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Taiwan Mobile

Annual Report

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Taiwan Mobile Annual Report



 Taiwan Mobile

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myfone Address

Northern Taiwan 1

Taipei Jongsiao Service Center

No. 659, 661, 663, Jongsiao E. Rd., Sec. 5, Sinyi Dist., Taipei

Taipei Daan Service Center

1F, No. 172-3, 172-4, Jilung Rd., Sec. 2, Daan Dist., Taipei

Banchiao Minzu Service Center

1F, No. 33, Minzu Rd., Banchiao City, Taipei County

Taipei Dinghao Service Center

1F, No. 71, Sec. 4, Jongsiao E. Rd., Daan Dist., Taipei

Taipei Vieshow Service Center

1F, No. 16, Songshou Rd., Sinyi Dist., Taipei

Tomson Service Center

1F-2, No. 2, Lane 609, Chongsin Rd., Sec. 5, Sanchong City, Taipei County

Sanchong Tiantai Service Center

1F, No. 102, Sec. 2, Chongsin Rd., Sanchong City, Taipei County

Yonghe Fuhe Service Center

1F, No. 137, Fuhe Rd., Yonghe City, Taipei County

Jhonghe Jhonghe Service Center

1-2F, No. 72, Jhonghe Rd., Jhonghe City, Taipei County

Jilung Yiyi Service Center

1F, No. 72, Yiyi Rd., Jhongjheng Dist., Jilung City

Taipei Sinjuang Service Center

1F, No. 299, Jhongjheng Rd., Sinjuang City, Taipei County

Taipei Bade Service Center

1F, No. 34, Bade Rd., Sec. 3, Songshan Dist., Taipei

Taipei Wunlin Service Center

1F, No. 676, Wunlin Rd., Shihlin Dist., Taipei

Taipei Hengyang Service Center

1F, No. 7, Hengyang Rd., Jhongjheng Dist., Taipei

Taipei Simending Service Center

1F, No. 12, Emei St., Wanhua Dist., Taipei

Taipei Tianmu Service Center

1F., No. 11, Tianmu W. Rd., Shihlin Dist., Taipei

Neihu Guangdian Service Center

1F, No. 498, Rueiguang Rd., Neihu Dist., Taipei

Taipei Nongan Service Center

1F, No. 19, Nongan Street, Jhongshan Dist., Taipei City

Danshuei Jhongcheng Service Center

1F, No. 124, Jhongjheng Rd., Danshuei Township, Taipei County

Taipei Nanjing W Service Center

1F, No. 42, Nanjing W Rd., Datong District, Taipei City

Sindian Cijhang Service Center

No. 165, Sec. 2, Beisin Rd., Sindian City, Taipei County

Northern Taiwan 2

Taoyuan Chenggong Service Center

1-2F, No. 86, Sec. 2, Chenggong Rd., Taoyuan City, Taoyuan County

Jhongli Huanbei Service Center

1F, No. 542, Huanbei Rd., Jhongli City, Taoyuan County

Taoyuan Airport Terminal I Service Center

No. 15, Hangjhan S. Rd., Puxin Village, Dayuan Township, Taoyuan County (3F, Departure Hall)

Taoyuan Airport Terminal II Service Center

No. 9, Hangjhan S. Rd., Dayuan Township, Taoyuan County

Hsinchu Jhongjheng Service Center

1F, No. 9-11, Jhongjheng Rd., Hsinchu City

Jhubei Guangming Service Center

1F, No. 95, Guangming 6th Rd., Thubei City, Hsinchu County

Yangmei Dacheng Service Center

1F, No. 140, Dacheng Rd., Yangmei Township, Taoyuan County

Jhunan Boai Service Center

No. 142, Boai St., Jhunan Township, Miaoli County

Miaoli Jhongjheng Service Center

1F, No. 501, Jhongjheng Rd., Miaoli City, Miaoli County

Central Taiwan

Taichung Jhonggang Service Center

1F, No. 7, Sec. 2, Taichung Port Rd., Situn Dist., Taichung City

Taichung Wunsin Service Center

1F, No. 151, Sec. 4, Wunsin Rd., Beitun Dist., Taichung City

Fongjia Fusing Service Center

1F, No. 338, Fusing Rd., Situn Dist., Taichung City

Fongyuan Jhongjheng Service Center

1F, No. 448, Jhongjheng Rd., Fongyuan City, Taichung County

Nantou Fusing Service Center

1F, No. 207, Fusing Rd., Nantou City, Nantou County

Changhua Jhongjheng Service Center

No. 1, Sec. 1, Jhongjheng Rd., Changhua City, Changhua County

Douliou Jhenbei Service Center

No. 10-12, Jhenbei Rd., Douliou City, Yunlin County

Taichung Zihyou Service Center

1F, No. 43, Sec. 2, Zihyou Rd., Central Dist. Taichung City

Caotun Jhongjheng Service Center

1F, No. 859, Jhongjheng Rd., Caotun Township, Nantou County

Taichung Donghai Service Center

1F, No. 20, Dongyuan Lane, Taichunggang Rd., Longjing Township, Taichung County

Taichung Meicun South Service Center

1F, No. 62, Meicun S. Rd., South District, Taichung City

Southern Taiwan

Chiayi Linsen Service Center

1F/2F, No. 185, Linsen W. Rd., West Dist., Chiayi City

Chiayi Chueiyang Service Center

1F, No. 636, Chueiyang Rd., Chiayi City

Tainan Jhonghua Service Center

1F, No. 48, Jhonghua E. Rd., Sec. 3, East Dist., Tainan City

Tainan Minsheng Service Center

1F, No. 279, Minsheng Road, Sec. 2, West Central Dist., Tainan City

Tainan Simen Service Center

1F., No. 357, Sec. 2, Simen Rd., West Central Dist., Tainan City

Tainan Yongkang Service Center

1F., No. 663, Jhonghua Rd., Yongkang City, Tainan County

Tainan Rende Service Center

1F, No. 497, Jhongshan Rd., Rende Township, Tainan County

Tainan Sinying Service Center

1F., No. 71-1, Minjhhi Rd., Sinying City, Tainan County

Kaohsiung Linsen Service Center

No. 243-1, Linsen 1st Rd., Sinsing Dist., Kaohsiung City

Kaohsiung Sanduo Service Center

1F., No. 214-12, Sanduo 3rd Rd., Lingya Dist., Kaohsiung City

Kaohsiung Fongshan Service Center

1F, No. 148-1-3, Jhongshan Rd., Fongshan City, Kaohsiung County

Kaohsiung JyueMin Service Center

1F, No. 197, JyueMin Rd., Sanmin Dist., Kaohsiung City

Kaohsiung Lingya Service Center

1F., No. 149, Guangzhou 1st St., Lingya Dist., Kaohsiung City

Fongshan Wuja Service Center

1F., No. 535, Wuja 2nd Rd., Fongshan City, Kaohsiung County

Kaohsiung Mingcheng Service Center

1F., No. 288, Heti Rd., Sanmin Dist., Kaohsiung City

Kaohsiung Sansin Service Center

1F., No. 279, Sanduo 1st Rd., Lingya Dist., Kaohsiung City

Pingtung Fusing Service Center

1F, No. 586-3, Zihyou Road, Pingtung City, Pingtung County

Pingtung Minzu Service Center

1F., No. 174, Minzu Rd., Pingtung City, Pingtung County

Kaohsiung Zuoying Service Center

No. 179, Sinjuangzai Rd., Zuoying District, Kaohsiung City

East Coast

Luodong Shingdong Service Center

1F, No. 150, Shingdong Rd., Luodong Township, Yilan County

Hualien Jhongjheng Service Center

1F, No. 46, Sanmin St., Hualien City, Hualien County

Taitung Jhonghua Service Center

No. 518, Sec. 1, Jhonghua Rd., Taitung City, Taitung County

Taiwan Mobile Customer Service
0809-000852

Mobitai Customer Service
0931-400188

TransAsia Customer Service
0809-008188

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Letter to Shareholders

Dear Shareholders,

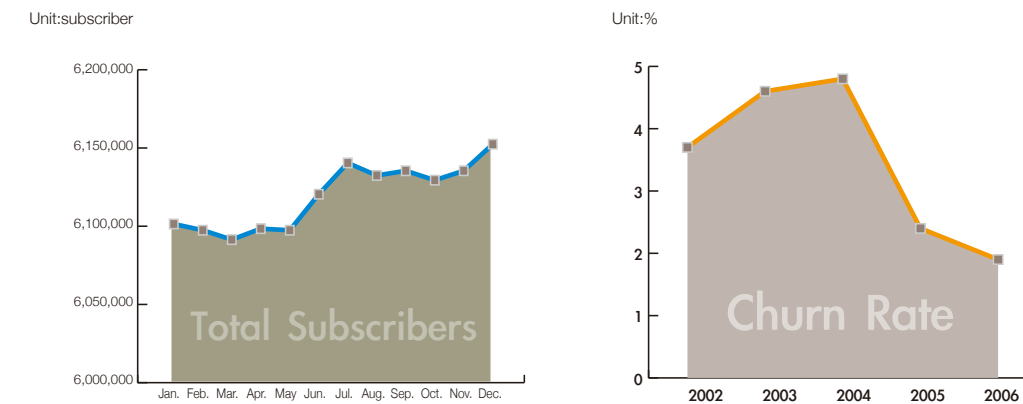
Affected by weaker private consumption, the mobile service industry showed no growth in 2006. Continuous investment into 3G infrastructure also weighed on the cost of mobile operators. Despite these challenges, Taiwan Mobile (“TWM” or “the Company”) managed to outpace the industry, posting stable revenues and expanding its market share.

Taiwan Mobile’s consolidated revenue – including its 100%-owned subsidiaries Mobitai Communications and TransAsia Telecommunications – reached NT\$58.9 bn, achieving 99% of its target for 2006. Its operating income of NT\$19.3 bn and net income of NT\$16.2 bn, or EPS of NT\$3.30, also met its full-year profit target.

The Company’s stable performance in 2006 was a product of the following efforts:

Increasing brand value built on a customer-centric philosophy

Instead of engaging in pricing or product promotion competition, the Company sought to win the hearts of customers by offering the best mobile experience. Last year saw the launch of a company-wide initiative dubbed ECE, to represent the Company’s goal of Excelling in providing Customers with the best Experience. ECE calls for TWM staffers to focus on customer needs and demands in all aspects – from planning to design and distribution of all TWM products and services. This initiative resulted in improved customer loyalty, as evidenced by the fall in the Company’s churn rate in 2006. The Company’s new customer-centric rate plan

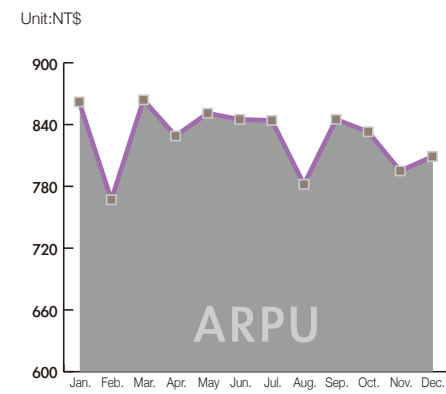
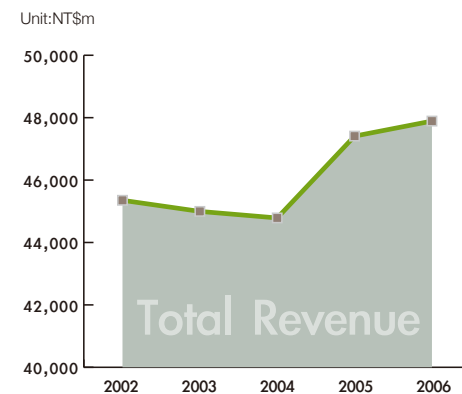


“my Zone” proved to be a hit and contributed to its expanding market share. To provide better mobile enterprise solutions for the business elite and corporate clients, the Company also introduced the globally popular mobile email service, “BlackBerry.” Continuous deployment of 3G and HS-DPA (3.5G) technology and introduction of new services further contributed to enhancing mobile broadband experience for customers. All these should continue to serve as catalysts for future revenue growth.

Enhancing company value and shareholders’ interests

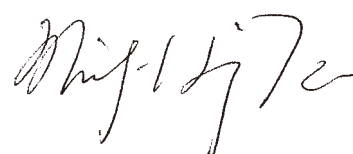
Other than delivering stable operations, the Company also focused on maximizing shareholders’ interest by simplifying its capital structure, enhancing corporate governance and distributing high cash dividends in 2006.


- 1) The Company disposed of its non-core investment in Chunghwa Telecom which netted a gain of NT\$2.1bn.
- 2) The Company won recognition for its achievements in corporate governance, including the “Best Corporate Governance in Taiwan” by Euromoney, and the “Best Managed Company,” “Best Corporate Governance” and “Best Commitment to Strong Dividends” by *Finance Asia*’s “Taiwan Best Managed Companies Poll.” It also received the CG6001 and CG6002 certification two years in a row from the Corporate Governance Association.



3) The Company continued to maintain a high cash dividend yield which was above the Asian telecom and Taiwan market averages.

Looking ahead, the company will continue to focus on creating the best mobile experience and life-style for our customers, seeking to differentiate our products, services, marketing and distribution from the competition. The company will also explore any growth-contributing strategy and investment opportunity to expand its telecommunications footprint.

Chairman 
Richard Tsai

President 
Harvey Chang

Ch. 1

Company Highlights

Vision

The Company's core vision is to create the best mobile experience. 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 works on increasing customer value to maximize Company and 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 and services.



Company Profile

Taiwan Mobile Co., Ltd. was incorporated in the Republic of China (“ROC”) on February 25, 1997. Along with the popularization of mobile services in Taiwan, the Company has developed and achieved technological breakthroughs in line with its commitment to providing customers with world-class telecommunications services. 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.

TWM’s operational scale has expanded over the past decade as a result of acquisitions and business integration. The Company’s subscriber base reached 1 million in 1998, making it the fourth largest GSM1800 telecommunications operator globally and the biggest operator in Asia. In 2000, the Company was selected as one of “Asia’s Top 100 Corporations” by HSBC, with its total number of subscribers exceeding 5 million. To expand its operational scale, the Company acquired southern regional operator TransAsia Telecommunications Inc. and was honored as one of “Taiwan’s Top 10 Businesses” by Far Eastern magazine in 2001. In June 2004, the Company further acquired central regional operator Mobitai Communications, and its consolidated subscriber base surged to 8.2 million making it the largest mobile operator in Taiwan. Despite the intense competition in the telecommunications market, the Company continues to lead with a market share of around 30% of local subscribers.

TWM’s shares began trading 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 and 2006, in

recognition of the improvements in its corporate governance, the Company was cited for “Best Corporate Governance” in Taiwan by Euromoney. The Company also received the “CG6001 Corporate Governance Association Certification” in 2006.

Since its inception, the Company has strived to provide customers with products that best meet their needs, as well as high-quality and safe communication services. TWM was the first company worldwide to obtain an ISO 27001 Information Security Management System certification, demonstrating its dedication to protecting customer privacy and providing world-class security. 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. The Company was also a recipient of Reader’s Digest’s “Gold Trusted Brand Award” from 2004 to 2006.

Looking ahead, the Company will focus on improving its operating performance, cultivating existing customers, simplifying its investment structure, increasing financial transparency, effectively controlling its costs, and developing products that best meet customers’ needs. The Company is committed to enhancing corporate governance, creating a satisfying working environment, and providing customers, society, investors and employees with top satisfaction to achieve its goal of becoming a world-class enterprise.



TWM was awarded "2005 Most Admired Company in Taiwan" by *Common Wealth* magazine and ranked No.1 in Taiwan's telecommunications services sector; also received the “Corporate Social Responsibility Award” by *Global Views Monthly* and ranked No.1 in Taiwan's service sector in the same year. In 2006, TWM received the “Best Social Responsibility Award – Corporate Category” during the Fourth Taiwan Business Awards and the “Excellence in Corporate Social Responsibility” by *Common Wealth* magazine.

