

# Ch. 3

## Corporate Governance

The Company acknowledges the importance of good corporate governance and abides by 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
- Establishment of an Audit Committee to ensure the independence of external auditors as well as integrity of financial reporting
- A set number of seats reserved for independent board members and supervisors
- Establishment of a Corporate Governance Committee to ensure that sound corporate governance practices and systems are in place
- Adoption of a cash dividend policy based on high earnings payout ratio
- Distribution of all employee profit sharing in the form of cash

### Current Practices

To better execute the Company's corporate governance, the Company has implemented a number of changes in its corporate governance structure. On April 26, 2002, the Company revised the "Rules and Procedures Governing Shareholders' Meeting," which were established on January 30, 1997. On June 5, 2002, the Company revised the "Procedures for Transactions of Group Companies and Related Parties," which were first passed on August 31, 1999. On April 30, 2004, the Company approved the "Corporate Governance Committee Charter" and the "Audit Committee Charter." And on October 26, 2006, the Company revised the "Rules and Procedures Governing Board of Directors' Meeting," which were established on October 28, 2005. These changes have allowed the Company's corporate governance structure not only to meet Taiwan's Securities and Exchange Act, but also to adhere to the highest international standards.

Item		Current practice
Shareholding structure and shareholders' interests	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 provides a list of shareholders.
	Risk control mechanisms and firewalls between the Company and its subsidiaries	The Company has established "Procedures for Transactions of Group Companies and Related Parties" and "Monitoring Policy Governing Subsidiaries" as risk control mechanisms.
Board of directors and its responsibilities	Set up independent directors	The Company's board includes four independent directors.
	Periodic review of CPA's independence	The audit committee conducts periodic reviews.
Supervisors and their responsibilities	Set up independent supervisors	Not applicable
	Communication between independent supervisor and the Company's employees and shareholders	Employees and shareholders may send their requests to the supervisors' mailbox.

(Continued)

Item		Current practice
Communication channels with related parties		The spokesperson and spokesperson's mailbox serves as the main communication channel between the Company and its related parties.
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.
Functional committees		The Corporate Governance Committee oversees the functions of committees dealing with nominations of board directors and supervisors and compensation

## Corporate governance assessment by independent professional institution

The Company engaged the services of the Corporate Governance Association (CGA) to undertake a corporate governance assessment in August 2005. CGA conducted its review through a series of intensive interviews with external auditors, underwriters, and Taiwan Securities Exchange Corp. officials. CGA has so far accredited and certified only three listed companies, with Taiwan Mobile being one of the three.

CGA highlights the Company's good corporate governance practices as follows:

1. Timely and complete disclosure of financial data, shareholding structure, and board resolutions
2. Transparency of transactions between the group and related parties
3. Direct link between management team's compensation and Company's operating performance
4. Focus on core business while evaluating investment opportunities systematically
5. Establishment of an effective internal control system

CGA's suggestions on improving the attendance ratio of directors and supervisors at annual general shareholders' meetings, formulation of a scheme to evaluate the board of directors' performance, and the abolishment of managing directors in the board were all managed to improved as soon as possible.

## Corporate Governance Implementation

### Corporate Governance Committee and Audit Committee

The Company's corporate governance structure is composed of two committees: a Corporate Governance Committee and an Audit Committee.

#### 1. Corporate Governance Committee:

The Corporate Governance Committee is composed of entire independent board directors and its operation is bound by the "Corporate Governance Committee Charter". Its main responsibility is to shape the corporate governance of the Company, including:

- (1) Review on an ongoing basis the Company's corporate governance principles and practices
- (2) Nominate independent directors and supervisors
- (3) Govern the operation of the board of directors and supervisors and its functional committees

#### 2. Audit Committee:

The audit committee is composed of entire independent board directors and its operation is bound by the "Audit Committee Charter". Its main responsibility is to assist the board in overseeing the following:

- (1) Integrity of the Company's financial statements
- (2) Independent auditors' qualifications and integrity
- (3) Internal audit
- (4) Company's compliance with legal and regulatory requirements
- (5) Company's existing and potential risks

Taiwan Mobile makes appropriate disclosure to ensure that shareholders have up-to-date information as a basis for their investment decisions. The Company provides key operation and financial information, BOD resolutions, and CEO messages in a fairly distributed and timely man-

## Corporate Governance Operation:

### 1. Attendance of Directors and Supervisors at Board Meetings:

The Board of Directors convened 7 (A) times in 2006.

