration technologies.
WiMAX and 3G Integration Technologies Development	Feasibility study of WiMAX and 3G integration system to leverage coming WiMAX new technology as the extension of our 3G infrastructure.	Working on WiMAX/3G integrated packet data gateway specification.	Nov. 2007	TWM possession of the key technologies.

2. System Investments : Around NT\$12.3m in R&D expense

Project Name	Project Details	Status	Finish Date	Factors for Success
Mobility management research	Based on GSM/GPRS network traffic to build up mobility model. It will be reference to execute rehome engineering and improve inter 2G/3G network quality	Already collected PM data of 2G and 3G and will have primary result in near future	Jul. 2006	Followed the technology of mobility modeling and network topology to decrease signaling load and well utilize equipment efficiency
Optimal planning & radio positioning discussion for indoor/outdoor base stations	Carried over the project of tool development of indoor site positioning. Also new added functions of cable optimization and optimal indoor antenna positioning	In progress	Sep. 2006	Followed the technology of GSM coverage simulation software and GSM positioning
Advanced study of technology beyond 3G	Discussed and studied advanced technology beyond 3G	In progress	Oct. 2006	Followed advanced beyond 3G mobile technology
3G technology, application & study; 4G technology pre-study	Based on 3G technology and related application to study 3G marketing in the world. It will be used as reference for 4G pre-study and spectrum allocation in the world	In progress	Dec. 2006	Followed technology and marketing strategy from worldwide mobile operators, also followed 4G pre-study
Research for the Base Station's Electronic Wave Impact to Human's Health	Research for the base stations electronic wave impact to human's health from all aspects	In discussion with NTU, kick-off from Apr, 2006 and last 1 year	Mar. 2007	Health study and experience collection from worldwide operators in all aspects

3. VAS investments : Around NT\$53.47m in R&D expense

Project Name	Project Details	Status	Finish Date	Factors for Success
Service Platform Monitoring & Alarm System Development	Develop a real time, proactive service platform monitoring, alarm and traffic analysis system which enables operation and maintenance personnel to detect and remove service outages in the shortest amount of time possible. Objective: zero service impact and customer complaints.	Completed technical specifications and system design. Scheduled to begin implementation in late March 2006.	Sep. 2006	Has acquired key monitoring and alarm generation mechanisms as well as specifications for integration with other TWM systems.
Service Delivery and Management Platform Development phase II	Service delivery and management platform development for service providers easier interface to deliver a new service and therefore to promote the whole mobile internet industry	Evaluating technical specification and system design.	Sep. 2006	Has acquired key developing techniques for integration with services.
Video Portal Development	Video portal development to provide video value added services for 3G subscribers with video phone	Completed technical specification and system design.	May 2006	Has acquired key developing techniques for integration with services.
2D Barcode (QR) application services	Make use of 2D Barcode technology to simplify and enhance the content download UI and flows.	Evaluating technical specification and system design.	Oct. 2006	Has acquired key developing techniques for integration with services.

Corporate Social Responsibility

Corporate social responsibility is not only a key measurement of a company's competitiveness, but also a demonstration of a company's core value. The Company strives to maximize the benefits to employees, corporate shareholders and society.

The Company is the first operator to form a foundation to give back to society. The Company has received numerous acknowledgements for its social contributions, and was awarded the "Corporate Social Responsibility Award" by Global Views Monthly, placing it first in Taiwan's telecommunications services sector.



"Corporate Social Responsibility Award" by Global Views Monthly

Global Views Monthly's Corporate Social Responsibility Award was conducted based on the results of the Corporate Responsibility questionnaire. In the first round, after applying weighting based on German CSR research institution's OEKOM method, the top 50 corporations were selected. In the second round, after more examinations, 25 corporations in 5 industries were nominated. In the final round, 7 corporations were selected to receive the award.

9

Financial Report

Financial Status

Condensed Financial Statements for the Past Five Years

Balance Sheet

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

1. Funds and Long-Term Investments

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

2. Intangible Assets

The Company paid NT\$10.2 billion in bid payment for its 3G service license and booked it under intangible assets in 2002. The Company launched 3G services in 2005 and began amortizing the license.

3. Other Liabilities

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

4. Long-Term Liabilities

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

Unit: NT\$'000

	2001	2002	2003	2004	2005
Current assets	17,722,981	19,093,320	26,069,897	21,449,832	25,779,977
Funds and long-term investments	22,094,573	45,304,537	26,768,421	23,737,612	21,091,320
Fixed assets	59,343,982	63,195,930	62,505,230	60,190,612	57,638,728
Intangible assets	1,187	10,281,985	10,281,784	10,281,583	9,720,218
Other assets	6,255,839	5,075,948	4,693,947	5,594,292	3,139,195
Total assets	105,418,562	142,951,720	130,319,279	121,253,931	117,369,438
Current liabilities					
Before appropriation	11,444,638	10,541,094	17,189,229	12,611,294	15,477,853
After appropriation	19,459,663	19,829,902	28,692,202	25,185,664	(Note 1)
Long-term liabilities	28,129,827	64,244,807	43,808,584	27,486,226	14,584,125
Other liabilities	6,372,928	3,930,493	130,700	183,590	318,704
Total liabilities					
Before appropriation	45,947,393	78,716,394	61,128,513	40,281,110	30,380,682
After appropriation	53,962,418	88,005,202	72,631,486	52,855,480	(Note 1)
Capital stock	37,664,190	45,026,835	46,998,258	48,883,886	49,492,065
Capital surplus	2,537,463	3,004,199	3,366,010	7,258,873	7,905,337
Retained earnings					
Before appropriation	19,367,013	19,038,605	21,317,020	26,393,440	29,881,787
After appropriation	4,165,879	7,983,419	9,814,047	13,819,070	(Note 1)
Unrealized valuation loss on long-term investments	-	(317,007)	-	-	-
Translation adjustments	3,262	7,666	34,450	(1,631)	3,240
Total stockholders' equity					
Before appropriation	59,471,169	64,235,326	69,190,766	80,972,821	86,988,756
After appropriation	51,456,144	54,946,518	57,687,793	68,398,451	(Note 1)

Note 1: 2005 earnings appropriation proposal has yet to be approved in the shareholders' meeting.

Note 2: 2001-2005 financial information has been duly audited by independent auditors.

Income Statement

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

1. Operating Income

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

2. Non-Operating Income

In 2003, non-operating income increased due to in-

vestment income from TAT. In 2004, non-operating income grew by over 159% due to dividend income of NT\$1.25bn from CHT and gains of NT\$1.04bn from disposal of CHT shares.

3. Non-Operating Expense

Interest expenses increased in 2003 as a result of increases in long-term debt in 2002. Non-operating expenses increased in 2003 and 2004 due to write-off of idle assets of around NT\$900 million each year. Loss from disposal of fixed assets increased in 2005 due to the sale and write-down of fixed assets.

Unit: NT\$'000

	2001	2002	2003	2004	2005
Revenue	48,811,979	45,352,378	44,995,790	44,786,009	47,408,572
Gross profit	34,968,166	28,957,775	27,140,642	26,514,232	28,056,234
Operating income	17,793,511	15,073,699	15,201,619	16,295,485	17,170,785
Non-operating income	1,624,827	1,888,631	2,194,575	5,680,226	3,839,134
Non-operating expenses	1,387,840	1,552,683	2,929,394	2,559,801	2,698,462
Pre-tax income	18,030,498	15,409,647	14,466,800	19,415,910	18,311,457
Net income	16,750,472	14,937,320	13,344,447	16,658,456	16,236,698
EPS (NT\$)	3.69	3.20	2.91	3.55	3.31

Note: 2001-2005 financial information has been duly audited by independent auditors.

Independent Auditors and Audit Opinions for the Past Five Years

Year	Audit Firm	Auditor's Name	Opinion
2001	Deloitte & Touche	Jason Hsia, Morris Yang	Modified unqualified opinion
2002	Deloitte & Touche	Peter Lin, Morris Yang	Modified unqualified opinion
2003	Deloitte & Touche	Charles Yen, Morris Yang	An unqualified opinion
2004	Deloitte & Touche	Peter Fan, Morris Yang	An unqualified opinion
2005	Deloitte & Touche	Peter Fan, Vita Kuo	Modified unqualified opinion

Reasons for Changes of Auditors in the Past Five Years

Jason Hsia and Morris Yang were the assigned certified auditors for TWM in 2001. In 2002, regular job rotations within Deloitte & Touche resulted in the replacement of Jason Hsia with Peter Lin. In June 2003, Deloitte & Touche merged with T.N. Soong & Co. Accordingly, the new company kept the

name of Deloitte & Touche. Charles Yen and Morris Yang were then assigned as auditors to TWM. In 2004, Peter Fan and Morris Yang were the assigned certified auditors for TWM. In 2005, Peter Fan and Vita Kuo were the assigned certified auditors for TWM.

Fee paid to independent auditor

Unit: NT\$'000

Ac-counting Firm	Name of Certified Public Accountant	Audit Fee	Non-audit Fee					Whether the Certified Public Accountant's Audit Period Covers an Entire Fiscal Year			Note
			System Design	Registration	Human Resource	Other	Sub-total	Yes	No	Audit Period	
Deloitte & Touche	Peter Vita Fan Kuo	8,900	-	350	-	14,863	15,213	v		Fee for other non-audit services was mainly for the reconciliation between ROC GAAP and US GAAP, tax projects, etc.	

Note 1 : Compared to 2004, audit fee increases NT\$2,260,000 in 2005.

Has the Company's chairman, president, accounting or finance executives worked for the auditing company or its affiliates over the past year: No

Financial Analysis for the Past Five Years

		2001	2002	2003	2004	2005
Financial structure	Debt-to-asset ratio	43.59%	55.07%	46.91%	33.22%	25.88%
	Long-term capital to fixed assets ratio	147.62%	203.30%	180.78%	180.19%	176.22%
Solvency	Current ratio	154.86%	181.13%	151.66%	170.08%	166.56%
	Quick ratio	145.93%	176.02%	147.86%	166.55%	163.49%
	Interest cover	1,365.00%	1,558.41%	1,013.37%	1,866.23%	3,181.80%
Operations	Accounts receivable turnover (x)	5.64	6.29	7.57	7.43	7.77
	Average collection days	64.72	58.03	48.22	49.13	46.98
	Accounts payable turnover (x)	12.46	11.63	12.16	12.81	13.57
	Fixed asset turnover (x)	0.82	0.72	0.72	0.74	0.82
	Total asset turnover (x)	0.46	0.37	0.33	0.37	0.40
Profitability	Return on assets	19.36%	12.67%	10.64%	13.90%	13.98%
	Return on equity	33.75%	24.15%	20.00%	22.19%	19.33%
	% of paid-in capital	47.24%	33.48%	32.35%	33.15%	34.67%
	Operating profit	47.87%	34.22%	30.78%	39.49%	36.98%
	Income before tax	34.32%	32.94%	29.66%	37.20%	34.25%
	Net profit margin	3.69	3.20	2.91	3.55	3.31
	EPS (NT\$)	207.22%	187.09%	120.10%	198.95%	161.03%
Cash flow	Cash flow ratio	66.20%	81.61%	108.79%	136.55%	163.41%
	Cash flow adequacy ratio	23.53%	9.45%	10.06%	12.01%	11.23%
	Cash reinvestment rate	1.42	1.36	1.48	1.42	1.43
Leverage	Operating leverage	1.06	1.08	1.12	1.07	1.04
	Financial leverage	21,422,027	19,292,830	20,060,377	21,192,488	22,576,687
Others	EBITDA (NT\$'000)	43.89%	42.54%	44.58%	47.00%	47.62%
	EBITDA margin	749	651	582	693	846
	ARPU (NT\$)	11,245,368	10,920,288	11,612,586	11,720,178	12,213,446
	MOU ('000)					

Note:2001-2005 financial information has been duly audited by independent auditors.

Explanation for items with deviation exceeding 20% over the past two years:

In 2005, debt-to-asset ratio decreased 7.34% due to the early repayments of long-term bank loans, the conversion of convertible bonds to common shares, and the buyback of outstanding convertible bonds before maturity in 2005.

In 2005, interest cover ratio increased 1,315.57% because of the decrease in interest expenses that resulted from the early repayments of long-term bank loans, the conversion of convertible bonds to common shares, and the buyback of outstanding convertible bonds before maturity in 2005.

Formulas for the above table:

- Financial Structure
 - Debt to Asset Ratio = Total Liabilities / Total Assets
 - Long-term Capital to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets
- Solvency
 - Current Ratio = Current Assets / Current Liabilities
 - Quick Ratio = (Current Assets - Inventory - Prepaid Expenses) / Current Liabilities
 - Interest Cover = Income before Interest and Tax / Interest Expenses
- Operations
 - Accounts Receivable Turnover = Net Revenue / Average Accounts Receivable
 - Average Collection Days = 365 / AR Turnover Ratio
 - Accounts Payable Turnover = COGS / Average Accounts Payable
 - Fixed Assets Turnover = Net Revenue / Net Fixed Assets
 - Total Assets Turnover = Net Revenue / Total Assets
- Profitability
 - Return on Assets = (Net Income + Interest Expenses * (1 - Tax Rate)) / Average Assets
 - Return on Equity = Net Income / Average Equity
 - Net Profit Margin = Net Income / Net Sales
 - EPS = (Net Income - Preferred Stock Dividend) / Weighted Average Outstanding Shares
- Cash Flow
 - Cash Flow Ratio = Cash Flow from Operating Activities / Current Liabilities
 - Cash Flow Adequacy Ratio = Net Cash Flow from Operating Activities of the Past 5 Years / (Capital Expenditures + Increases in Inventory + Cash Dividend) of the Past 5 Years
 - Cash Reinvestment Rate = (Cash Flow from Operating Activities - Cash Dividends) / (Gross Fixed Assets + Long-term Investments + Other Assets + Working Capital)
- Leverage
 - Operating Leverage = (Net Revenue - Variable Operating Costs and Expenses) / Operating Income
 - Financial Leverage = Operating Income / (Operating Income - Interest Expense)
- Others
 - EBITDA = Operating Income + Depreciation & Amortization
 - EBITDA Margin = EBITDA/Net Revenue
 - ARPU = Net Telecom Service Revenue / Average Number of Subscribers
 - MOU = Outgoing & Incoming Minutes

- Other assets decreased mainly because of the sale of telecommunications equipment, which is recorded as non-operating assets in 2004, to Taiwan Fixed Network Co., Ltd. in 2005.
- Current liabilities increased mainly because of an increase in the payables on equipment and constructions arising from the expansion of 2G control rooms and 3G network constructions in 2005; an increase in accrued commission expenses resulting from the franchised store increase and new commission plans in place in 2005; and the transfer of 1st domestic unsecured bonds matured in 2006 from bonds payable to current liabilities.
- Long-term liabilities decreased mainly because of the early repayments of long-term bank loans in 2005; the conversion of convertible bonds to common shares; and the buyback of outstanding convertible bonds before maturity.

Balance Sheet (2005 versus 2004)

Unit: NT\$'000, %

	2005	2004	YoY change	
			Amount	%
Current assets	25,779,977	21,449,832	4,330,145	20.19
Fixed assets	57,638,728	60,190,612	(2,551,884)	(4.24)
Other assets	3,139,195	5,594,292	(2,455,097)	(43.89)
Total assets	117,369,438	121,253,931	(3,884,493)	(3.20)
Current liabilities	15,477,853	12,611,294	2,866,559	22.73
Long-term liabilities	14,584,125	27,486,226	(12,902,101)	(46.94)
Total liabilities	30,380,682	40,281,110	(9,900,428)	(24.58)
Paid-in capital	49,492,065	48,883,886	608,179	1.24
Capital surplus	7,905,337	7,258,873	646,464	8.91
Retained earnings	29,881,787	26,393,440	3,488,347	13.22
Total shareholders' equity	86,988,756	80,972,821	6,015,935	7.43

Financial and Operating Results Analysis

Financial Results

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

- Current assets increased mainly because of receiving allocation in cash from the proceeds of subsidiaries' liquidation in 2005; and collecting the proceeds of the sale of telecommunications equipment to Taiwan Fixed Network Co., Ltd. in 2005.

2. Impact on changes in financial results: No significant impact

3. Preventative plans: Not applicable.

Operating Results

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

Non-operating income and gains decreased mainly because of the recognition of the gain on disposal of shares of Chunghwa Telecom Co., Ltd. in 2004; a decrease in cash dividends received from Chunghwa Telecom Co., Ltd. in 2005; and a decrease in the 2005 net income of TransAsia Telecommunications Inc., resulting in a decrease in the investment income recognized by the equity method.

Income Statement (2005 versus 2004)

Unit: NT\$'000, %

	2005	2004	YoY change	
			Amount	%
Revenue	47,408,572	44,786,009	2,622,563	5.86
Operating cost	(19,352,338)	(18,271,777)	1,080,561	5.91
Gross profit	28,056,234	26,514,232	1,542,002	5.82
Operating expense	(10,885,449)	(10,218,747)	666,702	6.52
Operating income	17,170,785	16,295,485	875,300	5.37
Non-operating income	3,839,134	5,680,226	(1,841,092)	(32.41)
Non-operating expense	(2,698,462)	(2,559,801)	138,661	5.42
Income before tax	18,311,457	19,415,910	(1,104,453)	(5.69)
Net income	16,236,698	16,658,456	(421,758)	(2.53)

2. Sales forecast and reasoning behind it. Potential impact to the Company's business and responding proposal:

- (1) If the Company's operating strategy, market situation, economic environment or other internal or external factors has changed or expects to have any significant change, explain the facts, influencing factors, and the possible impact to the Company's future finance and responding proposal : Not applicable
- (2) Sales forecast for next year. Explain the major factors that contributes to the growth or decline of the Company's sales forecast : Please refer to "Letter to Shareholders"

Consolidated Financial Analysis (2005 versus 2004)

		2004	2005	
Financial structure	Debt-to-asset ratio	34.17%	26.73%	
	Long-term capital to fixed assets ratio	161.83%	158.67%	
Solvency	Current ratio	174.46%	194.69%	
	Quick ratio	171.18%	191.31%	
	Interest cover	1919.89%	3266.95%	
Operations	Accounts receivable turnover (x)	6.64	7.62	
	Average collection days	54.97	47.90	
	Inventory turnover (x)	22.18	25.09	
	Accounts payable turnover (x)	11.78	13.43	
	Fixed asset turnover (x)	0.81	0.93	
	Total asset turnover (x)	0.44	0.50	
Profitability	Return on assets	13.32%	13.82%	
	Return on equity	22.31%	19.37%	
	% of paid-in capital	Operating profit	39.06%	41.01%
		Income before tax	40.82%	38.13%
	Net profit margin	30.68%	27.47%	
	EPS (NT\$)	3.55	3.31	
Cash flow	Cash flow ratio	201.63%	157.87%	
	Cash flow adequacy ratio	136.26%	161.30%	
	Cash reinvestment rate	16.06%	12.15%	
Leverage	Operating leverage	1.54	1.61	
	Financial leverage	1.06	1.03	

Note1: Debt-to-asset ratio decreased because of the early repayments of long-term bank loans, the conversion of convertible bonds to common shares, and the buyback of outstanding convertible bonds before maturity from TWM in 2005.

Note2: Interest cover increased because of TWM's decrease in interest expenses that resulted from the early repayments of long-term bank loans, the conversion of convertible bonds to common shares, and the buyback of outstanding convertible bonds before maturity in 2005.

Note3: Cash flow ratio decreased because of the increase in current liabilities from TWM:

(1) The increase in the payables on equipment and constructions arising from the expansion of 2G control rooms and 3G network constructions in 2005

(2) The increase in accrued commission expenses resulting from the franchised store increase and new commission plans in place in 2005

(3) The transfer of 1st domestic unsecured bonds matured in 2006 from bonds payable to current liabilities.

Note4: Cash reinvestment rate decreased because of subsidiaries liquidation in 2005 and the changes in consolidated entities in accordance with the revised Statement of Financial Accounting Standards(SFAS) No. 7.

Cash Flow Analysis

1. 2005 cash flow analysis:

- (1) Cash flows from operating activities: Cash inflow decreased compared to 2004 due to the decrease in non-operating income which translated to a decrease in net income
- (2) Cash flows from investing activities: Cash inflow came from equity reduction of subsidiaries and disposal of CHT shares; Cash outflow was due to capital expenditures
- (3) Cash flows from financing activities: Cash outflows were due to dividend distribution, payment of long term debt, and buy back of convertible bonds

2. Plans to improve negative liquidity: Not Applicable

3. Projected Cash Flows Analysis for 2006:

- (1) Projected cash inflow from operating activities: Operation remained stable in 2005. Following this trend, the cash inflows provided by operating activities are also projected to remain stable at approximately \$22,652,185 thousand in 2006.
- (2) Projected cash outflow from investing activities: Due to capital expenditures.
- (3) Projected cash outflow from financing activities: Due to distribution of cash dividends and payment of long-term borrowings.

4. Source of funding for negative cash flow in 2006: Not Applicable

Major Capital Expenditure and Source of Capital Analysis

In preparation for the launch of 3G services and to remain competitive against the Company's peers, the Company has been aggressively building its 3G network infrastructure. In 2005, in addition to the 3G network, major capital expenditures also include 2G system expansion and network upgrades. These expenditures have allowed the Company to continue to provide the best communication quality and the highest level of information security for its customers, thereby increasing its customer satisfaction lev-

el and its brand value. In 2005, revenues grew by 6% compared to the previous year and 3G revenue is anticipated to grow exponentially in 2006, fueling the growth momentum for the Company.

With an excellent operating year and plenty of cash flow in 2005, these major capital expenditures were funded through the Company's internal capital, therefore have had no effect on the Company's financials.

Investments

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

Statement of Cash Flow (2005 versus 2004)

Unit: NT\$' 000, %

	2005	2004	YoY Change	
			Amount	%
Cash inflows from operating activities	24,923,863	25,089,721	(165,858)	(0.66)
Cash inflows from investing activities	3,280,832	4,955,484	(1,674,652)	(33.79)
Cash outflows from financing activities	(22,203,541)	(28,829,446)	6,625,905	22.98
Net cash	6,001,154	1,215,759	4,785,395	393.61

2006 Cash Flows Analysis

Unit: NT\$'000

Cash balance, beginning of the year (1)	Forecast net cash inflow from operations (2)	Total cash outflow from investing and financing activities (3)	Cash balance, end of the year (1) +(2) -(3)	Source of funding for negative cash balance	
				Cash inflow from investing activities	Cash inflow from financing activities
9,098,004	22,652,185	22,484,449	9,265,740	-	-

Unit: NT\$'000

Item	Explanation	Amount (Note)	Rationale	Main reasons for gains (losses)	Improvement plans	Other future investment plans
	Taihsing Den Syun Co., Ltd.	3,869,715	Organization restructuring	The investee company recognized investment loss in Q4	--	--

Note: Investments made during 2005 exceeded 5% of the Company's paid-in capital.

Difficulties on financial turnover for the Company and its affiliates: None

Supervisors' Report

February 1, 2006

The Board of Directors of Taiwan Mobile Co., Ltd. has submitted to the undersigned, the Company's 2005 business reports, financial statements and proposal for profit distribution. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. We, the undersigned, having further examined said business reports, statements and proposal, attest to the correctness and accuracy of their contents. In accordance with Article 219 of the Company Law, we hereby submit this report.

Supervisor
Ray-Ying Fan
Taiwan Fixed Network Co., Ltd.



Supervisors' Report

February 1, 2006

The Board of Directors of Taiwan Mobile Co., Ltd. has submitted to the undersigned, the Company's 2005 business reports, financial statements and proposal for profit distribution. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. We, the undersigned, having further examined said business reports, statements and proposal, attest to the correctness and accuracy of their contents. In accordance with Article 219 of the Company Law, we hereby submit this report.

Supervisor
Victor Kung
Fu-Chi Venture Corp.

Supervisors' Report

January 27, 2006

The Board of Directors of Taiwan Mobile Co., Ltd. has submitted to the undersigned, the Company's 2005 business reports, financial statements and proposal for profit distribution. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. We, the undersigned, having further examined said business reports, statements and proposal, attest to the correctness and accuracy of their contents. In accordance with Article 219 of the Company Law, we hereby submit this report.

Supervisor
Tsong-Ming Chung



INDEPENDENT AUDITORS' REPORT

January 17, 2006

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

We have audited the accompanying balance sheets of Taiwan Mobile Co., Ltd. (the "Corporation," formerly Taiwan Cellular Corporation) as of December 31, 2005 and 2004, and the related statements of income, changes in shareholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Mobile Co., Ltd. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

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

We have also audited the consolidated balance sheets of the Corporation and its subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years then ended. We have expressed modified unqualified opinions on those consolidated financial statements as of and for the years ended December 31, 2005 and 2004.