Milestones

1996	May	Preparation for the Company’s incorporation.
1997	January	Jack T. Sun and Joseph Lee were elected as Chairman and Vice Chairman, respectively, while Lai-Ting Zou was appointed as President at the first session of the First Board of Directors.
	February	Taiwan Cellular Corp. (TCC) incorporated.
	December	Became the first nationwide private operator to obtain a GSM 1800 network operating license.
1998	January	Launched commercial service and mobile numbers with the “0935” prefix.
	August	Set up Taiwan Tele-Shop Co. Ltd. to handle TCC’s franchises and handset procurement businesses.
	November	Subscriber base surpassed one million.
1999	June	Jack T. Sun and Joseph Lee were re-elected as Chairman and Vice Chairman, respectively, at the first session of the Second Board of Directors.
2000	September	Became the first private telecoms operator to start trading on Taiwan’s OTC Exchange.
	November	Ray-Ying Fan was appointed as President at the eighth session of the Second Board of Directors.
	December	Subscriber base surpassed five million.
2001	June	Set up operating affiliates Taiwan Teleservices & Technologies to handle its customer services and Taiwan Elitec to take charge of its information technology businesses. Invested in Howin Technologies to handle its network operations and maintenance service.
	July	Teamed up with an affiliate to acquire 95.62% of TransAsia Telecommunications, boosting its subscriber base to 6.42 million.
	September	Founded Taiwan Infotainment Co., Ltd. to provide electronic yellow page directory services.
2002	February	Granted 3G license.
	April	Jack T. Sun and Joseph Lee were re-elected as Chairman and Vice Chairman, respectively, at the first session of the Third Board of Directors.





	May	Set up Taiwan Telecom Group to centralize administration of TCC, Taiwan Fixed Network and other affiliates. Group Chairman, Vice-Chairman, CEO, COO, and CSO were Jack T. Sun, Richard Tsai, Joseph Lee, S. T. Chang, and Ray-Ying Fan, respectively.
	May	C. S. Chen was appointed as President at the second session of the Third Board of Directors.
	August	Moved from the OTC exchange to the TSE mainboard.
	October	Included in the “TAIWAN 50 INDEX”.
	November	Included in the MSCI INDEX.
2003	June	Taiwan Telecom Group’ operating model was discontinued.
	July	Daniel Tsai and Richard Tsai were elected as Chairman and Vice Chairman, respectively, at the second session of the Third Board of Managing Directors.
	July	Harvey Chang was appointed as President at the 15th session of the Third Board of Directors.
2004	July	Launched “myfone” corporate identity and marketing campaign.
	August	Acquired 67% stake in Mobitai, increasing its subscriber base to 8.2 million.
	November	Joined Bridge Mobile Alliance, the largest mobile alliance in Asia.
2005	April	Changed its English name from Taiwan Cellular Corp. to Taiwan Mobile Co., Ltd., and instituted a colorful, new logo symbolizing the Company's customer and service-oriented approach as Taiwan enters the 3G era.
	May	Soft launch of its 3G services – “catch 3! catch your eyes!” – to symbolize the start of a new era in mobile communications in Taiwan.
	June	Merged Taiwan Tele-Shop and integrated 132 of TTS’ employees.
	July	Began handling Mobitai’s business with 218 of Mobitai’s employees being transferred to the Company to enhance synergy.
	August	Launched OneNet service with TransAsia Telecommunications and Mobitai to provide discounted intranet calls and uniform services to customers of all three companies

2006	January	Acquired full ownership of Mobitai by purchasing the remaining minority stake.
	January	Launched a revolutionary rate plan called “my Zone” which allows customers to select one of five zones as their home zone and enjoy discounted rates when making calls to people within this designated zone.
	March	Demonstrated the first IP-MVPN (Mobile Virtual Private Network) in Taiwan that integrated WiMax, WiFi, 2G and 3G networks, and facilitated video telephony applications between 3G handsets and PCs in Nankang Software Park, Taiwan.
	June	Acquired full ownership of TransAsia Telecom by purchasing the remaining minority stake.
	August	Richard Tsai and Daniel Tsai were elected as Chairman and Vice Chairman, respectively, at the tenth session of the fourth Board of Directors,.
	September	Formed a cooperation with one of the Philippines’ leading mobile service operators Globe to launch the first transnational joint pre-paid card in Taiwan, OK Kababayan Card.
	December	Launched the first exclusive dual-mode GSM/WiFi handset TG310 and provided mobile campus packages in Tamkang and Feng Chia universities.
	December	Became the first in Taiwan to provide BlackBerry service, the world’s No.1 mobile email solution.
2007	January	Announced plans to introduce Asia’s first NFC (Near Field Communication) Mobile PayPass™ handset with MasterCard International and Taipei Fubon Bank.
	January	Launched 3.5G (HSDPA) service which allows maximum access speed of 3.6Mbps in Taipei and Hsinchu.



Awards & Recognitions

2007	March	Received the CG6002 certification from the Corporate Governance Association for the second year in a row.
	March	Awarded the “Excellence in Corporate Social Responsibility” by <i>Common Wealth</i> magazine and ranked No.1 in corporate governance sector.
2006	November	Received the “Best Social Responsibility Award – Corporate Category” and the “Outstanding Management Award” for its CEO Harvey Chang during the Fourth Taiwan Business Awards, marking the first time that a company received multiple awards at the annual event.
	September	Ranked No. 1 by <i>Euromoney</i> for “Best Corporate Governance in Taiwan” – the second time TWM received such recognition.
	July	TWM and TWM Foundation won the 8th WenXin Gold and Silver awards from the Council of Cultural Affairs in recognition of the Company's contribution to local cultural affairs.
	May	Won distinctions for Best Managed Company, Best Corporate Governance and Best Commitment to Strong Dividends by <i>Finance Asia's</i> "Taiwan Best Managed Companies Poll."
	April	Received a Gold Trusted Brand Award from <i>Reader's Digest</i> for the third year in a row.
	March	Taiwan Ratings Corp. raised its long-term corporate credit rating and its unsecured corporate bond rating of Taiwan Mobile from ‘twAA’ to ‘twAA+’.
	February	Received the first CG6001 certification from the 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.
	November	Led Taiwan delegation in participating in the first World Cyber Game Mobile Tournament and won one gold and one silver medal. Also won first and second place in the first Asia Mobile Tournament held by SingTel.
	October	Awarded “2005 Most Admired Company in Taiwan” by <i>Common Wealth</i> magazine and ranked No.1 in Taiwan's telecommunications services sector.
2005	October	Awarded “2005 Excellent Service Award” by <i>Global Views Monthly</i> and ranked No.1 in Taiwan's telecommunications services sector.
	May	Awarded the “Corporate Social Responsibility Award” by <i>Global Views Monthly</i> and ranked No.1 in Taiwan's service sector.

April Awarded the “Gold Trusted Brand Award” by *Reader's Digest* for the second year in a row.

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 the *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.

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 *Common wealth* 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.

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 for Information Industry.

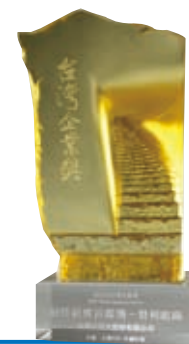
September Ranked the 7th largest mobile operator in Asia Pacific by *Asia Pacific Mobile Analyst*.

January Selected by *Asiamoney* magazine's poll as the “Best New Taiwan Listed Company.”

2000 March Network engineering management accredited with ISO 9002 certification.

1999 December Rated “excellent” by the Directorate General of Telecommunications for service quality, based on three criteria – downtime, blocking rate and coverage in tunnel.

July Customer service system accredited with ISO 9002 certification.



"Best Social Responsibility Award",
Taiwan Business Awards



"Corporate Social Responsibility",
Global Views Monthly



"Excellence in Corporate Social Responsibility",
Common Wealth magazine

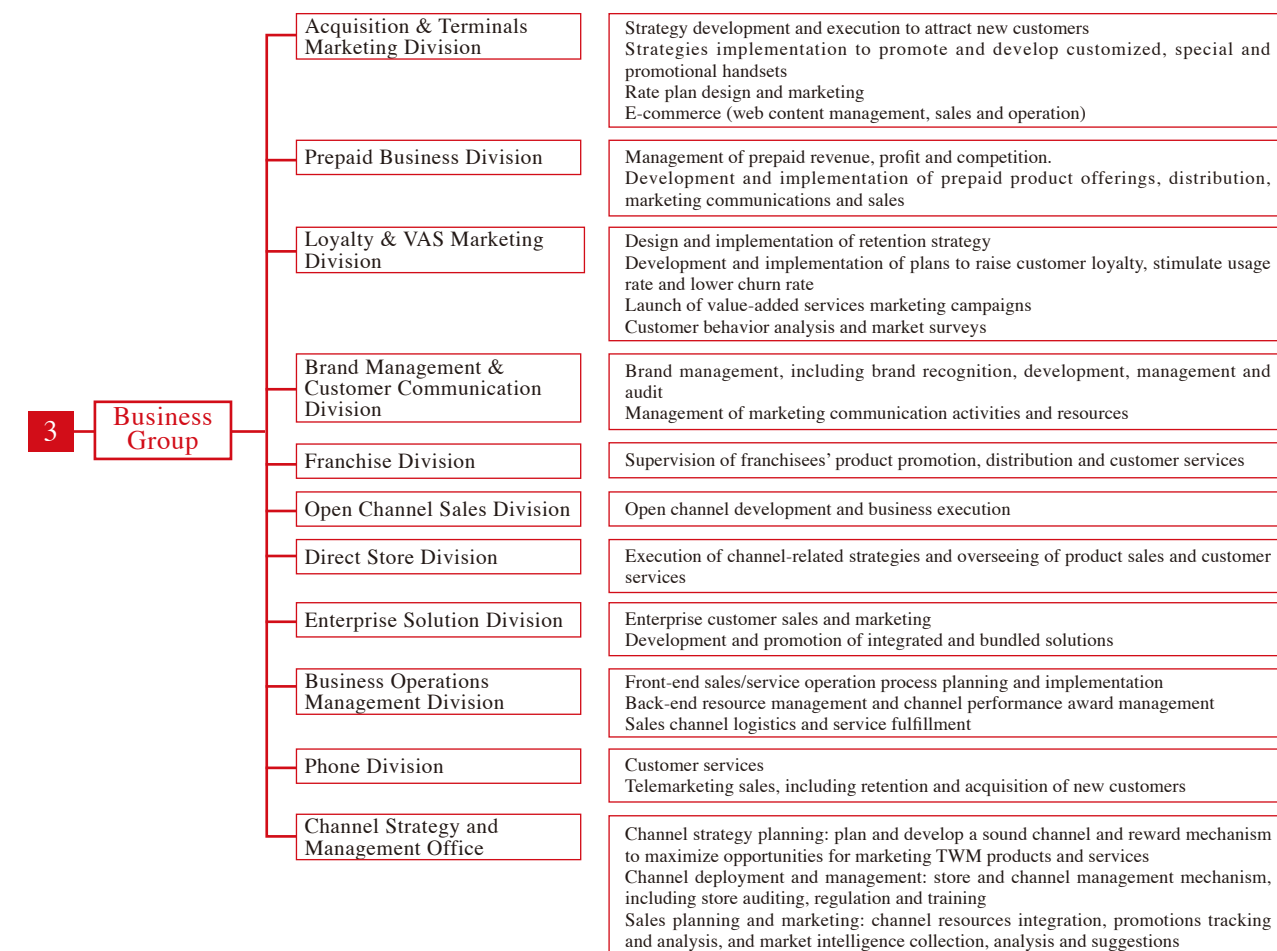
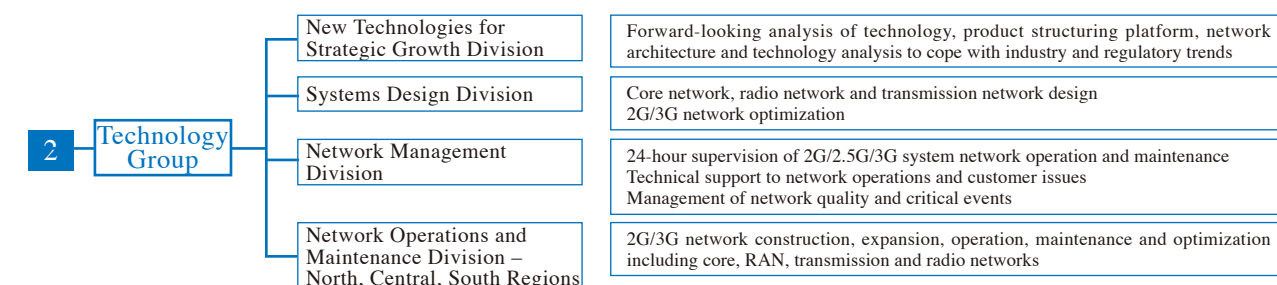
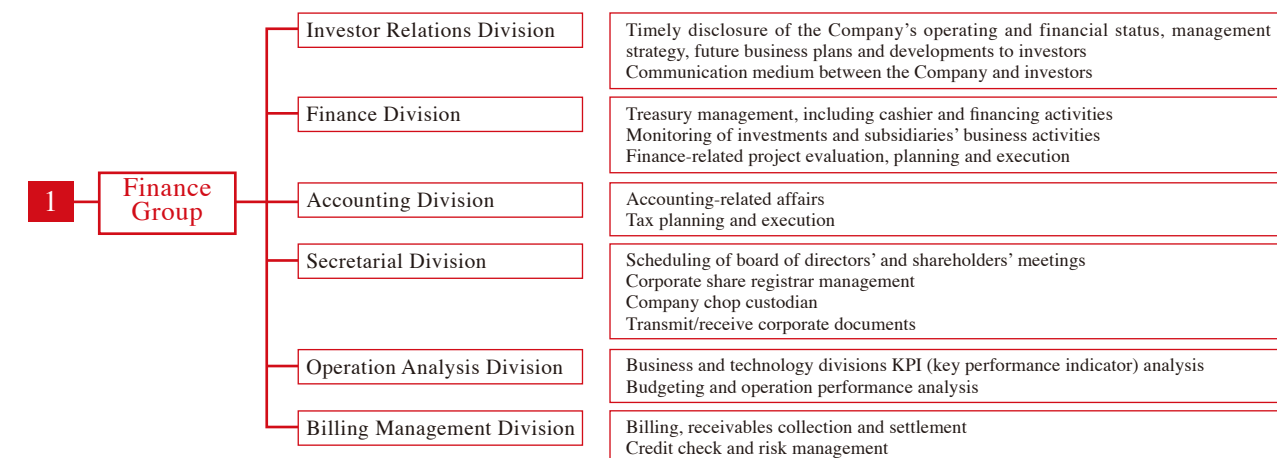
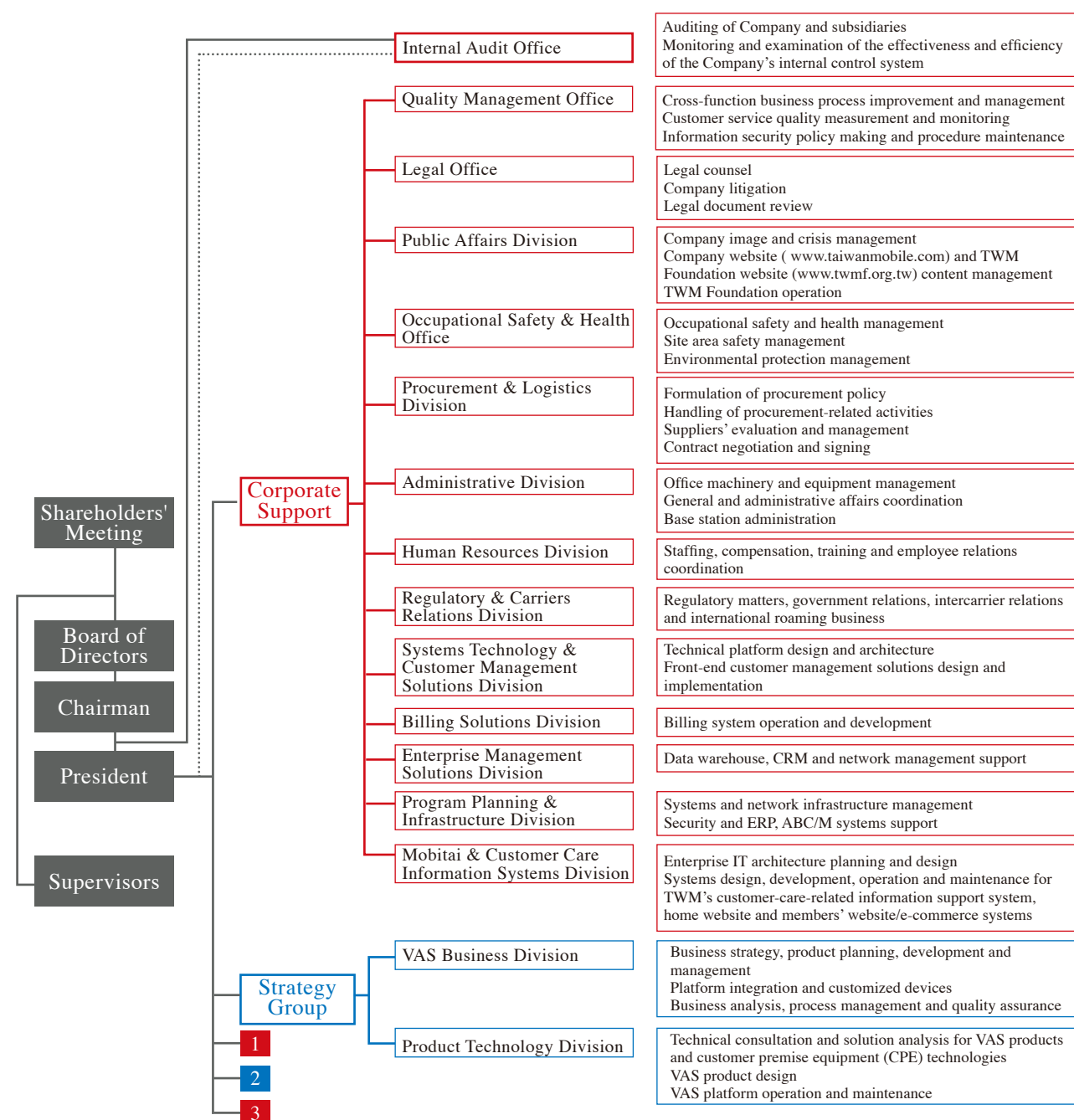


"Best Corporate Governance in Taiwan",
Euromoney

Organization

To protect the interest of investors, the Company has, pursuant to laws, set up a board of directors to represent investors in supervising the management team. The Company's major divisions are organized by functions. A Strategy Group was added in 2006 in line with industry developments.