Title	Name	Attendance in person	Attendance by representative	Attendance ratio (B/A)	Remarks
Chairman	Richard Tsai	6	1	85.71%	Ex-Vice Chairman, elected as Chairman on Aug. 15, 2006
Vice Chairman	Daniel Tsai	7	0	100.00%	Ex-Chairman, elected as Vice Chairman on Aug. 15, 2006
Director	Pieere Chen	1	5	14.29%	
Director	Yu-Lon Chiao	1	4	14.29%	
Director	Harvey Chang	7	0	100.00%	
Director	Nita Ing	1	5	14.29%	
Independent Director	Jack J.T. Huang	6	1	85.71%	
Independent Director	Wen-Li Yeh	7	0	100.00%	
Independent Director	J. Carl Hsu	4	3	57.14%	
Independent Director	Tsung-Ming Chung	3	1	75.00%	Ex-Independent Supervisor, elected as Independent Director on June 15, 2006. Required to attend four meetings
Independent Supervisor	Tsung-Ming Chung	3	0	100.00%	Resigned from the position of Independent Supervisor on June 15, 2006. Required to attend three meetings
Supervisor	Ray-Ying Fan	4	0	57.14%	TFN appointed Polar Hsieh to take over Ray-Ying Fan's position on Dec. 18, 2006
Supervisor	Victor Kung	2	0	28.57%	

#### Notes:

- (1) There were no issues as listed in Article 14-3 of the Securities and Exchange Act or other disputes raised by independent directors against the Board of Directors' resolutions.
- (2) Directors' adherence to Company rules on conflict of interests: During the 12th meeting of the fourth Board of Directors on Dec. 13, 2006, Company directors who also held positions as directors or supervisors of TFN (i.e., Chairman Richard Tsai, Vice Chairman Daniel Tsai, Director Nita Ing, Director Pieere Chen and Director Yu-Lon Chiao) abstained from voting on the issue of acquiring and selling real estate from TFN due to conflict of interests in accordance with Articles 178 and 206 of the Company Act.
- (3) Other BOD targets:
  - a. BOD's performance evaluation: The eleventh meeting of the fourth session of the BOD approved the "Rules on BOD Performance Evaluation" on October 26, 2006. The Corporate Governance Committee will summarize the directors' self-assessment reports and resolutions and submit them to the BOD.
  - b. Information transparency: The Company is committed to upholding transparency in operations and protection of stockholders' interests, and thereby discloses BOD resolutions in a timely and consistent manner.

## 2. Attendance of Independent Supervisors at Audit Committee:

The Audit Committee convened 4 (A) times in 2006.

Title	Name	Attendance in person (B)	Attendance by representative	Attendance ratio (B/A)	Remarks
Independent Director	Jack J.T. Huang	3	-	75%	
Independent Director	Wen-Li Yeh	4	-	100%	
Independent Director	J. Carl Hsu	3	-	75%	
Independent Director	Tsung-Ming Chung	4	-	100%	Appointed as committee chairman

Notes:

- (1) There were no issues as listed in Article 14-5 of the Securities and Exchange Act or other resolutions approved by over two-thirds directors but not approved by the Audit Committee.
- (2) There were no issues of conflict of interests with the independent directors.

## 2006 Executions and Results

### 1. Enhanced the BOD's functionality

- (1) Minimized overlapping of duties between the board of directors and management team
- (2) Increased the number of independent directors to four out of a total of 10 directors
- (3) The BOD approved the proposed revision in the "Articles of Incorporation" regarding the number of independent directors and their election process
- (4) The BOD approved the proposed revision in the "Rules for Election of Directors and Supervisors" regarding qualifications of directors, supervisors, and independent directors; and the latter's election process.
- (5) Abolished managing directors of the board
- (6) Established an evaluation scheme to appraise the BOD's performance
- (7) Revised the "Rules and Procedures of Board of Directors Meeting" to clarify rules on compliance for independent directors

### 2. Ensured shareholders' rights

- (1) Excess cash upstream: reduction of subsidiaries capital totaling NT\$1.12bn in cash
- (2) Prevention of EPS dilution: buyback of outstanding convertible bonds for a total of NT\$1.34bn
- (3) High cash dividend commitment: dividend payout ratio raised compared to previous year with dividend yield as high as 8%

### 3. Respected related parties' rights

#### (1) Investors:

- Attendance ratio of directors and supervisors at annual general shareholders' meetings improved from the previous year, enhancing communication with shareholders and ensuring that their opinions are conveyed.
- The Company held quarterly investor conference calls and actively participated in international investor conferences. QFII holdings were up 4.72% YoY in 2006.
- The Company disposed of non-core investments, i.e., sales of 200mn CHT shares in 2006.
- To simplify its investment structure, the Company transferred all operating affiliates under one investment vehicle – Taiwan Cellular Co., Ltd. (formerly known as Taihsing Den Syun Co., Ltd.)