Notice to Readers

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

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

BALANCE SHEETS

ASSETS	2005		2004	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2, 3 and 18)	\$9,098,004	8	\$3,096,850	3
Short-term investments (Notes 2 and 4)	9,877,177	8	11,909,642	10
Notes receivable	12,670	-	53	-
Accounts receivable - third parties (Notes 2 and 5)	5,019,417	4	4,449,802	4
Accounts receivable - related parties (Notes 2 and 18)	528,691	1	482,177	-
Other receivables - third parties	170,440	-	25,502	-
Other receivables - related parties (Notes 13 and 18)	497,304	1	348,883	-
Prepayments	475,143	-	445,660	-
Deferred income tax assets (Notes 2 and 15)	83,561	-	74,902	-
Pledged time deposits (Notes 18 and 19)	10,000	-	610,000	1
Other current assets	7,570	-	6,361	-
Total current assets	25,779,977	22	21,449,832	18
LONG-TERM INVESTMENTS (Notes 2, 6 and 18)				
Equity method	17,233,012	15	23,705,452	19
Cost method	858,308	3	-	-
Prepayment for long-term investments	-	-	32,160	-
Total long-term investments	21,091,320	18	23,737,612	19
PROPERTY AND EQUIPMENT (Notes 2, 7, 18 and 19)				
Cost				
Land	3,399,049	3	3,429,769	3
Buildings	2,001,480	2	2,069,821	2
Telecommunication equipment	69,366,884	59	65,809,396	54
Office equipment	93,138	-	182,588	-
Leased assets	1,276,190	1	1,276,190	1
Miscellaneous equipment	928,514	1	1,093,214	1
Total cost	77,065,255	66	73,860,978	61
Less accumulated depreciation	(21,737,171)	(19)	(18,324,291)	(15)
	55,328,084	47	55,536,687	46
Constructions in progress and advance payments	2,310,644	2	4,653,925	4
Net property and equipment	57,638,728	49	60,190,612	50
INTANGIBLE ASSETS (Notes 2 and 8)				
	9,720,218	8	10,281,583	8
OTHER ASSETS				
Non-operating assets (Notes 2, 9 and 19)	2,042,749	2	4,251,445	4
Refundable deposits	261,123	-	254,332	-
Deferred charges (Notes 2, 10, 18 and 19)	331,390	-	318,658	-
Deferred income tax assets (Notes 2 and 15)	470,279	1	696,673	1
Other (Note 2)	33,654	-	73,184	-
Total other assets	3,139,195	3	5,594,292	5
TOTAL	\$117,369,438	100	\$121,253,931	100

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

LIABILITIES AND SHAREHOLDERS' EQUITY	2005		2004	
	Amount	%	Amount	%
CURRENT LIABILITIES				
CURRENT LIABILITIES				
Notes payable	\$40	-	\$72	-
Accounts payable (Note 18)	1,478,408	1	1,374,043	1
Income taxes payable (Notes 2 and 15)	1,094,727	1	1,911,798	2
Accrued expenses (Note 18)	3,385,889	3	736,426	2
Other payables (Note 18)	3,119,975	3	1,860,979	1
Advance receipts	1,020,856	1	854,826	1
Current portion of long-term liabilities (Notes 2, 11 and 19)	4,543,020	4	3,369,563	3
Guarantee deposits	70,021	-	205,718	-
Other current liabilities (Note 18)	764,917	-	297,869	-
Total current liabilities	15,477,853	13	12,611,294	10
LONG-TERM LIABILITIES				
Bonds payable (Notes 2, 11 and 19)	14,584,125	13	19,086,226	16
Long-term bank loans (Notes 12 and 19)	-	-	8,400,000	7
Total long-term liabilities	14,584,125	13	27,486,226	23
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 13)	83,615	-	133,892	-
Guarantee deposits	233,800	-	4,069	-
Other	1,289	-	45,629	-
Total other liabilities	318,704	-	183,590	-
Total liabilities	30,380,682	26	40,281,110	33
SHAREHOLDERS' EQUITY (Notes 2 and 14)				
SHAREHOLDERS' EQUITY (Notes 2 and 14)				
Capital stock - \$10 par value				
Authorized: 6,000,000 thousand shares				
Issued: 4,949,206 thousand shares in 2005 and 4,888,389 thousand shares in 2004	49,492,065	42	48,883,886	40
Entitlement certificates	29,871	-	279,670	-
Capital surplus - paid-in capital in excess of par value	7,905,337	7	7,258,873	6
Retained earnings				
Legal reserve	8,504,731	7	6,839,315	6
Special reserve	2,201,631	2	-	-
Unappropriated earnings	19,175,425	16	19,554,125	16
Other adjustments of shareholders' equity				
Cumulative translation adjustments	3,240	-	(1,631)	-
Treasury stock	(323,544)	-	(1,841,417)	(1)
Total shareholders' equity	86,988,756	74	80,972,821	67
TOTAL	\$117,369,438	100	\$121,253,931	100

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

TAIWAN MOBILE CO., LTD.
(Formerly Taiwan Cellular Corporation)

STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

	2005		2004	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 18)				
Telecommunication service revenue	\$47,216,688	100	\$44,531,866	99
Other revenue	191,884	-	254,143	1
Total operating revenues	47,408,572	100	44,786,009	100
OPERATING COSTS (Notes 2, 17 and 18)				
	19,352,338	41	18,271,777	41
GROSS PROFIT	28,056,234	59	26,514,232	59
OPERATING EXPENSES (Notes 2, 17 and 18)				
Marketing	8,037,368	17	7,222,416	16
Administrative	2,848,081	6	2,996,331	7
Total operating expenses	10,885,449	23	10,218,747	23
OPERATING INCOME	17,170,785	36	16,295,485	36
NON-OPERATING INCOME AND GAINS				
Investment income recognized by the equity method, net (Notes 2 and 6)	2,150,967	5	2,584,131	6
Dividend income (Note 2)	940,000	2	1,249,052	3
Rental income (Note 18)	163,996	-	233,241	1
Penalty income	157,616	-	170,160	-
Gain on disposal of property and equipment (Notes 2 and 18)	115,925	-	8,582	-
Gain on disposal of investments, net (Note 2)	-	-	1,047,567	2
Other	310,630	1	387,493	1
Total non-operating income and gains	3,839,134	8	5,680,226	13
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal of property and equipment (Note 2)	1,638,074	4	30,160	-
Interest expenses (Notes 2 and 7)	594,181	1	1,099,286	2
Loss on buyback of bonds payable (Note 18)	191,109	-	268,105	1
Impairment loss (Notes 2 and 9)	105,870	-	942,179	2
Loss on disposal of investment, net (Note 2)	20,535	-	-	-
Other	148,693	-	220,071	1
Total non-operating expense and loss	2,698,462	5	2,559,801	6

	2005		2004	
	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$18,311,457	39	\$19,415,910	43
INCOME TAX EXPENSE (Notes 2 and 15)	2,074,759	5	2,757,454	6
NET INCOME	\$16,236,698	34	\$16,658,456	37

	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 16)				
Basic	\$3.74	\$3.31	\$4.14	\$3.55
Diluted	\$3.68	\$3.26	\$3.93	\$3.37

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

	2005		2004	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
NET INCOME	\$18,311,457	\$16,236,698	\$19,425,635	\$16,668,180
EARNINGS PER SHARE				
Basic	\$3.74	\$3.31	\$4.14	\$3.55
Diluted	\$3.68	\$3.26	\$3.93	\$3.37

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

TAIWAN MOBILE CO., LTD.
(Formerly Taiwan Cellular Corporation)

YEARS ENDED DECEMBER 31, 2005 AND 2004

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

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

	Capital Stock		Paid-in Capital-in Excess of Par Value	Retained Earnings				Cumulative Translation Adjustments	Treasury Stock	Total Shareholders' Equity
	Capital Stock	Entitlement Certificates		Legal Reserve	Special Reserve	Unappropriated	Total			
BALANCE, JANUARY 1, 2004	\$46,998,258	\$-	\$3,366,010	\$5,505,955	\$330,183	\$15,480,882	\$21,317,020	\$34,450	\$(2,524,972)	\$69,190,766
Reversal of special reserve	-	-	-	-	(330,183)	330,183	-	-	-	-
Appropriation of 2003 earnings										
Legal reserve	-	-	-	1,333,360	-	(1,333,360)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	(61,652)	(61,652)	-	-	(61,652)
Bonus to employees - cash	-	-	-	-	-	(369,913)	(369,913)	-	-	(369,913)
Cash dividends - \$2.3758 per share	-	-	-	-	-	(11,071,408)	(11,071,408)	-	-	(11,071,408)
Balance after appropriation	46,998,258	-	3,366,010	6,839,315	-	2,974,732	9,814,047	34,450	(2,524,972)	57,687,793
Net income in 2004	-	-	-	-	-	16,658,456	16,658,456	-	-	16,658,456
Conversion of convertible bonds to capital stock and entitlement certificates	1,904,728	279,670	3,894,231	-	-	-	-	-	-	6,078,629
Cancellation of treasury stock	(19,100)	-	(1,368)	-	-	(33,337)	(33,337)	-	53,805	-
Transfer of treasury stock to employees	-	-	-	-	-	(36,882)	(36,882)	-	548,166	511,284
Adjustments of changes in ownership percentage on long-term equity-method investments	-	-	-	-	-	(4,299)	(4,299)	-	-	(4,299)
Disposal of the Corporation's shares held by its subsidiary	-	-	-	-	-	(4,545)	(4,545)	-	81,584	77,039
Translation adjustments	-	-	-	-	-	-	-	(36,081)	-	(36,081)
BALANCE, DECEMBER 31, 2004	48,883,886	279,670	7,258,873	6,839,315	-	19,554,125	26,393,440	(1,631)	(1,841,417)	80,972,821
Appropriation of 2004 earnings										
Legal reserve	-	-	-	1,665,416	-	(1,665,416)	-	-	-	-
Special reserve	-	-	-	-	2,201,631	(2,201,631)	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	(63,936)	(63,936)	-	-	(63,936)
Bonus to employees - cash	-	-	-	-	-	(383,613)	(383,613)	-	-	(383,613)
Cash dividends - \$2.47302 per share	-	-	-	-	-	(12,126,821)	(12,126,821)	-	-	(12,126,821)
Balance after appropriation	48,883,886	279,670	7,258,873	8,504,731	2,201,631	3,112,708	13,819,070	(1,631)	(1,841,417)	68,398,451
Net income in 2005	-	-	-	-	-	16,236,698	16,236,698	-	-	16,236,698
Conversion of convertible bonds to capital stock and entitlement certificates	608,179	(249,799)	646,464	-	-	-	-	-	-	1,004,844
Buyback of issued shares	-	-	-	-	-	-	-	-	(319,790)	(319,790)
Transfer of treasury stock to employees	-	-	-	-	-	(173,981)	(173,981)	-	1,837,663	1,663,682
Translation adjustments	-	-	-	-	-	-	-	4,871	-	4,871
BALANCE, DECEMBER 31, 2005	\$49,492,065	\$29,871	\$7,905,337	\$8,504,731	\$2,201,631	\$19,175,425	\$29,881,787	\$3,240	\$(323,544)	\$86,988,756

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

TAIWAN MOBILE CO., LTD.
(Formerly Taiwan Cellular Corporation)

STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$16,236,698	\$16,658,456
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,680,486	4,724,936
Cash dividends received from equity-method investees	3,075,042	2,597,160
Investment income recognized by the equity method, net	(2,150,967)	(2,584,131)
Loss on disposal of property and equipment, net	1,522,149	21,578
Amortization	725,416	172,067
Bad debts	664,296	669,132
Deferred income taxes	217,735	70,389
Loss on buyback of bonds payable	191,109	268,105
Accrued interest compensation	120,100	358,473
Impairment loss	105,870	942,179
(Contribution) provision of pension cost	(50,277)	17,567
Gain on disposal of long-term investments and investees' liquidation	(5,812)	(20,414)
Gain on disposal of idle assets	(356)	-
Impairment loss on long-term investments	-	10,594
Other	-	425
Net changes in operating assets and liabilities		
Notes receivable	(12,617)	7,459
Accounts receivable - third parties	(1,249,751)	(411,724)
Accounts receivable - related parties	(46,514)	288,992
Other receivables - third parties	(137,005)	55,958
Other receivables - related parties	(148,421)	(46,831)
Prepayments	(29,483)	207,877
Other current assets	(1,174)	(6,088)
Notes payable	(32)	(2,836)
Accounts payable	104,365	(101,811)
Income taxes payable	(817,071)	975,578
Accrued expenses	618,362	745,358
Other payables	661,493	(144,729)
Advance receipts	166,030	(566,637)
Other current liabilities	484,192	182,639
Net cash provided by operating activities	24,923,863	25,089,721
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(3,077,727)	(3,202,727)
Proceeds on investee's liquidation	2,970,851	53,028
Proceeds on disposal of property and equipment	2,148,517	35,537
Decrease in short-term investments, net	2,032,465	5,635,365

(Continued)

	2005	2004
Increase in long-term investments	\$(1,457,805)	\$(2,544,027)
Decrease (increase) in pledged time deposits	600,000	(600,000)
Proceeds on disposal of long-term investments	205,924	13,141
(Increase) decrease in deferred charges	(149,093)	7,896
Proceeds on disposal of idle assets	7,050	-
(Increase) decrease in refundable deposits	(6,237)	3,811
Cash and cash equivalents received on a merger with Taiwan Elitec Corporation	5,958	-
Decrease in other assets	929	1,690
Proceeds on investees' capital reduction	-	5,499,507
Cash received on a merger with T&M Investment Co., Ltd.	-	52,263
Net cash provided by investing activities	3,280,832	4,955,484
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(12,146,818)	(11,050,917)
Decrease in long-term bank loans	(8,400,000)	(13,100,000)
Treasury stock transferred to employees	1,663,682	511,284
Decrease in bonds payable	(1,500,000)	-
Buyback of bonds payable	(1,135,009)	(2,360,484)
Bonus to employees	(394,148)	(396,307)
Buyback of issued shares	(319,790)	-
Increase (decrease) in guarantee deposits	93,768	(2,371,370)
Remuneration to directors and supervisors	(63,936)	(61,652)
Decrease in other liabilities	(1,290)	-
Net cash used in financing activities	(22,203,541)	(28,829,446)
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,001,154	1,215,759
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,096,850	1,881,091
CASH AND CASH EQUIVALENTS, END OF YEAR	\$9,098,004	\$3,096,850
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid - excluding interest capitalized	\$549,717	\$863,378
Income taxes paid	\$2,235,986	\$1,716,200
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$4,543,020	\$3,369,563
Conversion of convertible bonds to capital stock and entitlement certificates	\$891,800	\$5,563,100
Reclassification from treasury stock to long-term investments for disposal of the Corporation's shares held by its subsidiary	\$-	\$77,039
Acquisition of property and equipment	\$3,731,962	\$4,579,689
Less increase in other payables	(654,235)	(1,376,962)
Cash paid for acquisition of property and equipment	\$3,077,727	\$3,202,727

(Continued)

SUPPLEMENTAL INFORMATION ON SUBSIDIARY:

Taiwan Elitec Corporation (TEC), the Corporation's subsidiary, merged with the Corporation on March 30, 2005, with the Corporation as the surviving company. The carrying values of TEC's assets and liabilities as of March 30, 2005 were as follows:

Accounts receivable	\$17,015
Other receivables	7,948
Other current assets	35
Property and equipment	2,811
Refundable deposits	554
Assets acquired from TEC	\$28,363
Accrued expenses	\$31,101
Other current liabilities	265
Long-term liabilities	2,578
Guarantee deposits	266
Liabilities assumed from TEC	\$34,210

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

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

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

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

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

TAIWAN MOBILE CO., LTD. (Formerly Taiwan Cellular Corporation)

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2005 AND 2004

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

1. ORGANIZATION AND OPERATIONS

Taiwan Mobile Co., Ltd. (the "Corporation," with the English company name of Taiwan Cellular Corporation until the first quarter of 2005) 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 (GSM 1800 for all sectors; "GSM" means "global system for mobile communications") issued by the Directorate General of Telecommunications (DGT) of the ROC. The license allows the Corporation to provide services for 15 years from 1997 onwards. It also entails the payment of an annual license fee consisting of 2% of total wireless communication service revenues. On March 24, 2005, the Corporation received the third generation (3G) concession operation license issued by the DGT. The 3G license allows the Corporation to provide services from the issuance date of the license to December 31, 2018.

As of December 31, 2005 and 2004, the Corporation had 2,072 and 1,517 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 and accounting principles generally accepted in the ROC. In conformity with these guidelines and principles, the Corporation is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, depreciation, pension, allowance for deferred

income tax assets, impairment loss on assets, etc. Actual results may differ from these estimates.

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

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

Current and Non-current Assets and Liabilities

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

Cash Equivalents

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

Short-term investments

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

Allowance for Doubtful 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.

Long-term Investments

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

asset value is amortized by the straight-line method over 8 to 20 years and is also recognized as investment income or loss. The carrying values of the investments are reduced to reflect any other than temporary decline in value, with the reduction charged to current income.

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

Other long-term investments are accounted for by the cost method. Cash dividends received in the year of investment acquisition are accounted for as a reduction of the carrying value of long-term investments, and cash dividends received in subsequent years are recognized as dividend income. If the accumulated cash dividends distributed by an investee exceed the investee's accumulated earnings from the acquisition date to the year end from which the distribution was made, the excess is recognized as a reduction of the carrying value of long-term investments. The carrying values of the investments in unlisted stocks are reduced to reflect any other than temporary decline in value, with the reduction charged to current income.

For both equity-method and cost-method investments, stock dividends are recognized neither as an increase in long-term investments nor as investment income but are accounted for only as an increase in the number of shares held. The carrying values of the investments in unlisted stocks are reduced to reflect any other than temporary decline in value, with the reduction charged to current income. Costs of investments sold are determined by the weighted-average method.

Property and Equipment and Assets Leased to Others

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

Depreciation is calculated using the straight-line method over the estimated service lives, which range as follows:

buildings - 50 to 55 years; telecommunication equipment - 5 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 year of disposal.

Intangible Assets

Intangible assets, which consist of 3G concession and trademarks, are recorded at acquisition cost. The 3G concession is amortized over the validity period of the 3G license, and the trademarks are amortized over their estimated economic lives.

Idle Assets

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

Deferred Charges

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

Asset Impairment

If the carrying value of assets (including property and equipment, intangible assets, idle assets, assets leased to others and long-term investments accounted for by the equity method) is measured against their recoverable amount, and this measurement shows material impairment, an impairment loss should be recognized. Any reversal of the impairment loss is recognized as income. The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been had the impairment loss not been recognized. The reversal of impairment loss on goodwill is disallowed.

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 by the interest method from the

issuance date through the due date and accounted for as accrued interest compensation. The accrued interest compensation is provided as a valuation account of convertible bonds. The issuance costs are recognized as deferred charges and amortized over the bond issuance term.

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 allocation method is used for income taxes. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused tax credits and net operating loss carryforwards. Valuation allowance is provided for income tax assets that are not certain to be realized. Deferred tax assets or liabilities are classified as current or non-current according to the classification of related assets or liabilities for financial reports. However, if deferred tax assets or liabilities do not relate to assets or liabilities in the financial statements, they are classified as current or non-current on the basis of the expected realization period.

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

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

Income tax of 10% on unappropriated earnings generated since 1998 is expensed in the year when the shareholders resolve the retention of the earnings.

Treasury Stock

The buyback cost of issued shares is accounted for by debiting treasury stock, which is a reduction of shareholders' equity.

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

If treasury stock is canceled, capital stock and additional

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

Derivative Financial Instruments

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

Foreign-currency Transactions

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

Revenue Recognition

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

Usage revenues from wireless services and value-added services, net of any applicable discount, are billed at predetermined rates and are recognized on the basis of minutes of traffic processed. Prepaid card services are recognized as other revenue based upon customer 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 year when the service is provided.

Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2004 have been reclassified

to be consistent with the presentation of financial statement as of and for the year ended December 31, 2005.

3. CASH AND CASH EQUIVALENTS

	December 31	
	2005	2004
Government bonds with resale rights	\$7,516,919	\$2,273,843
Time deposits	1,213,252	203,205
Cash in banks	336,206	606,082
Cash on hand	28,530	9,280
Revolving funds	3,097	4,440
	<u>\$9,098,004</u>	<u>\$3,096,850</u>

4. SHORT-TERM INVESTMENTS

	December 31	
	2005	2004
Listed stocks		
Chunghwa Telecom Co., Ltd.	\$9,277,177	\$9,277,177
Beneficiary certificates		
Open-end funds	600,000	2,532,165
Closed-end funds	-	100,300
	<u>\$9,877,177</u>	<u>\$11,909,642</u>
Market value	<u>\$12,014,035</u>	<u>\$15,099,265</u>

The market values of each investment were based on the following: (a) listed stocks and closed-end funds - the av-

erage closing prices in December; (b) open-end funds - the net asset value on the balance sheet date.

5. ACCOUNTS RECEIVABLE - THIRD PARTIES

	December 31	
	2005	2004
Accounts receivable	\$5,411,935	\$4,803,450
Less allowance for doubtful accounts	(392,518)	(353,648)
	<u>\$5,019,417</u>	<u>\$4,449,802</u>

6. LONG-TERM INVESTMENTS

	December 31			
	2005		2004	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Equity method				
TransAsia Telecommunications Inc.	\$12,458,466	92.32	\$13,056,507	92.32
Taihsing Den Syun Co., Ltd.	3,781,996	100.00	-	-
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	992,550	99.99	941,566	99.99
Taiwan Fixed Network Co., Ltd.	-	-	4,256,798	9.87
Mobitai Communications	-	-	2,520,293	67.00
Tai Hung Investments Ltd.	-	-	1,646,819	99.99
Tai Fu Investment Ltd.	-	-	553,889	99.99
T.I. Investment Ltd.	-	-	405,762	99.99
Tai Hsuo Investments Ltd.	-	-	323,818	99.99
	<u>17,233,012</u>		<u>23,705,452</u>	
Cost method				
Taiwan Fixed Network Co., Ltd.	3,826,148	9.87	-	-
Bridge Mobile Pte Ltd.	32,160	12.50	-	-
	<u>3,858,308</u>		<u>-</u>	
Prepayment for long-term investments				
Bridge Mobile Pte Ltd.	-	-	32,160	-
			<u>32,160</u>	
	<u>\$21,091,320</u>		<u>\$23,737,612</u>	

The Corporation's subsidiaries, Tai Hung Investment Ltd., Tai Fu Investment Ltd., T.I. Investment Ltd. and Tai Hsuo Investment Ltd., adopted resolutions for their liquidations, which were completed in December 2005.

Previously, although the Corporation's equity in Taiwan Fixed Network Co., Ltd. (TFN) was less than 20%, the equity method was applied because of the Corporation's significant influence over TFN. The investment income or loss was recognized by the treasury stock method for the reciprocal investments between TFN and the Corporation. On July 19, 2005, however, the Corporation lost its significant influence over TFN and thus changed the accounting treatment to the cost method.

Through a series of share purchases between August 2004 and August 2005, the Corporation acquired 94.28% equity (255,079 thousand shares) in Mobitai Communications ("Mobitai") for \$3,440,452 thousand. On September 8,

2005, the Corporation established Taihsing Den Syun Co., Ltd. (TDS) and acquired 100% equity in TDS by investing 255,079 thousand of Mobitai's shares and \$250,000 thousand in cash. TDS mainly renders equipment installation and IT services. As of December 31, 2005, the Corporation's remaining ownership in Mobitai is 29 shares.

On November 3, 2005, TDS established Tai Ya International Telecommunications Co., Ltd. (TYIT) and acquired 100% equity in TYIT by investing 255,079 thousand of Mobitai's shares. TYIT's Board of Directors decided, on November 3, 2005, to merge Mobitai with TYIT, with TYIT as the surviving company. The record date of the merger was January 1, 2006. TYIT thus assumed all Mobitai's rights and obligations and was renamed as Mobitai Communications on the record date.

On March 17, 2005, the Corporation acquired Taiwan Elitec Corporation's (TEC) shares for \$1,895 thousand at

NT\$19.28 per share from Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.) To integrate enterprise resources and enhance operating efficiency, the Board of Directors decided, on March 25, 2005, to merge TEC with the Corporation, with the Corporation as the surviving company. TEC, incorporated in June 2001, rendered billing and data processing services. The record date of the merger was March 30, 2005. The Corporation thus assumed all of TEC's rights and obligations.

Had TEC merged with the Corporation on January 1, 2004, the pro forma consolidated results of operations would have been as follows:

	2004
Operating revenues	\$45,377,406
Net income	\$16,657,521
Earnings per share	
Basic	\$3.55
Diluted	\$3.36

To integrate enterprise resources and enhance operating efficiency, the Board of Directors decided, on April 30, 2004, to merge the Corporation's wholly owned subsidiary, T&M Investment Co., Ltd. (T&M), with the Corporation, with the Corporation as the surviving company. T&M, incorporated in March 1999, is engaged in general investing activities. The record date of the merger was June 30, 2004. The Corporation thus assumed all T&M's rights and obligations.

On April 6, 2004, at the shareholders' meeting of TransAsia Telecommunications Inc. (TAT), the shareholders decided to reduce TAT's capital by \$3,000,000 thousand (45.73% of the capital), resulting in the cancellation of 300,000 thousand shares and the return to investors of their cash investments. On the record date (June 23, 2004), the Corporation was entitled to receive \$2,769,507 thousand based on its equity of 78.87% and T&M's 13.45% equity stake in TAT.

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

In December 2004, Taiwan Telecom (Aust) Pty Ltd. adopted

a resolution for liquidation, which was completed in November 2005.

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

	2005	2004
TransAsia Telecommunications Inc.	\$1,998,251	\$2,308,809
Mobitai Communications	272,488	68,640
Taiwan Fixed Network Co., Ltd.	(96,979)	(14,554)
Taihsing Den Syun Co., Ltd.	(87,303)	-
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	37,123	(81,512)
Tai Hung Investments Ltd.	23,818	97,735
T.I. Investment Ltd.	20,923	(26,799)
Tai Hsuo Investments Ltd.	(19,976)	(12,067)
Tai Fu Investments Ltd.	4,439	1,203
Taiwan Elitec Corporation	(1,817)	-
T&M Investment Co., Ltd.	-	286,322
Taiwan Telecom (Aust) Pty Ltd.	-	(43,646)
	<u>\$2,150,967</u>	<u>\$2,584,131</u>

In 2005, the net investment income recognized under the equity method included the Corporation's proportional share in TFN's asset impairment loss of \$78,465 thousand.