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 four independent directors. This more than fulfills current regulations requiring public companies to have at least two independent directors. Information regarding the Company's Fourth Board of Directors is detailed below:



Chairman
Richard Tsai

Vice Chairman
Daniel Tsai

Director
Pieere Chen

Representative of Fu-Chi Venture Corp. 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	Representative of Taiwan Fixed Network Co., Ltd. Date elected 2005.06.14 Term expires 2008.06.13
Shareholding when elected Shares 4,235,569 % 0.086%	Shareholding when elected Shares 4,235,569 % 0.086%	Shareholding when elected Shares 900,352,762 % 18.241%
Current shareholding Shares 4,235,569 *106,109,964 % 0.085% **2.134%	Current shareholding Shares 4,235,569 *106,665,964 % 0.085% **2.134%	Current shareholding Shares 900,352,762 *None % 18.013% **None
Spouse/minor's shareholdings Shares 8,895,965 % 0.178%	Spouse/minor's shareholdings Shares 8,155,618 % 0.163%	Spouse/minor's shareholdings Shares 523,741 % 0.010%
Education and experience MBA, Stern School, New York University Chairman, Fubon Securities Co., Ltd.	Education and experience LL.B., National Taiwan University LL. M., Georgetown University Chairman, Fubon Insurance	Education and experience Dept. of Engineering Science, National Cheng Kung University CEO, Yageo Corp. Vice Chairman, Yageo Corp.
Current position(s) in other companies Vice Chairman and CEO, Fubon Financial Holding Co. Chairman, Fubon Life Assurance Co., Ltd. Director, Taiwan Fixed Network Co., Ltd. Chairman, TransAsia Telecommunications Inc. Chairman, Mobitai Communications	Current position(s) in other companies Chairman and CEO, Fubon Financial Holding Co. Chairman, Taipei Fubon Commercial Bank Chairman, Fubon Land Development Co. Chairman, Taiwan Fixed Network Co., Ltd. Director, TransAsia Telecommunications Inc. Director, Mobitai Communications	Current position(s) in other companies Chairman, Yageo Corp. Supervisor, Far Eastern Air Transport Director, Taiwan Fixed Network Co., Ltd. Chairman, Global Testing Corp.
Manager is a spouse or consanguineous within two degrees Title: Vice Chairman Name: Daniel Tsai Relationship: Brother	Manager is a spouse or consanguineous within two degrees Title: Chairman Name: Richard Tsai Relationship: Brother	Manager is a spouse or consanguineous within two degrees Title: - Name: - Relationship: -

*: Personal shareholding
**: Calculated based on 4,999,325,082 outstanding shares on Jan. 31, 2007.



Director
Yu-Lon Chiao

Director
Harvey Chang

Director
Nita Ing

Representative of Taiwan Fixed Network Co., Ltd. Date elected 2005.06.14 Term expires 2008.06.13	Representative of Kuo-Ki Investment Co., Ltd. Date elected 2005.06.14 Term expires 2008.06.13	Representative of Ching Shang Zhen Corp. Date elected 2005.06.14 Term expires 2008.06.13
Shareholding when elected Shares 900,352,762 % 18.241%	Shareholding when elected Shares 225,478 % 0.005%	Shareholding when elected Shares 2,246,617 % 0.046%
Current shareholding Shares 900,352,762 *None % 18.013% **None	Current shareholding Shares 225,478 *10,026,000 % 0.005% **0.201%	Current shareholding Shares 2,246,617 *7,362,232 % 0.045% **0.147%
Spouse/minor's shareholdings Shares - % -	Spouse/minor's shareholdings Shares - % -	Spouse/minor's shareholdings Shares - % -
Education and experience BBA, University of Washington	Education and experience MBA, Wharton School, University of Pennsylvania Senior Vice President, Chiao Tung Bank's trust and foreign departments 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.	Education and experience University of California, Los Angeles
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.	Current position(s) in other companies President, Taiwan Mobile Co., Ltd. Director and President, TransAsia Telecommunications Inc. Director and President, Mobitai Communications Chairman, Taiwan Teleservices & Technologies Co., Ltd. Director and President, Taiwan Cellular Co., Ltd. (former Taihsing Den Syun Co., Ltd.) Chairman, IC Broadcasting Co., Ltd. Chairman, Taiwan Fund Inc. Director, CX Technology Corp.	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, 921Earthquake Relief Foundation
Manager is a spouse or consanguineous within two degrees Title: - Name: - Relationship: -	Current position(s) in other companies President, Taiwan Mobile Co., Ltd. Director and President, TransAsia Telecommunications Inc. Director and President, Mobitai Communications Chairman, Taiwan Teleservices & Technologies Co., Ltd. Director and President, Taiwan Cellular Co., Ltd. (former Taihsing Den Syun Co., Ltd.) Chairman, IC Broadcasting Co., Ltd. Chairman, Taiwan Fund Inc. Director, CX Technology Corp.	Manager is a spouse or consanguineous within two degrees Title: - Name: - Relationship: -
Manager is a spouse or consanguineous within two degrees Title: - / Name: - / Relationship: -		



Independent Director
Jack J.T. Huang

Independent Director
Wen-Li Yeh

Independent Director
J. Carl Hsu

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	Shareholding when elected	Shareholding when elected
Shares -	Shares -	Shares -
% -	% -	% -
Current shareholding	Current shareholding	Current shareholding
Shares -	Shares -	Shares -
% *-	% *-	% *-
% -	% -	% -
**-	**-	**-
Spouse/minor's shareholdings	Spouse/minor's shareholdings	Spouse/minor's shareholdings
Shares -	Shares -	Shares -
% -	% -	% -
Education and experience	Education and experience	Education and experience
LL.B., National Taiwan University LL.M., Northwestern University S.J.D., Harvard University.	Dept. of Architecture, Chung-Yuan Christian University Master and 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 and Vice Chairman, United Advertising Co. Chairman, Carat-United Media Services (Taiwan) Ltd.	BSEE, National Taiwan University Ph.D. and MS Computer Science, UCLA President, Lucent Technologies Group Executive Vice President, Bell Labs Senior Vice President, AT&T Professor, Taiwan Tsing Hua University, Peking University and others
Current position(s) in other companies	Current position(s) in other companies	Current position(s) in other companies
Partner-in-Charge, Jones Day Taipei Director, Yulon Motor Co., Ltd. Director, China Motor Corp. Independent Director, World Peace Group Holding	Chairman, Aegis Media Group	Professor, Peking University and other universities
Manager is a spouse or consanguineous within two degrees	Manager is a spouse or consanguineous within two degrees	Manager is a spouse or consanguineous within two degrees
Title: -	Title: -	Title: -
Name: -	Name: -	Name: -
Relationship: -	Relationship: -	Relationship: -

*: Personal shareholding

** : Calculated based on 4,999,325,082 outstanding shares on Jan. 31, 2007.



Independent Director
Tsung-Ming Chung

Supervisor
Polar Hsieh

Supervisor
Victor Kung

Date elected 2006.06.15 Term expires 2008.06.13	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
Shareholding when elected	Shareholding when elected	Shareholding when elected
Shares -	Shares 900,352,762	Shares 4,235,569
% -	% 18.241%	% 0.086%
Current shareholding	Current shareholding	Current shareholding
Shares -	Shares 900,352,762	Shares 4,235,569
% *-	% *0	% *None
% -	% 18.013%	% 0.085%
**-	**0.000%	**None
Spouse/minor's shareholdings	Spouse/minor's shareholdings	Spouse/minor's shareholdings
Shares -	Shares -	Shares 2,960
% -	% -	% 0.000%
Education and experience	Education and experience	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	Master of Management Sciences, Tamkang University Vice President of Finance, GVC Corp. Executive Vice President, Sampo Corp. Vice Chairman, Tait Marketing & Distribution Co., Ltd. General Manager, Jenn Feng Industrial Co., Ltd.	MA in Economics and MBA in Finance, New York University Executive Vice President, Walden International Investment Group Executive Director, Citicorp Capital Asia Ltd. Director of Direct Investments, AIG Investment Corp.
Current position(s) in other companies	Current position(s) in other companies	Current position(s) in other companies
Vice Chairman, Arima Optoelectronics Corp. Chairman, Dynapack Corp. Director, Arima Computer Group Independent Supervisor, Chroma Ate Inc. Independent Supervisor, Polytronics Technology Corp. Director, Far Eastern Int'l Bank Director, Unity Opto Technology	Executive Vice President and CFO, Taiwan Fixed Network Co., Ltd. Director, Yeong Jia Leh Cable TW Co., Ltd. Director, North Coast Cable TW Co., Ltd. Director, Globalview Cable TW Co., Ltd. Supervisor, Fu Yang Multimedia Co., Ltd. Supervisor, Win TV Broadcasting Co., Ltd. Supervisor, Reach & Range Inc.	Director and President, Fubon Financial Holding Director, Fubon Insurance Co. Supervisor, Fubon Life Assurance Co., Ltd. Director, World Vision Taiwan Director, Taiwan After-Care Association Chairman, 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
Manager is a spouse or consanguineous within two degrees	Manager is a spouse or consanguineous within two degrees	Manager is a spouse or consanguineous within two degrees
Title: -	Title: -	Title: -
Name: -	Name: -	Name: -
Relationship: -	Relationship: -	Relationship: -

Major Shareholders of TWM’s Institutional Investors

As of January 31, 2007

Institutional investor	Major shareholders
Fu-Chi Venture Corp.	Richard Tsai (50.02%), Mei-Hui Ueng Tsai (49.75%), Cheng Ru Tsai (0.05%)
Ching Shang Zhen Corp.	Dugan Co. (100%)
Kuo-Ki Investment Co., Ltd.	Daniel Tsai (50%), Richard Tsai (50%)
Taiwan Fixed Network Co., Ltd.	Taiwan Mobile Co., Ltd. (9.87%), Acer Inc. (3.23%), Continental Engineering Co., Ltd. (2.17%), Fubon Insurance Co., Ltd. (1.90%), BenQ Corp. (1.63%), ASE Network Inc. (1.63%), Fubon Life Assurance Co., Ltd. (1.52%), EVA Airways Corp. (1.30%), Evergreen International Corp. (1.30%), China Development Industrial Bank (1.30%)

Major Shareholders of Companies Mentioned on the Right Hand Side of the Table Above

As of January 31, 2007

Company	Major shareholders
Dugan Co.	Long Reign Holdings Inc. (100%)
Taiwan Mobile Co., Ltd.	Taiwan Fixed Network Co., Ltd. (18.10%), TFN Investment (9.40%), Taiwan Hong Yuan Investment (2.66%), Taiwan Post Co., Ltd. (2.64%), Fubon Securities (2.55%), Fubon Life Assurance Co., Ltd. (2.43%), Fubon Insurance Co., Ltd. (2.40%), Daniel Tsai (2.13%), Richard Tsai (2.13%), Templeton Asian Growth Fund (1.98%)
Acer Inc.	JPMorgan Chase Bank, N.A., Taipei custodian of EuroPacific Growth Fund (4.99%), Hung Rouan Investment Corp. (2.83%), Acer Incorporated Global Depositary Receipts (2.75%), Stan Shih (2.06%), National Stabilization Fund (1.90%), Management Board of Public Service Pension Fund (1.69%), JPMorgan Chase Bank, N.A., Taipei custodian of Capital World Growth and Income Fund Inc. (1.53%), Labor Pension Fund Supervisory Committee (1.47%), SinoPac Bank Trust Department Account (1.09%), Prudential Assurance Co., Ltd. (1.01%)
Continental Engineering Co., Ltd.	Yin Zuo He (11.92%), Wei Dar Development. (11.72%), Nita Ing (7.70%), Wei Da Investment Co., Ltd. (6.84%), Yin Ping (4.98%), Long Da Investment Co., Ltd.(4.37%), Metacity Developments Corp. (4.30%), TSRC Corp.(4.01%), Hao Ran Foundation (2.30%), Sin Lu Investment Co., Ltd. (1.81%)
Fubon Insurance Co., Ltd.	Fubon Financial Holding Co. (100%)
BenQ Corp.	Acer Inc. (6.88%), AU Optronics Corp. (5.00%), GDR-BENQ Corporation (3.25%), Labor Pension Fund Supervisory Committee (1.95%), Platinum Asset Management Ltd. as trustee of Platinum International Fund (1.53%), Bureau of Labor Insurance (1.39%), Management Board of the Public Service Pension Fund (1.21%), Taiwan Post Co., Ltd. (1.09%), Creo Venture Corp. (0.99%), Platinum Asset Management Ltd. in its capacity as Responsible Entity for the Platinum Asia Fund (0.97%)
ASE Network Inc.	Advanced Semiconductor Engineering, Inc. (90%), Accton Technology Corp. (10%)
Fubon Life Assurance Co., Ltd.	Fubon Financial Holding Co. (100%)
EVA Airways Corp.	Evergreen Marine Corp. (20.02%), Evergreen International Corp. (10.89%), Falcon Investment Services Ltd. (4.03%), Chang Kuo-Cheng (3.17%), Chang Yung-Fa (2.95%), Emerging Markets Growth Fund Inc. (2.86%), Chang Kuo-Hua (2.22%), Chang Kuo-Wei (2.16%), Chang Kuo-Ming (2.02%), Ultra International Inv. Ltd. (1.83%)
Evergreen International Corp.	Chang Yung–Fa Foundation (18.00%), Chang Kuo-Cheng (16.67%), Chang Kuo-Hua (12.90%), Chang Kuo-Ming (12.19%), Chang Kuo-Wei (10.86%), Lee Yu Mei (7.14%), Chen Huei Jhu (5.81%), Yang Mei Jhen (5.10%), Chang Lin Jin Jhih (5.00%), Chang Yung-Fa (5.00%)
China Development Industrial Bank	China Development Financial Holding Corp. (100%)

Independence Criteria of Directors and Supervisors

As of January 31, 2007

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	8	9	10
Richard Tsai	V						V	V		V	
Daniel Tsai	V						V	V		V	
Pieere Chen	V	V	V	V	V		V	V	V	V	
Yu-Lon Chiao	V	V	V	V	V		V	V	V	V	
Harvey Chang	V			V	V	V	V	V	V	V	
Nita Ing	V	V	V	V	V		V	V	V	V	
Jack J.T. Huang*	V	V	V	V	V	V	V	V	V	V	V
Wen-Li Yeh	V	V	V	V	V	V	V	V	V	V	V
J. Carl Hsu	V	V	V	V	V	V	V	V	V	V	V
Tsung-Ming Chung	V	V	V	V	V	V	V	V	V	V	V
Polar Hsieh	V	V	V	V	V		V	V	V	V	
Victor Kung	V	V	V	V	V	V	V	V	V	V	

“V” denotes meeting the conditions specified above

- Criterion 1: Not an employee of the Company or of the Company's affiliated companies
- Criterion 2: Not a director or supervisor of the Company's affiliated companies
- Criterion 3: Neither 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 4: Not a spouse, within two degrees relative, or within five degrees directly relative to any person specified in criteria 1 to 3
- Criterion 5: Neither 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 6: 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 7: 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 8: Not a spouse, or within two degrees relative to other directors
- Criterion 9: Not in contravention of Article 30 of the Company Law
- Criterion 10: Not an institutional shareholder or its representative pursuant to Article 27 of the Company Law

*: also serves as an independent director in other public companies

Employee Bonus and Compensation to Directors and Supervisors

Earnings Distribution Plan According to the Company’s Articles of Incorporation:

According to the Company’s Articles of Incorporation, annual net income after paying income taxes, deducting previous years’ losses, appropriating 10% thereof for legal reserves, and setting aside special reserves, shall be distributed in the following order:

- 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 set aside for stock/cash dividends to shareholders as determined in the annual shareholders’ meeting.