#### (2) Creditors: Taiwan Ratings Corp. raised the rating of TWM from "twAA" to "twAA+" in March 2006.

#### (3) Clients: The Company obtained the first worldwide ISO 27001 Information Security Management System certification, as well as certifications from England, Sweden, and Norway, demonstrating its commitment to providing information security in 2006.

#### (4) Society: The Company operates a foundation that raises funds and contributes to different charities and social causes.

## Additional Information

### 1. Training program for directors and supervisors:

Title	Name	Date elected	Date of training		Organization	Training program	Hours	Note
			From	To				
Independent Director	Jack J.T. Huang	2003/06/25	2004/08/16	2004/08/16	Securities & Futures Institute	Speaker for "M&A and Legal Responsibility of Directors and Supervisors"	3.0	Y
			2004/11/24	2004/11/24	Securities & Futures Institute	Common Questions About Financial Statements and Legal Responsibility	3.0	
			2005/08/09	2005/08/09	Corporate Governance Association	How to Maintain Shareholders' Interest in M&A Deals	1.0	
			2005/10/13	2005/10/13	Securities & Futures Institute	Speaker for "M&A and Legal Responsibility of Directors and Supervisors"	2.0	
			2005/12/19	2005/12/19	Securities & Futures Institute	Speaker for "M&A and Legal Responsibility of Directors and Supervisors"	3.0	
			2006/12/05	2006/12/05	Corporate Governance Association	Speaker for "Corporate Governance Series Forum"	1.5	
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	Y
			2004/12/11	2004/12/12	China Eisenhower Fellowships Conference	Building Vibrant Economies	8.0	
			2005/03/17	2005/03/17	Taiwan Academy of Banking and Finance	Corporate Governance Forum	2.0	
			2005/09/23	2005/09/23	Taiwan Academy of Banking and Finance	Corporate Governance Forum	2.0	
			2005/11/10	2005/11/10	Corporate Governance Association	Creating Core Values of Corporations	3.0	
			2006/02/10	2006/02/10	Financial Supervisory Commission, Executive Yuan	Taipei Corporate Governance Forum	4.0	
			2006/04/04	2006/04/04	Financial Supervisory Commission, Executive Yuan	Corporate Governance International Forum	2.0	
			2006/12/05	2006/12/05	Corporate Governance Association	Speaker for "Corporate Governance Series Forum"	2.0	

Title	Name	Date elected	Date of training		Organization	Training program	Hours	Note
			From	To				
Independent Director	Wen-Li Yeh	2003/06/25	2005/09/14	2005/09/14	Corporate Governance Association	Corporate Governance	3.0	Y
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	
			2003/11/26	2003/11/26	Securities and Futures Bureau	Corporate Governance Forum	1.0	
			2003/12/06	2003/12/06	Chinese Management Association	Corporate Governance and Risk Management Forum	1.0	
Director, Representative of Taiwan Fixed Network Co., Ltd.	Yu-Lon Chiao	2005/06/14	2006/03/08	2006/03/08	Corporate Governance Association	Practice of Group Governance	3.0	
Independent Director	J. Carl Hsu	2004/09/10	2005/09/14	2005/09/14	Corporate Governance Association	Corporate Governance	3.0	
Independent Director	Tsung-Ming Chung	2006/06/15	2003/07/12	2003/07/12	Taiwan Academy of Banking and Finance	Classes for senior management of mutual funds	6.0	
			2003/12/09	2003/12/09	Corporate Governance Association	Corporate Governance	4.0	
			2004/04/26	2004/04/26	Corporate Governance Association	Corporate Governance and Risk Management	3.0	
			2005/08/23	2005/08/23	Securities & Futures Institute	Raising Capital and Shareholders' Interests	3.0	
			2006/02/10	2006/02/10	Financial Supervisory Commission, Executive Yuan	Taipei Corporate Governance Forum	6.0	
			2006/04/04	2006/04/04	Corporate Governance Association	Platform for Global Competition – Corporate Governance	2.0	