In conformity with the Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment," the Corporation and subsidiaries identified the Corporation, TAT and Mobitai, the subsidiary of TYIT, as the smallest identifiable group of cash-generating units. TAT and Mobitai mainly provide second-generation GSM wireless communication services. As of December 31, 2005, goodwill amounting to \$5,881,350 thousand and \$532,679 thousand was allocated to the carrying values of the operating assets of TAT and Mobitai, respectively. The recoverable amounts were measured by the asset values in use under the following critical assumptions, which indicated no asset impairment when the recoverable amounts were compared with TAT's and Mobitai's carrying values:

(1) Assumptions on operating revenues

After taking changes in the telecom industry and competitive landscape into consideration, operating revenues were estimated on the basis of the projected changes in subscriber numbers, minutes of incoming and outgoing calls and average revenue per minute.

(2) Assumptions on operating costs and expenses

The estimates of commissions, customer retention costs, customer service costs and data processing costs were based on the projected changes in subscriber numbers. The estimates of remaining costs and expenses were based on the proportion of the actual costs and expenses to operating revenues in the 2005 financial statements.

(3) The Corporation and subsidiaries used the discount rates of 7.63% and 8.72% in calculating the asset recoverable amounts of TAT and Mobitai, respectively.

7. PROPERTY AND EQUIPMENT - ACCUMULATED DEPRECIATION

	December 31	
	2005	2004
Buildings	\$203,180	\$182,987
Telecommunication equipment	20,928,068	17,359,525
Office equipment	32,228	122,829
Leased assets	228,651	164,841
Miscellaneous equipment	345,044	494,109
	<u>\$21,737,171</u>	<u>\$18,324,291</u>

Depreciation amounted to \$4,631,516 thousand in 2005 and \$4,661,909 thousand in 2004.

Interest expenses capitalized amounted to \$71,194 thousand in 2005 and \$77,582 thousand in 2004 with interest rates ranging from 2.64% to 3.60% and from 3.00% to 3.60%, respectively.

8. INTANGIBLE ASSETS

	December 31	
	2005	2004
3G concession	\$9,720,218	\$10,281,000
Trademark	-	583
	<u>\$9,720,218</u>	<u>\$10,281,583</u>

The 3G concession refers to the bid payment for the 3G mobile telecommunication service - License C to be amortized through 13 years and 9 months starting from the license issuance date.

9. NON-OPERATING ASSETS

	December 31	
	2005	2004
Cost		
Assets leased to others	\$2,042,895	\$2,458,229
Idle assets	2,728,439	2,668,633
Assets to be disposed of	-	2,518,960
	<u>4,771,334</u>	<u>7,645,822</u>
Less accumulated depreciation	(978,400)	(1,557,071)
	<u>3,792,934</u>	<u>6,088,751</u>
Less accumulated impairment	(1,750,185)	(1,837,306)
	<u>\$2,042,749</u>	<u>\$4,251,445</u>

The Corporation recognized a valuation loss of \$942,179 thousand on the idle equipment based on net realizable value in 2004. Starting from 2005, the Corporation adopted Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment," and recognized an impairment loss of \$105,870 thousand on the idle buildings and equipment based on their appraisal results and net realizable value in 2005.

In consideration of the equipment utilization condition and capital efficiency, the Board of Directors of the Corporation decided in October 2004 to sell in 2005 its self-constructed transmission networks with carrying value of \$2,035,713 thousand to Taiwan Fixed Network Co., Ltd. The equipment was therefore transferred from properties and equipment to assets to be disposed of.

10. DEFERRED CHARGES

	December 31	
	2005	2004
Interior decoration	\$149,018	\$136,594
Computer software	106,840	36,840
Other	75,532	145,224
	<u>\$331,390</u>	<u>\$318,658</u>

11. BONDS PAYABLE

	December 31			
	2005		2004	
	Current	Non-current	Current	Non-current
Domestic secured bonds	\$1,500,000	\$-	\$500,000	\$1,500,000
Domestic unsecured bonds	1,250,000	13,750,000	-	15,000,000
1st domestic unsecured convertible bonds	1,480,000	-	-	2,230,800
2nd domestic unsecured convertible bonds	-	747,300	1,730,400	-
Add accrued interest compensation	313,020	86,825	139,163	355,426
	<u>\$4,543,020</u>	<u>\$14,584,125</u>	<u>\$3,369,563</u>	<u>\$19,086,226</u>

	Principal	Rate	Terms
Type I	\$2,500,000	2.6%	Repayment of \$1,250,000 thousand each in the fourth and fifth years, interest payable annually
Type II	2,500,000	5.21%-LIBOR	Repayment on maturity date, interest payable semiannually
Type III	5,000,000	2.8%	Repayment of \$2,500,000 thousand each in the sixth and seventh years, interest payable annually
Type IV	5,000,000	5.75%-LIBOR	Repayment on maturity date, interest payable semiannually
	<u>\$15,000,000</u>		

(1) Domestic secured bonds

On February 1, 2001, the Corporation issued five-year domestic secured bonds amounting to \$3,000,000 thousand, with each bond having a face value of \$1,000 thousand with a coupon rate of 5.31% per annum. The bonds will be redeemed in the fourth and fifth years after the issuance date at \$1,500,000 thousand for each of those years. Interest is payable annually. The bonds amounting to \$1,500,000 thousand and due in February 2005 had been repaid by the Corporation.

The bond covenant requires the Corporation to maintain its year-end current ratio at above 100%, debt-to-equity ratio at below 100% and solvency ratio [(Net income + Depreciation + Amortization + Interest expense)/(Long-term bank loan repayments + Interest expense)] at above 150%.

(2) Domestic unsecured bonds

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

(3) 1st domestic convertible bonds

On August 25, 2001, the Corporation issued five-year domestic convertible bonds amounting to \$10,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period, starting from 3 months after issuance date to the 10th day before maturity, the bondholders may ask for bond conversion into common shares or entitlement certificates of the Corporation. Cash is paid for those bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$23.3 per share since July 20, 2005. As of December 31, 2005, bonds amounting to \$6,330,300 thousand have been converted to 203,141 thousand common shares and 2,987 thousand units of entitlement certificates. Each certificate can be converted into one common

share. The bonds amounting to \$2,189,700 thousand were purchased and canceled by the Corporation.

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

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

(4) 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued five-year domestic convertible bonds amounting to \$6,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to the 10th day before maturity, the bondholders may have the bonds converted into common shares of the Corporation. Cash is paid for those bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$24.7 per share since July 20, 2005. As of December 31, 2005, bonds amounting to \$4,753,300 thousand had been converted to 182,727 thousand common shares. The bonds amounting to \$499,400 thousand were purchased and canceled by the Corporation.

If the closing price of the Corporation's share is above 50% of the conversion price for 30 consecutive trading days of the Taiwan Stock Exchange from 3 months after bond issuance to the 40th day before maturity, the Corporation has the option to convert the bonds to common stocks at conversion price

or to redeem the bonds by cash based on the face value. If the total value of outstanding convertible bonds becomes less than 10% of the total principal, the Corporation also has the option - from 3 months after bond issuance to the 40th day before maturity - to convert the bonds to common shares at the conversion price or to redeem the bonds by cash based on the face value.

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

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

Year	Amount
2006	\$2,750,000
2007	3,750,000
2008	2,500,000
2009	7,500,000
	<u>\$16,500,000</u>

12. LONG-TERM BANK LOANS

The secured loans had interest rates ranging from 1.9567% to 2.0666% as of December 31, 2004. The loans will mature on September 1, 2010, and interest is payable monthly. The Corporation made an early repayment of all long-term bank loans in the second quarter of 2005.

13. 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 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 makes monthly contributions to a pension fund, and the pension contributions would be completed within five years starting July 1, 2005. The pension fund is managed by an independently administered pension fund committee and deposited in the committee's name in the Central Trust of China.

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.

Certain employees of the Corporation's subsidiaries and affiliates were transferred to the Corporation in 2005 and 2004. The Corporation accepted these employees' previous service years and was entitled to receive their pension from these companies based on actuarial calculation. As of December 31, 2005 and 2004, the pension due from these companies amounted to \$18,774 thousand and \$73,897 thousand, respectively, which were recorded as other receivables. The pension received by the Corporation had been deposited in the Central Trust of China.

Pension information is summarized as follows:

(1) Pension cost

	2005	2004
Service cost	\$19,872	\$34,194
Interest cost	4,571	2,784
Projected return on pension assets	(4,290)	(3,012)
Amortization	(3,486)	(1,771)
Pension cost	<u>\$16,667</u>	<u>\$32,195</u>

(2) Reconciliation of the fund status of the plan and accrued pension cost

	December 31	
	2005	2004
Benefit obligation		
Vested	\$-	\$-
Non-vested	(157,928)	(90,428)
Accumulated	(157,928)	(90,428)
Additional benefits based on future salaries	(102,878)	(61,736)
Projected benefit obligation	(260,806)	(152,164)
Fair value of plan assets	258,701	111,079
Funded status	(2,105)	(41,085)
Unrecognized net transitional obligation	8,786	9,301
Unrecognized net gain or loss	(102,836)	(108,130)
Accrued pension cost	<u>\$(96,155)</u>	<u>\$(139,914)</u>

A portion of the above ending balance was recorded as accrued pension cost, and the other portion, as accrued expenses.

	December 31	
	2005	2004
(3) Vested benefits	\$-	\$-
(4) Actuarial assumptions		
Discount rate used in determining present values	2.5%	3.0%
Future salary increase rate	2.5%	2.5%
Expected rate of return on plan assets	2.5%	3.0%

14. SHAREHOLDERS' EQUITY

(1) Capital surplus

Under the Company Law, capital surplus may only be used to offset a deficit. However, capital surplus generated from the excess of the issue price over the par value of capital stock, including the stock issued for new capital and the buyback of treasury stock, may be transferred to capital as stock dividends, and this transfer is restricted to a certain percentage of the capital surplus and may be made only within prescribed limits each time.

(2) Appropriation of earnings and dividend policy

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

- Dividends and bonus to preferred shareholders
- Remuneration to directors and supervisors - up to 0.3%
- Bonus to employees - 1%-3%
- 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 projected capital needs by using the retained earnings.

Any remainder is available for dividend distribution. However, the amount of stock dividends should not be more than 80% of the total dividends to be distributed in a single year. The final amount, type and percentage of the dividends are subject to the approval by the Board of Directors and shareholders based on actual earnings and capital requirements of the Corporation in a particular year.

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

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

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

The appropriation of the 2004 and 2003 earnings and dividend per share was as follows:

	Appropriation of Earnings		Dividend Per Share(NT\$)	
	For Fiscal Year 2004	For Fiscal Year 2003	For Fiscal Year 2004	For Fiscal Year 2003
Appropriation of legal reserve	\$1,665,416	\$1,333,360		
Appropriation (reversal) of special reserve	2,201,631	(330,183)		
Remuneration to directors and supervisors	63,936	61,652		
Cash bonus to employees	383,613	369,913		
Cash dividends	<u>12,126,821</u>	<u>11,071,408</u>	\$2.47302	\$2.3758
	<u>\$16,441,417</u>	<u>\$12,506,150</u>		

Of the appropriation of the 2004 earnings proposed by the Board of Directors and resolved by the shareholders' meeting on June 14, 2005, the bonus to employees and the remuneration to directors and supervisors were as follows:

	Amount
Bonus to employees - in cash	\$383,613
Remuneration to directors and supervisors - in cash	63,936
	<u>\$447,549</u>

Had the above bonus to employees and remuneration to directors and supervisors been charged against income in 2004, the basic earnings per share in that year would have decreased from NT\$3.55 to NT\$3.46.

The appropriation of the Corporation's 2005 earnings had not been proposed by the Board of Directors as of January 17, 2006, the independent auditors' report date. Information on the appropriation of 2005 earnings proposed by the Board of Directors and resolved by the shareholders can be accessed through the Market Observation Post System on the Taiwan Stock Exchange Corporation's website.

(3) Treasury stock

(Shares in Thousands)

Purpose of Buyback	Beginning Shares	Increase	Decrease	Ending Shares
2005				
For transfer to employees	65,368	11,551	65,368	11,551
2004				
For transfer to employees	86,739	-	21,371	65,368
Reclassification of the Corporation's shares held by subsidiaries from long-term investments to treasury stock	4,575	-	4,575	-

The 1,910 thousand shares bought back in 2001 were canceled on January 12, 2004, resulting in a reduction by \$53,805 thousand of capital stock, capital

surplus and retained earnings. In 2004, the Corporation transferred 19,461 thousand shares of treasury stock to employees at NT\$26.8 and NT\$25.99 per share, resulting in a reduction of retained earnings by \$36,882 thousand.

In 2005, the Corporation transferred 65,368 thousand shares of treasury stock to employees at NT\$25.65, NT\$25.54, NT\$25.50 and NT\$25.48 per share, resulting in a reduction of retained earnings by \$173,981 thousand.

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

15. INCOME TAX EXPENSE

(1) The reconciliation of imputed income taxes on pretax income at statutory tax rate to current income taxes payable was as follows:

	2005	2004
Tax on pretax income at statutory tax rate (25%)	\$4,577,854	\$4,853,968
Add (deduct) tax effects of		
Permanent differences		
Investment income from domestic investments accounted for by the equity method	(537,742)	(663,644)
Tax-exempt dividend income	(235,000)	(312,263)
Gain on disposal of marketable securities	(54,364)	(256,788)
Other	109,500	84,635
Temporary differences	27,238	288,110
Tax-exempt income	(2,047,741)	(1,721,024)
Tax on unappropriated earnings (10%)	368,266	289,459
Investment tax credits	(362,436)	(11,208)
Current income taxes payable	<u>\$1,845,575</u>	<u>\$2,551,245</u>

The balances of income taxes payable as of December 31, 2005 and 2004 were net of prepaid income taxes of \$750,848 thousand and \$639,447 thousand, respectively.

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

Equipment Expansion Projects	Tax-Exempt Period
Switches, base transmission station (BTS) and related telecommunication equipment, acquired from July 31, 1999 to December 31, 1999	2001 to 2005

Switches, BTS and related telecommunication equipment, acquired from September 30, 2000 to September 30, 2001	2002 to 2006
---	--------------

(3) The components of income tax expense were as follows:

	2005	2004
Current income taxes payable	\$1,845,575	\$2,551,245
Deferred income taxes	217,735	208,876
Prior year's adjustment	11,449	(2,667)
Income tax expense	<u>2,074,759</u>	<u>\$2,757,454</u>

(4) Deferred income tax assets and liabilities as of December 31, 2005 and 2004 were as follows:

	December 31	
	2005	2004
Provision for doubtful accounts	\$623,237	\$745,559
Provision for impairment losses on idle assets	384,253	438,338
Unrealized loss on retirement of property and equipment	245,321	-
Accrued interest compensation	99,962	123,647
Accrued pension cost	16,210	15,416
Other	-	60,116
	1,368,983	1,383,076
Less valuation allowance	(815,143)	(611,501)
	<u>\$553,840</u>	<u>\$771,575</u>
Deferred income tax assets		
Current	\$83,561	\$74,902
Non-current	470,279	696,673
	<u>\$553,840</u>	<u>\$771,575</u>

(5) Integrated income tax information was as follows:

	December 31	
	2005	2004
Balance of imputation credit account (ICA)	\$1,532,065	\$1,043,444

As of December 31, 2005, there were no unappropriated earnings generated before January 1, 1998. The estimated creditable ratio for the 2005 earnings appropriation and the actual creditable ratio for the 2004 earnings appropriation were 13.70% and 13.25%, 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 2005 earnings appropriation may be adjusted when the imputation credits are distributed.

(6) Income tax returns through 1999 had been examined by the tax authorities. However, the Corporation disagreed with the examination result on the 1999 income tax return and filed a request for reexamination in July 2005.

16. EARNINGS PER SHARE

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

	Amounts (Numerator)		Shares (Denominator) (Thousands)	EPS	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
2005					
Weighted-average number of outstanding shares			4,941,187		
Less buyback of issued shares			(42,936)		
Basic EPS					
Income of common shareholders	\$18,311,457	\$6,236,698	4,898,251	\$3.74	\$3.31
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	84,858	63,644	69,753		
2nd convertible bonds (with implied yield rate of 3.3%)	35,242	26,432	39,736		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	\$18,431,557	\$16,326,774	5,007,740	\$3.68	\$3.26
2004					
Weighted-average number of outstanding shares			4,773,976		
Less buyback of issued shares			(80,235)		
Outstanding shares held by subsidiaries, recognized as treasury stock			(3,045)		
Basic EPS					
Income of common shareholders	\$19,415,910	\$16,658,456	4,690,696	\$4.14	\$3.55
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	216,250	162,187	179,087		
2nd convertible bonds (with implied yield rate of 3.3%)	142,223	106,667	160,444		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	\$19,774,383	\$16,927,310	5,030,227	\$3.93	\$3.37

17. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	2005			2004		
	Classified as Operating Cost	Classified as Operating Expenses	Total	Classified as Operating Cost	Classified as Operating Expenses	Total
Labor cost						
Salary	\$326,589	\$950,519	\$1,277,108	\$396,943	\$922,825	\$1,319,768
Labor and health insurance	22,805	50,347	73,152	24,224	37,532	61,756
Pension	14,939	33,585	48,524	11,173	20,947	32,120
Other	28,034	66,041	94,075	25,954	67,704	93,658
	392,367	1,100,492	1,492,859	458,294	1,049,008	1,507,302
Depreciation	4,372,515	259,001	4,631,516	4,415,503	246,406	4,661,909
Amortization	583,341	108,474	691,815	12,783	97,421	110,204
	\$5,348,223	\$1,467,967	\$6,816,190	\$4,886,580	\$1,392,835	\$6,279,415

18. RELATED-PARTY TRANSACTIONS

(1) The related parties and their relationships with the Corporation are as follows:

Related Party	Relationship with the Corporation
TransAsia Telecommunications Inc. (TAT)	Subsidiary
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.) (TCC)	Subsidiary
Taihsing Den Syun Co., Ltd. (TDS)	Subsidiary
Tai Ya International Telecommunications Co., Ltd.	Subsidiary
Mobitai Communications (Mobitai)	Subsidiary (since August 31, 2004)
Taiwan Infotainment Co., Ltd. (TIC)	Subsidiary (merged with TT&T on December 20, 2004 and renamed as Taiwan Teleservices & Technologies Co., Ltd.)
TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary
TT&T Life Insurance Agency Co., Ltd.	Subsidiary
TT&T Holdings Co., Ltd.	Subsidiary
Dalian Xinkai Teleservices & Technologies Ltd.	Subsidiary
Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary
Taiwan Mobile Foundation (TWM Foundation; formerly TCC Foundation)	Over one third of the Foundation's authorized fund came from the Corporation
Howin Technologies Co., Ltd. (HTC)	Equity-method investee of TCC (formerly Taihsing Den Den Co., Ltd.) and TAT
Taiwan Fixed Network Co., Ltd. (TFN)	Same chairman
Chung Hsing Constructions Co., Ltd.	Same chairman
Fubon Land Development Co., Ltd.	Same chairman
Fubon Financial Holding Co., Ltd.	Related party in substance
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	Related party in substance
Fubon Securities Co., Ltd. (FSC)	Related party in substance
Fubon Securities Investment Trust Co., Ltd.	Related party in substance

(Continued)

Related Party	Relationship with the Corporation
Fubon Life Assurance Co., Ltd.	Related party in substance
Fubon Insurance Co., Ltd. (Fubon Ins.)	Related party in substance
Fubon Direct Marketing Consulting Co., Ltd.	Related party in substance
Fubon Asset Management Co., Ltd.	Related party in substance (since August 17, 2004)
Fubon Financial Holding Venture Capital Co., Ltd.	Related party in substance
Fubon Venture Capital Consulting Co., Ltd.	Related party in substance
T.I. Investment Ltd.	Subsidiary (liquidated in December 2005)
Tai Hsuo Investment Ltd.	Subsidiary (liquidated in December 2005)
Tai Fu Investment Ltd.	Subsidiary (liquidated in December 2005)
Tai Hung Investment Ltd.	Subsidiary (liquidated in December 2005)
Taiwan Telecom (Aust) Pty Ltd.	Subsidiary (liquidated in November 2005)
T & M Investment Co., Ltd.	Subsidiary (merged into the Corporation on June 30, 2004)
The Tele-World Shop Pte Ltd.	Indirect investee under Corporation's control (liquidated in July 2005)
Taiwan Tele-Shop Co., Ltd. (TTS)	Subsidiary (merged into TCC (formerly Taihsing Den Den Co., Ltd.) on June 30, 2005)
Taiwan Elitec Corporation (TEC)	Subsidiary (merged into the Corporation on March 30, 2005)
Supreme-Tech (Aust) Pty Ltd.	Subsidiary (liquidated in January 2005)
Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Subsidiary (merged into TIC on December 20, 2004)
CTS Digi-Tech Co., Ltd.	Affiliate (merged on December 30, 2004)
Taiwan Index Co., Ltd.	Affiliate (until March 10, 2004)

(2) Significant transactions with related parties are summarized below:

a. Operating revenues

	2005		2004	
	Amount	% to Total Sales	Amount	% to Total Sales
TFN	\$2,472,719	5	\$1,755,977	4
TAT	1,478,940	3	1,639,281	4
Mobitai	652,632	1	156,676	-
TT&T	15,471	-	23,973	-
	<u>\$4,619,762</u>		<u>\$3,575,907</u>	

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

b. Operating costs

	2005		2004	
	Amount	% to Total Sales	Amount	% to Total Sales
TFN	\$842,142	4	\$720,002	4
TAT	633,163	3	610,388	3
Mobitai	230,314	1	134,932	1
Fubon Ins.	107,429	1	63,011	-
HTC	-	-	200,000	1
	<u>\$1,813,048</u>		<u>\$1,728,333</u>	

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

c. Property transactions

Disposal of property and equipment

	2005	
	Description	Amount
TFN	Telecommunication equipment, miscellaneous equipment and deferred charges	\$2,093,154

The above disposal was made at arm's length and resulted in a gain of \$70,085 thousand.

Acquisition of property and equipment

	2005	
	Description	Amount
TFN	Miscellaneous equipment	\$111,124
TCC (formerly Taihsing Den Den Co., Ltd.)	Land and buildings	73,407
TAT	Direct shops, office equipment and interior decoration	23,471
		<u>\$208,002</u>

	2004	
	Description	Amount
HTC	Telecommunication equipment	\$2,580,000
TFN	Miscellaneous equipment and deferred charges	49,513
		<u>\$2,629,513</u>

The above acquisitions were made at arm's length.

d. Operating lease

(a) Rental expense

	Description	2005	2004
TFN	Direct shops, control rooms and Kaohsiung offices	\$18,889	\$20,877

(b) Rental income

	Leased Sites/ Equipment	2005	2004
TT&T	Tang-Cherng and Tai-Chung offices and telecommunication equipment	\$97,280	\$139,993
TFN	Keelung Road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc.	30,187	35,644
TTS	Operating sites	7,398	21,248
TEC	Tang-Cherng offices and telecommunication equipment, etc.	-	17,859
		<u>\$134,865</u>	<u>\$214,744</u>

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

e. Cash in banks

	December 31			
	2005		2004	
	Amount	%	Amount	%

(a) Cash in banks

TFN	<u>\$106,816</u>	1	<u>\$108,506</u>	4
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(b) Pledged time deposits

TFN	<u>\$10,000</u>	100	<u>\$610,000</u>	100
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f. Receivables and payables

(a) Accounts receivable

Mobitai	\$230,606	4	\$11,196	-
TAT	152,427	3	191,803	4
TFN	141,698	3	163,756	3
TTS*	-	-	106,848	2
Other	<u>3,960</u>	-	<u>8,574</u>	-
	<u>\$528,691</u>		<u>\$482,177</u>	

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

	December 31			
	2005		2004	
	Amount	%	Amount	%
(b) Other receivables				
Mobitai*	\$263,663	39	\$-	-
TAT*	151,629	23	274,819	73
FSC	43,162	6	269	-
TCC (formerly Taihsing Den Den Co., Ltd.)	21,810	3	-	-
HTC	-	-	35,836	10
TTS	-	-	21,221	6
Other	17,040	3	16,738	4
	<u>\$497,304</u>		<u>\$348,883</u>	

Other receivables primarily arose from the Corporation's providing business services to these companies. The amounts were recorded as deductions from related costs and expenses.