The board of directors is empowered to decide the allocation of stock bonuses to employees. Recipients are to include qualified employees of subsidiaries. Compensation to specific directors or supervisors is calculated based on the performance of the Company and the board of directors.

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

An employee bonus of NT\$403,939,784 and compensation to directors and supervisors of NT\$40,393,978, as approved in the 2006 board of directors’ and shareholders’ meetings, were duly paid in 2006.

2006 Employee Bonus and Compensation to Directors and Supervisors Proposal Adopted by Board of Directors

- 1. On January 25, 2007, the board of directors proposed to distribute an employee cash bonus of NT\$432,303,119 and compensation to directors and supervisors of NT\$43,230,312. 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\$3.18.

Compensation to Managers over the Past Two Years:

Unit: NT\$

Type	On a stand-alone basis		On a consolidated basis	
	2005	2006	2005	2006
Management compensation	215,970,311	244,480,785	294,263,562	300,715,516
% of net profit	1.33%	1.51%	1.78%	1.85%
Net profit	16,236,698,189	16,170,741,111	16,496,017,780	16,214,911,285

Compensation to Directors and Supervisors over the Past Two Years:

Unit: NT\$

Type	On a stand-alone basis		On a consolidated basis	
	2005	2006	2005	2006
Compensation to directors	62,302,517	135,680,102	62,335,517	149,603,877
As % of net profit	0.38%	0.84%	0.38%	0.92%
Compensation to supervisors	9,891,461	8,169,311	9,894,461	8,172,311
As % of net profit	0.06%	0.05%	0.06%	0.05%
Net profit	16,236,698,189	16,170,741,111	16,496,017,780	16,214,911,285



Compensation to Directors, Supervisors and Managers in 2006

1. Compensation to Directors

On a Stand-alone Basis												Unit: NT\$
Title	Name	Director's compensation (A)			Director's compensation as % of net profit	Employee profit sharing (B)				(A)+(B) as % of net profit	Compensation from investees outside subsidiaries	Other allowance
		Cash compensation	Earnings paid as compensation to directors	Professional fee		Performance-based salary	Earnings paid as bonus to employees		Employee stock option granted			
							Cash bonus	Stock bonus				
Chairman	Richard Tsai, Representative of Fu-Chi Venture Corp. (Note 1)	-	4,714,645	270,000	0.03%			-	-	-		
Vice Chairman	Daniel Tsai, Representative of Fu-Chi Venture Corp. (Note 1)	-	5,047,039	360,000	0.03%			-	-	-		
Director	Pieere Chen, representative of Taiwan Fixed Network Co., Ltd. (previous representative: George Huang)	-	2,789,052	0	0.02%			-	-	-	-	
Director	Yu-Lon Chiao, representative of Taiwan Fixed Network Co., Ltd. (previous representative: Ray-Ying Fan)	-	2,789,052	0	0.02%			-	-	-	-	
Director	Harvey Chang Representative of Kuo-Ki Investment Co., Ltd.	-	2,789,052	360,000	0.02%			-	-	-		
Director	Nita Ing, Representative of Ching Shang Zhen Corp.	-	2,789,052	0	0.02%			-	-	-	-	
Independent Director	Jack J.T. Huang	-	4,183,579	460,000	0.03%			-	-	-	-	
Independent Director	Wen-Li Yeh	-	4,183,579	460,000	0.03%			-	-	-	-	
Independent Director	J. Carl Hsu	-	4,183,579	420,000	0.03%			-	-	-	-	
Independent Director	Tsung-Ming Chung (Note 2)	-	2,292,372	150,000	0.02%			-	-	-	-	
Total		-	35,761,001	2,480,000	-	63,552,273	33,886,828	-	-	0.84%	YES 1,036,614	

Note 1: Daniel Tsai resigned as Chairman on August 15, 2006 and was elected Vice Chairman on the same day. Richard Tsai resigned as Vice Chairman on August 15, 2006 and was elected Chairman on the same day.
Note 2: Tsung-Ming Chung was elected as an Independent Director on June 15, 2006 and resigned from the position of Independent Supervisor on the same day.

On a Consolidated Basis												Unit: NT\$
Title	Name	Director's compensation (A)			Director's compensation as % of net profit	Employee profit sharing (B)				(A)+(B) as % of net profit	Compensation from investees outside subsidiaries	Other allowance
		Cash compensation	Earnings paid as compensation to directors	Professional fee		Performance-based salary	Earnings paid as bonus to employees		Employee stock option granted			
							Cash bonus	Stock bonus				
Chairman	Richard Tsai, Representative of Fu-Chi Venture Corp. (Note 1)	-	4,714,645	276,000	0.03%				-	-	-	
Vice Chairman	Daniel Tsai, Representative of Fu-Chi Venture Corp. (Note 1)	-	5,047,039	378,000	0.03%				-	-	-	
Director	Pieere Chen, representative of Taiwan Fixed Network Co., Ltd. (previous representative: George Huang)	-	2,789,052	0	0.02%				-	-	-	-
Director	Yu-Lon Chiao, representative of Taiwan Fixed Network Co., Ltd. (previous representative: Ray-Ying Fan)	-	2,789,052	0	0.02%				-	-	-	-
Director	Harvey Chang Representative of Kuo-Ki Investment Co., Ltd.	-	2,789,052	378,000	0.02%				-	-	-	
Director	Nita Ing, Representative of Ching Shang Zhen Corp.	-	2,789,052	0	0.02%				-	-	-	-
Independent Director	Jack J.T. Huang	-	4,183,579	460,000	0.03%				-	-	-	-
Independent Director	Wen-Li Yeh	-	4,183,579	460,000	0.03%				-	-	-	-
Independent Director	J. Carl Hsu	-	4,183,579	420,000	0.03%				-	-	-	-
Independent Director	Tsung-Ming Chung (Note 2)	-	2,292,372	150,000	0.02%				-	-	-	-
Total		-	35,761,001	2,522,000	-	77,434,048	33,886,828	-	-	0.92%	YES	1,036,614

Note 1: Daniel Tsai resigned as Chairman on August 15, 2006 and was elected Vice Chairman on the same day. Richard Tsai resigned as Vice Chairman on August 15, 2006 and was elected Chairman on the same day.
Note 2: Tsung-Ming Chung was elected as an Independent Director on June 15, 2006 and resigned from the position of Independent Supervisor on the same day.

Range of compensation to directors		Number of directors			
		Director's compensation		Employee profit sharing	
		On a stand-alone basis	On a consolidated basis	On a stand-alone basis	On a consolidated basis
NT\$0~NT\$1,999,999		-	-	-	-
NT\$2,000,000~NT\$4,999,999		9	9	7	7
NT\$5,000,000~NT\$9,999,999		1	1	-	-
NT\$10,000,000~NT\$14,999,999		-	-	-	-
NT\$15,000,000~NT\$29,999,999		-	-	2	2
NT\$30,000,000~NT\$49,999,999		-	-	-	-
NT\$50,000,000~NT\$99,999,999		-	-	1	1
NT\$100,000,000 and above		-	-	-	-
Total		10	10	10	10

2. Compensation to Supervisors

On a Stand-alone Basis

Unit: NT\$

Title	Name	Cash compensation		Earnings paid as compensation to supervisors	Professional fee	Total compensation as % of net profit	Compensation from investees outside subsidiaries
Supervisor	Tsung-Ming Chung (Note1)	-		1,891,207	220,000	0.01%	
Supervisor	Victor Kung, Representative of Fu-Chi Venture Corp	-		2,789,052	190,000	0.02%	YES
Supervisor	Polar Hsieh, Representative of Taiwan Fixed Network Co., Ltd. (previous representative: Ray-Ying Fan) (Note 2)	-		2,789,052	290,000	0.02%	

Note 1: Tsung-Ming Chung was elected as an Independent Director on June 15, 2006 and resigned from the position of Independent Supervisor on the same day.
Note 2: TFN reappointed Polar Hsieh as representative on Dec. 18, 2006. Professional fees were paid in full to the previous representative Ray-Ying Fan.

On a Consolidated Basis

Unit: NT\$

Title	Name	Cash compensation		Earnings paid as compensation to supervisors	Professional fee	Total compensation as % of net profit	Compensation from investees outside subsidiaries
Supervisor	Tsung-Ming Chung (Note1)	-		1,891,207	220,000	0.01%	
Supervisor	Victor Kung, Representative of Fu-Chi Venture Corp	-		2,789,052	190,000	0.02%	YES
Supervisor	Polar Hsieh, Representative of Taiwan Fixed Network Co., Ltd. (previous representative: Ray-Ying Fan) (Note 2)	-		2,789,052	293,000	0.02%	

Note1: Tsung-Ming Chung was elected as an Independent Director on June 15, 2006 and resigned from the position of Independent Supervisor on the same day.
Note2: TFN reappointed Polar Hsieh as representative on Dec. 18, 2006. Professional fees were paid in full to the previous representative Ray-Ying Fan.

3. Compensation to Managers

On a Stand-alone Basis

Title and Name		President and Chief Executive Officer, Harvey Chang; Chief Business Officer, Benny Chen; Senior Vice President and Chief Strategic Officer, Dr. JC Dorng; Senior Adviser and Acting Chief Technology Officer, Frank Lin; Vice President and Acting Chief Financial Officer, Ruth Law; Vice President, Rosie Yu; Vice President, Ariel Hwang; Vice President, Simon Wang; Vice President, C.A. Chuang; Vice President, Jerry Chu; Vice President, James Chang; Vice President, Egon Chen; Vice President, Chien Chen; Vice President, Tech Juan; Vice President, Charles Shen; Vice President, D.S. Chiou; Vice President, Jay Hong; Vice President, Andrew Wong; Vice President, HS Wang; Vice President, Jeff Ku; Vice President, Jerry Feng; Vice President, Paul Huang; Vice President, James Yang; Vice President, Sean Hsieh; Vice President, H.S. Wang; and Vice President, Daphne Yang		Resigned managers/ Managers that joined affiliated companies	Total
Salary		104,321,200	13,472,333	117,793,533	
Performance based salary		18,603,009	2,489,710	21,092,719	
Em- ployee profit sharing	Cash	105,594,533	0	105,594,533	
	Stock	Shares	-	-	
		Price	-	-	
		Amount	-	-	
Total compensation		228,518,742	15,962,043	244,480,785	
As a % of net profit		1.41%	0.10%	1.51%	
Employee stock options		-	-	-	
Compensation from invest-ees outside subsidiaries		-	-	-	
Other Allowance		2,524,700	1,587,156	4,111,856	

Unit: NT\$

Range of compensation to management	Number of senior management	
	2006	
	On a stand-alone basis	On a consolidated basis
NT\$0~NT\$1,999,999	1	-
NT\$2,000,000~NT\$4,999,999	4	3
NT\$5,000,000~NT\$9,999,999	20	21
NT\$10,000,000~NT\$14,999,999	1	2
NT\$15,000,000~NT\$29,999,999	1	1
NT\$30,000,000~NT\$49,999,999	-	-
NT\$50,000,000~NT\$99,999,999	1	1
NT\$100,000,000 and above	-	-
Total	28	28

Management Team

The management team is composed of the Chief Executive Officer, Chief Financial Officer, Chief Technology Officer, Chief Business Office, Chief Strategy Officer and other professionals who, drawing from their diverse back-

grounds, offer a wide range of innovative and international management skills. The Company’s key management personnel are listed below:



Corporate Support & Finance

Corporate Support

Corporate Support provides essential support and assistance to both management and the entire work force with its focus on improving the operational work flow and execution and adapting to changes in the market.

Finance Group

The Finance Group strives to uphold international standards and practices in corporate governance, promote financial transparency through discreet information disclosure to the Board of Directors and related parties on the Company’s operation and roadmap, as well as maintain an open communication channel with domestic and overseas investors. The Group also helps all the business divisions to make good use of the Company’s financial resources through effective cost controls and good financial and investment plannings.

Corporate Support
President and Chief Executive
Officer
Harvey Chang

Effective date / 2003.09.08

Shareholding
Shares 10,026,000
% 0.201%

Spouse/ minor’s shareholding
Shares -
% -

Education and experience
MBA, Wharton School, University of Pennsylvania
SVP, Chiao Tung Bank’s trust and foreign depart-
ments
Founding President of Grand Cathay Securities
Corp.
President, China Development Corp.
Chairman, China Securities Investment Trust Corp.
Vice Chairman, KG Telecommunications Co., Ltd.
SVP and CFO, Taiwan Semiconductor Manufactur-
ing Co., Ltd.

Current position(s) in other companies
Director and President, TransAsia Telecommuni-
cations Inc.
Director and President, Mobitai Communications
Chairman, Taiwan Teleservices & Technologies Co.,
Ltd.
Director and President, Taiwan Cellular Co.,
Ltd.(former Taihsing Den Syun Co., Ltd.)
Chairman, IC Broadcasting Co., Ltd.
Chairman, Taiwan Fund Inc.
Director, CX Technology Corp.

Manager is a spouse or consanguine-
ous within two degrees
Title: -
Name: -
Relationship: -

Corporate Support
Vice President
Jerry Chu

Effective date / 2003.12.01

Shareholding
Shares 420,000
% 0.008%

Spouse/ minor’s shareholding
Shares -
% -

Education and experience
MBA, University of Toronto, Canada
LL.B, Department of Law, National Taiwan University
Director, Finance Management Division, KG Telecom
Director, Business Process Management Division, KG
Telecom
Director, Revenue Assurance Division, KG Telecom
Vice President, Quality Director, Corporate Banking,
Citibank, N.A., Taipei Branch
Vice President, CitiService Head, Corporate Banking,
Citibank, N.A., Taipei Branch
Vice President, Senior Country Operations
Officer, Operations and Technology Head,
Global Transaction Service, Citibank, N.A., Taipei
Branch

Current position(s) in other companies
Supervisor, Taihsing International Telecommunications
Co., Ltd.

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Corporate Support
Vice President
C.A. Chuang

Effective date / 2003.12.01

Shareholding
Shares 177,000
% 0.004%

Spouse/ minor’s shareholding
Shares -
% -

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

Current position(s) in other companies
None

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Corporate Support
Vice President

Ariel Hwang

Effective date / 2004.03.01

Shareholding
Shares 105,000
% 0.002%

Spouse/ minor's shareholding
Shares -
% -

Education and experience
LL.B., National Taiwan University
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 position(s) in other companies
Legal consultant, Taiwan Fixed Network Co., Ltd.
Legal consultant, Fubon Financial Holding Co., Ltd.

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Corporate Support
Vice President

James Chang

Effective date / 2004.09.17

Shareholding
Shares 170,000
% 0.003%

Spouse/ minor's shareholding
Shares -
% -

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 position(s) in other companies
None

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Corporate Support
Vice President

Simon Wang

Effective date / 2004.10.11

Shareholding
Shares 105,000
% 0.002%

Spouse/ minor's shareholding
Shares -
% -

Education and experience
EMBA, National Taiwan University
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 position(s) in other companies
None

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Corporate Support
Vice President

D.S. Chiou

Effective date / 2002.05.21

Shareholding
Shares 114,506
% 0.002%

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

Education and experience
MS in Computer Science, University of California, Riverside
Project Manager, Siemens Telecommunication Systems Ltd.
Project Manager, Suretone Communications Co., Ltd.
Senior Director, Taiwan Mobile Co., Ltd.
General Manager, Taiwan Teleservices & Technologies Co., Ltd.