Note: The director or supervisor has fulfilled the training requirements

## 2. Resigned/Discharged Officers Responsible for Financial Reports

As of January 31, 2007

Title	Name	Date elected	Date resigned	Reasons
Chairman	Daniel Tsai	2005.6.14	2006.8.15	Richard Tsai and Daniel Tsai were elected as Chairman and Vice Chairman, respectively, during the tenth session of the fourth BOD
Chief Financial Official	Vivien Hsu	2006.2.1	2006.8.15	Reassigned to another position within the company

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

## Execution of Major Resolutions in the Shareholders' and Board Meetings from 2006 to January 31, 2007

### 1. Major resolutions in the 2006 shareholders' meetings:

Matters discussed and approved:

- (1) 2005 business and financial reports
- (2) 2005 profit distribution proposal
- (3) Amendments to the Company's "Articles of Incorporation"
- (4) Amendments to the "Rules and Procedures of Shareholders' Meeting"
- (5) Amendments to the "Rules and Procedures of Acquisition or Disposal of Assets"
- (6) Amendments to the "Rules and Procedures of Lending and Making Endorsements/Guarantees"
- (7) By-election of one board director for the fourth term
- (8) Removal of the non-competition restrictions for the by-elected director

### 2. Execution of shareholders' meeting resolutions:

Resolutions made in the 2006 general shareholders' meeting have all been duly executed.

### 3. Major resolutions at board meetings:

- (1) Approved the issuance of new shares for convertible bond conversion
- (2) Approved the establishment of TAT International Telecommunications Co., Ltd. using TransAsia Telecommunications shares as capital
- (3) Approved the change in Chief Financial Officer
- (4) Approved 2005 profit distribution proposal
- (5) Approved several capital expenditure projects for network optimization and 3G implementation
- (6) Approved condensed 1Q 2006 stand-alone and consolidated financial projection

- (7) Approved the by-election of one Board Director for the fourth term
  - (8) Approved holding of the 2006 general shareholders' meeting
  - (9) Approved the fourth share repurchase program
  - (10) Approved additional NT\$1.7bn buyback for CB I and CB II
  - (11) Approved the removal of the non-competition restrictions for the by-elected director
  - (12) Approved condensed 2Q 2006 stand-alone and consolidated financial projection
  - (13) Set cash dividend payment date
  - (14) Reset CB I and CB II conversion prices
  - (15) Elected Chairman and Vice Chairman
  - (16) Approved condensed 3Q 2006 stand-alone and consolidated financial projection
  - (17) Approved 1H 2006 financial reports
  - (18) Approved condensed 4Q 2006 stand-alone and consolidated financial projection
  - (19) Approved cash investment in Taishing Den Syun Co., Ltd.
  - (20) Approved the change in Chief Financial Officer
  - (21) Approved purchase of real estate in Tonghua, Daan District, Taipei
  - (22) Approved purchase of real estate in Laokeng, Yangmei Town, Taoyuan County
  - (23) Approved disposal of real estate in Dajin, Nantun District, Taichung City
  - (24) Approved 2006 profit distribution proposal
  - (25) Approved several capital expenditure projects for network optimization and 3G construction
  - (26) Approved condensed 1Q 2007 stand-alone and consolidated financial projection
- The above information is posted on <http://newmops.tse.com.tw>.

### 4. Disputes between directors as well as supervisors in relation to board meeting resolutions from 2006 to January 31, 2007: None

## Certified Public Accountants (CPA) Information

### 1. CPA and CPA Opinions for the Past Five Years

Year	Accounting Firm	CPA's Name	Opinion
2002	Deloitte & Touche	Peter Lin, Morris Yang	Modified unqualified opinion
2003	Deloitte & Touche	Charles Yen, Morris Yang	Unqualified opinion
2004	Deloitte & Touche	Peter Fan, Morris Yang	Unqualified opinion
2005	Deloitte & Touche	Peter Fan, Vita Kuo	Unqualified opinion
2006	Deloitte & Touche	Peter Fan, Vita Kuo	Modified unqualified opinion

### 2. CPA Service Fees

Accounting firm	Name of CPA		Audit fee	Non-audit fee			Whether the CPA's audit period covers an entire fiscal year		Note
				Company registration	Others	Subtotal	Yes	No	
Deloitte & Touche	Peter Fan	Vita Kuo	7,920	415	971	1,386	V		Fees for other non-audit services were mainly for tax projects

Note: Compared to 2005, audit fee decreased by NT\$980,000 in 2006.