	December 31			
	2005		2004	
	Amount	%	Amount	%
(c) Accounts payable				
Mobitai	\$52,478	4	\$3,566	-
TAT	17,050	1	21,989	2
	<u>\$69,528</u>		<u>\$25,555</u>	
(d) Accrued expenses				
TT&T	\$206,309	6	\$103,668	4
TCC (formerly Taihsing Den Den Co., Ltd.)	20,525	1	-	-
TFN	12,771	-	101,734	4
HTC	488	-	16,035	1
TTS	-	-	242,395	9
TEC	-	-	45,392	2
	<u>\$240,093</u>		<u>\$509,224</u>	
(e) Other payables				
TAT	\$165,360	5	\$-	-
TFN	88,835	3	280,388	15
Mobitai	39,276	1	-	-
TTS	-	-	14,858	1
	<u>\$293,471</u>		<u>\$295,246</u>	

	December 31			
	2005		2004	
	Amount	%	Amount	%
(f) Other current liabilities - collections for the following				
TAT	\$161,795	21	\$78,474	26
Mobitai	154,183	20	-	-
TFN	32,822	4	22,593	8
TFCB	12,684	2	12,721	4
	<u>\$361,484</u>		<u>\$113,788</u>	

	2005	2004
g. Commission expenses (including handset subsidy, etc.)		
TT&T	\$42,804	\$34,357
TTS	29,247	1,127,506
HTC	286	17,456
	<u>\$72,337</u>	<u>\$1,179,319</u>
h. Professional service fees		
TT&T	\$943,912	\$1,046,897
TTS	156,689	204,378
TEC	-	192,669
TFN	-	25,467
	<u>\$1,100,601</u>	<u>\$1,469,411</u>
i. Service charges		
TT&T	\$7,298	\$15,962
j. Insurance expenses		
Fubon Ins.	\$14,612	\$96,302
k. Donation		
TWM Foundation (formerly TCC Foundation)	\$24,400	\$17,000
l. Repairs and maintenance		
TEC	\$-	\$41,656
m. Printing expenses for bills and advertisement		
TEC	\$-	\$73,534
n. Telecommunication service expenses		
TFN	\$20,951	\$19,108

o. Guarantee provided

As of December 31, 2004, the Corporation provided TCC (formerly Taihsing Den Den Co., Ltd.) with a loan guarantee amounting to \$600,000 thousand.

p. Other

(a) On March 8, 2005, the Corporation bought back 750 units of its outstanding 2nd domestic convertible bonds from FSC for NT\$131,800 per unit. The aggregate purchase price was \$98,850 thousand, resulting in a loss of \$17,341 thousand. On April 30 and November 11 in 2004, the Corporation bought back 9,806 units and 300 units of its outstanding 1st and 2nd domestic convertible bonds, respectively, from FSC for NT\$130,000 per unit and NT\$132,000 per unit, respectively. The aggregate purchase price was \$1,314,380 thousand, resulting in a loss of \$178,351 thousand.

(b) On June 30, 2005, the Corporation sold 11,364 thousand shares of TTS's common shares to TCC (formerly Taihsing Den Den Co., Ltd.) at NT\$18.12 per share. The aggregate selling price was \$205,924 thousand.

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

(d) TTS entered into an agreement with the Corporation to act as a consignee for the Corporation on selling mobile phones and related products. The amount of such products and services that TTS received from the Corporation was \$932,728 thousand in 2004.

(e) On July 30, 2004, the Corporation purchased 10,000 thousand shares of TFN's common shares from TEC at NT\$6 per share. The aggregate purchase price was \$60,000 thousand.

(f) As of December 31, 2004, the Corporation acquired a commercial draft of \$500,000 thousand from TTS as guarantee deposits for the consignment sales agreement and the credit limit of receivable.

(g) In 2004, FCB entered into a cooperative co-branding agreement with the Corporation by which the Corporation could encourage its customers to use credit cards issued by FCB. On this agreement, the Corporation recognized revenues of \$24,818 thousand in 2005 and \$27,388 thousand in 2004.

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

19. ASSETS PLEDGED

The assets pledged as collaterals for bank loans, bond issuance and credit line of deposit overdraft were as follows:

	December 31	
	2005	2004
Property and equipment, net carrying value	\$10,883,199	\$28,765,820
Time deposits	10,000	610,000
Idle assets*	-	627,913
Assets leased to others, net carrying value	-	174,606
	<u>\$10,893,199</u>	<u>\$30,178,339</u>

*Net carrying value before deducting the accumulated impairment.

20. COMMITMENTS AND CONTINGENCIES

(1) To enhance the intensity and widen the coverage of the 3G signal and to increase the service functions and items provided by 3G mobile telecommunications, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2004. Under the contract, as of December 31, 2005, payments of \$1,351,183 thousand have been made.

(2) To provide better communication quality and more diverse service functions, the Corporation entered into agreements for upgrading the existing network equipment and building IT systems with Siemens in September 2004 for US\$17,310 thousand and

NT\$67,472 thousand, respectively. In accordance with the terms of the agreements, as of December 31, 2005, payments of US\$14,856 thousand and NT\$53,770 thousand have been made, respectively.

- (3) The Corporation entered into business service contracts with TAT on March 1 and with Mobitai on May 1, 2005.

(4) Future minimum rental payments as of December 31, 2005 for significant operating lease agreements are summarized as follows:

	Amount
2006	\$20,074
2007	17,509
2008	7,062

21. FINANCIAL INSTRUMENT TRANSACTIONS

	December 31			
	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-derivative financial instruments				
Financial assets				
Financial assets - fair value approximating to carrying value	\$15,597,649	\$15,597,649	\$9,267,599	\$9,267,599
Short-term investments	9,877,177	12,014,035	11,909,642	15,099,265
Long-term investments	21,091,320	-	23,737,612	-
Financial liabilities				
Financial liabilities - fair value approximating to carrying value	8,163,097	8,163,097	6,078,828	6,078,828
Bonds payable (including current portion)	19,127,145	24,142,687	22,455,789	23,543,624
Long-term bank loans (including current portion)	-	-	8,400,000	8,400,000
Derivative financial instruments				
Interest rate swap contracts	-	(330,912)	-	(148,887)

Fair values of financial instruments were determined as follows:

- (1) Short-term financial instruments (other than short-term investments) - based on the carrying value reported in the balance sheets, which approximates the fair value of these assets, including cash and cash equivalents, receivables, pledged time deposits, notes and accounts payable because of the short maturities of these instruments;
- (2) Short-term investments - based on market quotations;
- (3) Long-term investments - not disclosed due to lack of market quotations;
- (4) Refundable deposits and guarantee deposits - based on their carrying value;
- (5) Bonds payable - based on the over-the-counter quotations in December;
- (6) Long-term bank loans - based on the discounted present value of expected cash flows. Since the

Corporation's long-term bank loans had floating interest rates, their fair values were equivalent to carrying value;

- (7) Interest rate swap contracts - based on the valuation result quoted by banks.

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

22. ADDITIONAL DISCLOSURES

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

- (1) Financing provided: None

(2) Endorsement/guarantee provided: Table 1 (attached)

(3) Marketable securities held: Table 2 (attached)

(4) Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 3 (attached)

(5) Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: None

(6) Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None

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

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

(9) Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 6 (attached)

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

a. Contract amount and credit risk

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

The Corporation entered into IRS contracts to hedge interest rate fluctuation. The Corporation recognized a loss of \$4,386 thousand in 2005 and a gain of \$119,735 thousand in 2004, which were

recorded as interest expense and a deduction from interest expense.

b. Market risk

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

c. Liquidity and cash flow risk and uncertainty of future cash demand

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

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

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

(11) Information on investment in Mainland China:

a. 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, ratio of ownership, equity in the net gain or net loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Table 7 (attached)

b. Significant direct or indirect transactions with the investee company, 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

23. SEGMENT INFORMATION

- (1) Industry information
The Corporation is primarily a wireless communication service provider.
- (5) Geographic information
The Corporation has no revenue-generating unit that operates outside the ROC.
- (3) Export sales
The Corporation has no export sales revenue.
- (4) Customers with revenues exceeding 10% of the total net operating revenues were as follows:

Company	2005		2004	
	Amount	% to Net Operating Revenue	Amount	% to Net Operating Revenue
Chunghwa Telecom Co., Ltd.	\$9,484,888	20	\$9,760,115	22

TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION) AND SUBSIDIARIES

ENDORSEMENT/GUARANTEE PROVIDED

YEAR ENDED DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars)

TABLE 1

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-party's Endorsement/ Guarantee Amount (Note)	Maximum Balance for the Period	Ending Balance	Value of Collateral Property, Plant, or Equipment	Ratio of Accumulated Amount of Guarantee to Net Equity of the Latest Financial Statement	Maximum Guarantee Amounts Allowable (Note)
		Name	Nature of Relationship						
0	The Corporation	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Subsidiary	\$1,420,017	\$600,000	\$-	\$-	-	\$86,988,756

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

**TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

MARKETABLE SECURITIES HELD

DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars)

TABLE 2

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2005				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
The Corporation	Beneficiary certificate							
	Fubon Ju-I Fund	-	Short-term investments	25,522	\$400,000	-	\$400,023 (Note 2)	
	Fubon Ju-II Fund	-	Short-term investments	13,916	200,000	-	200,012 (Note 2)	
	Stock							
	Chunghwa Telecom Co., Ltd.	-	Short-term investments	200,000	9,277,177	2.07	11,414,000 (Note 3)	
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Subsidiary	Long-term investments	44,300	992,550	99.99	1,499,604	
	TransAsia Telecommunications Inc.	Subsidiary	Long-term investments	328,645	12,458,466	92.32	6,689,132	
	Taihsing Den Syun Co., Ltd.	Subsidiary	Long-term investments	386,972	3,781,996	100.00	3,781,996	
	Mobitai Communications	Subsidiary	Long-term investments	-	-	-	-	
Bridge Mobile Pte Ltd.	-	Long-term investments	1,000	32,160	12.50	25,442		
Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Long-term investments	637,000	3,826,148	9.87	6,875,669		
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Stock							
	Arcoa Communication Co., Ltd.	-	Long-term investments	6,998	67,731	5.21	-(Note 4)	
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Long-term investments	89,732	646,129	95.88	652,393	
	Sunnet Technologies Co., Ltd.	-	Long-term investments	375	3,265	1.51	-(Note 4)	
	WEB Point Co., Ltd.	-	Long-term investments	803	8,031	3.17	-(Note 4)	
	Parawin Venture Capital Corp.	-	Long-term investments	3,000	25,144	3.00	-(Note 4)	
	Howin Technologies Co., Ltd.	Equity-method investee of subsidiary	Long-term investments	5,450	85,667	25.00	86,141	
	Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Long-term investments	4,900	43,826	0.08	55,730	
	Transportation High Tech Inc.	-	Long-term investments	1,200	-(Note 5)	12.00	-(Note 4)	
Taiwan Teleservices & Technologies Co., Ltd.	Prepayment for long-term investment							
	Tai Yi Digital Broadcasting Co., Ltd.	-	Prepayment for long-term investments	-	\$24,950	-	\$-	
	Stock							
TT&T Holdings Co., Ltd.	TT&T Life Insurance Agency Co., Ltd.	Subsidiary	Long-term investments	300	3,070	100.00	3,070	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary	Long-term investments	300	2,764	100.00	2,764	
	TT&T Holdings Co., Ltd.	Subsidiary	Long-term investments	2,600	81,829	100.00	81,829	
TransAsia Telecommunications Inc.	Stock							
	Dalian Xinkai Teleservices & Technologies Ltd.	Subsidiary	Long-term investments	-	US\$1,465	50.00	US\$1,465	
Taihsing Den Syun Co., Ltd.	Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary	Long-term investments	-	US\$927	100.00	US\$927	
	Stock							
Tai Ya International Telecommunications Co., Ltd.	Howin Technologies Co., Ltd.	Equity-method investee of subsidiary	Long-term investments	545	(5,574)	2.50	8,614	
	Stock							
Mobitai Communications	Tai Ya International Telecommunications Co., Ltd.	Subsidiary	Long-term investments	365,078	3,532,794	100.00	3,532,794	
	Stock							
Yes Mobile Holdings Company	Mobitai Communications	Subsidiary	Long-term investments	255,079	3,533,581	94.28	3,000,902	
	Stock							
Yes Mobile Holdings Company	Yes Mobile Holdings Company	-	Long-term investments	74	-(Note 5)	0.19	-(Note 4)	

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

Note 2: Based on the net asset value of the fund as of December 31, 2005.

Note 3: Based on the average closing price in December 2005.

Note 4: As of January 17, 2006, the independent auditors' report date, the investee's net value was unavailable.

Note 5: Deducted impairment loss recognized in 2004.

**TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

**MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS
OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN
CAPITAL**

YEAR ENDED DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars)

TABLE 3

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance		
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount	
	<u>Beneficiary certificate</u>														
	ABN AMRO Bond Fund	Short-term investments	-	-	6,904	\$100,979	61,076	\$900,000	67,980	\$1,003,203	\$1,000,979	\$2,224	-	\$-	
	ABN AMRO Select Bond Fund	Short-term investments	-	-	45,421	500,000	18,059	200,000	63,480	702,915	700,000	2,915	-	-	
	Fubon Ju-I Fund	Short-term investments	-	-	38,953	601,186	64,147	1,000,000	77,578	1,206,209	1,201,186	5,023	25,522	400,000	
	Polaris De-Li Fund	Short-term investments	-	-	6,814	100,000	-	-	6,814	100,482	100,000	482	-	-	
	Shinkong Chi-Shin Fund	Short-term investments	-	-	35,909	500,000	64,135	900,000	100,044	1,403,756	1,400,000	3,756	-	-	
	Barits Bond Fund	Short-term investments	-	-	16,918	200,000	16,824	200,000	33,742	401,281	400,000	1,281	-	-	
	HSBC Taiwan Money Management Fund	Short-term investments	-	-	-	-	13,754	200,000	13,754	200,234	200,000	234	-	-	
	HSBC Taiwan Money Management II Fund	Short-term investments	-	-	-	-	29,062	400,000	29,062	400,545	400,000	545	-	-	
	Fubon Global Reit Fund	Short-term investments	-	-	-	-	10,000	100,000	10,000	99,400	100,000	(600)	-	-	
	NITC Bond Fund	Short-term investments	-	-	3,129	500,000	1,244	200,000	4,373	704,470	700,000	4,470	-	-	
	Fubon Elite Fund	Short-term investments	-	-	10,000	100,300	-	-	10,000	68,170	100,300	(32,130)	-	-	
	Fubon Ju-I II Fund	Short-term investments	-	-	-	-	41,908	600,000	27,992	400,344	400,000	344	13,916	200,000	
	JF (Taiwan) First Bond Fund	Short-term investments	-	-	-	-	29,012	400,000	29,012	400,270	400,000	270	-	-	
	<u>Stock</u>														
	Mobitai Communications	Long-term investments	TECO Electric & Machinery Co., Ltd.	-	181,278	2,520,293	73,801	986,768	255,079	-	3,619,299	-(Note 1)	-	-(Note 1)	
	Taiwan Tele-Shop Co., Ltd.	Long-term investments	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Subsidiary	-	-	11,364	205,924	11,364	205,924	205,924	-	-	-	
	Taihsing Den Syun Co., Ltd.	Long-term investments	-	-	-	-	386,972	3,869,299	-	-	-	-	386,972	3,781,996(Note 2)	
	Tai Hung Investment Ltd.	Long-term investments	-	-	-	1,646,819	-	-	-	1,673,698	1,670,637	3,061	-	-(Note 3)	
	Tai Fu Investment Ltd.	Long-term investments	-	-	-	553,889	-	-	-	559,507	558,328	1,179	-	-(Note 4)	
	T.I. Investment Ltd.	Long-term investments	-	-	-	405,762	-	-	-	426,682	426,685	(3)	-	-(Note 5)	
	Tai Hsuo Investment Ltd.	Long-term investments	-	-	-	323,818	-	-	-	310,964	310,023	941	-	-(Note 6)	
	<u>Beneficiary certificate</u>														
	The First Global Investment Trust Wan Jai Bond Fund	Short-term investments	-	-	31,644	430,000	10,971	150,000	42,615	582,774	580,000	2,774	-	-	
	HSBC Taiwan Money Management II Fund	Short-term investments	-	-	-	-	30,189	415,000	30,189	415,695	415,000	695	-	-	
	HSBC Taiwan Money Management Fund	Short-term investments	-	-	10,404	150,000	-	-	10,404	151,058	150,000	1,058	-	-	
	Polaris De-Li Fund	Short-term investments	-	-	13,635	200,000	-	-	13,635	201,065	200,000	1,065	-	-	
	JF (Taiwan) Bond Fund	Short-term investments	-	-	19,554	290,000	-	-	9,554	291,266	290,000	1,266	-	-	
	JF (Taiwan) First Bond Fund	Short-term investments	-	-	21,276	290,000	-	-	21,276	292,105	290,000	2,105	-	-	
	Fubon Ju-I II Fund	Short-term investments	-	-	28,238	400,000	-	-	28,238	401,680	400,000	1,680	-	-	
	Fubon Ju-I Fund	Short-term investments	-	-	22,653	350,000	25,784	400,000	48,437	751,760	750,000	1,760	-	-	
	Fubon Ju-I III Fund	Short-term investments	-	-	-	-	9,192	110,000	9,192	110,219	110,000	219	-	-	

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal				Ending Balance	
					Shares (Thousands)	Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
	<u>Beneficiary certificate</u>													
Mobitai Communications	Fubon Ju-II Fund	Short-term investments	-	-	23,622	\$335,117	14,888	\$212,000	38,510	\$548,210	\$547,117	\$1,093	-	\$-
	Fubon Ju-I Fund	Short-term investments	-	-	13,763	212,936	8,510	132,000	22,273	346,574	344,936	1,638	-	-
	NITC Bond Fund	Short-term investments	-	-	936	149,827	1,517	243,500	2,453	395,369	393,327	2,042	-	-
	ABN AMRO Select Bond Fund	Short-term investments	-	-	5,626	62,068	8,053	89,000	13,679	151,292	151,068	224	-	-
	ABN AMRO Bond Fund	Short-term investments	-	-	1,670	24,500	13,011	192,000	14,681	216,844	216,500	344	-	-
	James Bond Fund	Short-term investments	-	-	2,661	40,000	8,886	134,000	11,547	174,458	174,000	458	-	-
	JF (Taiwan) First Bond Fund	Short-term investments	-	-	-	-	7,247	100,000	7,247	100,162	100,000	162	-	-
	<u>Beneficiary certificate</u>													
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Fubon Ju-I Fund	Short-term investments	-	-	9,748	150,000	-	-	9,748	151,803	150,000	1,803	-	-
	Fubon Ju-II Fund	Short-term investments	-	-	13,431	190,000	-	-	13,431	191,772	190,000	1,772	-	-
	Shinkong Chi-Shin Fund	Short-term investments	-	-	7,180	100,000	-	-	7,180	100,856	100,000	856	-	-
	<u>Stock</u>													
	Taiwan Tele-shop Co., Ltd.	Long-term investments	The Corporation, etc.	Parent	20,509	367,650	20,491	371,295	41,000	-	745,611	-(Note 9)	-	-(Note 9)
	<u>Stock</u>													
Taihsing Den Syun Co., Ltd.	Mobitai Communications	Long-term investments	The Corporation	Parent	-	-	255,079	3,619,715	255,079	-	3,650,782	-(Note 8)	-	-(Note 8)
	Tai Ya International Telecommunications Co., Ltd.	Long-term investments	-	-	-	-	365,078	3,650,782	-	-	-	-	365,078	3,532,794 (Note 10)
	<u>Stock</u>													
Tai Ya International Telecommunications Co., Ltd.	Mobitai Communications	Long-term investments	Taihsing Den Syun Co., Ltd.	Parent	-	-	255,079	3,650,782	-	-	-	-	255,079	3,533,581 (Note 7)

Note 1: The amount included the adjustment for the cash dividends of \$160,250 thousand and investment income of \$272,488 thousand. For its reorganization, the Corporation established Taihsing Den Syun Co., Ltd. by investing Mobitai's shares, with a carrying value of \$3,619,299 thousand. There was no gain or loss on this share disposal.

Note 2: The amount included the investment loss adjustment of \$87,303 thousand.

Note 3: The amount included the investment income adjustment of \$23,818 thousand.

Note 4: The amount included the investment income adjustment of \$4,439 thousand.

Note 5: The amount included the investment income adjustment of \$20,923 thousand.

Note 6: The amount included the translation adjustment of \$8 thousand

and investment loss adjustment of \$13,803 thousand.

Note 7: The amount included the investment loss adjustment of \$117,201 thousand.

Note 8: The amount included the investment income adjustment of \$31,067 thousand. For its reorganization, Taihsing Den Syun Co., Ltd. established Tai Ya International Telecommunications Co., Ltd. by investing Mobitai's shares, with a carrying value of \$3,650,782 thousand. There was no gain or loss on this share disposal.

Note 9: The amount included the investment income adjustment of \$6,666 thousand. For its reorganization, the Corporation merged with Taiwan Tele-Shop Co., Ltd., with the Corporation as the surviving company. There was no gain or loss on this share disposal.

Note 10: The amount included the investment loss adjustment of \$117,988 thousand.

**TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

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

YEAR ENDED DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars)

TABLE 4

Company Name	Related Party	Nature of Relationship	Transaction Details		Transaction Details		Abnormal Transaction		Note/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Corporation	TransAsia Telecommunications Inc.	Subsidiary	Sale	\$(1,478,940)	(3)	Based on contract terms	-	-	\$152,427	3	
			Purchase	633,163	3	Based on contract terms	-	-	(17,050)	(1)	
	Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Sale	(2,472,719)	(5)	Based on contract terms	-	-	141,698	3	
			Purchase	842,142	4	Based on contract terms	-	-	-	-	
	Mobitai Communications	Subsidiary	Sale	(652,632)	(1)	Based on contract terms	-	-	230,606	4	
			Purchase	230,314	1	Based on contract terms	-	-	(52,478)	(4)	
	Fubon Insurance Co., Ltd.	Related party in substance	Purchase	107,429	1	Based on contract terms	-	-	-	-	
Taiwan Tele-Shop Co., Ltd.	The Corporation	Ultimate parent	Sale	(180,609)	(1)	Based on contract terms	-	-	-	-	
TransAsia Telecommunications Inc.	The Corporation	Parent	Sale	(629,564)	(6)	Based on contract terms	-	-	329,489	28	
			Purchase	1,362,592	28	Based on contract terms	-	-	(152,204)	(35)	
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Sale	(999,175)	(55)	Based on contract terms	-	-	182,624	51	
	TransAsia Telecommunications Inc.	Affiliate	Sale	(244,155)	(13)	Based on contract terms	-	-	40,976	12	
Mobitai Communications	The Corporation	Ultimate parent	Sale	(230,328)	(4)	Based on contract terms	-	-	52,992	9	
			Purchase	596,683	19	Based on contract terms	-	-	(230,606)	(73)	

**TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

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

DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars)

TABLE 5

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
The Corporation	TransAsia Telecommunications Inc.	Subsidiary	Accounts receivable \$152,427	8.59	\$-	-	\$-	\$-
			Other receivables 151,629	-	-	-	967	-
	Mobitai Communications	Subsidiary	Accounts receivable 230,606	5.40	-	-	-	-
			Other receivables 263,663	-	-	-	-	-
	Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Accounts receivable 141,698	16.19	-	-	-	-
TransAsia Telecommunications Inc.	The Corporation	Parent	Accounts receivable 329,489	(Note)	-	-	-	-
			Other receivables 10,418	-	-	-	-	-
Mobitai Communications	The Corporation	Ultimate parent	Accounts receivable 52,992	7.70	-	-	-	-
			Other receivables 194,033	-	-	-	77	-
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Accounts receivable 182,624	6.97	-	-	-	-
			Other receivables 12,612	-	-	-	-	-

Note: Not applicable because telecommunication service revenue was collected on behalf of TransAsia Telecommunications Inc.

**TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

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

YEAR ENDED DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars or U.S. Dollars)

TABLE 6

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2005			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2005	January 1, 2005	Shares (Thousands)	Percentage of Ownership	Carrying Value			
The Corporation	Taiwan Fixed Network Co., Ltd.	Taipei, Taiwan	Type-I telecommunication services-integrated fixed line	\$4,410,000	\$4,410,000	637,000	9.87	\$3,826,148	\$1,412,022	\$(96,979)	Note
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Taipei, Taiwan	Telecommunication equipment retailing and wholesale	1,420,017	1,420,017	44,300	99.99	992,550	41,526	37,123	
	Tai Hung Investment Ltd.	Taipei, Taiwan	Investment	-	1,505,042	-	-	-	9,783	23,818	
	Tai Fu Investment Ltd.	Taipei, Taiwan	Investment	-	525,045	-	-	-	3,018	4,439	
	Tai Hsuo Investment Ltd.	Taipei, Taiwan	Investment	-	330,048	-	-	-	1,627	(19,976)	
	T.I. Investment Ltd.	Taipei, Taiwan	Investment	-	604,981	-	-	-	2,279	20,923	
	TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	10,408,388	10,408,388	328,645	92.32	12,458,466	2,652,751	1,998,251	
	Mobitai Communications	Taipei, Taiwan	Wireless service provider	-	2,451,654	-	-	-	331,055	272,488	
	Taihsing Den Syun Co., Ltd.	Taipei, Taiwan	Equipment installation and IT service	3,869,715	-	386,972	100.00	3,781,996	(87,719)	(87,303)	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Taiwan Teleservices & Technologies Co., Ltd.	Taipei, Taiwan	Call center service	327,146	327,146	89,732	95.88	646,129	90,795	NA	
	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment installation	131,700	409,200	5,450	25.00	85,667	26,333	NA	
	Taiwan Fixed Network Co., Ltd.	Taipei, Taiwan	Type-I telecommunication services-integrated fixed line	49,000	49,000	4,900	0.08	43,826	1,412,022	NA	Note
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	3,000	3,000	300	100.00	3,070	118	NA	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	3,000	-	300	100.00	2,764	(236)	NA	
	TT&T Holdings Co., Ltd.	Samoa	Investment	83,530	42,669	2,600	100.00	81,829	(5,356)	NA	
TT&T Holdings Co., Ltd.	Dalian Xinkai Teleservices & Technologies Ltd.	Dalian	Call center service	US\$1,511	-	-	50.00	US\$1,465	RMB(1,362)	NA	
	Xiamen Taifu Teleservices & Technologies Ltd.	Xiamen	Call center service	US\$1,000	-	-	100.00	US\$927	RMB(759)	NA	
TransAsia Telecommunications Inc.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment installation	2,250	30,000	545	2.50	(5,574)	26,333	NA	
Taihsing Den Syun Co., Ltd.	Tai Ya International Telecommunications Co., Ltd.	Taipei, Taiwan	Wireless service provider	3,650,782	-	365,078	100.00	3,532,794	(117,988)	NA	
Tai Ya International Telecommunications Co., Ltd.	Mobitai Communications	Taipei, Taiwan	Wireless service provider	3,650,782	-	255,079	94.28	3,533,581	331,055	NA	

Note: The Corporation changed the investment accounting treatment to the cost method on July 19, 2005.