Current position(s) in other companies
Director, TT&T Life Insurance Agency Co., Ltd.
Director, TT&T Casualty & Property Insurance Agency Co., Ltd.

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Finance Group
Vice President and Acting Chief
Financial Officer
Ruth Liaw

Effective date / 2006.05.15

Shareholding
Shares 70,000
% 0.001%

Spouse/ minor's shareholding
Shares -
% -

Education and experience
MBA, National Chengchi University, Taiwan
Partner, Arthur Andersen & Co.
CFO, Arima Computer Corp.

Current position(s) in other companies
Supervisor, Taiwan Fixed Network Co., Ltd.

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Finance Group
Vice President

Rosie Yu

Effective date / 2006.02.06

Shareholding
Shares 70,000
% 0.001%

Spouse/ minor's shareholding
Shares -
% -

Education and experience
BBA, National Taiwan University, Taiwan
Executive Vice President, China Securities Co., Ltd.
General Manager, Citicorp Int'l Securities Ltd., Taipei Branch
General Manager, Credit Lyonnais Securities (Asia) Ltd., Taipei Branch
President, Global Investment Holdings Co., Ltd.
Chairman, Global Investment Advisory (H.K.) Ltd.

Current position(s) in other companies
Supervisor, Taihsing Den Syun Co., Ltd.
Supervisor, Taiwan Teleservices & Technologies Co., Ltd.
Supervisor, Mobitai Communications
Supervisor, Tai Yi Digital Broadcasting Co., Ltd.
Supervisor, TransAsia Telecommunications Inc.
Supervisor, TT&T Life Insurance Agency Co., Ltd.
Supervisor, TT&T Casualty & Property Insurance Agency Co., Ltd.

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -



Strategy & IT

Strategy Group

Through constant monitoring of global trends in telecommunication services and related industry developments, the Strategy Group endeavors to anticipate emerging trends and opportunities and to develop products and services that can best fulfill customers' needs by integrating the latest technologies and content.

Strategy Group
Senior Vice President and Chief
Strategy Officer
Dr. JC Dornig

Strategy Group
Vice President
Andrew Wong

Strategy Group
Vice President
Jeff Ku

Effective date / 2006.10.11	Effective date / 2003.12.01	Effective date / 2005.06.06
Shareholding	Shareholding	Shareholding
Shares41,000	Shares111,000	Shares125,000
%0.001%	%0.002%	%0.003%
Spouse/ minor's shareholding	Spouse/ minor's shareholding	Spouse/ minor's shareholding
Shares-	Shares-	Shares-
%-	%-	%-
Education and experience	Education and experience	Education and experience
Master and Ph.D. in Computer Science, University of Illinois Manager of Database System Group., Amdahl Corp. Vice President of Transaction Engineers, Independence Technology Corp. Founder and CEO, EnterpriseLink Technology Corp. Founder and CEO, AscendLink Technology Consulting VP and General Director, Institute for Information Industry	MBA, George Washington University Manager, Johnson, Bassin & Shaw Manager, MCI Communications Vice President, Far EasTone Telecommunications Co., Ltd.	EMBA, National Taiwan University MBA, University of Wollongong, Australia Director, Far EasTone Telecommunications Co., Ltd. Vice President, Taiwan High Speed Rail Corp.
Current position(s) in other companies	Current position(s) in other companies	Current position(s) in other companies
None	None	None
Manager is a spouse or consanguineous within two degrees	Manager is a spouse or consanguineous within two degrees	Manager is a spouse or consanguineous within two degrees
Title: -	Title: -	Title: Director, Tai Yi Digital Broadcasting Co., Ltd
Name: -	Name: -	Name: -
Relationship: -	Relationship: -	Relationship: -



Business

Business Group

Creating the best mobile experience is the fundamental philosophy that drives the Business Group. Through a combination of creativity and efficient execution, as well as a thorough understanding of consumer demand and behavior, the team has been able to plan and design products and services from a customer-centric perspective, boost the Company's brand value, and build long-term relationships with customers.

Business Group
Senior Vice President and Chief
Business Officer
Benny Chen

Effective date / 2005.06.16

Shareholding
Shares 270,000
% 0.005%

Spouse/ minor's shareholding
Shares -
% -

Education and experience
MBA, Southern Illinois University, USA
Country Business Manager, Consumer Banking, Citi-
group in China
Deputy President, Consumer Banking Group, China-
trust Financial Holding
Chief Business Strategy & Marketing Officer, Far East-
one Telecommunications Co., Ltd.

Current position(s) in other companies
Director, Taiwan Teleservices & Technologies Co., Ltd.

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Business Group
Vice President
Sean Hsieh

Effective date / 2003.12.08

Shareholding
Shares 281,000
% 0.006%

Spouse/ minor's shareholding
Shares -
% -

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 Communica-
tions
Marketing and Sales Manager, PUMA North Asia Ltd.,
Taiwan Branch
Marketing Director, TransAsia Telecommunications Inc.
Vice President, TransAsia Telecommunications Inc.
Vice President, Enterprise Solution and Channel Sales,
Taiwan Mobile Co., Ltd.

Current position(s) in other companies
None

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Business Group
Vice President
James Yang

Effective date / 2004.03.08

Shareholding
Shares 699,504
% 0.014%

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

Education and experience
BS in Transportation and Communications Manage-
ment, 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 position(s) in other companies
None

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -



Business Group Vice President	Business Group Vice President	Business Group Vice President	Business Group Vice President
Jay Hong	Jerry Feng	Paul Huang	Daphne Yang
Effective date / 2004.05.06	Effective date / 2004.08.01	Effective date / 2005.10.19	Effective date / 2006.05.04
Shareholding Shares 115,000 % 0.002%	Shareholding Shares 157,000 % 0.003%	Shareholding Shares 105,000 % 0.002%	Shareholding Shares 253,000 % 0.005%
Spouse/ minor's shareholding Shares - % -	Spouse/ minor's shareholding Shares - % -	Spouse/ minor's shareholding Shares - % -	Spouse/ minor's shareholding Shares - % -
Education and experience EMBA, National Sun Yat-Sen University Engineering Supervisor, Engineering Division, Nan Ya Plastics Director, TransAsia Telecommunications Inc Vice President, TransAsia Telecommuni- cations Inc. Vice President, Direct Store Division, Taiwan Mobile Co., Ltd.	Education and experience MBA in Business Information System and Quantitative Analysis, Mississippi State University, USA General Manager, Regional Sales and Business Alliance, Greater China, CPC- Net Hong Kong Ltd. General Manager, PCCW-HKT Taiwan Branch Office	Education and experience MS in Computer Science, Bradley Uni- versity, USA Supervisor, Siemens Telecommunication Systems Ltd. Account and Project Manager, Nortel, Taiwan Branch Vice President, Business Development, Hong Kong Telecom, Taiwan Branch Vice President, Sales and Services, Far EasTone Telecommunications Co., Ltd. Vice President, Business and Operations, Far Eastern Electronic Toll Collection Co., Ltd.	Education and experience M.A. in Theatre Production, University of Hull, UK Commercial Planner, Kuo-hua Advertis- ing Agency Strategic Planning Manager, JWT Adver- tising Agency Strategic Planning Director and Business Development Director, D'Arcy Advertis- ing Agency General Manager, Senses Strategic Network
Current position(s) in other companies Director and President, Taiwan Teleser- vices & Technologies Co., Ltd. Director, TT&T Holdings Co., Ltd. Chairman, Xiamen Taifu Teleservices & Technologies Ltd.	Current position(s) in other companies None	Current position(s) in other companies None	Current position(s) in other companies None
Manager is a spouse or consanguineous within two degrees Title: - Name: - Relationship: -	Manager is a spouse or consanguineous within two degrees Title: - Name: - Relationship: -	Manager is a spouse or consanguineous within two degrees Title: - Name: - Relationship: -	Manager is a spouse or consanguineous within two degrees Title: - Name: - Relationship: -

Technology

Technology Group

Stability and adaptability best describe the Technology Group's short to long-term mission. Aside from offering a solid technology platform that ensures high network quality, the Group continues to implement forward-looking analysis of technology and products to cope with industry and regulatory trends and changes in order to enhance its leading edge.

Technology Group
Senior Adviser and Acting Chief
Technology Officer
Frank Lin

Technology Group
Vice President
Techi Juan

Technology Group
Vice President
Egon Chen

Effective date / 2006.05.02

Shareholding
Shares 102,000
% 0.002%

Spouse/ minor's shareholding
Shares -
% -

Education and experience
BS, National Taiwan University of Science and Technol-
ogy
Deputy General Director, Chunghwa Telecom
Chief Technical Adviser and Vice President, KG Tele-
com
CTO, SVP and EVP, VIBO Telecom

Current position(s) in other companies
None

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Effective date / 2002.05.21

Shareholding
Shares 90,891
% 0.002%

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

Education and experience
MS in Electronics Engineering, University of Missouri,
Columbia
Engineer, Lucent Technologies Telecommunications
Taiwan Co.
Technical Manager, Asia Pacific
Intellectual Property Association
Senior Director, Taiwan Mobile Co., Ltd.

Current position(s) in other companies
None

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Effective date / 2004.02.16

Shareholding
Shares 297,554
% 0.006%

Spouse/ minor's shareholding
Shares -
% -

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 position(s) in other companies
None

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Technology Group
Vice President

Chien Chen

Effective date / 2004.02.16

Shareholding
Shares 96,000
% 0.002%

Spouse/ minor's shareholding
Shares -
% -

Education and experience
National Taipei Institute of Technology
Manager, Siemens Telecommunication Systems Ltd.
Director, Suretone Telecom Inc.
Vice President, Taiwan Fixed Network Co., Ltd.
Vice President, Howin Technologies

Current position(s) in other companies
None

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Technology Group
Vice President

Charles Shen

Effective date / 2004.03.31

Shareholding
Shares 169,702
% 0.003%

Spouse/ minor's shareholding
Shares -
% -

Education and experience
MS in CTI, DePaul University, Chicago
Technical Staff, Lucent Bell Lab, USA
Supervisor, Lucent Taiwan
Director, Suretone Telecom. Inc.,
Director, Taiwan Mobile Co., Ltd.
Senior Director, Taiwan Fixed Network Co., Ltd.
Vice President, Howin Technologies

Current position(s) in other companies
None

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Technology Group
Vice President

HS Wang

Effective date / 2005.05.01

Shareholding
Shares 88,159
% 0.002%

Spouse/ minor's shareholding
Shares 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

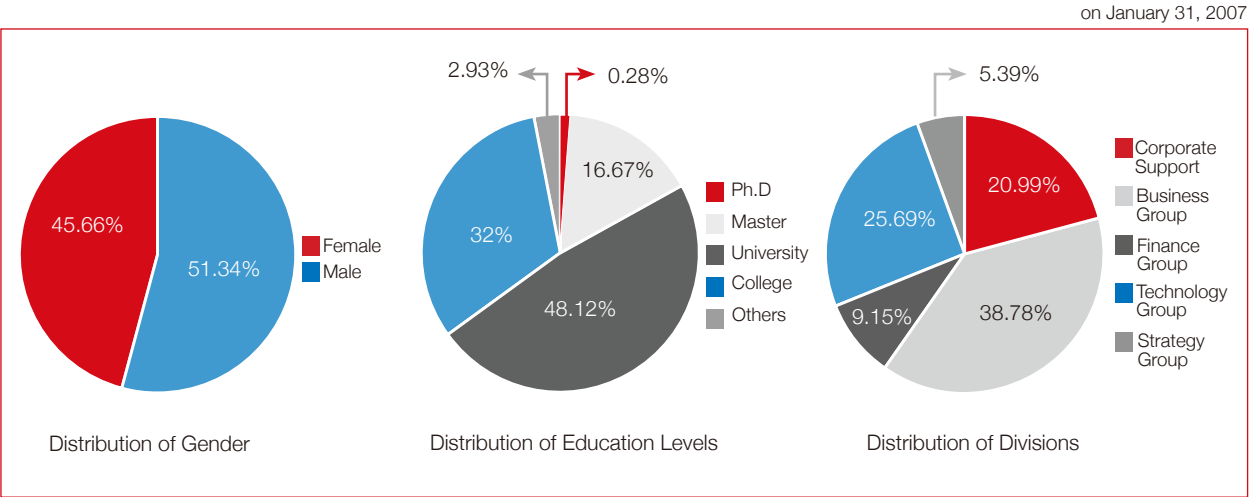
Current position(s) in other companies
None

Manager is a spouse or consanguineous
within two degrees
Title: -
Name: -
Relationship: -

Human Resources

A wealth of outstanding and professional talent is the Company's most valued resource.

Year		2005	2006	2007 (as of Jan. 31)
Number of employees	Male	1119	1165	1170
	Female	940	981	983
	Total	2059	2146	2153
Average age		34	35	35
Average years of service		4.5	5	5
Education level	Ph.D.	5	7	6
	Master	315	353	359
	University	957	1033	1036
	College	714	688	689
	Others	68	65	63



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:

Human Resources Composition

Employee Statistics for the Most Recent Two Years and up to the Publication Date for 2007

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) Delegation of Authority
 - a. Authorization guidelines and limitations
 - Aimed to streamline the business process, strengthen the distribution of responsibility, as well as specify management's authority at 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 has effectively promoted cooperation among employees and benefited the Company.
- (3) Divisional Responsibilities
 - The Company's major divisions are separated by functions. Each division is tasked with specific job responsibilities, and this separation of functions has strengthened the core competency of the Company.
- (4) Reward and Punishment 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 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 plans based on employee 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 trade 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 is actively disseminat-

ing information on 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

Designed to boost employee retention, the Employee Stock Ownership Plan was implemented in January 2006. Under the plan, employees are encouraged to invest a certain amount of their monthly pay – with the Company contributing a similar percentage – to purchase Company shares.

4. Employee Training and Education Program

- (1) To help employees develop their expertise in telecommunication technologies and business administration, the Company has a scholarship program designed to provide employees with the opportunity to study at home or abroad. The Company is also committed to the continuous 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 telecommunication 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 corporate culture, company organization, telecommunications market, IT and network system, labor safety, as well as information security training.
- (5) Job-related training for new employees includes on-the-job training, introduction to their 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 the telecommunications market, team building, and service skills.
- (7) Management training and development: Separate training programs for entry-level management, mid-

dle management, and senior management. Training courses include performance management, leadership, motivation skills, 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): one employee in Operation Analysis Division; four in Internal Audit Office
 - b. Basic examination on internal control held by the Securities and Futures Institute: None.
 - c. Qualified Internal Auditor (QIA): One employee in Operation Analysis Division; three in Internal Audit Office; one in Accounting Division
 - d. Certified Public Accountants (CPA): two in Operation Analysis Division; three employees in Accounting 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 shall retain the services of an actuary to assess and calculate the labor pension reserve and provide a detailed report.

6. Employee Safety and Sanitary Policy

environmental protection, safety and sanitation.

- (2) Be on constant lookout for potential hazards in the work environment 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 in 2006 up to Jan. 31 of 2007: None.
2. Estimate of current and potential losses due to management/labor disputes and preventive 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,



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

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.

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.

(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	2006/0404	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 re-signed	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.

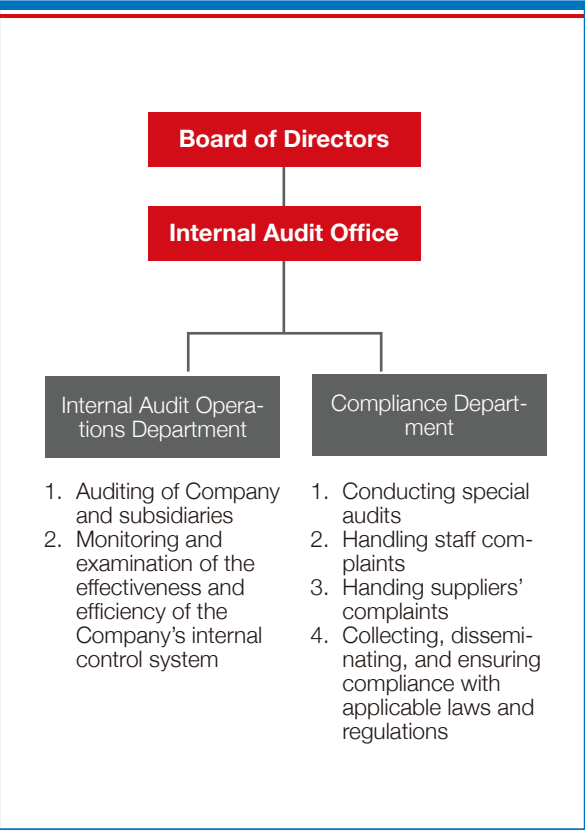
The internal audit office is responsible for the examination and assessment of the internal controls of the Company's financial, sales, operations, and management departments. All departments, including those of the subsidiaries', are subject to its audit.