### 3. Reasons for Changing CPAs

- (1) CPA changes in the past two years: None
- (2) CPA changes in the past five years:

In 2002, regular job rotations within Deloitte & Touche resulted in the replacement of Jason Hsia by Peter Lin. In June 2003, Deloitte & Touche merged with T.N. Soong & Co, retaining the name Deloitte & Touche. Charles Yen and Morris Yang were then assigned as auditors for 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.

### 4. Chairman, CEO, and chief officer of finance or accounting hold positions in the Company's audit firm or its affiliates: None

## Internal Control Execution Status

### 1. Internal audit organization

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.

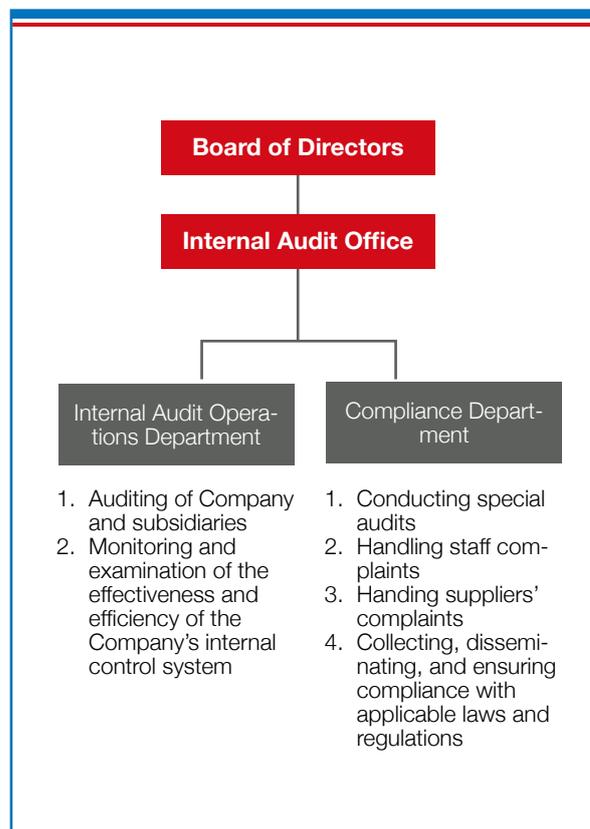
The internal audit office is responsible for the examination and assessment of the internal controls of the Company's financial, sales, operations, and management departments. All departments, including those of the subsidiaries, are subject to its audit.

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 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-evaluations by departments and subsidiaries to ensure strict 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 an internal control system statement.

### 2. Violation of Regulations and Internal Polices: None.

### 3. Internal Control Statement



## Taiwan Mobile Co., Ltd. Internal Control Statement

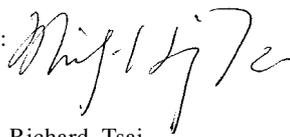
Date: January 25, 2007

Taiwan Mobile (TWM) states the following with regard to its internal control system for the period January 1, 2006 to December 31, 2006:

1. TWM is fully aware that establishing, operating, and maintaining an internal control system are the responsibilities of its Board of Directors and management. TWM has established such a system to provide reasonable assurance in achieving objectives related to the effectiveness and efficiency of operations (including profits, performance, and safeguarding of assets), reliability of financial reporting, and compliance with applicable laws and regulations.
2. An internal control system has inherent limitations. An effective internal control system, no matter how perfectly designed, can provide only a reasonable assurance in the accomplishment of 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, and the Company takes corrective actions as soon as a deficiency is identified.
3. TWM evaluates 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" (herein referred to as "Regulations"). The internal control system evaluation criteria adopted by the Regulations divide internal control into five key 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), which encompasses 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 form a major part 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 Act.
7. This statement has been passed by the Board of Directors' Meeting of TWM held on January 25, 2007, where all of the 10 attending directors did not express any dissenting opinion and affirmed the content of the same.

Taiwan Mobile Co., Ltd.

Chairman:



Richard Tsai

President:



Harvey Chang