**TAIWAN MOBILE CO., LTD.(FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

INVESTMENT IN MAINLAND CHINA

YEAR ENDED DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars or U.S. Dollars, Unless Stated Otherwise)

TABLE 7

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, 2005	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2005	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2005	Accumulated Inward Remittance of Earnings as of December 31, 2005
					Outflow	Inflow					
Dalian Xinkai Teleservices & Technologies Ltd.	Call center service	RMB25,011 (NT\$101,795)	Indirect investment in the Company of Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$666 (NT\$21,878)	\$ -	\$ -	US\$666 (NT\$21,878)	50% ownership of indirect investment by the Corporation's subsidiary	(US\$84)	US\$1,465 (NT\$48,125) (Note 3)	\$ -
Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	US\$1,000 (NT\$32,850)	Indirect investment in the Company of Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$634 (NT\$20,827)	US\$366 (NT\$12,023)	-	US\$1,000 (NT\$32,850)	100% ownership of indirect investment by the Corporation's subsidiary	(US\$93)	US\$927 (NT\$30,452)	-

Accumulated Investment in Mainland China as of December 31, 2005	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
US\$1,666	Note 4	Note 4

Note 1: The above amounts were translated into New Taiwan Dollars at the exchange rate of US\$1=NT\$32.85 and RMB1=NT\$4.07 as of December 31, 2005.
 Note 2: The remittance of US\$1,300 thousand to TT&T Holdings Co., Ltd. in Samoa from Taiwan at the beginning of 2005 was invested in Dalian Xinkai Teleservices & Technologies Ltd. (US\$666 thousand) and Xiamen Taifu Teleservices & Technologies Ltd. (US\$634 thousand).
 Note 3: The carrying value as of December 31, 2005 included the investment of US\$845 thousand in the form of technology transferred to the investee from TT&T Holdings Co., Ltd. in Samoa.
 Note 4: The indirect investment made by Taiwan Teleservices & Technologies Co., Ltd., a subsidiary of the Corporation.

INDEPENDENT AUDITORS' REPORT

January 17, 2006

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

We have audited the accompanying consolidated balance sheets of Taiwan Mobile Co., Ltd. (the "Corporation," formerly Taiwan Cellular Corporation) and subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Taiwan Mobile Co., Ltd. and subsidiaries as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

As disclosed in Note 2, the consolidated financial statements as of and for the year ended December 31, 2005 have been prepared in accordance with the revised Statement of Financial Accounting Standards No. 7, "Consolidated Financial Statements," resulting in the difference of consolidated entities in the consolidated financial statements as of and for the years ended December 31, 2005 and 2004.

Notice to Readers

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

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

**TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2005 AND 2004
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2005		2004	
	Amount	%	Amount	%
CURRENT ASSETS				
Cash and cash equivalents (Notes 2, 3 and 19)	\$14,791,543	12	\$3,689,123	3
Short-term investments (Notes 2 and 4)	9,877,177	8	14,865,602	12
Notes receivable	14,048	-	2,266	-
Accounts receivable - third parties (Notes 2 and 5)	6,483,452	6	5,684,729	5
Accounts receivable - related parties (Notes 2 and 19)	187,072	-	297,941	-
Other receivables (Notes 14 and 19)	283,319	-	401,914	-
Inventories (Notes 2 and 6)	6,051	-	5,488	-
Prepayments	556,668	1	490,022	-
Deferred income tax assets (Notes 2 and 16)	177,372	-	215,108	-
Pledged time deposits (Notes 19 and 20)	10,000	-	610,000	1
Other current assets	17,756	-	74,242	-
Total current assets	32,404,458	27	26,336,435	21
LONG-TERM INVESTMENTS (Notes 2, 7 and 19)				
Equity method	-	-	8,122,029	7
Cost method	4,006,307	3	-	-
Prepayment for long-term investments	24,950	-	32,160	-
Total long-term investments	4,031,257	3	8,154,189	7
PROPERTY AND EQUIPMENT (Notes 2, 8, 19 and 20)				
Cost				
Land	3,971,337	3	3,619,967	3
Buildings	2,531,057	2	2,358,627	2
Telecommunication equipment	82,017,397	69	80,708,679	64
Office equipment	373,229	-	518,761	-
Leased assets	1,284,961	1	1,276,190	1
Leasehold improvements	278,510	-	533,622	1
Miscellaneous equipment	1,096,358	1	1,349,919	1
Total cost	91,552,849	76	90,365,765	72
Less accumulated depreciation	(29,454,617)	(24)	(27,172,011)	(22)
	62,098,232	52	63,193,754	50
Constructions in progress and advance payments	2,427,437	2	4,808,648	4
Net property and equipment	64,525,669	54	68,002,402	54
INTANGIBLE ASSETS				
Trademarks	-	-	583	-
Concession (Note 2)	9,720,218	8	10,281,000	8
Goodwill (Notes 2 and 9)	6,414,029	6	6,633,515	5
	16,134,247	14	16,915,098	13
OTHER ASSETS				
Non-operating assets (Notes 2, 10 and 20)	1,192,335	1	4,265,539	3
Refundable deposits	310,034	-	313,646	-
Deferred charges (Notes 2, 11 and 19)	621,298	1	653,618	1
Deferred income tax assets (Notes 2 and 16)	527,751	-	702,390	1
Other (Notes 19 and 20)	80,557	-	76,264	-
Total other assets	2,731,975	2	6,011,457	5
TOTAL	\$119,827,606	100	\$125,419,581	100

ASSETS	2005		2004	
	Amount	%	Amount	%
CURRENT LIABILITIES				
Notes payable	\$9,117	-	\$32,318	-
Accounts payable (Note 19)	1,760,571	1	1,825,505	1
Income taxes payable (Notes 2 and 16)	1,172,569	1	2,143,669	2
Accrued expenses (Note 19)	4,275,785	4	3,675,055	3
Other payables (Notes 19 and 21)	2,849,638	2	2,236,696	2
Advance receipts	1,086,844	1	985,025	1
Current portion of long-term liabilities (Notes 2, 12 and 20)	4,543,020	4	3,369,563	3
Guarantee deposits	165,502	-	234,100	-
Other current liabilities (Note 19)	780,989	1	593,812	-
Total current liabilities	16,644,035	14	15,095,743	12
LONG-TERM LIABILITIES				
Bonds payable (Notes 2, 12 and 21)	14,584,125	12	19,086,226	15
Long-term bank loans (Notes 13 and 20)	-	-	8,400,000	7
Total long-term liabilities	14,584,125	12	27,486,226	22
OTHER LIABILITIES				
Accrued pension cost (Notes 2 and 14)	90,580	-	103,010	-
Guarantee deposits	239,372	-	109,194	-
Other (Notes 2 and 7)	473,921	1	63,553	-
Total other liabilities	803,873	1	275,757	-
Total liabilities	32,032,033	27	42,857,726	34
SHAREHOLDERS' EQUITY (Notes 2 and 15)				
Shareholders' equity of the parent				
Capital stock - \$10 par value				
Authorized: 6,000,000 thousand shares				
Issued: 4,949,206 thousand shares in 2005 and 4,888,389 thousand shares in 2004				
	49,492,065	41	48,883,886	39
Entitlement certificates	29,871	-	279,670	-
Capital surplus - paid-in capital in excess of par value	7,905,337	6	7,258,873	6
Retained earnings				
Legal reserve	8,504,731	7	6,839,315	5
Special reserve	2,201,631	2	-	-
Unappropriated earnings	19,175,425	16	19,554,125	16
Other adjustments of the shareholders' equity				
Cumulative translation adjustments	3,240	-	(1,631)	-
Treasury stock	(323,544)	-	(1,841,417)	(1)
	86,988,756	72	80,972,821	65
Minority interests	806,817	1	1,589,034	1
Total shareholders' equity	87,795,573	73	82,561,855	66
TOTAL	\$119,827,606	100	\$125,419,581	100

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 17, 2006)

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Capital Stock		Paid-in Capital-in Excess of Par Value	Retained Earnings				Cumulative Translation Adjustments	Treasury Stock	Minority Interests	Total Shareholders' Equity
	Capital Stock	Entitlement Certificates		Legal Reserve	Special Reserve	Unappropriated	Total				
BALANCE, JANUARY 1, 2004	\$46,998,258	\$-	\$3,366,010	\$5,505,955	\$330,183	\$15,480,882	\$21,317,020	\$34,450	\$(2,524,972)	\$6,856,654	\$76,047,420
Reversal of special reserve	-	-	-	-	(330,183)	330,183	-	-	-	-	-
Appropriation of 2003 earnings	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	1,333,360	-	(1,333,360)	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	(61,652)	(61,652)	-	-	-	(61,652)
Bonus to employees - cash	-	-	-	-	-	(369,913)	(369,913)	-	-	-	(369,913)
Cash dividends - \$2.3758 per share	-	-	-	-	-	(11,071,408)	(11,071,408)	-	-	-	(11,071,408)
Balance after appropriation	46,998,258	-	3,366,010	6,839,315	-	2,974,732	9,814,047	34,450	(2,524,972)	6,856,654	64,544,447
Consolidated net income in 2004	-	-	-	-	-	16,658,456	16,658,456	-	-	419,260	17,077,716
Conversion of convertible bonds to capital stock and entitlement certificates	1,904,728	279,670	3,894,231	-	-	-	-	-	-	-	6,078,629
Cancellation of treasury stock	(19,100)	-	(1,368)	-	-	(33,337)	(33,337)	-	53,805	-	-
Transfer of treasury stock to employees	-	-	-	-	-	(36,882)	(36,882)	-	548,166	-	511,284
Adjustments of changes in ownership percentage on long-term equity-method investments	-	-	-	-	-	(4,299)	(4,299)	-	-	-	(4,299)
Disposal of the Corporation's shares held by its subsidiary	-	-	-	-	-	(4,545)	(4,545)	-	81,584	-	77,039
Translation adjustments	-	-	-	-	-	-	-	(36,081)	-	-	(36,081)
Decrease in minority interests	-	-	-	-	-	-	-	-	-	(2,787,615)	(2,787,615)
Subsidiaries' capital return to minority interests	-	-	-	-	-	-	-	-	-	(2,633,836)	(2,633,836)
Subsidiaries' distribution of cash dividends, remuneration to directors and supervisors and bonus to employees	-	-	-	-	-	-	-	-	-	(265,429)	(265,429)
BALANCE, DECEMBER 31, 2004	48,883,886	279,670	7,258,873	6,839,315	-	19,554,125	26,393,440	(1,631)	(1,841,417)	1,589,034	82,561,855
Appropriation of 2004 earnings	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	1,665,416	-	(1,665,416)	-	-	-	-	-
Special reserve	-	-	-	-	2,201,631	(2,201,631)	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	(63,936)	(63,936)	-	-	-	(63,936)
Bonus to employees - cash	-	-	-	-	-	(383,613)	(383,613)	-	-	-	(383,613)
Cash dividends - \$2.47302 per share	-	-	-	-	-	(12,126,821)	(12,126,821)	-	-	-	(12,126,821)
Balance after appropriation	48,883,886	279,670	7,258,873	8,504,731	2,201,631	3,112,708	13,819,070	(1,631)	(1,841,417)	1,589,034	69,987,485
Consolidated net income in 2005	-	-	-	-	-	16,236,698	16,236,698	-	-	259,319	16,496,017
Conversion of convertible bonds to capital stock	608,179	(249,799)	646,464	-	-	-	-	-	-	-	1,004,844
Buyback of treasury stock	-	-	-	-	-	-	-	-	(319,790)	-	(319,790)
Transfer of treasury stock to employees	-	-	-	-	-	(173,981)	(173,981)	-	1,837,663	-	1,663,682
Translation adjustments	-	-	-	-	-	-	-	4,871	-	(995)	3,876
Decrease in minority interests	-	-	-	-	-	-	-	-	-	(1,140,865)	(1,140,865)
Subsidiaries' capital return and liquidations to minority interests	-	-	-	-	-	-	-	-	-	(3,084)	(3,084)
Subsidiaries' distribution of cash dividends, remuneration to directors and supervisors and bonus to employees	-	-	-	-	-	-	-	-	-	(295,001)	(295,001)
Adjustments for the change of consolidated entities	-	-	-	-	-	-	-	-	-	398,409	398,409
BALANCE, DECEMBER 31, 2005	\$49,492,065	\$29,871	\$7,905,337	\$8,504,731	\$2,201,631	\$19,175,425	\$29,881,787	\$3,240	\$(323,544)	\$806,817	\$87,795,573

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

(With Deloitte & Touche audit report dated January 17, 2006)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$16,496,017	\$17,077,716
Adjustments to reconcile consolidated net income to net cash provided by operating activities:		
Depreciation	6,408,095	6,525,991
Loss on disposal of property and equipment, net	1,976,816	34,331
Amortization	1,428,752	843,484
Bad debts	964,166	1,075,404
Cash dividends received from equity-method investees	456,250	1,478,477
Deferred income taxes	248,086	277,245
Loss on buyback of bonds payable	191,109	268,105
Accrued interest compensation	120,100	358,473
Impairment loss	112,300	942,387
Investment loss recognized by the equity method, net	108,146	306
Pension cost	(47,294)	(20,253)
Provision (reversal of allowance) for loss on inventories	(19,275)	8,483
Impairment loss on long-term investments	5,689	13,594
Loss (gain) on disposal of long-term investments	1,137	(20,414)
Gain on disposal of idle assets	(356)	-
Accrued loss on ISR dispute	-	121,160
Market price recovery of short-term investments	-	(9,889)
Other	976	1,946
New changes in operating assets and liabilities		
Notes receivable	11,113	13,423
Accounts receivable	(1,544,336)	(193,002)
Other receivables	166,314	135,223
Inventories	23,073	27,241
Prepayments	(41,764)	158,595
Other current assets	98,516	(51,497)
Notes payable	(26,310)	(993)
Accounts payable	(76,701)	(105,559)
Income taxes payable	(973,991)	1,130,021
Accrued expenses	778,347	428,606
Other payables	(504,467)	202,650
Advance receipts	93,494	(544,490)
Other current liabilities	(177,304)	260,257
Net cash provided by operating activities	26,276,698	30,437,021
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in short-term investments	5,598,425	7,670,086
Acquisition of property and equipment	(3,220,481)	(3,662,182)
Proceeds on disposal of property and equipment	2,175,004	36,729
Decrease (increase) in pledged time deposits	599,700	(600,000)
Proceeds on investees' capital return	\$340,444	\$2,850,000
(Increase) decrease in deferred charges	(268,168)	30,397
Increase in goodwill	(176,008)	(431,710)

	2005	2004
Increase in long-term investments	(40,187)	(92,371)
Decrease in refundable deposits	12,382	7,920
Proceeds on disposal of idle assets	7,050	-
Decrease in other assets	2,812	23,221
Proceeds on investees' liquidations	-	53,028
Cash received on a merger with T&M Investment Co., Ltd.	-	52,263
Proceeds on disposal of long-term investments	-	13,141
Net cash provided by investing activities	5,030,973	5,950,522
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(12,146,818)	(11,050,917)
Decrease in long-term bank loans	(8,400,000)	(14,489,470)
Treasury stock transferred to employees	1,663,682	511,284
Decrease in bonds payable	(1,500,000)	-
Buyback of bonds payable	(1,135,009)	(2,360,484)
Decrease in minority interests	(1,132,648)	(2,632,775)
Decrease in short-term debts	(450,000)	(30,401)
Bonus to employees	(394,148)	(396,307)
Buyback of issued shares	(319,790)	-
Dividend paid to minority interests	(295,001)	(250,261)
Decrease in guarantee deposits	(106,674)	(2,463,482)
Remuneration to directors and supervisors	(63,936)	(61,652)
(Decrease) increase in other liabilities	(47,554)	2,219
Subsidiaries' capital return to minority interests due to liquidation or capital reduction	(8,328)	(2,230,302)
Net cash used in financing activities	(24,336,224)	(35,452,548)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	3,928	-
NET INCREASE IN CASH AND CASH EQUIVALENTS	6,975,375	934,995
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 2)	7,816,168	2,754,128
CASH AND CASH EQUIVALENTS, END OF YEAR	\$14,791,543	\$3,689,123
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid - excluding interest capitalized	\$555,044	\$871,838
Income taxes paid	\$2,279,821	\$1,791,317
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$4,543,020	\$3,369,563
Conversion of convertible bonds to capital stock and entitlement certificates	\$891,800	\$5,563,100
Reclassification from treasury stock to long-term investments for disposal of the Corporation's shares held by its subsidiary	\$-	\$77,039

	2005	2004
Acquisition of property and equipment	\$3,872,247	\$4,935,341
Less increase in other payables	(651,766)	(1,273,159)
Cash paid for acquisition of property and equipment	\$3,220,481	\$3,662,182

SUPPLEMENTAL INFORMATION ON SUBSIDIARY:

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

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

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

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

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

(With Deloitte & Touche audit report dated January 17, 2006)

TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION) AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2005 AND 2004

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

1. ORGANIZATION AND OPERATIONS

Taiwan Mobile Co., Ltd. (the "Corporation," with the English company name of Taiwan Cellular Corporation until the first quarter of 2005) 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 (GSM 1800 for all sectors; "GSM" means "global system for mobile communications") issued by the Directorate General of Telecommunications (DGT) of the ROC. The license allows the Corporation to provide services for 15 years from 1997 onwards. It also entails the payment of an annual license fee consisting of 2% of total wireless communication service revenues. On March 24, 2005, the Corporation received the third generation (3G) concession operation license issued by the DGT. The 3G license allows the Corporation to provide services from the issuance date of the license to December 31, 2018.

As of December 31, 2005 and 2004, the Corporation and subsidiaries had 3,459 and 1,947 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Consolidation

(1) Basis of consolidation

The consolidated financial statements as of and for

Investor	Subsidiary	Nature of Business	Percentage of Ownership as of December 31		Note
			2005	2004	
Corporation	TransAsia Telecommunications Inc. (TAT)	Wireless service provider	92.32	92.32	-
Corporation	Mobitai Communications (Mobitai)	Wireless service provider	-	67.00	-

the year ended December 31, 2005 have been prepared in accordance with the revised Statement of Financial Accounting Standards (SFAS) No. 7, "Consolidated Financial Statements," and include the financial statements of the Corporation, its direct and indirect subsidiaries with at least 50% shareholding and other investees controlled by the Corporation. All significant intercompany transactions and balances are eliminated on consolidation.

The consolidated financial statements as of and for the year ended December 31, 2004 include the financial statements of the Corporation and its direct and indirect subsidiaries with at least 50% of shareholding and individual assets or operating revenues amounting to at least 10% of the unconsolidated assets or operating revenues of the Corporation. In the case that the total assets or operating revenues of the subsidiaries are individually less than 10% but collectively more than 30% of the Corporation's respective total assets or operating revenues, a subsidiary with individual total assets or operating revenues exceeding 3% of the Corporation's respective total assets or operating revenues should be included into the consolidated financial statements until the combined assets or operating revenues of the subsidiaries excluded in the consolidated financial statements represent less than 20% of the Corporation's respective total assets or operating revenues.

The consolidated entities increased in 2005 because of the adoption of the newly revised SFAS No. 7. Thus, the beginning balance of the cash and cash equivalents in the consolidated statement of cash flows is presented at the retroactively restated amount, which contains the beginning balance of those subsidiaries included in the current year but failed to meet the consolidation criteria in the prior year.

(2) The consolidated entities in 2004 only included TransAsia Telecommunications Inc. and Mobitai Communications. Under the revised basis of consolidation, the consolidated entities in 2005 included the following:

Investor	Subsidiary	Nature of Business	Percentage of Ownership as of December 31		Note
			2005	2004	
Corporation	Taihsing Den Syun Co., Ltd. (TDS)	Equipment installation and IT service	100.00	-	Established in 2005 by investing Mobitai's shares
Corporation	Tai Fu Investment Ltd. (TFI)	Investment	-	99.99	Liquidated in December 2005
Corporation	Tai Hsuo Investment Ltd. (Tai Hsuo)	Investment	-	99.99	Liquidated in December 2005
Corporation	Tai Hung Investment Ltd. (Tai Hung)	Investment	-	99.99	Liquidated in December 2005
Corporation	T.I. Investment Ltd. (TII)	Investment	-	99.99	Liquidated in December 2005
Corporation	Taiwan Cellular Co., Ltd. (TCC; formerly Taihsing Den Den Co., Ltd.)	Telecommunication equipment retailing and wholesale	99.99	99.99	-
TDS	Tai Ya International Telecommunications Co., Ltd. (TYIT)	Wireless service provider	100.00	-	Established in 2005 by investing Mobitai's shares
TCC	Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Call center service	95.88	95.88	-
TCC	Taiwan Tele-Shop Co., Ltd.	Telecommunication equipment retailing and wholesale	-	50.02	Merged into TCC (formerly Taihsing Den Den Co., Ltd.) on June 30, 2005
TCC	Taiwan Elitec Corporation	Software solution provider, data processing services	-	98.31	Merged into the Corporation on March 30, 2005
TYIT	Mobitai	Wireless service provider	94.28	-	-
TT&T	TT&T Casualty & Property Insurance Agency Co., Ltd. (TCPIA)	Insurance agency	100.00	-	-
TT&T	TT&T Life Insurance Agency Co., Ltd. (TLIA)	Insurance agency	100.00	100.00	-
TT&T	TT&T Holdings Co., Ltd. (TT&T Holding)	Investment	100.00	-	-
TT&T Holding	Dalian Xinkai Teleservices & Technologies Ltd.	Call center service	50.00	-	-
TT&T Holding	Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	100.00	-	-

Basis of Presentation

The accompanying consolidated financial statements have been prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC. In conformity with these guidelines and principles, the Corporation and subsidiaries (hereinafter referred to as the "Group") are required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, provision for loss on inventories, depreciation, pension, allowance for deferred income tax assets, impairment loss on assets, etc. Actual results may differ from these estimates.

For the convenience of readers, the accompanying consolidated 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 Group's significant accounting policies are summarized as follows:

Current and Non-current Assets and Liabilities

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

Cash Equivalents

Commercial paper, treasury bills and government bonds acquired with resale rights and having maturities of up to three months from the date of purchase are classified as cash equivalents.

Short-term Investments

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

Allowance for Doubtful 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, which refers to replacement cost or net realizable value.

Long-term Investments

Long-term investments in which the Corporation exercises significant influence on the investees are accounted for by the equity method. The Corporation's proportionate share in the net income or net loss of investees is recognized as investment income or loss. Cash dividends are recorded as a reduction of the carrying value of long-term investments. On the acquisition date, the difference between the cost of investment and the equity in the investee's net asset value is amortized by the straight-line method over 8 to 20 years and is also recognized as investment income or loss. The carrying values of the investments are reduced to reflect any other than temporary decline in value, with the reduction charged to current income.

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

Other long-term investments are accounted for by the cost method. Cash dividends received in the year of investment acquisition are accounted for as a reduction of the carrying value of long-term investments, and cash dividends re-

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

Costs of the investments sold are determined by the weighted-average method.

Property and Equipment and Assets Leased to Others

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

Depreciation is calculated using the straight-line method over the estimated service lives, which range as follows: buildings - 50 to 55 years; telecommunication equipment - 3 to 15 years; office equipment - 1 to 6 years; leased assets - 20 years; leasehold improvements - 1 to 10 years; and miscellaneous equipment - 3 to 5 years.

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

Concession

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

Goodwill

Goodwill is the unidentifiable difference between the cost of investment and the investee's proportionate net value

and is amortized over 8 to 20 years according to individual investee's circumstance.

Idle Assets

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

Deferred Charges

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

Asset Impairment

If the carrying value of assets (including property and equipment, intangible assets, idle assets, assets leased to others and goodwill) is measured against their recoverable amount, and this measurement shows material impairment, an impairment loss should be recognized. Any reversal of the impairment loss is recognized as income. The increased carrying amount due to reversal should not be more than what the depreciated historical cost would have been had the impairment loss not been recognized. The reversal of impairment loss on goodwill is disallowed.

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 by the interest method from the issuance date through the due date and accounted for as accrued interest compensation. The accrued interest compensation is provided as a valuation account of convertible bonds. The issuance costs are recognized as deferred charges and amortized over the bond issuance term.

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 allocation method is used for income taxes. Deferred income tax assets and liabilities are recognized for the tax effects of temporary differences, unused tax credits and net operating loss carryforwards. Valuation allowance is provided for income tax assets that are not certain to be realized. Deferred tax assets or liabilities are classified as current or non-current according to the classification of related assets or liabilities for financial reports. However, if deferred tax assets or liabilities do not relate to assets or liabilities in the financial statements, they are classified as current or non-current on the basis of the expected realization period.