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



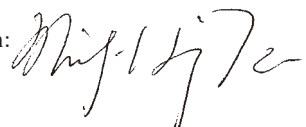
Taiwan Mobile Co., Ltd.
Internal Control Statement


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

Achievements and Recognitions

The company stands by its principle of providing financial transparency to investors. In February 2006, the Company was awarded a “CG6001 Corporate Governance Certification” and was honored publicly by the Financial Supervisory Commission, Corporate Governance Association, Taiwan Stock Exchange Corp., and GreTai Securities Market. In May of the same year, the company outperformed in an investor survey conducted by *Finance Asia* and ranked among the top 10 in all three indices: Best Managed Company, Best Corporate Governance, and Best Commitment to Strong Dividends. In the “2005

Information Transparency and Disclosure Ranking Results in Taiwan” conducted by the Securities and Futures Institution, the company was also one of the top 12 corporations granted an A+ honor rating. Finally, *Euromoney* magazine awarded the “Best Corporate Governance in Taiwan” prize to the Company in 2006, the second time the Company claimed the title after its 2004 win.

Ch. 4

Financial Information

Capital and Shares

History of Capitalization

As of January 31, 2007 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. 2006	10	6,000,000,000	60,000,000,000	4,951,549,833	49,515,498,330	CB conversion: NT\$29,344,340	N.A.
May 2006	10	6,000,000,000	60,000,000,000	4,961,829,892	49,618,298,920	CB conversion: NT\$102,800,590	N.A.
Aug. 2006	10	6,000,000,000	60,000,000,000	4,990,659,856	49,906,598,560	CB conversion: NT\$288,299,640	N.A.
Nov. 2006	10	6,000,000,000	60,000,000,000	4,998,375,937	49,983,759,370	CB conversion: NT\$77,160,810	N.A.



As of January 31, 2007 Unit: shares

	Authorized capital			Remarks
	Listed shares	Unissued	Total	
Common stock	4,998,375,937	1,001,624,063	6,000,000,000	Including 45,425,000 shares of treasury stock bought during April 2006 through June 2006

Shareholder Structure

As of July 20, 2006

	Govern- ment agen- cies	Financial institutions	Other institutions	Individuals	Foreign institu- tions & individuals	Total
No. of shareholders	2	13	228	55,399	513	56,155
Shareholding	5,841,000	385,675,715	2,146,132,974	636,544,637	1,801,461,462	4,975,655,788*
Holding percentage	0.12%	7.75%	43.13%	12.79%	36.21%	100.00%

* Adding 22,720,149 shares converted from CBs in 2006, TWM's total paid-in capital as of Jan. 31, 2007, was 4,998,375,937 shares.

Shareholding Distribution

Par value: NT\$10/share As of July 20, 2006

Shareholding range	Number of sharehold-	Total shares owned	Holding percentage
1 ~ 999	20,304	5,825,694	0.117%
1,000 ~ 5,000	24,734	57,544,086	1.157%
5,001 ~ 10,000	5,118	38,336,937	0.770%
10,001 ~ 15,000	1,930	23,370,520	0.470%
15,001 ~ 20,000	1,125	19,829,008	0.399%
20,001 ~ 30,000	983	23,988,342	0.482%
30,001 ~ 50,000	732	28,617,657	0.575%
50,001 ~ 100,000	417	29,294,710	0.589%
100,001 ~ 200,000	219	29,854,129	0.600%
200,001 ~ 400,000	143	39,790,787	0.800%
400,001 ~ 600,000	60	29,464,837	0.592%
600,001 ~ 800,000	50	34,427,951	0.692%
800,001 ~ 1,000,000	36	32,119,002	0.645%
1,000,001 above	304	4,583,192,128	92.112%
Total	56,155	4,975,655,788*	100.000%

* Adding 22,720,149 shares converted from CBs in 2006, TWM's total paid-in capital as of Jan. 31, 2007, was 4,998,375,937 shares.

Major Shareholders

As of July 20, 2006

Name	Total shares owned	Holding percentage
Taiwan Fixed Network Co., Ltd.	900,352,762	18.095%
TFN Investment Co., Ltd.	467,821,463	9.402%
Taiwan Hong-Yuan Investment Co., Ltd.	132,080,020	2.655%
Taiwan Post Co., Ltd.	131,131,865	2.635%
Fubon Securities Co., Ltd.	127,000,000	2.552%
Fubon Life Assurance Co., Ltd.	120,871,734	2.429%
Fubon Insurance Co., Ltd.	119,404,191	2.400%
Daniel Tsai	106,109,964	2.133%
Richard Tsai	106,105,964	2.133%
Templeton Asian Growth Fund	98,407,190	1.978%

Major Shareholders of TWM’s Institutional Investors

Institutional investors	Major shareholders
Taiwan Fixed Network Co., Ltd.	Taiwan Mobile Co., Ltd., Acer Inc., Continental Engineering Co., Ltd., Fubon Insur- ance Co., Ltd., BenQ Corp., ASE Network Inc., Fubon Life Assurance Co., Ltd., EVA Airways Corp., Evergreen International Corp., China Development Industrial Bank
TFN Investment Co., Ltd.	Taiwan Fixed Network Co., Ltd.
Taiwan Hong-Yuan Investment Co., Ltd.	Taiwan Fixed Network Co., Ltd.
Taiwan Post Co., Ltd.	Ministry of Transportation and Communications
Fubon Securities Co., Ltd.	Fubon Financial Holding Co.
Fubon Life Assurance Co., Ltd.	Fubon Financial Holding Co.
Fubon Insurance Co., Ltd.	Fubon Financial Holding Co.

Shareholding Changes of Directors, Supervisors, Managers and Major Shareholders

Insignificant Changes in Shareholder Structure

For 2006 and up to the publication date for 2007, the Company’s directors, supervisors and major sharehold-ers that own more than 10% of Company’s outstand-ing shares did not conduct any major share transfers or pledges. The Company has maintained a good relation-ship with its directors, supervisors and major sharehold-

ers. 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 de-tailing net changes in shareholdings of directors, supervi-sors, managers and major shareholders.

Unit: Shares

Title	Name	2006		2007 (as of January 31)	
		Net change in shareholding	Net change in shares pledged	Net change in shareholding	Net change in shares pledged
Chairman	Richard Tsai, Representative of Fu-Chi Venture Corp.	0	0	0	0
Vice Chairman	Daniel Tsai, Representative of Fu-Chi Venture Corp.	0	0	0	0
Director	Nita Ing, Representative of Ch-ing Shang Zhen Co., Ltd.	0	0	0	0
Director	Harvey Chang, Representative of Kuo-Ki Investment 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
Independent Director	Jack J.T. Huang	0	0	0	0
Independent Director	Wen-Li Yeh	0	0	0	0
Independent Director	J. Carl Hsu	0	0	0	0
Independent Director	Tsung-Ming Chung (Note)	0	0	0	0
Independent Supervisor	Tsung-Ming Chung (Note)	0	0	0	0
Supervisor	Victor Kung, Representative of Fu-Chi Venture Corp.	0	0	0	0
Supervisor	Polar Hsieh, Representative of Taiwan Fixed Network Co., Ltd.	0	0	0	0
President & Chief Executive Officer	Harvey Chang	924,000	0	1,796,000	0
Chief Business Officer	Benny Chen	(470,000)	0	270,000	0
Chief Financial Officer	Ruth Liaw	10,000	0	60,000	0
Chief Technology Officer	Frank Lin	34,000	0	68,000	0
Chief Strategy Officer	JC Dornig	0	0	41,000	0
Vice President	Techi Juan	(208,000)	0	90,000	0
Vice President	D.S. Chiou	(330,000)	0	105,000	0
Vice President	Jerry Chu	(9,000)	0	100,000	0
Vice President	Andrew Wong	(315,000)	0	105,000	0
Vice President	C.A. Chuang	(300,000)	0	140,000	0
Vice President	Sean Hsieh	(80,000)	0	105,000	0
Vice President	Egon Chen	(279,000)	0	105,000	0
Vice President	Chien Chen	(80,000)	0	96,000	0
Vice President	Ariel Hwang	(122,000)	0	105,000	0
Vice President	James Yang	(309,000)	0	95,000	0
Vice President	Charles Shen	(110,000)	0	55,000	0
Vice President	Jay Hong	(210,000)	0	115,000	0
Vice President	Jerry Feng	(8,000)	0	35,000	0
Vice President	James Chang	(340,000)	0	170,000	0
Vice President	Simon Wang	(395,000)	0	105,000	0
Vice President	HS Wang	(221,000)	(85,000)	82,000	0
Vice President	Jeff Ku	(120,000)	0	125,000	0
Vice President	Paul Huang	0	0	105,000	0
Vice President	Rosie Yu	0	0	70,000	0
Vice President	Daphne Yang	(55,000)	0	125,000	0

Note: Tsung-Ming Chung was elected as an Independent Director on June 15, 2006 and resigned from the position of Independent Supervisor on the same day.

Stock Trade with Related Party: None

Stock Pledged with Related Party: None

Direct and Indirect Investments in Affiliated Companies

As of December 31, 2006

Unit: shares, %

Long-term investments	Investment by TWM		Direct & indirect investments by TWM's directors, supervisors and magnagers		Total investment	
	Shares	Holding (%)	Shares	Holding (%)	Shares	Holding (%)
TransAsia Telecommunica-tions Inc.	1,245,846,289	100.00%	--	--	1,245,846,289	100.00%
Taiwan Cellular Co., Ltd.	325,000,000	100.00%	--	--	325,000,000	100.00%
Taiwan Fixed Network Co., Ltd. (Note 1)	637,000,000	9.87%	44,943,900	0.70%	681,943,900	10.57%
Bridge Mobile Pte Ltd.	1,000,000	12.50%	--	--	1,000,000	12.50%

Note 1: Based on TFN's book of stockholders' register on Sept. 6, 2006.

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

Unit: NT\$, shares in thousand

		2005	2006	As of Jan. 31, 2007 (Note 1)
Share price (NT\$)	High	36.00	33.85	33.70
	Low	26.20	28.00	31.80
	Average	31.13	31.10	32.22
Net worth per share (NT\$)	Before earnings appropriation	17.62	18.14	18.14
	After earnings appropriation	14.93	(Note 2)	(Note 2)
Earnings per share (NT\$)	Adjusted weighted avg. outstanding shares		4,898,251	4,933,714
	Earnings per share	Before adjustment	3.31	3.28
		After adjustment	3.31	(Note 2)
Dividends per share (NT\$)	Cash dividends		2.62	(Note 2)
	Stock dividends	Retained earnings	-	(Note 2)
		Capital surplus	-	-
	Accumulated unpaid dividends		-	-
PE and dividend yield (Note 3)	Price earnings ratio (x)	Before adjustment	9.40	9.48
		After adjustment	9.40	(Note 2)
	Price to cash dividend (x)		11.88	-
	Cash dividend yield (%)		8.42%	-

Note 1: Net worth per share and earnings per share are based on the most recent audited financial statements. All others are as of January 31, 2007.

Note 2: The appropriation amount indicated above is based on resolutions approved at the annual shareholders' meetings in the subsequent year. The appropriation amount for 2006 has not yet been approved.

Note 3: 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

Relationship among TWM's Top 10 Shareholders

As of July 20, 2006

Name (A)	Current shareholding		Spouse/minor's share- holding			Name and relationship among TWM's shareholders as defined in the Statement of Financial Accounting Standards No. 6	
	Shares	%	Shares	%		Name (B)	B is A's:
Taiwan Fixed Network Chairman: Daniel Tsai	900,352,762	18.095	-	-		TFN Investment Taiwan Hong-Yuan Investment Fubon Securities Fubon Life Assurance Fubon Insurance Daniel Tsai Richard Tsai	Long-term equity investee Long-term equity investee Related party B's chairman is a relative within two degrees of A's chairman Related party Chairman Director
TFN Investment Chairman: Richard Tsai	467,821,463	9.402	-	-		Taiwan Fixed Network Taiwan Hong-Yuan Investment Fubon Securities Fubon Life Assurance Fubon Insurance Daniel Tsai Richard Tsai	Parent company A and B are subsidiaries of Taiwan Fixed Network Co., Ltd. Related party A and B have the same chairman Related party Director Chairman
Taiwan Hong-Yuan Investment Chairman: Richard Tsai	132,080,020	2.655	-	-		Taiwan Fixed Network TFN Investment Fubon Securities Fubon Life Assurance Fubon Insurance Daniel Tsai Richard Tsai	Parent company A and B are subsidiaries of Taiwan Fixed Network Co., Ltd. Related party A and B have the same chairman Related party Director Chairman
Fubon Securities Chairman: Kung-Liang Yeh	127,000,000	2.552	-	-		Taiwan Fixed Network TFN Investment Taiwan Hong-Yuan Investment Fubon Life Assurance Fubon Insurance Daniel Tsai Richard Tsai	Related party Related party Related party A and B are subsidiaries of Fubon Financial Holding Co. A and B are subsidiaries of Fubon Financial Holding Co. Related party Related party
Fubon Life Assurance Chairman: Richard Tsai	120,871,734	2.429	-	-		Taiwan Fixed Network TFN Investment Taiwan Hong-Yuan Investment Fubon Securities Fubon Insurance Daniel Tsai Richard Tsai	B's chairman is a relative within two degrees of A's chairman A and B have the same chairman A and B have the same chairman A and B are subsidiaries of Fubon Financial Holding Co. A and B are subsidiaries of Fubon Financial Holding Co. B is a relative within two degrees of A's chairman Chairman
Fubon Insurance Chairman: Tsan-Ming Shih	119,404,191	2.400	-	-		Taiwan Fixed Network TFN Investment Taiwan Hong-Yuan Investment Fubon Securities Fubon Life Assurance Daniel Tsai Richard Tsai	Related party Related party Related party A and B are subsidiaries of Fubon Financial Holding Co. A and B are subsidiaries of Fubon Financial Holding Co. Director Related party
Daniel Tsai	106,109,964	2.133	8,155,618	0.164		Taiwan Fixed Network TFN Investment Taiwan Hong-Yuan Investment Fubon Securities Fubon Life Assurance Fubon Insurance Richard Tsai	B's chairman is A B's chairman is a relative within two degrees of A B's chairman is a relative within two degrees of A Related party B's chairman is a relative within two degree of A B's Director is A B is a relative within two degrees of A
Richard Tsai	106,105,964	2.133	8,895,965	0.179		Taiwan Fixed Network TFN Investment Taiwan Hong-Yuan Investment Fubon Securities Fubon Life Assurance Fubon Insurance Daniel Tsai	B's chairman is a relative within two degrees of A B's chairman is A B's chairman is A Related party B's chairman is A Related party B is a relative within two degrees of A

Dividend Policy

1. Dividend policy under Articles of Incorporation:

Stock dividends should not exceed 80% of total dividends distributed in a single year and should take into account the Company’s major capital expenditure plans for 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\$12,880,151,229

Impact of stock dividend distribution on business performance and EPS

Not applicable. The board of directors proposes to distribute only cash dividends this year.

Corporate Bond Issuance

Corporate Bonds

As of January 31, 2007

Issuance	First secured corporate bonds	First unsecured corporate bonds
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 years, 12 separate series: A~L, maturing from Feb. 1-16, 2006	5 years, maturing from Dec. 13-30, 2007 7 years, maturing from Dec. 13-31, 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\$ 0	NT\$13,750,000,000
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, the long-term solvency ratio must be must be 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 Taiwan Rating Co., Ltd, 2006.03.01, 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

Share Buyback

As of January 31, 2007

Unit: NT\$, shares, %

Share buyback	3rd	4th
Purpose	Transfer to employees	Transfer to employees
Buyback period	2005.10.07 ~ 2005.11.09	2006.04.28 ~ 2006.06.27
Buyback price range	NT\$26.66-NT\$29.73	NT\$29.93-NT\$32.98
Total number of shares bought back	11,551,000	57,804,000
Buyback amount (NT\$)	NT\$319,789,909	NT\$1,818,370,677
Number of shares canceled/transferred	11,551,000	12,379,000
Treasury stock balance (shares)	0	45,425,000
As % of the Company's total issued shares (Note 1)	0%	0.909%

Note 1: Total issued shares are 4,998,375,937, including 45,425,000 shares of treasury stock.