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

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

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

Treasury Stock

The buyback cost of issued shares is accounted for by debiting treasury stock, which is a reduction of shareholders' equity.

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

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

Derivative Financial Instruments

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

Foreign-currency Transactions

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

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

Revenue Recognition

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

Usage revenues from wireless services and value-added services, net of any applicable discount, are billed at predetermined rates and are recognized on the basis of minutes of traffic processed. Prepaid card services are recognized as other revenue based upon customer usage.

Sales revenues are stated at the fair values of settled prices (after consideration of business discount and volume discount) between the Corporation and the buyers. However, receivables from sales maturing within one year or less may not be valued at fair value according to the imputed interest rate when the discrepancy between their fair value and value at maturity is small, and they are frequently traded.

Promotion Expenses

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

Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2004 have been reclassified to be consistent with the presentation of financial statements as of and for the year ended December 31, 2005.

3. CASH AND CASH EQUIVALENTS

	December 31	
	2005	2004
Government bonds with resale rights	\$12,040,813	\$2,273,843
Time deposits	1,461,253	203,205
Cash in banks	689,306	1,193,824
Commercial paper	568,225	-
Cash on hand	28,530	12,431
Revolving funds	3,416	5,820
	<u>\$14,791,543</u>	<u>\$3,689,123</u>

4. SHORT-TERM INVESTMENTS

	December 31	
	2005	2004
Listed stocks		
Chunghwa Telecom Co., Ltd.	\$9,277,177	\$9,277,177
Beneficiary certificates		
Open-end funds	600,000	5,488,125
Closed-end funds	-	100,300
	<u>\$9,877,177</u>	<u>\$14,865,602</u>
Market value	<u>\$12,014,035</u>	<u>\$18,060,798</u>

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

5. ACCOUNTS RECEIVABLE - THIRD PARTIES

	December 31	
	2005	2004
Accounts receivable	\$7,041,473	\$6,251,356
Less allowance for doubtful accounts	(558,021)	(566,627)
	<u>\$6,483,452</u>	<u>\$5,684,729</u>

7. LONG-TERM INVESTMENTS

	December 31			
	2005		2004	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
Equity method				
Taiwan Fixed Network Co., Ltd.	\$-	-	\$4,256,798	9.87
Tai Hung Investment Ltd.	-	-	1,646,819	99.99
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., td.)	-	-	902,707	99.99
Tai Fu Investment Ltd.	-	-	553,889	99.99
T.I. Investment Ltd.	-	-	405,762	99.99
Tai Hsuo Investment Ltd.	-	-	323,818	99.99
Howin Technologies Co., Ltd.	-	-	<u>32,236</u>	2.50
	-	-	<u>8,122,029</u>	
Cost method				
Taiwan Fixed Network Co., Ltd.	3,869,976	9.95	-	-
Arcoa Communication Co., Ltd.	67,731	5.21	-	-
Bridge Mobile Pte Ltd.	32,160	12.50	-	-
Parawin Venture Capital Corp.	25,144	3.00	-	-
WEB Point Co., Ltd.	8,031	3.17	-	-
Sunnet Co., Ltd.	<u>3,265</u>	1.51	-	-
	<u>4,006,307</u>		-	
Prepayment for long-term investments				
Tai Yi Digital Broadcasting Co., Ltd.	24,950		-	
Bridge Mobile Pte Ltd.	-		<u>32,160</u>	
	<u>24,950</u>		<u>32,160</u>	
	<u>\$4,031,257</u>		<u>\$8,154,189</u>	
Credit balance (recorded as other liabilities - other)				
Howin Technologies Co., Ltd.	<u>\$(472,632)</u>	27.50		

6. INVENTORIES

	December 31	
	2005	2004
Mobile phones	\$-	\$5,039
Accessories for mobile phones	-	19,432
Other	6,051	2,558
	6,051	27,029
Less allowance for losses	-	(21,541)
	<u>\$6,051</u>	<u>\$5,488</u>

Previously, although the Group's equity in Taiwan Fixed Network Co., Ltd. (TFN) was less than 20%, the equity method was applied because of the Group's significant influence over TFN. The investment income or loss was recognized by the treasury stock method for the reciprocal investments between TFN and the Corporation. On July 19, 2005, however, the Group lost its significant influence over TFN and thus changed the accounting treatment to the cost method.

The investment income in Howin Technologies Co., Ltd. (HTC) was recognized under the equity method by debiting long-term investments. However, the accumulated receipts of cash dividends and capital reduction distributed by HTC and the accumulated profits from intercompany transactions between HTC and the consolidated entities were recognized by crediting long-term investments, which resulted in a credit balance on the long-term investment in HTC.

In December 2004, Taiwan Telecom (Aust) Pty Ltd. adopted a resolution for liquidation, which was completed in November 2005.

On July 20, 2005, the shareholders decided to reduce HTC's capital by \$1,020,000 thousand at the shareholders' meeting, resulting in the cancellation of 102,000 thousand shares and the return to investors of their cash investments. On the record date (July 31, 2005), the Group was entitled to receive \$280,500 thousand based on their 27.5% equity stake in HTC.

On October 24, 2005, the shareholders decided to transfer \$255,960 thousand of HTC's legal reserve to capital as stock dividends at the shareholders' meeting, and thus, HTC's total paid-in capital increased to \$435,960 thousand. On the record date (October 31, 2005), the Group was entitled to receive 7,039 thousand shares based on their 27.5% equity stake in HTC. In the same meeting, the shareholders also decided to reduce HTC's capital by \$217,980 thousand, resulting in the cancellation of 21,798 thousand shares and the return to investors of their cash investments. On the record date (November 5, 2005), the Group were entitled to receive \$59,945 thousand based on their 27.5% equity stake in HTC.

In 2005, the Group evaluated the carrying values of the long-term investments, and based on their net equity values, the Group recognized impairment losses of \$3,806 thousand in Parawin Venture Capital Corp. and \$1,884 thousand in WEB Point Co., Ltd.

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

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

	2004
Operating revenues	\$58,102,388
Net income	\$16,658,456
Earnings per share	
Basic	\$3.55
Diluted	\$3.37

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

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

In May 2004, HTC reduced its capital by \$4,800,000 thousand (80% of the capital), resulting in the cancellation of 480,000 thousand shares and the return to investors of their cash investments. On the record date (May 31, 2004),

TAT was entitled to receive \$120,000 thousand based on its 2.5% equity stake in HTC.

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

	December 31	
	2005	2004
Taiwan Fixed Network Co., Ltd.	\$(96,716)	\$(14,554)
Howin Technologies Co., Ltd.	(11,430)	11,576
Tai Hung Investments Ltd.	-	97,735
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	-	(80,050)
T&M Investment Co., Ltd.	-	66,296
Taiwan Telecom (Aust) Pty Ltd.	-	(43,646)
T.I. Investment Ltd.	-	(26,799)
Tai Hsuo Investments Ltd.	-	(12,067)
Tai Fu Investments Ltd.	-	1,203
	<u>\$(108,146)</u>	<u>\$(306)</u>

In 2005, the net investment loss recognized under the equity method included the Group's proportional share in TFN's asset impairment loss of \$79,102 thousand.

8. PROPERTY AND EQUIPMENT - ACCUMULATED DEPRECIATION

	December 31	
	2005	2004
Buildings	\$265,082	\$227,192
Telecommunication equipment	28,088,739	25,365,222
Office equipment	191,385	344,400
Leased assets	234,958	164,841
Leasehold improvements	218,414	442,629
Miscellaneous equipment	456,039	627,727
	<u>\$29,454,617</u>	<u>\$27,172,011</u>

Depreciation amounted to \$6,396,002 thousand in 2005 and \$6,458,534 thousand in 2004.

Interest expenses capitalized amounted to \$71,194 thou-

sand in 2005 and \$77,582 thousand in 2004 with interest rates ranging from 2.64% to 3.60% and from 3.00% to 3.60%, respectively.

9. GOODWILL

In conformity with the Statement of Financial Accounting Standards No. 35, "Accounting for Asset Impairment," the Group identified the Corporation, TAT and Mobitai, the subsidiary of TYIT, as the smallest identifiable group of cash-generating units. TAT and Mobitai mainly provide second-generation GSM wireless communication services. As of December 31, 2005, goodwill amounting to \$5,881,350 thousand and \$532,679 thousand was allocated to the carrying values of the operating assets of TAT and Mobitai, respectively. The recoverable amounts were measured by the asset values in use under the following critical assumptions, which indicated no asset impairment when the recoverable amounts were compared with TAT's and Mobitai's carrying values:

- (1) Assumptions on operating revenues
After taking changes in the telecom industry and competitive landscape into consideration, operating revenues were estimated on the basis of the projected changes in subscriber numbers, minutes of incoming and outgoing calls and average revenue per minute.
- (2) Assumptions on operating costs and expenses
The estimates of commissions, customer retention costs, customer service costs and data processing costs were based on the projected changes in subscriber numbers. The estimates of remaining costs and expenses were based on the proportion of the actual costs and expenses to operating revenues in the 2005 financial statements.
- (3) The Group used the discount rates of 7.63% and 8.72% in calculating the asset recoverable amounts of TAT and Mobitai, respectively.

10. NON-OPERATING ASSETS

	December 31	
	2005	2004
Cost		
Assets leased to others	\$990,201	\$2,472,487
Idle assets	2,820,980	2,711,103
Assets to be disposed of	-	2,518,960
	3,811,181	7,702,550
Less accumulated depreciation	(804,828)	(1,584,776)
	3,006,353	6,117,774
Less accumulated impairment	(1,814,018)	(1,852,235)
	<u>\$1,192,335</u>	<u>\$4,265,539</u>

The Group recognized a valuation loss of \$942,180 thousand on the idle equipment based on net realizable value in 2004. Starting from 2005, the Group adopted SFAS No. 35, "Accounting for Asset Impairment," and recognized an impairment loss of \$112,300 thousand on the idle buildings

12. BONDS PAYABLE

	December 31			
	2005		2004	
	Current	Non-current	Current	Non-current
Domestic secured bonds	\$1,500,000	\$-	\$1,500,000	\$1,500,000
Domestic unsecured bonds	1,250,000	13,750,000	-	15,000,000
1st domestic unsecured convertible bonds	1,480,000	-	-	2,230,800
2nd domestic unsecured convertible bonds	-	747,300	1,730,400	-
Add accrued interest compensation	313,020	86,825	139,163	355,426
	<u>\$4,543,020</u>	<u>\$14,584,125</u>	<u>\$3,369,563</u>	<u>\$19,086,226</u>

- (1) Domestic secured bonds
On February 1, 2001, the Corporation issued five-year domestic secured bonds amounting to \$3,000,000 thousand, with each bond having a face value of \$1,000 thousand with a coupon rate of 5.31% per annum. The bonds will be redeemed in the fourth and fifth years after the issuance date at \$1,500,000 thousand for each of those years. Interest is payable annually. The bonds amounting to \$1,500,000 thousand and due in February 2005 had been repaid by the Corporation.

and equipment based on their appraisal results and net realizable value in 2005.

In consideration of the equipment utilization condition and capital efficiency, the Board of Directors of the Corporation decided in October 2004 to sell in 2005 its self-constructed transmission networks with carrying value of \$2,035,713 thousand to Taiwan Fixed Network Co., Ltd. The equipment was therefore transferred from properties and equipment to assets to be disposed of.

11. DEFERRED CHARGES

	December 31	
	2005	2004
Computer software	\$246,410	\$209,157
Construction expenditures	113,893	141,507
Interior decoration	160,739	136,594
Other	100,256	166,360
	<u>\$621,298</u>	<u>\$653,618</u>

The bond covenant requires the Corporation to maintain its year-end current ratio at above 100%, debt-to-equity ratio at below 100% and solvency ratio [(Net income + Depreciation + Amortization + Interest expense)/(Long-term bank loan repayments + Interest expense)] at above 150%.

- (2) Domestic unsecured bonds
On December 13, 2002, the Corporation issued domestic unsecured bonds amounting to \$15,000,000 thousand, with each bond having a face value of \$5,000 thousand. The bonds have four different

types based on terms and dates. Types I and II both consist of A to L tranches. Types III and IV both consist of A to M tranches. Types I and II are five-year bonds and Types III and IV are seven-year bond. The interest rates and payment terms are as follows:

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

(3) 1st domestic convertible bonds

On August 25, 2001, the Corporation issued five-year domestic convertible bonds amounting to \$10,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period, starting from 3 months after issuance date to the 10th day before maturity, the bondholders may ask for bond conversion into common stocks of the Corporation. Cash is paid for those bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$23.3 per share since July 20, 2005. As of December 31, 2005, bonds amounting to \$6,330,300 thousand have been converted to 203,141 thousand common shares and 2,987 thousand units of entitlement certificates. Each certificate can be converted into one common share. The bonds amounting to \$2,189,700 thousand were purchased and canceled by the Corporation.

If the closing price of the Corporation's share is above 50% of the conversion price for 30 consecutive trading days of the Taiwan Stock Exchange from 3 months after bond issuance to the 40th day before maturity, the Corporation has the option to convert

the bonds to entitlement certificates at the conversion price or to redeem the bonds by cash based on the face value. If the total value of outstanding convertible bonds becomes less than 10% of the total principal, the Corporation also has the option, at any time, to convert the bonds to entitlement certificates at the conversion price or to redeem the bonds by cash based on the face value.

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

(4) 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued five-year domestic convertible bonds amounting to \$6,000,000 thousand, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to the 10th day before maturity, the bondholders may have the bonds converted into common stocks of the Corporation. Cash is paid for those bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$24.7 per share since July 20, 2005. As of December 31, 2005, bonds amounting to \$4,753,300 thousand have been converted to 182,727 thousand common shares. The bonds amounting to \$499,400 thousand were purchased and canceled by the Corporation.

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

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

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

Year	Amount
2006	\$2,750,000
2007	3,750,000
2008	2,500,000
2009	7,500,000
	<u>\$16,500,000</u>

13. LONG-TERM BANK LOANS

The secured loans had interest rates ranging from 1.9567% to 2.0666% as of December 31, 2004. The loans will mature on September 1, 2010, and interest is payable monthly. The Corporation made an early repayment of all long-term bank loans in the second quarter of 2005.

14. PENSION PLAN

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

The 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 makes monthly contributions to a pension fund, and the pension contributions will be completed within five years starting July 1, 2005. The pension fund is managed by an independently administered pension fund committee and deposited in the committee's name in the Central Trust of China.

The new LPA provides for a defined contribution pension plan. Starting from July 1, 2005, the Corporation contributes monthly an amount equal to 6% of the employees' monthly wages to the employees' individual pension accounts.

Certain employees of the Corporation's affiliates were transferred to the Corporation in 2005 and 2004. The Corporation accepted these employees' previous service years and was entitled to receive their pension from these companies based on actuarial calculation. As of December 31, 2005 and 2004, the pension due from these companies amounted to \$0 and \$40,045 thousand, respectively, which were recorded as other receivables. The pension received by the Corporation had been deposited in the Central Trust of China.

Pension information is summarized as follows:

	2005	2004
(1) Pension cost		
Service cost	\$19,872	\$49,969
Interest cost	4,571	5,723
Projected return on pension assets	(4,290)	(5,839)
Amortization	(3,486)	(1,847)
Pension cost	<u>\$16,667</u>	<u>\$48,006</u>

	December 31	
	2005	2004
(2) Reconciliation of the fund status of the plan and accrued pension cost		
Vested	\$-	\$(8,868)
Non-vested	(187,492)	(125,964)
Accumulated	(187,492)	(134,832)
Additional benefits based on future salaries	(123,901)	(85,852)
Projected benefit obligation	(311,393)	(220,684)
Fair value of plan assets	312,927	209,728
Funded status	1,534	(10,956)
Unrecognized net transitional obligation	5,147	11,830
Unrecognized net gain or loss	(102,836)	(109,906)
Accrued pension cost	<u>\$(96,155)</u>	<u>\$(109,032)</u>

A portion of the above ending balance was recorded as accrued pension cost, and the other portion, as accrued expenses.

	December 31	
	2005	2004
(3) Vested benefits	\$-	\$(8,868)

	2005	2004
(4) Actuarial assumptions		
Discount rate used in determining present values	2.50%-3.75%	3.00%-3.75%
Future salary increase rate	2.50%-3.50%	2.50%-3.50%
Expected rate of return on plan assets	2.50%-3.25%	2.75%-3.00%

15. SHAREHOLDERS' EQUITY

(1) Capital surplus

Under the Company Law, capital surplus may only be used to offset a deficit. However, capital surplus generated from the excess of the issue price over the par value of capital stock, including the stock issued for new capital and the buyback of treasury stock, may be transferred to capital as stock dividends, and this transfer is restricted to a certain percentage of the capital surplus and may be made only within prescribed limits each time.

(2) Appropriation of earnings and dividend policy

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

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

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	For Fiscal Year 2004	For Fiscal Year 2003	For Fiscal Year 2004	For Fiscal Year 2003
Appropriation of legal reserve	\$1,665,416	\$1,333,360		
Appropriation (reversal) of special reserve	2,201,631	(330,183)		
Remuneration to directors and supervisors	63,936	61,652		
Cash bonus to employees	383,613	369,913		
Cash dividends	12,126,821	11,071,408	\$2.47302	\$2.3758
	<u>\$16,441,417</u>	<u>\$12,506,150</u>		

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 projected capital needs by using the retained earnings. Any remainder is available for dividend distribution. However, the amount of stock dividends should not be more than 80% of the total dividends to be distributed in a single year. The final amount, type and percentage of the dividends are subject to the approval by the Board of Directors and shareholders based on actual earnings and capital requirements of the Corporation in a particular year.

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

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

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

The appropriation of the 2004 and 2003 earnings and dividend per share were as follows:

Of the appropriation of the 2004 earnings proposed by the Board of Directors and resolved by the shareholders' meeting on June 14, 2005, the bonus to employees and the remuneration to directors and supervisors were as follows:

	Amount
Bonus to employees - in cash	\$383,613
Remuneration to directors and supervisors - in cash	63,936
	<u>\$447,549</u>

Had the above bonus to employees and remuneration to directors and supervisors been charged against income in 2004, the basic earnings per share in that year would have decreased from NT\$3.55 to NT\$3.46.

The appropriation of the Corporation's 2005 earnings had not been proposed by the Board of Directors as of January 17, 2006, the independent auditors' report date. Information on the appropriation of 2005 earnings proposed by the Board of Directors and resolved by the shareholders can be accessed through the Market Observation Post System on the Taiwan Stock Exchange Corporation's website.

(3) Treasury stock

Purpose of Buyback	Beginning Shares	Increase	Decrease	Ending Shares
2005				
For transfer to employees	65,368	11,551	65,368	11,551
2004				
For transfer to employees	86,739	-	21,371	65,368
Reclassification of the Corporation's shares held by subsidiaries from long-term investments to treasury stock	4,575	-	4,575	-

The 1,910 thousand shares bought back in 2001 were canceled on January 12, 2004, resulting in a reduction by \$53,805 thousand of capital stock, capital surplus and retained earnings. In 2004, the Corporation transferred 19,461 thousand shares of treasury

stock to employees at NT\$26.8 and NT\$25.99 per share, resulting in a reduction of retained earnings by \$36,882 thousand.

In 2005, the Corporation transferred 65,368 thousand shares of treasury stock to employees at NT\$25.65, NT\$25.54, NT\$25.50 and NT\$25.48 per share, resulting in a reduction of retained earnings by \$173,981 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.

16. INCOME TAX EXPENSE

(1) The reconciliation of imputed income taxes on pretax income at statutory tax rate to current income taxes payable was as follows:

	2005	2004
Tax on pretax income at statutory tax rate (25%)	\$5,431,476	\$5,870,588
Add (deduct) tax effects of		
Permanent differences		
Investment income from domestic investments accounted for by the equity method	(562,626)	(663,644)
Tax-exempt dividend income	(238,408)	(312,263)
Gain on disposal of marketable securities	(54,182)	(358,490)
Other	96,151	72,491
Temporary differences	(93,543)	261,871
Tax-exempt income	(2,490,093)	(2,215,549)
Tax on unappropriated earnings (10%)	389,985	325,183
Investment tax credits	(407,057)	(197,071)
Prior year's loss carryforward	(5,453)	-
Current income taxes payable	<u>\$2,066,250</u>	<u>\$2,783,116</u>

The balance of income taxes payable as of December 31, 2005 and 2004 were net of prepaid income taxes of \$893,681 thousand and \$639,447 thousand, respectively.

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

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

Under Article 8 of SUI before the amendment in 1999, TAT is also considered an important technology-based enterprise. Thus, TAT's net operating income generated from the expansion of its equipment is exempt from income taxes for five years from January 1, 2001, as approved by the Ministry of Finance.

- (3) The components of income tax expense were as follows:

	2005	2004
Current income taxes expense	\$2,066,250	\$2,783,116
Deferred income taxes	248,086	415,732
Prior year's adjustment	52,961	(6,942)
Other	18,562	(47,624)
Income tax expense	<u>\$2,385,859</u>	<u>\$3,144,282</u>

- (4) Deferred income tax assets and liabilities as of December 31, 2005 and 2004 were as follows:

	December 31	
	2005	2004
Provision for doubtful accounts	\$762,114	\$837,543
Provision for impairment losses on idle assets	389,584	438,338
Unrealized loss on retirement of property and equipment	245,796	-
Accrued interest compensation	99,962	123,647
Prior year's loss carryforward	67,180	-
Accrued pension cost	18,400	16,766
Accrued loss on dispute over network interconnection	-	39,000
Investment tax credits	-	2,549
Other	11,126	71,156
	<u>1,594,162</u>	<u>1,528,999</u>
Less allowance for valuation	<u>(889,039)</u>	<u>(611,501)</u>
	<u>\$705,123</u>	<u>\$917,498</u>
Deferred income tax assets		
Current	\$177,372	\$215,108
Non-current	527,751	702,390
	<u>\$705,123</u>	<u>\$917,498</u>

- (5) Integrated income tax information was as follows:

	December 31	
	2005	2004
Balance of imputation credit account (ICA)		
Corporation	\$1,532,065	\$1,043,444
TransAsia Telecommunications Inc.	\$363,905	\$76,749
Taihsing Den Syun Co., Ltd.	\$-	
Tai Ya International Telecommunications Co., Ltd.	\$-	
Mobitai Communications	\$59,448	\$4,653
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	\$359,714	
Taiwan Teleservices & Technologies Co., Ltd.	\$25,599	
TT&T Casualty & Property Insurance Agency Co., Ltd.	\$352	
TT&T Life Insurance Agency Co., Ltd.	\$164	

As of December 31, 2005, there were no unappropriated earnings generated before January 1, 1998. The estimated creditable ratio for the 2005 earnings appropriation and the actual creditable ratio for the 2004 earnings appropriation were as follows:

	2005	2004
	(Estimated)	(Actual)
Corporation	13.70%	13.25%
TransAsia Telecommunications Inc.	13.63%	2.25%
Taihsing Den Syun Co., Ltd.	-	
Tai Ya International Telecommunications Co., Ltd.	-	
Mobitai Communications	-	1.65%
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	-	
Taiwan Teleservices & Technologies Co., Ltd.	-	
TT&T Casualty & Property Insurance Agency Co., Ltd.	-	
TT&T Life Insurance Agency Co., Ltd.	-	

Mobitai merged with TYIT on January 1, 2006, with TYIT as the surviving company, and thus the estimated creditable ratio for Mobitai's earnings was not calculated.

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 2005 earnings appropriation may be adjusted when the imputation credits are distributed.

- (6) As of December 31, 2005, the years through which income tax returns had been examined and cleared by the tax authorities were as follows:

	Year
Corporation	1999
TransAsia Telecommunications Inc.	2003
Taihsing Den Syun Co., Ltd.	-
Tai Ya International Telecommunications Co., Ltd.	-
Mobitai Communications	2002
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	2003
Taiwan Tele-Shop Co., Ltd.	2003
Taiwan Teleservices & Technologies Co., Ltd.	2003
TT&T Casualty & Property Insurance Agency Co., Ltd.	-
TT&T Life Insurance Agency Co., Ltd.	-

The Corporation, however, disagreed with the examination result on the 1999 income tax return and filed a request for reexamination in July 2005.

Based on the examination results of tax returns, TAT was assessed surtaxes of \$14,286 thousand for 2003 and \$28,976 thousand for 2002. However, TAT disagreed with the results and filed requests for reexamination in January 2006 and April 2005.

17. EARNINGS PER SHARE

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

	Amounts (Numerator)		Shares (Denominator) (Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
2005					
Weighted-average number of outstanding shares			4,941,187		
Less buyback of issued shares			(42,936)		
Basic EPS					
Income of common shareholders	\$18,311,457	\$16,236,698	4,898,251	\$3.74	\$3.31
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	84,858	63,644	69,753		
2nd convertible bonds (with implied yield rate of 3.3%)	35,242	26,432	39,736		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	\$18,431,557	\$16,326,774	5,007,740	\$3.68	\$3.26
2004					
Weighted-average number of outstanding shares			4,773,976		
Less buyback of issued shares			(80,235)		
Outstanding shares held by subsidiaries, recognized as treasury stock			(3,045)		
Basic EPS					
Income of common shareholders	\$19,415,910	\$16,658,456	4,690,696	\$4.14	\$3.55
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	216,250	162,187	179,087		
2nd convertible bonds (with implied yield rate of 3.3%)	142,223	106,667	160,444		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	\$19,774,383	\$16,927,310	5,030,227	\$3.93	\$3.37

18. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	2005			2004		
	Classified as Operating Cost	Classified as Operating Expenses	Total	Classified as Operating Cost	Classified as Operating Expenses	Total
Labor cost						
Salary	\$1,321,450	\$1,756,348	\$3,077,798	\$546,352	\$1,364,380	\$1,910,732
Labor and health insurance	90,065	91,314	181,379	33,374	68,290	101,664
Pension	45,432	58,584	104,016	15,715	28,332	44,047
Other	63,877	88,311	152,188	31,649	82,500	114,149
	1,520,824	1,994,557	3,515,381	627,090	1,543,502	2,170,592
Depreciation	6,002,646	393,356	6,396,002	6,150,652	307,882	6,458,534
Amortization	731,357	674,467	1,405,824	187,865	593,756	781,621
	\$8,254,827	\$3,062,380	\$11,317,207	\$6,965,607	\$2,445,140	\$9,410,747

19. RELATED-PARTY TRANSACTIONS

(1) The related parties and their relationships with the Group are as follows:

Related Party	Relationship with the Consolidated Group
Taiwan Mobile Foundation (TWM Foundation; formerly TCC Foundation)	Over one third of the Foundation's authorized fund came from the Corporation
Howin Technologies Co., Ltd. (HTC)	Equity-method investee
Taiwan Fixed Network Co., Ltd. (TFN)	Same chairman as the Corporation
Chung Hsing Constructions Co., Ltd.	Same chairman as the Corporation
Fubon Land Development Co., Ltd.	Same chairman as the Corporation
Fubon Financial Holding Co., Ltd.	Related party in substance
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	Related party in substance
Fubon Securities Co., Ltd. (FSC)	Related party in substance
Fubon Securities Investment Trust Co., Ltd.	Related party in substance
Fubon Life Assurance Co., Ltd.	Related party in substance
Fubon Insurance Co., Ltd. (Fubon Ins.)	Related party in substance
Fubon Direct Marketing Consulting Co., Ltd.	Related party in substance
Fubon Asset Management Co., Ltd.	Related party in substance (since August 17, 2004)
Fubon Financial Holding Venture Capital Co., Ltd.	Related party in substance
Fubon Venture Capital Consulting Co., Ltd.	Related party in substance
Taiwan Telecom (Aust) Pty Ltd.	Subsidiary (liquidated in November 2005)
T&M Investment Co., Ltd.	Subsidiary (merged into the Corporation on June 30, 2004)
The Tele-World Shop Pte Ltd.	Indirect investee under Corporation's control (liquidated in July 2005)
Taiwan Tele-Shop Co., Ltd. (TTS)	Subsidiary (merged into TCC (formerly Taihsing Den Den Co., Ltd.) on June 30, 2005)
Taiwan Elitec Corporation (TEC)	Subsidiary (merged into the Corporation on March 30, 2005)
Supreme-Tech (Aust) Pty Ltd.	Subsidiary (liquidated in January 2005)
Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Subsidiary (merged into TIC on December 20, 2004)
Taiwan Infotainment Co., Ltd. (TIC)	Subsidiary (merged with TT&T on December 20, 2004 and renamed as Taiwan Teleservices & Technologies Co., Ltd.)
Taiwan Index Co., Ltd.	Affiliate (until March 10, 2004)
CTS Digi-Tech Co., Ltd.	Affiliate (merged on December 30, 2004)
TECO Electric & Machinery Co., Ltd. (TECO)	Invested in Mobitai by the equity method (until March 30, 2004)
TECOM Co., Ltd. (TECOM)	Subsidiary of TECO
Tong Dai Co., Ltd.	Subsidiary of TECO
Information Technology Total Service	Subsidiary of TECO
Unison Service Co., Ltd. (Unison)	Indirect investee under TECO's control
Apex Com & Networks Co., Ltd.	Same chairman as Mobitai (until August 31, 2004)
Baycom Opto-Electronics Technology Co., Ltd.	Same chairman as Mobitai (until August 31, 2004)

(2) Significant transactions with related parties are summarized below:

a. Operating revenues

	2005		2004	
	Amount	% to Total Sales	Amount	% of Total Sales
TFN	\$2,727,757	5	\$1,871,541	3
TT&T	-	-	23,973	-
	<u>\$2,727,757</u>		<u>\$1,895,514</u>	

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

b. Purchase

	2005		2004	
	Amount	% to Purchase	Amount	% of Purchase
TECOM	\$-	-	\$20,836	-

c. Operating costs

	2005		2004	
	Amount	% to Operating Cost	Amount	% of Operating Cost
TFN	\$922,649	4	\$785,154	3
Fubon Ins.	132,323	1	68,481	-
HTC	-	-	272,042	1
	<u>\$1,054,972</u>		<u>\$1,125,677</u>	

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

d. Property transactions

Disposal of property and equipment

	2005	
	Description	Amount
TFN	Telecommunication equipment, miscellaneous equipment and deferred charges	\$2,093,154

The above disposal was made at arm's length and resulted in a gain of \$70,085 thousand.

Acquisition of property and equipment

	2005	
	Description	Amount
TFN	Miscellaneous equipment	\$111,124

	2004	
	Description	Amount
HTC	Telecommunication equipment	\$2,580,000
TFN	Miscellaneous equipment and deferred charges	\$49,513
		<u>\$2,629,513</u>

The above acquisitions were made at arm's length.

e. Operating lease

(a) Rental expense

	Description	2005	2004
		TFN	Direct shops, control rooms and Kaohsiung offices

(b) Rental income

	Leased Sites/Equipment	2005	2004
		TFN	Keelung Road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc.
TT&T	Tang-Cherng and Tai-Chung offices and telecommunication equipment	-	139,993
TTS	Operating sites	-	21,248
TEC	Tang-Cherng offices and telecommunication equipment, etc.	-	17,859
		<u>\$30,187</u>	<u>\$214,744</u>

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

f. Cash in banks

	December 31			
	2005		2004	
	Amount	%	Amount	%

(a) Cash in banks

TFCB	\$234,193	2	\$125,147	3
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(b) Pledged time deposits

TFCB	\$10,000	100	\$610,000	100
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(c) Other assets - pledged time deposits

TFCB	\$1,700	-	\$-	-
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g. Receivables and payables

	(a) Accounts receivable			
	Amount	%	Amount	%
TFN	\$180,597	3	\$182,519	3
TTS*	-	-	106,848	2
Other	6,475	-	8,574	-
	<u>\$187,072</u>		<u>\$297,941</u>	

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

	December 31			
	2005		2004	
	Amount	%	Amount	%

(b) Other receivables

FSC	\$43,162	15	\$-	-
HTC	3,883	1	47,439	12
TTS	-	-	21,221	5
	<u>\$47,045</u>		<u>\$68,660</u>	

(c) Accounts payable

TFN	\$5,272	-	\$10,283	1
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(d) Other payables

TFN	\$115,844	4	\$311,461	14
HTC	-	-	75,644	3
TT&T	-	-	73,187	3
TEC	-	-	29,063	1
TTS	-	-	16,189	1
	<u>\$115,844</u>		<u>\$505,544</u>	

(e) Accrued expenses

TFN	\$24,286	1	\$101,734	3
HTC	488	-	16,035	-
TTS	-	-	242,395	7
TT&T	-	-	103,668	3
TEC	-	-	45,392	1
	<u>\$24,774</u>		<u>\$509,224</u>	

(f) Other current liabilities - collections for the following

TFN	\$32,822	4	\$22,593	4
TFCB	12,684	2	12,721	2
	<u>\$45,506</u>		<u>\$35,314</u>	

	2005	2004
h. Commission expenses (including handset subsidy, etc.)		
HTC	\$286	\$17,456
TTS	-	1,134,779
TT&T	-	34,357
	<u>\$286</u>	<u>\$1,186,592</u>

i. Professional service fees

TT&T	\$-	\$1,259,011
TEC	-	276,592
TTS	-	204,378
TFN	-	25,467
Unison	-	12,200
	<u>\$-</u>	<u>\$1,777,648</u>

j. Service charges

TTS	\$-	\$207,559
TT&T	-	15,962
	<u>\$-</u>	<u>\$223,521</u>

k. Donation

TWM Foundation (formerly TCC Foundation)	\$24,400	\$17,000
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l. Insurance expenses

Fubon Ins.	\$17,984	\$133,782
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m. Repairs and maintenance

TEC	\$-	\$55,566
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n. Printing expenses for bills and advertisement

TEC	\$-	\$103,688
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o. Telecommunication service expenses

TFN	\$83,818	\$44,204
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p. Guarantee provided

As of December 31, 2004, the Corporation provided TCC (formerly Taihsing Den Den Co., Ltd.) with a loan guarantee amounting to \$600,000 thousand.

q. Other

(a) On March 8, 2005, the Corporation bought back 750 units of its outstanding 2nd domestic convertible bonds from FSC for NT\$131,800 per unit. The aggregate purchase price was \$98,850 thousand and resulted in a loss of \$17,341 thousand. On April 30 and November 11 in 2004, the Corporation bought back 9,806 units and 300 units of its outstanding 1st and 2nd domestic convertible bonds, respec-

tively, from FSC for NT\$130,000 per unit and NT\$132,000 per unit, respectively. The aggregate purchase price was \$1,314,380 thousand, resulting in a loss of \$178,351 thousand.

- (b) On August 30, 2004, the Corporation entrusted to FSC the purchase of 7,500 units of its outstanding 1st domestic convertible bonds from TFN for NT\$123,500 per unit. The aggregate purchase price was \$926,250 thousand, resulting in a loss of \$69,840 thousand.
- (c) On July 30, 2004, the Corporation purchased 10,000 thousand shares of TFN's common shares from TEC for NT\$6 per share. The aggregate purchase price was \$60,000 thousand.
- (d) TTS entered into an agreement with the Corporation to act as a consignee for the Corporation on selling mobile phones and related products. The amount of such products and services that TTS received from the Corporation was \$932,728 thousand in 2004.
- (e) As of December 31, 2004, the Corporation acquired a commercial draft of \$500,000 thousand, from TTS as guarantee deposits for the consignment sales agreement and the credit limit of receivable.
- (f) HTC entered into an agreement to provide the Corporation with GSM-1800 network maintenance. As of December 31, 2004, the Corporation had received performance guarantee deposits of \$630,000 thousand.
- (g) In 2004, FCB entered into a cooperative co-branding agreement with the Corporation by which the Corporation could encourage its customers to use credit cards issued by FCB. On this agreement, the Corporation recognized revenues of \$24,818 thousand in 2005 and \$27,388 thousand in 2004.
- (h) R&R entered into an agreement with TAT to act as a consignee for TAT on selling mobile phones and related products. The amount of such products and services that R&R received from TAT was \$10,024 thousand in 2004.
- (i) HTC entered into a purchase and installation agreement of network system equipment with TAT. As of December 31, 2004, TAT had received a note of \$185,773 thousand as performance guarantee deposits. The agreement was completed in 2005 and TAT had returned the note to HTC.

20. ASSETS PLEDGED

The assets pledged as collaterals for bank loans, bond issuance and credit line of deposit overdraft were as follows:

	December 31	
	2005	2004
Property and equipment, net carrying value		
Time deposits	\$10,883,199	\$28,765,820
Idle assets*	12,000	610,000
Assets leased to others, net carrying value	-	627,912
	-	174,606
	<u>\$10,895,199</u>	<u>\$30,178,338</u>

*Net carrying value before the deducting the accumulated impairment.

21. COMMITMENTS AND CONTINGENCIES

- (1) To enhance the intensity and widen the coverage of the 3G signal and to increase the service functions and items provided by 3G mobile telecommunications, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2004. Under the contract, as of December 31, 2005, payments of \$1,351,183 thousand have been made.
- (2) To provide better communication quality and more diverse service functions, the Corporation entered into agreements for upgrading the existing network equipment and building IT systems with Siemens in September 2004 for US\$17,310 thousand and NT\$67,472 thousand, respectively. In accordance with the terms of the agreements, as of December 31, 2005, payments of US\$14,856 thousand and NT\$53,770 thousand have been made, respectively.
- (3) Future minimum rental payments as of December 31, 2005 for significant operating lease agreements are summarized as follows:

	Amount
2006	\$35,761
2007	28,683
2008	19,768
2009	8,852
2010	5,865

22. FINANCIAL INSTRUMENT TRANSACTIONS

	December 31			
	2005		2004	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-derivative financial instruments				
Financial assets				
Financial assets - fair value approximating to carrying value	\$22,079,468	\$22,079,468	\$10,999,619	\$10,999,619
Short-term investments	9,877,177	12,014,035	14,865,602	18,060,798
Long-term investments	4,031,257	-	8,154,189	-
Financial liabilities				
Financial liabilities - fair value approximating to carrying value	9,133,033	9,133,033	8,010,389	8,010,389
Bonds payable (including current portion)	19,127,145	24,142,687	22,455,789	23,543,624
Long-term bank loans (including current portion)	-	-	8,400,000	8,400,000
Derivative financial instruments				
Interest rate swap contracts	-	(330,912)	-	(148,887)

Fair values of financial instruments were determined as follows:

- (1) Short-term financial instruments (other than short-term investments) - based on the carrying value reported in the balance sheets, which approximates the fair value of these assets, including cash and cash equivalents, receivables, pledged time deposits and notes and accounts payable because of the short maturities of these instruments;

- (2) Short-term investments - based on market quotations;
- (3) Long-term investments - not disclosed due to lack of market quotations;
- (4) Refundable deposits and guarantee deposits - based on their carrying value;

- (5) Bonds payable - based on the over-the-counter quotations in December;
- (6) Long-term bank loans - based on the discounted present value of expected cash flows. Since the Corporation's long-term bank loans had floating interest rates, their fair values were equivalent to carrying value;
- (7) Interest rate swap contracts - based on the valuation result quoted by banks.

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

23. ADDITIONAL DISCLOSURES

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

- (1) Financing provided: None
- (2) Endorsement/guarantee provided: Table 1 (attached)
- (3) Marketable securities held: Table 2 (attached)
- (4) Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 3 (attached)
- (5) Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: None
- (6) Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None
- (7) Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 4 (attached)
- (8) Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 5 (attached)
- (9) Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 6 (attached)

(10) Derivative transactions

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

a. Contract amount and credit risk

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

The Corporation entered into IRS contracts to hedge interest rate fluctuation. The Corporation recognized a loss of \$4,386 thousand in 2005 and a gain of \$119,735 thousand in 2004, which were recorded as interest expense and a deduction from interest expense.

b. Market risk

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

c. Liquidity and cash flow risk and uncertainty of future cash demand

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

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

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

(11) Information on investment in Mainland China:

- a. 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, ratio of ownership, equity in the net gain or net loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Table 7 (attached)
- b. 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

(12) Business relationship and significant intercompany transactions: Tables 8 and 9 (attached)

Company	2005		2004	
	Amount	% to Net Operating Revenue	Amount	% to Net Operating Revenue
Chunghwa Telecom Co., Ltd.	\$12,453,073	21	\$12,269,999	22

24. SEGMENT INFORMATION

(1) Industry information

The Group is primarily engaged in wireless communication services and wholesale and retailing of telecommunication equipment, which are accordingly classified into a telecommunication segment and a sale segment. Under SFAS No. 20, "Disclosure of Segment Financial Information," industry information need not be disclosed herein because the net income (loss) of the sale segment was less than 10% of the aggregate segment income (loss).

(2) Geographic information

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

(3) Export sales

The Group has no export sales revenue.

(4) Customers with revenues exceeding 10% of the total revenues are as follows:

**TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

ENDORSEMENT/GUARANTEE PROVIDED

YEAR ENDED DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars)

TABLE 1

No.	Endorsement/ Guarantee Provider	Counter-party		Limits on Each Counter-par- ty's Endorsement/ Guarantee Amount (Note)	Maximum Balance for the Period	Ending Balance	Value of Collater- al Property, Plant, or Equipment	Ratio of Accumulated Amount of Guarantee to Net Equity of the Latest Financial Statement	Maximum Guarantee Amounts Allowable (Note)
		Name	Nature of Relationship						
0	The Corporation	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Subsidiary	\$1,420,017	\$600,000	\$-	\$-	-	\$86,988,756

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

MARKETABLE SECURITIES HELD

TABLE 2

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2005				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
The Corporation	<u>Beneficiary certificate</u>							
	Fubon Ju-I Fund	-	Short-term investments	25,522	\$400,000	-	\$400,023 (Note 2)	
	Fubon Ju-I II Fund	-	Short-term investments	13,916	200,000	-	200,012 (Note 2)	
	<u>Stock</u>							
	Chunghwa Telecom Co., Ltd.	-	Short-term investments	200,000	9,277,177	2.07	11,414,000 (Note 3)	
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Subsidiary	Long-term investments	44,300	992,550	99.99	1,499,604 (Note 6)	
	TransAsia Telecommunications Inc.	Subsidiary	Long-term investments	328,645	12,458,466	92.32	6,689,132 (Note 6)	
	Taihsing Den Syun Co., Ltd.	Subsidiary	Long-term investments	386,972	3,781,996	100.00	3,781,996 (Note 6)	
	Mobitai Communications	Subsidiary	Long-term investments	-	-	-	- (Note 6)	
	Bridge Mobile Pte Ltd.	-	Long-term investments	1,000	32,160	12.50	25,442	
Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Long-term investments	637,000	3,826,148	9.87	6,875,669		
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	<u>Stock</u>							
	Arcoa Communication Co., Ltd.	-	Long-term investments	6,998	67,731	5.21	-(Note 4)	
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Long-term investments	89,732	646,129	95.88	652,393 (Note 6)	
	Sunnet Technologies Co., Ltd.	-	Long-term investments	375	3,265	1.51	-(Note 4)	
	WEB Point Co., Ltd.	-	Long-term investments	803	8,031	3.17	-(Note 4)	
	Parawin Venture Capital Corp.	-	Long-term investments	3,000	25,144	3.00	-(Note 4)	
	Howin Technologies Co., Ltd.	Equity-method investee of subsidiary	Long-term investments	5,450	85,667	25.00	86,141	
	Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Long-term investments	4,900	43,826	0.08	55,730	
	Transportation High Tech Inc.	-	Long-term investments	1,200	-(Note 5)	12.00	-(Note 4)	
	<u>Prepayment for long-term investment</u>							
Tai Yi Digital Broadcasting Co., Ltd.	-	Prepayment for long-term investments	-	\$24,950	-	\$-		
Taiwan Teleservices & Technologies Co., Ltd.	<u>Stock</u>							
	TT&T Life Insurance Agency Co., Ltd.	Subsidiary	Long-term investments	300	3,070	100.00	3,070 (Note 6)	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary	Long-term investments	300	2,764	100.00	2,764 (Note 6)	
TT&T Holdings Co., Ltd.	Subsidiary	Long-term investments	2,600	81,829	100.00	81,829 (Note 6)		
TT&T Holdings Co., Ltd.	<u>Stock</u>							
	Dalian Xinkai Teleservices & Technologies Ltd.	Subsidiary	Long-term investments	-	US\$1,465	50.00	US\$1,465 (Note 6)	
Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary	Long-term investments	-	US\$927	100.00	US\$927 (Note 6)		
TransAsia Telecommunications Inc.	<u>Stock</u>							
Howin Technologies Co., Ltd.	Equity-method investee of subsidiary	Long-term investments	545	(5,574)	2.50	8,614		
Taihsing Den Syun Co., Ltd.	<u>Stock</u>							
	Tai Ya International Telecommunications Co., Ltd.	Subsidiary	Long-term investments	365,078	3,532,794	100.00	3,532,794 (Note 6)	
Tai Ya International Telecommunications Co., Ltd.	<u>Stock</u>							
	Mobitai Communications	Subsidiary	Long-term investments	255,079	3,533,581	94.28	3,000,902 (Note 6)	
Mobitai Communications	<u>Stock</u>							
	Yes Mobile Holdings Company	-	Long-term investments	74	-(Note 5)	0.19	-(Note 4)	

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

Note 2: Based on the net asset value of the fund as of December 31, 2005.

Note 3: Based on the average closing price in December 2005.

Note 4: As of January 17, 2006, the independent auditors' report date, the investee's net value was unavailable.

Note 5: Deducted impairment loss recognized in 2004.

Note 6: The transactions among the Group had been eliminated.

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR
PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

YEAR ENDED DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars)

TABLE 3

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance (Shares (Thousands))		Beginning Balance Amount	Acquisition		Disposal				Ending Balance	
								Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
The Corporation	<u>Beneficiary certificate</u>														
	ABN AMRO Bond Fund	Short-term investments	-	-	6,904		\$100,979	61,076	\$900,000	67,980	\$1,003,203	\$1,000,979	\$2,224	-	\$-
	ABN AMRO Select Bond Fund	Short-term investments	-	-	45,421		500,000	18,059	200,000	63,480	702,915	700,000	2,915	-	-
	Fubon Ju-I Fund	Short-term investments	-	-	38,953		601,186	64,147	1,000,000	77,578	1,206,209	1,201,186	5,023	25,522	400,000
	Polaris De-Li Fund	Short-term investments	-	-	6,814		100,000	-	-	6,814	100,482	100,000	482	-	-
	Shinkong Chi-Shin Fund	Short-term investments	-	-	35,909		500,000	64,135	900,000	100,044	1,403,756	1,400,000	3,756	-	-
	Barits Bond Fund	Short-term investments	-	-	16,918		200,000	16,824	200,000	33,742	401,281	400,000	1,281	-	-
	HSBC Taiwan Money Management Fund	Short-term investments	-	-	-		-	13,754	200,000	13,754	200,234	200,000	234	-	-
	HSBC Taiwan Money Management II Fund	Short-term investments	-	-	-		-	29,062	400,000	29,062	400,545	400,000	545	-	-
	Fubon Global Reit Fund	Short-term investments	-	-	-		-	10,000	100,000	10,000	99,400	100,000	(600)	-	-
	NITC Bond Fund	Short-term investments	-	-	3,129		500,000	1,244	200,000	4,373	704,470	700,000	4,470	-	-
	Fubon Elite Fund	Short-term investments	-	-	10,000		100,300	-	-	10,000	68,170	100,300	(32,130)	-	-
	Fubon Ju-I II Fund	Short-term investments	-	-	-		-	41,908	600,000	27,992	400,344	400,000	344	13,916	200,000
	JF (Taiwan) First Bond Fund	Short-term investments	-	-	-		-	29,012	400,000	29,012	400,270	400,000	270	-	-
The Corporation	<u>Stock</u>														
	Mobitai Communications	Long-term investments	TECO Electric & Machinery Co., Ltd.	-	181,278		2,520,293	73,801	986,768	255,079	-	3,619,299	-(Note 1)	-	-(Notes 1 and 11)
	Taiwan Tele-Shop Co., Ltd.	Long-term investments	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Subsidiary	-		-	11,364	205,924	11,364	205,924	205,924	-	-	-(Note 11)
	Taihsing Den Syun Co., Ltd.	Long-term investments	-	-	-		-	386,972	3,869,299	-	-	-	-	386,972	3,781,996 (Notes 2 and 11)
	Tai Hung Investment Ltd.	Long-term investments	-	-	-		1,646,819	-	-	-	1,673,698	1,670,637	3,061	-	-(Notes 3 and 11)
	Tai Fu Investment Ltd.	Long-term investments	-	-	-		553,889	-	-	-	559,507	558,328	1,179	-	-(Notes 4 and 11)
	T.I. Investment Ltd.	Long-term investments	-	-	-		405,762	-	-	-	426,682	426,685	(3)	-	-(Notes 5 and 11)
	Tai Hsuo Investment Ltd.	Long-term investments	-	-	-		323,818	-	-	-	310,964	310,023	941	-	-(Notes 6 and 11)
TransAsia Telecommunications Inc.	<u>Beneficiary certificate</u>														
	The First Global Investment Trust Wan Jai Bond Fund	Short-term investments	-	-	31,644		430,000	10,971	150,000	42,615	582,774	580,000	2,774	-	-
	HSBC Taiwan Money Management II Fund	Short-term investments	-	-	-		-	30,189	415,000	30,189	415,695	415,000	695	-	-
	HSBC Taiwan Money Management Fund	Short-term investments	-	-	10,404		150,000	-	-	10,404	151,058	150,000	1,058	-	-
	Polaris De-Li Fund	Short-term investments	-	-	13,635		200,000	-	-	13,635	201,065	200,000	1,065	-	-
	JF (Taiwan) Bond Fund	Short-term investments	-	-	19,554		290,000	-	-	19,554	291,266	290,000	1,266	-	-
	JF (Taiwan) First Bond Fund	Short-term investments	-	-	21,276		290,000	-	-	21,276	292,105	290,000	2,105	-	-
	Fubon Ju-I II Fund	Short-term investments	-	-	28,238		400,000	-	-	28,238	401,680	400,000	1,680	-	-
	Fubon Ju-I Fund	Short-term investments	-	-	22,653		350,000	25,784	400,000	48,437	751,760	750,000	1,760	-	-
Fubon Ju-I III Fund	Short-term investments	-	-	-		-	9,192	110,000	9,192	110,219	110,000	219	-	-	

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Beginning Balance	Acquisition		Disposal				Ending Balance	
					Shares (Thousands)		Amount	Shares (Thousands)	Amount	Shares (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares (Thousands)	Amount
Mobitai Communications	Beneficiary certificate														
	Fubon Ju-I II Fund	Short-term investments	-	-	23,622		\$335,117	14,888	\$212,000	38,510	\$548,210	\$547,117	\$1,093	-	\$-
	Fubon Ju-I Fund	Short-term investments	-	-	13,763		212,936	8,510	132,000	22,273	346,574	344,936	1,638	-	-
	NITC Bond Fund	Short-term investments	-	-	936		149,827	1,517	243,500	2,453	395,369	393,327	2,042	-	-
	ABN AMRO Select Bond Fund	Short-term investments	-	-	5,626		62,068	8,053	89,000	13,679	151,292	151,068	224	-	-
	ABN AMRO Bond Fund	Short-term investments	-	-	1,670		24,500	13,011	192,000	14,681	216,844	216,500	344	-	-
	James Bond Fund	Short-term investments	-	-	2,661		40,000	8,886	134,000	11,547	174,458	174,000	458	-	-
JF (Taiwan) First Bond Fund	Short-term investments	-	-	-		-	7,247	100,000	7,247	100,162	100,000	162	-	-	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Beneficiary certificate														
	Fubon Ju-I Fund	Short-term investments	-	-	9,748		150,000	-	-	9,748	151,803	150,000	1,803	-	-
	Fubon Ju-I II Fund	Short-term investments	-	-	13,431		190,000	-	-	13,431	191,772	190,000	1,772	-	-
	Shinkong Chi-Shin Fund	Short-term investments	-	-	7,180		100,000	-	-	7,180	100,856	100,000	856	-	-
Taihsing Den Syun Co., Ltd.	Stock														
	Taiwan Tele-shop Co., Ltd.	Long-term investments	The Corporation, etc.	Parent	20,509		367,650	20,491	371,295	41,000	-	745,611	-(Note 9)	-	-(Notes 9 and 11)
Tai Ya International Telecommunications Co., Ltd.	Stock														
	Mobitai Communications	Long-term investments	The Corporation	Parent	-		-	255,079	3,619,715	255,079	-	3,650,782	-(Note 8)	-	-(Notes 8 and 11)
Tai Ya International Telecommunications Co., Ltd.	Stock														
	Mobitai Communications	Long-term investments	Taihsing Den Syun Co., Ltd.	Parent	-		-	255,079	3,650,782	-	-	-	-	255,079	3,532,794 (Notes 10 and 11)

Note 1: The amount included the adjustment for the cash dividends of \$160,250 thousand and investment income of \$272,488 thousand. For its reorganization, the Corporation established Taihsing Den Syun Co., Ltd. by investing Mobitai's shares, with a carrying value of \$3,619,299 thousand. There was no gain or loss on this share disposal.