Issuance	First unsecured convertible bonds	Second unsecured convertible bonds
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 years, redemption date is Aug. 24, 2006	5 years, 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\$ 0	NT\$55,800,000
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, 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, the Company may opt for compulsory conversion or redemption to convert the bonds to common shares 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 sub-scription)	NT\$10,000,000,000 (Total CB buyback amounted to NT\$3,194,400,000 as of Aug. 24, 2006) For anti-dilution criteria and price resetting conditions, please refer to Article 9 of the rule for conversion of this unsecured convertible bond.
Dilution and other effects on shareholders' interest	Not applicable	As of January 31, 2007, the effect of dilution on outstanding CBs is 0.05%; no major impact on shareholders' interest
Custodian	Not applicable	Not applicable

Convertible Bond Information

As of January 31, 2007

Unit: NT\$

Issuance	First unsecured convertible bonds		Second unsecured convertible bonds		
	2005	2006* (as of Aug. 24)	2005	2006	2007 (as of Jan. 31)
Market price (denomination of the bond)	High	142.10	138.00	138.00	139.50
	Low	120.20	121.50	120.00	110.70
	Average	133.36	127.74	130.21	126.32
Conversion price (NT\$)	24.3 / 23.3	23.3 / 22.2	25.7 / 24.7	24.7 / 23.6	23.6
Issue date and conversion price (NT\$) on issue date	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

*First unsecured convertible bond issue matured on Aug. 24, 2006

Exchangeable Bond: None

Shelf Registration Issuance: None

Bond with Warrant: None

Other Significant Issues

Mergers and Acquisitions: None

Other Issuance:

1. Preferred Shares: None

2. Depositary Receipt Issuance: None

3. Employee Stock Options: None

4. Private Placement of Company Shares: None

TWM Shares Held / Disposed by Subsidiaries: None

Other Significant Events Affecting Shareholder' Equity or Stock Prices: None

Ch. 5

Operating Strategy

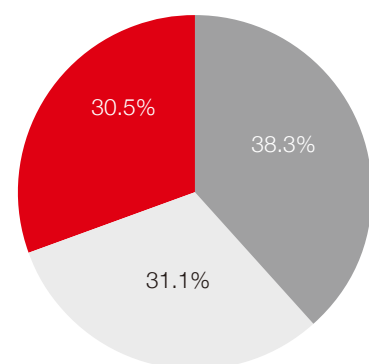
Macroeconomics

Statistics released by the Directorate General of Budget, Accounting and Statistics (DGBAS) showed that growth in private consumption shrank to 1.5% last year from 2.7% in 2005. Accordingly, the telecom industry saw revenue decline slightly by 2%. With the DGBAS forecast of a private consumption growth rate of 3.2% in 2007, the mobile market is likewise expected to experience a similar growth pattern.

Industry Developments

Focus on more value-added services

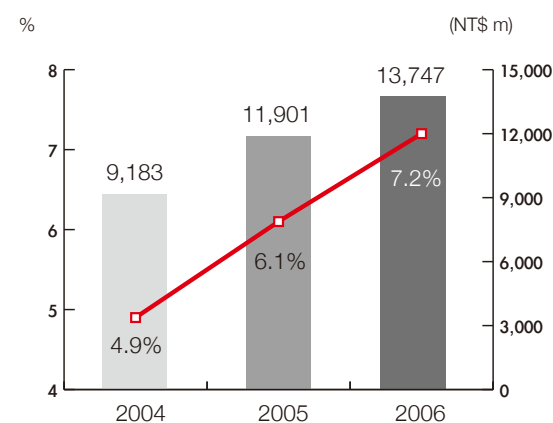
In line with the liberalization of Taiwan's telecommunications industry, 3G and mobile number portability (MNP) services were introduced in 2005, opening the market to new players and ushering in a new wave of competition. Despite the challenge posed by these new rivals, market oligopoly by the three leaders – the Company, Chunghwa Telecom (CHT) and Far EasTone (FET) – remained with each operator maintaining its subscriber base and market share. With growth in the voice services market stabilizing, mobile service operators looked for new avenues of growth, launching diverse multimedia/3G value-added services, including HSDPA (3.5G) service, to level up the options and attractions of data services and raise their average revenue per user (ARPU). These services resulted in a substantial rise in data revenues for each operator in 2006.



Market share by service revenue 2006

■ TWM ■ CHT ■ FET

Source: TWM, CHT, FET's fact sheets



Service revenue trend and composition

Source: TWM, CHT, FET's fact sheets

New telecom regulatory body established

The National Communications Commission (NCC) was established in March 2006 to act as a regulatory agency that would oversee the telecommunications, broadcasting and information services industries. The NCC has promulgated numerous policies to enhance market competition, protect public interest, and spur industrial development. Some of these policies which are pertinent to the Company are as follows:

1. Cutting prices for selective 2G services, i.e., pre-paid calls, fixed-to-mobile calls and highest tariff rate plans, by 4.88% per annum over a period of three years.
2. Encouraging telecom operators to jointly construct and operate base stations to decrease and consolidate the number of stations.
3. Reduce the number of working days for processing MNP applications
4. WiMAX frequency planning and licensing
5. Mobile TV trial run licensing

Opportunities and challenges

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

1. Positive factors:

- (1) The oligopoly structure remains intact. Telecom operators have adopted market segmented rate plans to prevent cutthroat competition.
- (2) Mobile number portability has had little effect on the churn rate. As MNP allows consumers to port their numbers to preferred operators, mobile operators with sound operations have benefited.
- (3) 3G and 3.5G high-speed transmission enables mobile contents to be delivered at faster connections with better quality, leading to higher subscriber usage and increased revenue for telecom operators.
- (4) Falling prices but increasing functionality and improving quality of 3G handsets have raised customer usage of data services.
- (5) Central and local governments have been promoting the "M-Taiwan," or Mobile-Taiwan, project by deploying WiFi technology and "dual-net" (cellular + WiFi) products to allow users the convenience of anytime access.

- (6) The digital era has contributed to the convergence of information, communication and media industries, and telecom companies are poised to play a pivotal role in the delivery of multimedia content to customers.

2. Negative factors:

- (1) New policies and regulatory revisions by the NCC have increased the uncertainty of future operations and profitability.
- (2) Limited subscriber growth potential as the market is saturated.
- (3) Requirement of substantial outlays for capex, R&D and marketing during the initial stages of 3G introduction but customer uptake and profitability will take time to materialize.

Products and Services

Maximizing customer value to increase company value is the Company's core operating strategy. In 2006, faced with a mature telecommunications market, the Company sought to achieve a win-win situation for both itself and its customers by continuing to expand its market share, improving its client portfolio, catering to local tastes and introducing value-added 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 reload cards

1. Basic telecommunication services, such as calling or receiving calls from local fixed-line, DLD, IDD, mobile phone and pager users
2. Value-added services, including voice mail, call forwarding, call waiting, conferencing, short messaging service, roaming, call barring, video calls, and multimedia & content services (e.g., ringtones, games, screen-savers, MP3, video clips, 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/ 3G/HSDPA, positioning tracking/fleet management via GPS/GPRS) and mobile office (BlackBerry email solutions)

Revenue breakdown by service

	2006		2005	
	Amount (NT\$'000)	% of total	Amount (NT\$'000)	% of total
Telecommunications service revenues	47,692,697	99.59%	47,216,688	99.60%
Data revenues	3,178,556	6.64%	2,673,438	5.64%
Voice revenues	44,514,141	92.95%	44,543,250	93.96%
Other revenues*	198,592	0.41%	191,884	0.40%
Total revenues	47,891,289	100.00%	47,408,572	100.00%

* Includes revenues from co-branding agreement with Taipei Fubon Commercial Bank Co., Ltd. and commissions from receipts under custody and payments on behalf of others.

Revenue for the Past Two Years

	2006			2005		
	Domestic		Overseas	Domestic		Overseas
	Average no. of subscribers	Revenues (NT\$'000)	Revenues (NT\$'000)	Average no. of subscribers	Revenues (NT\$'000)	Revenues (NT\$'000)
Telecommunication services	4,806,275	47,692,697	-	4,671,721	47,216,688	-

Note: Average no. of subscribers = (sum of monthly average no. of subscribers)/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, enhancing customer services, providing products that fulfill customers’ needs, and forming international alliances.

Improving client portfolio

Aside from expanding its market share, the Company also focuses on improving the quality of its client base. The Company acquired 1.16 million customers in 2006, representing a growth of 40% from 2005. The number of mid-to-high usage customers also expanded by 10% during the same period. This could translate into ARPU growth in the future.

Best customer service

Creating the best mobile experience is TWM’s guiding principle. The Company not only develops products from the customer’s perspective, but also ensures accessibility through its wide network of over 480 direct and franchise stores, about 3,000 dealer stores, and over 1,500 customer-care agents at a call center that operates 24-hour to provide quality services. Aside from winning *Global Views Monthly’s* “2005 Outstanding Service Award” in the telecommunications category, the Company was also a recipient of *Reader’s Digest’s* “Gold Trusted Brand Award” for three years in a row.

Segmentation and localization service

The Company continues to develop and provide products and services that cater to different market segments. The beginning of 2006 saw the launch of “my Zone” rate plans, allowing subscribers to designate one of five regional zones as his/her “my Zone” and enjoy the same on-net and off-net rate when calling from within the zone

to any mobile network in Taiwan. Blackberry services were also launched to provide a total mobile business solution to businesspeople on the go at the end of last year. The Company’s in-depth know-how in operating regional-based mobile business gives it an advantage over island-wide operators.

Leading wireless broadband services

The Company took the lead in launching 3G services in 2005 and 3.5G services at the beginning of 2007. With its flexible rate plans, exclusive handsets, and extensive value-added services, subscribers of the Company, TransAsia Telecommunications and Mobitai can be upgraded seamlessly. The Company exceeded its target last year when its number of 3G subscribers reached 640K with ARPU 1.6 times of 2G subscribers, spurring further the growth of value-added services.

Expanding resources from international alliances

The Company is the sole Taiwanese member in the “Bridge Alliance,”the largest GSM alliance in the Asia Pacific. The alliance consolidates the region’s leading telecommunication operators – SingTel of Singapore, Maxis of Malaysia, CSL of Hong Kong, Bharti of India, Telkomsel of Indonesia, Globe of the Philippines, Optus of Australia, CTM of Macau, SKT of South Korea, and Taiwan Mobile – with a combined customer base exceeding 100 million. Having the advantage of economies of scale as well as a regional-based service platform, the Company occupies a leading position and possesses rich resources in procurement, contents, and new technologies.

Continued value-added services development

The Company is committed to developing value-added services (VAS). In 2006, it completed the VAS platform integration of the Company, TransAsia Telecommunications and Mobitai, which should help the Company generate higher VAS growth momentum and further improve operational efficiency in 2007.

Operating Status

The Company is focused on strengthening existing customers' loyalty as well as designing voice and data products and services that cater to different customers' needs. The Company also continues to proactively explore new markets that have strong growth potential.

Postpaid products and services

The Company has continuously maintained a strong competitive advantage in terms of network and product service quality. Despite competition from new entrants, the Company saw its average monthly new subscriber number rise nearly 40% year-on-year in 2006.

The Company offers the widest array of segmented rate plans, including "myfone" price plans and the regional zone-based "my Zone" rate plans, which were launched in 2004 and at the beginning of 2006, respectively. The "my Zone" rate plans are one of the major driving forces in signing up new customers, accounting for more than 50% of monthly subscriber gross adds or some 650,000 new subscribers in 2006.

The Company also has excellent loyalty programs in place to help secure its customer base and effectively minimize churn rates. For high ARPU customers, the Company has an exclusive program called "my VIP." There is also a credit card program that allows customers to earn rebates based on their phone bills.

Prepaid products and services

A new product called "Fun Heart Prepaid Card – Good Friends Pack" was launched in 2006 to capture the high-usage teenage market segment with its highly exclusive features. The strategy proved to be very successful in boosting sales as well as promoting and enhancing TWM brand awareness. Fun Heart cards were the first prepaid cards that offered young customers discounted rates for connection to his/her circle of friends and discounted hours tailored to teenagers' customary usage.

The Company also enhanced its leading position in the Thai and Vietnamese workers market. In addition, a new exclusive product called "OK Kababayan Card" was introduced to target the Filipino market, which was quite successful in increasing the company's share in this segment.

The "OK Kababayan Card" became the very first transnational prepaid card in Taiwan and was done in collaboration with Globe Telecom of the Philippines, which is also a member of the Bridge Mobile Alliance. In spite of the keen competition and regulatory restrictions on the distribution of prepaid products via third-party dealers, the company still experienced significant growth both in revenues as well as subscriber base compared with a year ago.

Value-added services

Committed to developing value-added services (VAS), the Company has seen an increase in its VAS user penetration and ARPU. As a market leader in launching innovative products, the Company set several milestones in 2006: 1) the first operator to introduce QR code services and 3G video entertainment portal, 2) the first operator in Taiwan to launch Mobile ESPN through a joint regional marketing campaign of Bridge Mobile Alliance, 3) the first operator to provide mobile stock monitoring and trading services in cooperation with securities houses, 4) the only sponsor and operator to offer 3G live TV for Chien-ming Wang's games in the 2006 Intercontinental Cup, 5) the first operator to offer handset-based mobile audio guides at Juming Museum, 6) the first operator to launch an exclusive dual-mode GSM/WiFi handset, the TG310, and provide mobile campus packages in cooperation with Acer, and 7) the first operator to introduce Asia's Near Field Communication (NFC) Mobile PayPass™ handset in cooperation with MasterCard International.

With mobile broadband and multimedia gaining in popularity, the Company is keen to develop and promote diverse services on Mobile Internet to address the different lifestyles and needs of all customer segments. Echoing the Company's new marketing strategy called Simplicity is the redesigned "Catch" Mobile Internet portal which has been repackaged with new and simple Mobile Internet tariffs together with easy-to-use customized handsets. This not only enabled the Company to differentiate its products and increase customer satisfaction, but also led to exponential growth in data ARPU.

Enterprise customer services

The Company has developed several enterprise solution packages, including mobile data and mobile office services, to address the need for enterprise mobile services. Launched in December 2006, the widely popular BlackBerry email solution was designed to meet the demand

of multinational corporate employees for a total mobile office solution and help improve their efficiency and competitiveness.

For 2007, the Company aims to continue developing innovative applications for enterprise customers, such as 3G/3.5G data services and new BlackBerry services. Following the trend of IP technology, the Company plans to provide IP-MVPN services to address the needs of small and medium enterprises. The Company is committed to developing new solutions that will facilitate mobile connection and services for enterprise customers.

Operating Results Review

Affected by weak private consumption growth in 2006, the mobile industry reported a 2% YoY decline in revenues. The Company was nonetheless able to outperform the industry average, with the help of healthy sales momentum and a falling churn rate. Operating costs increased 6% YoY due to continuous 3G network deployment which increased depreciation expenses and base station-related operating costs. Separately, selling expenses rose by 13% YoY, resulted from 37% growth in the number of new subscriber acquired. That said, net income remained flat from the previous year credited to a 66% YoY growth in non-operating income on account of disposal of Chunghwa Telecom (CHT) investments.

Cash from operating activities was used for capital expenditures and settlement of bank loans, resulting in a positive net cash to equity ratio (cash position being greater than loans), a remarkable turnaround from the -11% reported in 2005 which affirms the Company's sound financial structure.

Business Development and Strategies

Looking forward, the Company plans to strengthen communications quality, improve customer portfolio, create new sales channels, and provide varied value-added services in order to retain customer loyalty, boost consumption, and raise its overall operating results.

Short-Term Goals

1. To maintain satisfactory network quality:

Keep a low call blockage, low cut-offs, and wide communication coverage environment.



2. To build up TWM-owned sales channels to secure sales growth:

To avoid the intense competition in traditional sales channels, the Company will focus on building up its own network to propel sales growth. TWM will continue to open new company stores in major commercial districts and utilize direct marketing to target specific markets and virtual stores to capture the growing number of Internet shoppers in order to improve subscriber quality and sales momentum.