Note 2: The amount included the investment loss adjustment of \$87,303 thousand.

Note 3: The amount included the investment income adjustment of \$23,818 thousand.

Note 4: The amount included the investment income adjustment of \$4,439 thousand.

Note 5: The amount included the investment income adjustment of \$20,923 thousand.

Note 6: The amount included the translation adjustment of \$8 thousand and investment loss adjustment of \$13,803 thousand.

Note 7: The amount included the investment loss adjustment of \$117,201 thousand.

Note 8: The amount included the investment income adjustment of \$31,067 thousand. For its reorganization, Taihsing Den Syun Co., Ltd. established Tai Ya International Telecommunications Co., Ltd. by investing Mobitai's shares, with a carrying value of \$3,650,782 thousand. There was no gain or loss on this share disposal.

Note 9: The amount included the investment income adjustment of \$6,666 thousand. For its reorganization, the Corporation merged with Taiwan Tele-Shop Co., Ltd., with the Corporation as the surviving company. There was no gain or loss on this share disposal.

Note 10: The amount included the investment loss adjustment of \$117,988 thousand.

Note 11: The transactions among the Group had been eliminated.

**TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

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

YEAR ENDED DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars)

TABLE 4

Company Name	Related Party	Nature of Relationship	Transaction Details		Transaction Details		Abnormal Transaction		Note/Accounts Payable or Receivable		Note
			Purchase/ Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Corporation	TransAsia Telecommunications Inc.	Subsidiary	Sale	\$(1,478,940)	(3)	Based on contract terms	-	-	\$152,427	3	Note
			Purchase	633,163	3	Based on contract terms	-	-	(17,050)	(1)	Note
	Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Sale	(2,472,719)	(5)	Based on contract terms	-	-	141,698	3	
			Purchase	842,142	4	Based on contract terms	-	-	-	-	
	Mobitai Communications	Subsidiary	Sale	(652,632)	(1)	Based on contract terms	-	-	230,606	4	Note
			Purchase	230,314	1	Based on contract terms	-	-	(52,478)	(4)	Note
Fubon Insurance Co., Ltd.	Related party in substance	Purchase	107,429	1	Based on contract terms	-	-	-	-		
Taiwan Tele-Shop Co., Ltd.	The Corporation	Ultimate parent	Sale	(180,609)	(1)	Based on contract terms	-	-	-	-	Note
TransAsia Telecommunications Inc.	The Corporation	Parent	Sale	(629,564)	(6)	Based on contract terms	-	-	329,489	28	Note
			Purchase	1,362,592	28	Based on contract terms	-	-	(152,204)	(35)	Note
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Sale	(999,175)	(55)	Based on contract terms	-	-	182,624	51	Note
			TransAsia Telecommunications Inc.	Affiliate	Sale	(244,155)	(13)	Based on contract terms	-	-	40,976
Mobitai Communications	The Corporation	Ultimate parent	Sale	(230,328)	(4)	Based on contract terms	-	-	52,992	9	Note
			Purchase	596,683	19	Based on contract terms	-	-	(230,606)	(73)	Note

Note: The transactions among the Group had been eliminated.

**TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

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

DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars)

TABLE 5

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
					Amount	Action Taken		
The Corporation	TransAsia Telecommunications Inc.	Subsidiary	Accounts receivable \$152,427(Note 2)	8.59	\$-	-	\$-	\$-
			Other receivables 151,629(Note 2)	-	-	-	967	-
	Mobitai Communications	Subsidiary	Accounts receivable 230,606(Note 2)	5.40	-	-	-	-
			Other receivables 263,663(Note 2)	-	-	-	-	-
	Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Accounts receivable 141,698	16.19	-	-	-	-
TransAsia Telecommunications Inc.	The Corporation	Parent	Accounts receivable 329,489(Note 2)	(Note 1)	-	-	-	-
			Other receivables 10,418(Note 2)	-	-	-	-	-
Mobitai Communications	The Corporation	Ultimate parent	Accounts receivable 52,992(Note 2)	7.70	-	-	-	-
			Other receivables 194,033(Note 2)	-	-	-	77	-
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Accounts receivable 182,624(Note 2)	6.97	-	-	-	-
			Other receivables 12,612(Note 2)	-	-	-	-	-

Note 1: Not applicable because telecommunication service revenue was collected on behalf of TransAsia Telecommunications Inc.

Note 2: The transactions among the Group had been eliminated.

**TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

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

YEAR ENDED DECEMBER 31, 2005
(In Thousands of New Taiwan Dollars or U.S. Dollars)

TABLE 6

Investor	Investee	Location	Main Businesses and Products		Original Investment Amount	Investment	Balance as of December 31, 2005			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
					December 31, 2005	January 1, 2005	Shares (Thousands)	Percentage of Ownership	Carrying Value			
The Corporation	Taiwan Fixed Network Co., Ltd.	Taipei, Taiwan	Type-I telecommunication services-integrated fixed line		\$4,410,000	\$4,410,000	637,000	9.87	\$3,826,148	\$1,412,022	\$(96,979)	Note 1
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Taipei, Taiwan	Telecommunication equipment retailing and wholesale		1,420,017	1,420,017	44,300	99.99	992,550	41,526	37,123	Note 2
	Tai Hung Investment Ltd.	Taipei, Taiwan	Investment		-	1,505,042	-	-	-	9,783	23,818	Note 2
	Tai Fu Investment Ltd.	Taipei, Taiwan	Investment		-	525,045	-	-	-	3,018	4,439	Note 2
	Tai Hsuo Investment Ltd.	Taipei, Taiwan	Investment		-	330,048	-	-	-	1,627	(19,976)	Note 2
	T.I. Investment Ltd.	Taipei, Taiwan	Investment		-	604,981	-	-	-	2,279	20,923	Note 2
	TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider		10,408,388	10,408,388	328,645	92.32	12,458,466	2,652,751	1,998,251	Note 2
	Mobitai Communications	Taipei, Taiwan	Wireless service provider		-	2,451,654	-	-	-	331,055	272,488	Note 2
	Taihsing Den Syun Co., Ltd.	Taipei, Taiwan	Equipment installation and IT service		3,869,715	-	386,972	100.00	3,781,996	(87,719)	(87,303)	Note 2
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	Taiwan Teleservices & Technologies Co., Ltd.	Taipei, Taiwan	Call center service		327,146	327,146	89,732	95.88	646,129	90,795	NA	Note 2
	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment installation		131,700	409,200	5,450	25.00	85,667	26,333	NA	
	Taiwan Fixed Network Co., Ltd.	Taipei, Taiwan	Type-I telecommunication services-integrated fixed line		49,000	49,000	4,900	0.08	43,826	1,412,022	NA	Note 1
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent		3,000	3,000	300	100.00	3,070	118	NA	Note 2
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent		3,000	-	300	100.00	2,764	(236)	NA	Note 2
	TT&T Holdings Co., Ltd.	Samoa	Investment		83,530	42,669	2,600	100.00	81,829	(5,356)	NA	Note 2
TT&T Holdings Co., Ltd.	Dalian Xinkai Teleservices & Technologies Ltd.	Dalian	Call center service		US\$1,511	-	-	50.00	US\$1,465	RMB(1,362)	NA	Note 2
	Xiamen Taifu Teleservices & Technologies Ltd.	Xiamen	Call center service		US\$1,000	-	-	100.00	US\$927	RMB(759)	NA	Note 2
TransAsia Telecommunications Inc.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment installation		2,250	30,000	545	2.50	(5,574)	26,333	NA	
Taihsing Den Syun Co., Ltd.	Tai Ya International Telecommunications Co., Ltd.	Taipei, Taiwan	Wireless service provider		3,650,782	-	365,078	100.00	3,532,794	(117,988)	NA	Note 2
Tai Ya International Telecommunications Co., Ltd.	Mobitai Communications	Taipei, Taiwan	Wireless service provider		3,650,782	-	255,079	94.28	3,533,581	331,055	NA	Note 2

Note 1: The Corporation changed the investment accounting treatment to the cost method on July 19, 2005.

Note 2: The transactions among the Group had been eliminated.

BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

TABLE 8

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			Percentage of Consolidated Total Operating Revenues or Total Assets
				Account	Amount	Transaction Terms	
0	The Corporation	TransAsia Telecommunications Inc.	1	Accounts receivable	\$152,427	Based on regular terms	-
		Mobitai Communications	1	Accounts receivable	230,606	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Accounts receivable	2,667	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Other receivables	151,629	Based on regular terms	-
		Mobitai Communications	1	Other receivables	263,663	Based on regular terms	-
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	1	Other receivables	21,810	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Accounts payable	17,050	Based on regular terms	-
		Mobitai Communications	1	Accounts payable	52,478	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Other payables	165,360	Based on regular terms	-
		Mobitai Communications	1	Other payables	39,276	Based on regular terms	-
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	1	Accrued expenses	20,525	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Accrued expenses	206,309	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Other current liabilities	161,795	Based on regular terms	-
		Mobitai Communications	1	Other current liabilities	154,183	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Operating revenues	1,478,877	Based on regular terms	2%
		Mobitai Communications	1	Operating revenues	652,582	Based on regular terms	1%
		Taiwan Teleservices & Technologies Co., Ltd.	1	Operating revenues	21,751	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Operating costs	629,487	Based on regular terms	1%
		Mobitai Communications	1	Operating costs	230,314	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	1	Marketing expenses	185,936	Based on regular terms	-
Taiwan Teleservices & Technologies Co., Ltd.	1	Marketing expenses	986,716	Based on regular terms	2%		
Taiwan Tele-Shop Co., Ltd.	1	Rental income	7,398	Based on regular terms	-		
Taiwan Teleservices & Technologies Co., Ltd.	1	Rental income	97,280	Based on regular terms	-		
1	TransAsia Telecommunications Inc.	The Corporation	2	Accounts receivable	329,489	Based on regular terms	-
		Mobitai Communications	3	Accounts receivable	1,279	Based on regular terms	-
		The Corporation	2	Other receivables	10,418	Based on regular terms	-
		The Corporation	2	Accounts payable	152,204	Based on regular terms	-
		Mobitai Communications	3	Accounts payable	161	Based on regular terms	-
		The Corporation	2	Other payables	148,700	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Other payables	15,067	Based on regular terms	-
		The Corporation	2	Operating revenues	629,564	Based on regular terms	1%
		Mobitai Communications	3	Operating revenues	44,854	Based on regular terms	-
		The Corporation	2	Operating costs	1,452,425	Based on regular terms	2%
		Mobitai Communications	3	Operating costs	37,865	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	3	Marketing expenses	4,584	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Marketing expenses	233,676	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty		Transaction Details				Percentage of Consolidated Total Operating Revenues or Total Assets
				Nature of Relationship (Note)	Account	Amount	Transaction Terms	
2	Mobitai Communications	The Corporation		2	Accounts receivable	\$52,992	Based on regular terms	-
		TransAsia Telecommunications Inc.		3	Accounts receivable	161	Based on regular terms	-
		The Corporation		2	Other receivables	194,033	Based on regular terms	-
		The Corporation		2	Prepayments	224	Based on regular terms	-
		The Corporation		2	Accounts payable	230,606	Based on regular terms	-
		TransAsia Telecommunications Inc.		3	Accounts payable	1,288	Based on regular terms	-
		The Corporation		2	Other payables	263,440	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		3	Other payables	28,046	Based on regular terms	-
		The Corporation		2	Operating revenues	230,328	Based on regular terms	-
		TransAsia Telecommunications Inc.		3	Operating revenues	37,865	Based on regular terms	-
		The Corporation		2	Operating costs	596,683	Based on regular terms	1%
		TransAsia Telecommunications Inc.		3	Operating costs	39,291	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		3	Marketing expenses	57,849	Based on regular terms	-
3	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	The Corporation		2	Other payables	18,774	Based on regular terms	-
4	Taiwan Tele-Shop Co., Ltd.	The Corporation		2	Operating revenues	185,936	Based on regular terms	-
		The Corporation		2	Administrative expenses	7,398	Based on regular terms	-
5	Taiwan Teleservices & Technologies Co., Ltd.	The Corporation		2	Accounts receivable	182,624	Based on regular terms	-
		TransAsia Telecommunications Inc.		3	Accounts receivable	40,976	Based on regular terms	-
		Mobitai Communications		3	Accounts receivable	28,046	Based on regular terms	-
		TT&T Life Insurance Agency Co., Ltd.		1	Accounts receivable	2,692	Based on regular terms	-
		The Corporation		2	Accounts payable	2,667	Based on regular terms	-
		TT&T Holdings Co., Ltd.		1	Other payables	30,686	Based on regular terms	-
		The Corporation		2	Accrued expenses	4,826	Based on regular terms	-
		Xiamen Taifu Teleservices & Technologies Ltd.		1	Accrued expenses	7,250	Based on regular terms	-
		The Corporation		2	Operating revenues	986,716	Based on regular terms	2%
		TransAsia Telecommunications Inc.		3	Operating revenues	233,676	Based on regular terms	-
		Mobitai Communications		3	Operating revenues	57,849	Based on regular terms	-
		The Corporation		2	Operating costs	6,284	Based on regular terms	-
		Xiamen Taifu Teleservices & Technologies Ltd.		1	Marketing expenses	8,270	Based on regular terms	-
The Corporation		2	Administrative expenses	112,751	Based on regular terms	-		
6	TT&T Life Insurance Agency Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.		2	Accrued expenses	2,692	Based on regular terms	-
7	TT&T Holdings Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.		2	Other receivables	30,686	Based on regular terms	-
8	Xiamen Taifu Teleservices & Technologies Ltd.	Taiwan Teleservices & Technologies Co., Ltd.		2	Accounts receivable	6,561	Based on regular terms	-

Note 1: Parent to subsidiary.
Note 2: Subsidiary to parent.
Note 3: Between subsidiaries.

**TAIWAN MOBILE CO., LTD. (FORMERLY TAIWAN CELLULAR CORPORATION)
AND SUBSIDIARIES**

BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

YEAR ENDED DECEMBER 31, 2004
(In Thousands of New Taiwan Dollars)

TABLE 9

Number	Company Name	Counterparty	Nature of Relationship (Note)	Transaction Details			Percentage of Consolidated Total Operating Revenues or Total Assets
				Account	Amount	Transaction Terms	
0	The Corporation	TransAsia Telecommunications Inc.	1	Accounts receivable	\$191,803	Based on regular terms	-
		Mobitai Communications	1	Accounts receivable	11,196	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Other receivables	274,819	Based on regular terms	68%
		TransAsia Telecommunications Inc.	1	Accounts payable	21,989	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Advance receipts	137	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Other current liabilities	78,474	Based on regular terms	13%
		TransAsia Telecommunications Inc.	1	Operating revenues	1,939,694	Based on regular terms	-
		Mobitai Communications	1	Operating revenues	52,009	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Operating costs	610,388	Based on regular terms	-
		Mobitai Communications	1	Operating costs	44,977	Based on regular terms	-
1	TransAsia Telecommunications Inc.	The Corporation	2	Accounts receivable	100,600	Based on regular terms	-
		The Corporation	2	Accounts payable	292,909	Based on regular terms	1%
		The Corporation	2	Other payables	173,713	Based on regular terms	1%
		The Corporation	2	Operating revenues	610,388	Based on regular terms	-
		Mobitai Communications	3	Operating revenues	20,098	Based on regular terms	-
		The Corporation	2	Operating costs	1,869,884	Based on regular terms	7%
		Mobitai Communications	3	Operating costs	20,140	Based on regular terms	-
		The Corporation	2	Administrative expenses	69,810	Based on regular terms	2%
2	Mobitai Communications	The Corporation	2	Accounts payable	11,196	Based on regular terms	-
		The Corporation	2	Operating revenues	44,977	Based on regular terms	-
		TransAsia Telecommunications Inc.	3	Operating revenues	20,140	Based on regular terms	-
		The Corporation	2	Operating costs	52,009	Based on regular terms	-
		TransAsia Telecommunications Inc.	3	Operating costs	20,098	Based on regular terms	-

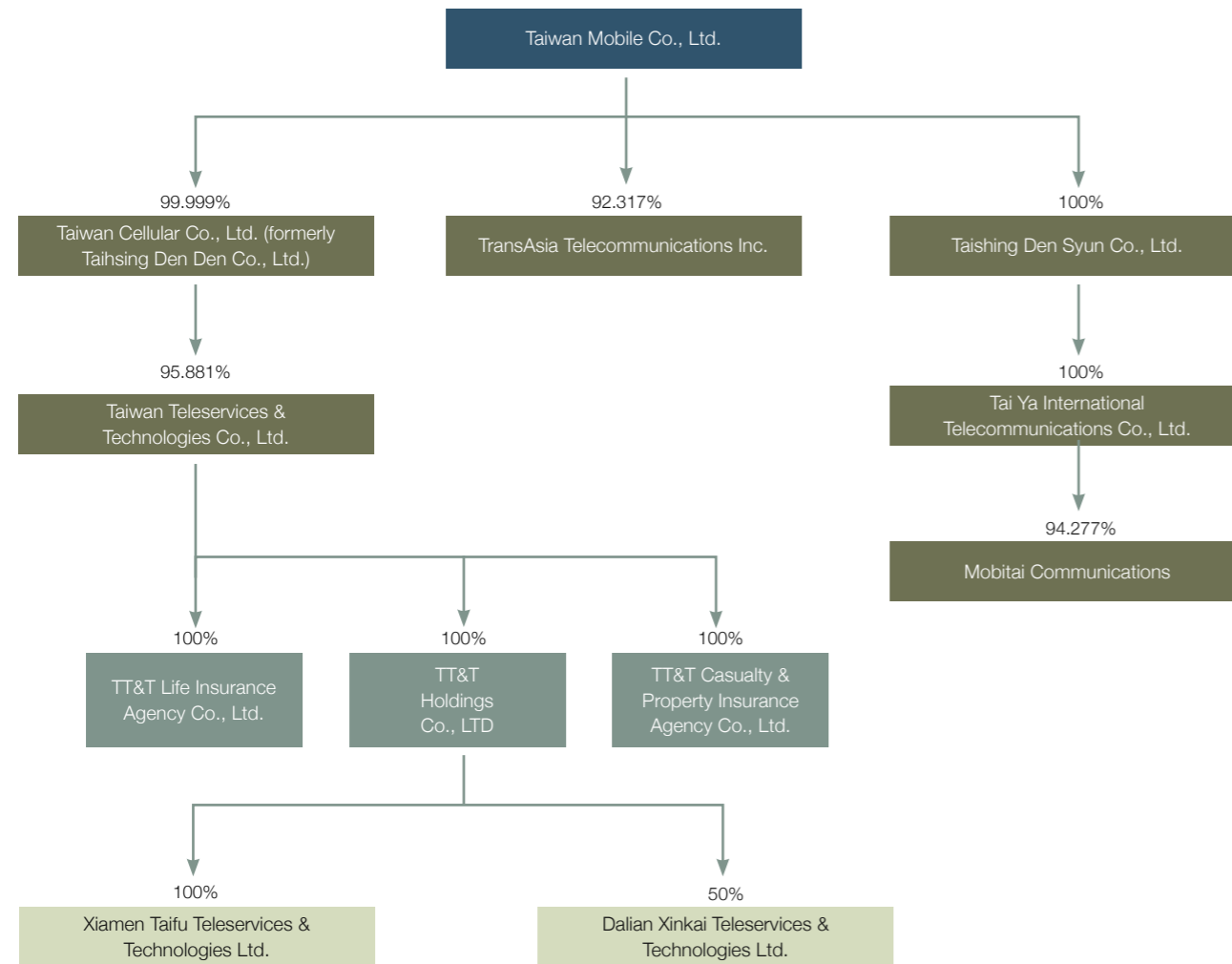
Note 1: Parent to subsidiary.

Note 2: Subsidiary to parent.

Note 3: Between subsidiaries.

Affiliates

1. Investment Holding Structure



2. Affiliates' Profile

Unit: NT\$/'000/US\$'000/RMB'000

Name	Date of incorporation	Address	Paid-in capital	Main business
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	1997.08.20	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	443,000	Telecommunication equipment retail & wholesale
TransAsia Telecommunications Inc.	1997.07.08	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	3,559,956	Wireless service provider
Taishing Den Syun Co., Ltd.	2005.09.20	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	3,869,715	Wireless service provider
Tai Ya International Telecommunications Co., Ltd.	2005.11.17	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	3,650,782	Wireless service provider
Mobitai Communications	1997.08.04	No.12, GongYe 9th Rd., Taichung City	2,705,622	Wireless service provider
Taiwan Teleservices & Technologies Co., Ltd.	2001.09.05	15F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	935,869	Call center service
TT&T Holdings Co., Ltd.	2004.10.18	TrustNet Chambers., P.O. Box 1225, Apia, Samoa.	US\$2,600	Investment
TT&T Life Insurance Agency Co., Ltd.	2004.12.16	15F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	3,000	Insurance Agency
TT&T Casualty & Property Insurance Agency Co., Ltd.	2005.03.22	15F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	3,000	Insurance Agency
Dalian Xinkai Teleservices & Technologies Ltd.	2005.02.04	No.5, Sanda Street Qixianling, Hi-tech Industrial Zone, Dalian, P.R. China	RMB25,011	Call center service
Xiamen Taifu Teleservices & Technologies Ltd.	2005.04.05	3F,NO.2,XIAMEN Software Park,Xianmen City, P.R. China	US\$1,000	Call center service

3. Affiliates' Operating Highlights

Unit: NT\$/'000/US\$'000/RMB'000

Company Name	Paid-in capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Net income	EPS (NT\$)
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Den Co., Ltd.)	443,000	1,551,127	51,519	1,499,608	-	(8,439)	41,526	0.94
TransAsia Telecommunications Inc.	3,559,956	8,324,456	1,078,629	7,245,827	9,987,399	2,884,212	2,652,752	7.45
Taishing Den Syun Co., Ltd.	3,869,715	3,782,166	170	3,781,996	-	(1,226)	(87,719)	(0.23)
Tai Ya International Telecommunications Co., Ltd.	3,650,782	3,533,823	1,030	3,532,793	-	(1,030)	(117,988)	(0.32)
Mobitai Communications	2,705,622	4,373,204	1,190,152	3,183,052	5,190,297	580,846	331,055	1.22
Taiwan Teleservices & Technologies Co., Ltd.	935,869	1,129,037	448,611	680,426	1,818,684	57,555	90,795	0.97
TT&T Holdings Co., Ltd.	US\$ 2,600	US\$ 3,337	US\$ 846	US\$ 2,491	-	US\$ (2)	US\$ (166)	US\$ (0.06)
TT&T Life Insurance Agency Co., Ltd.	3,000	5,894	2,824	3,070	4,260	121	118	0.39
TT&T Casualty & Property Insurance Agency Co., Ltd.	3,000	2,766	2	2,764	-	(239)	(236)	(0.79)
Dalian Xinkai Teleservices & Technologies Ltd.	RMB 25,011	RMB 23,847	RMB 190	RMB 23,657	-	RMB (1,270)	RMB (1,362)	NA
Xiamen Taifu Teleservices & Technologies Ltd.	RMB 8,245	RMB 8,173	RMB 687	RMB 7,486	RMB 1,612	RMB (759)	RMB (759)	NA