3. To provide high-quality Internet access:

Easy-to-understand rate plans, a good range of customized handsets, and easy-to-use specifically designed contents will help the Company in cultivating customers' trust and maintaining customer loyalty in the wireless and multimedia era.

4. To develop advanced data services:

The Company will make use of its advanced technologies in adopting state-of-the-art services, such as IP multimedia subsystem, NFC, digital video broadcast –handheld and assisted global positioning system, to provide customers with the best high-tech experience.

5. To provide innovative and integrated services to enterprises:

The Company will address the varying needs of different corporate users by providing specifically designed corporate packages, such as the MVPN, 3G/3.5G mobile data service and BlackBerry service. It will also continue to expand its sales channels for small and medium enterprises. It aims to provide a full range of products that will cater to each type of corporate user, so as to maintain as well as further raise its market share.

6. To create the best mobile experience:

With the market flooded with practically the same products, pricing structure and service strategies from different operators, the Company believes that cultivating customer loyalty is the key to maintaining its competitiveness. "Customer experience" is the critical factor that determines customer loyalty, as global surveys have shown. As such, the Company has launched a program called "Excel Customer Experience," which consolidates five cross-functioning initiatives – developing a customer-centric culture, maintaining high network quality, facilitating bills processing, pursuing customer/market segmentation and promoting customer loyalty. With across-the-board commitment from its entire work force, the Company aims to set a top record in customer satisfaction and loyalty to strengthen its long-term competitiveness.

Long-Term Goals

Taiwan has one of the highest mobile and broadband penetration rates in the world, with five mobile and four fixed-line service providers competing for the pockets of some 23 million people. Advancements in digital technologies have given rise to telecommunications, computing, electronics and media convergence. Competition is no longer confined to traditionally defined sectors such as mobile or fixed telecommunications. For example, a WiMAX service provider can provide both wireline and wireless services. Telecommunications service has also ceased to be the exclusive domain of conventional telecom operators with the emergence of alternative telecom service providers like Vonage and Skype. To stay competitive in the face

of this technology and service convergence, TWM has drawn up three key strategies in line with its objective of creating the best mobile experience.

1. To deepen:

The Company will continue its successful "my Zone" campaign, focusing on different regional sub-markets and tailoring products and services to the needs of these market segments. The Company has developed a flexible operational scheme that includes internal human resource allocation and organizational and functional support to promote brand recognition and competitiveness.

2. To enrich:

As technology continues to evolve, markets will experience drastic changes and become even more challenging. To meet these challenges, the Company will aggressively adopt technologies with three objectives in mind: innovation, ease of use, and economic value. The Company will seek alliances with leaders in the field to stay on top of the competition. It will invest aggressively in technologies that can give it the capability to design innovative, yet simple and economical solutions that will help make life better for customers. As wireless technology evolves to become a major

means of access to the Internet, the Company understands the need for partnership with content and application service providers, as well as device, system integration and technology suppliers. It will form strategic alliances that will provide customers with the best end-to-end experience in accessing the Internet any time, anywhere, and in any device.

3. To broaden:

TWM aims to be a world-class digital media provider and a market leader in the region. A new world order is emerging as the communications, computer and media industries converge. All forms and types of business information, entertainment and transaction services are going digital. Broadband online communication through cable or wireless connection is the catalyst igniting and fueling this unprecedented growth. Backed by its superior technology know-how, customer understanding and quality operations, TWM is well-positioned in the food chain to reap the fruits of the opportunities offered by the new digital media age. Markets outside of Taiwan will offer even greater opportunities for growth and building strategic long-term value. Through alliances and investments, the Company will extend its position and influence to tap into the Greater China and other markets in the region.



Major Contracts

Nature	Counterpart	Contract period	Description	Restriction Clauses
Sales & distribution	Synnex Technology	2005.02.01~2006.01.31 *Contract is extended to 2007.01.31	Synnex is authorized to distribute TWM's mobile products and services	Non-disclosure
Communication service agency agreement	TransAsia Telecommunications	2006.01.01~2010.12.31	Provide TransAsia with related telecommunication services	Non-disclosure
	Mobitai Communications	2006.01.01~2010.12.31	Provide Mobitai with related telecommunication services	Non-disclosure
Network interconnection	Chunghwa Telecom	2005.01.01 ~2005.12.31 *New contract under negotiation (Note 1)	Network interconnection	Non-disclosure
	VIBO Telecom	2006.01.16~2007.01.15 *New contract under negotiation (Note 2)	Voice and short messaging service interconnection	Non-disclosure
	New Century InfoComm	2005.05.01 ~2006.04.30 *New contract under negotiation (Note 1)	Network interconnection	Non-disclosure
	Taiwan Fixed Network	2004.07.01 ~2006.06.30 *New contract under negotiation (Note 3)	Network interconnection	Non-disclosure
	Asia Pacific Broadband Telecom	2005.10.15 ~2006.10.14 *New contract under negotiation (Note 1)	Network interconnection	Non-disclosure
	Asia Pacific Broadband Wireless	2003.07.23~date	Voice and short message service interconnection	Non-disclosure
	TransAsia Telecommunications	2004.03.15 ~2005.03.14 *New contract under negotiation (Note 2)	Voice and short message service interconnection	Non-disclosure
	Mobitai Communications	2004.09.13 ~2005.09.12 *New contract under negotiation (Note 2)	Voice and short message service interconnection	Non-disclosure
	Far EasTone Telecommunications	2004.02.10 ~2005.02.09 *New contract under negotiation (Note 2)	Voice and short message service interconnection	Non-disclosure
	KG Telecommunications	2004.03.01~2005.02.28 *New contract under negotiation (Note 2)	Voice and short message service interconnection	Non-disclosure
Office building purchase	First International Telecom	2005.05.01 ~2006.04.30 *New contract under negotiation (Note 2)	Voice and short message service interconnection	Non-disclosure
	Taiwan Fixed Network	2006.12.13	Office building purchase	Non-disclosure
Handset purchase	Synnex Technology	2004.05.01~2005.04.30 *Contract is extended to 2007.04.30	TWM accepts Synnex's consignment to sell handsets and related products	Non-disclosure
Equipment purchase	Nokia Corporation	2006.09.26~2009.12.31	Equipment supply contract for Phase 2 of 3G system	Non-disclosure
Customer service	Taiwan Teleservices & Technologies Co., Ltd.	2006.01.01~2010.12.31	Customer services and product sales for TWM, TransAsia and Mobitai	Non-disclosure, Restriction on competition
Stock selling	Goldman Sachs Morgan Stanley UBS	2006.09.15~2006.09.28	CHT ADR placement	
Syndication loans	ICBC, Industrial Bank of Taiwan and 14 other banks	2000.12.15~2008.06.12 (Settled on Feb. 16, 2006)	NT\$3bn credit and its subordinate debt, such as interest payable	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.

Note 3: If both parties do not finalize the signing of the new contract even as the current contract has expired, the current contract will remain valid.

Ch. 6

Risk Management Analysis

In the course of operating its business, the Company faces three major types of internal and external risks, namely: industry risk, financial 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. Wireless broadband access (WBA)

- (1) A potential threat
- The licenses and frequencies for wireless broadband access (WBA) are scheduled to be released in mid 2007. WBA is a communications technology based on orthogonal frequency division multiplexing (OFDM) and is capable of providing speeds of up to 10 Mbps on the equivalent frequency bandwidth of 3G's 5 MHz. Considered a foundation for the next generation of mobile broadband communications, WBA poses a reasonable threat to 3G technology.
- (2) Countermeasures
- Based on the schedule announced by the WiMAX Forum, while the standard for mobile WiMAX protocol (IEEE802.16e) has been set, the equipment interoperability test will not be completed until the second half of 2007. Supplies of WiMAX equipment are therefore limited, with South Korea the only country operating a commercial network. The technology for 3.5G high speed downlink packet access (HSDPA), in comparison, is mature and ready for commercialization. The speed of the connection throughput for 3.5G is 3.6 Mbps, but this should

rise to 10.8 Mbps on continuous upgrades, placing it on the same level as WBA. In the short term, HSDPA will be a more commercially competitive technology than WBA.

To cope with the dynamic changes in the market, TWM has drawn up a long-term plan to strengthen its wireless broadband and multimedia services. It has hired a renowned global consulting agency to analyze industry trends and formulate effective strategies. The agency will also conduct studies and forecasts of the long-term effects and benefits of WBA, as well as evaluate the value of a WBA license, and other measures to secure TWM's long-term competitiveness.

2. Rising popularity of Internet protocol

- (1) Impact
- The popularity of Internet protocol (IP) has generated increasing traffic over the telecommunications network infrastructure delivered via IP packets. It has resulted in major revolutions in the telecommunications business and network architecture. Among these revolutions, the introduction of voice-over IP (VoIP) service has had the greatest impact on the fixed-line operators' voice revenue. The increasing popularity of wireless local area network (WLAN) could also facilitate the deployment of voice over WLAN (VoWLAN) and affect mobile operators' future voice revenues.
- (2) Countermeasures
- TWM has organized an IP Infrastructure Committee to study and analyze the demand, cost and benefits of developing and setting up an IP multimedia subsystem and IP core access and transmission technologies. The company will then take steps to develop these technologies and implement IP ad-

vances in a timely manner.

TWM has completed the research and development of a SIM-based authentication platform, offering a customized WiFi/GSM dual mode handset called the TG310. TWM aims to grab a slice of the growing market for VoWLAN by introducing the TG310 in its “Campus Mobile Extension Service” campaign to tap the student market.

3. Telecommunications and media convergence

(1) Digital convergence

The communications and the media industries have been on a converging trend in recent years. This has facilitated the exchange and transmission of digital content and services among different carriers, systems and platforms.

(2) Countermeasures

As mentioned, the Company has hired a renowned global consulting agency, which is also tasked with analyzing trends and issues arising from the convergence of fixed and mobile communications and implementing measures to address the trend toward communications and media convergence.

Regulatory Changes

1. Administrative plan promulgated by new regulatory body

(1) NCC’s objectives

A new regulatory body, the National Communications Commission (NCC), was established at the beginning of March 2006. The NCC promulgated the “2006 Administrative Plan” on May 30, listing 28 key points governing communications policy and 50 action points, in line with its four objectives of: (1) promoting effective competition in the age of digital convergence; (2) overseeing the sound development of the telecommunications, broadcasting and information services industries; (3) safeguarding the rights and interests of the public; and (4) promoting multiculturalism and respect for the minorities.

(2) Countermeasures

The Company will actively participate in the enactment of or revisions to related laws and regulations to maintain its customers’ and shareholders’ best interests.

2. Controversy over telecom tariffs

(1) Mandatory rate cuts

To promote a more equitable pricing system, the NCC issued a directive on December 29, 2006, that telecom operators should cut tariffs on landline calls, 2G mobile, 2G prepaid and the highest post-paid rate plan for 2G services by 4.88% per annum for three consecutive years.

(2) Countermeasures

The Company has filed a petition with the NCC. The Company contends that the commission failed to disclose its basis for calculating mobile tariffs, take into account mobile operators’ operational costs, and conduct a thorough survey of overseas telecom operators’ related regulations on tariff controls.

3. WiMAX licensing

(1) Licensing may commence in June

To effectively promote broadband wireless access and its application, the NCC conducted a series of public consultations and hearings to form a consensus view on licensing policy in the second half of 2006. Based on its draft proposal, which had been sent late last year to the legislature for review, WiMAX licensing will be divided into two stages: six regional licenses will be released in the first stage and several national licenses will be issued in the second. NCC announced to open up WiMAX service in February 2007 and will conduct the licensing procedure in June 2007.

(2) Countermeasures

Mobile services have stepped into a new era with the development of WiMAX. The Company will continue to monitor changes and developments in regulatory policy in regard to licensing and carefully evaluate the possibilities before tendering a bid.

4. Network integration

(1) Base stations protest

In response to rising domestic protests against the installation of mobile base stations, the NCC has not only limited the number of existing base stations, but also strictly reviewed its licensing policy. In November 2006 the NCC began to draw up a plan to reduce the total number of existing base stations, including amending Article 43-1 of the Telecommunications Act, allowing base stations under the same business group to be integrated for the purpose of network sharing.

(2) Countermeasures

The proposed integration is expected to reduce domestic protests and lower telecom operators’ base station related operating expenses.

5. TWM equipment co-location at CHT premises

(1) Petition for co-location

Pursuant to the policy of promoting fair competition in the telecommunications market, the company had repeatedly asked CHT to allow equipment co-location at the main exchanges but progress had been slow. On February 27, 2006, the Company filed a petition with the NCC to settle the dispute. NCC ruled on June 22, 2006, that CHT should open up its premises in three phases within nine months from the date of the ruling.

(2) Developments

The Company has been negotiating with CHT on co-location plans and related charges prior to the filing of the petition. In line with the NCC’s ruling, co-location plans have progressed to the third phase. These are expected to allow the Company to save operational expenses on leased lines.

6. Chunghwa Telecom ordered to offer wholesale prices to operators

(1) Pricing change

The NCC declared that Chunghwa Telecom has to offer wholesale prices rather than retail prices to Type I telecom service providers on leased lines and approved the wholesale prices proposed by CHT pursuant to Article 9-1 of the Regulations Governing the Tariff of Type I Telecommunications Business. The new pricing system applies to fixed-line and mobile operators, starting from December 1, 2006, and January 13, 2007, respectively.

(2) Impact

According to preliminary estimates, the Company would save NT\$50m in leased line expenses per annum.

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

The Company has pegged the floating interest rate for its first unsecured corporate bond with a total value of NT\$7.5bn at 2.25% and 2.45% through interest rate swap (IRS) agreements upon issuance. All other issued corporate bonds have fixed interest rates. The Company is thus completely hedged against interest rate 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 are denominated in NT dollars. Some of the Company’s capital expenditures are denominated in euros and US dollars. To minimize impacts from foreign exchange rate fluctuations, the Company hedges risks through foreign currency deposits and forward contracts.

Excluding the one time foreign exchange gain incurred by the disposal of investment in Chunghwa Telecom through an ADR issue, the Company’s foreign exchange gain totaled NT\$60m, of which NT\$47m was derived from operating activities, in 2006. In summary, exchange rate fluctuations had a minimal impact on the Company.

3. Impact of inflation

Inflation had a minimal impact on the Company’s operating performance in the past year up until the publication date.

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, high-leverage financial investment and endorsement activities, nor did it lend to others in recent years.

2. The derivative transactions the Company did in 2006 were for purposes other than trading. The interest rate swap contract was signed in order to minimize interest

rate risks in bank borrowings on a floating interest rate. The Company's hedging strategies are meant to avoid cash flow risks. No substantial earnings/loss resulted from the derivative transactions.

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 31, 2007, the Company has a mark-to-market loss of around NT\$321m from the IRS. This unrealized loss does not affect the income statement and is instead booked under shareholders' equity.

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

Mergers and Acquisitions

1. Merger and acquisition update

- (1) Merger of Taihsing Den Syun Co., Ltd. with Taiwan Cellular Co., Ltd.
The subsidiary, Taihsing Den Syun Co., Ltd., merged with Taiwan Cellular Co., Ltd. on May 1, 2006, with the former as surviving company.
- (2) Acquisition of minority interests of TransAsia Telecommunications Inc.
On February 8, 2006, the Company established TAT International Telecommunications Co., Ltd. by investing its shares in the former TransAsia Telecommunications Inc. The Company then acquired TransAsia Telecommunications Inc. as a 100% owned subsidiary on June 27, 2006, in full accor-

dance with the Enterprise Mergers and Acquisitions Law.

2. Expected benefits and potential risks

- (1) Expected benefits
The mergers and acquisitions should contribute to corporate integration and enhance operating efficiency.
- (2) Potential risks
There are no potential risks involved as the Company already owned controlling interests in both companies and had controled their operations prior to the mergers.

Supply and Distribution Concentration (Supplier and Customer Risk)

The Company's main supplier is Chunghwa Telecom (CHT) for network interconnections and leased lines. These costs accounted for 22.64% of total operating costs in 2006. The Company has been increasing usage of leased lines supplied by other fixed line operators (e.g. Taiwan Fixed Network) to spread out supplier risk.

On the revenue side, CHT is the Company's largest customer due to interconnection revenue. However, the Company has a very diverse subscriber base for its mobile services. As such, there is no customer concentration risk.

Due to the addition of new players and an expanding telecom subscriber base, the Company expects its supplier and customer risk to continue to decrease over the coming years.

1. Top Supplier over 10% of total operating costs

2006			2005			Reason for change
Company	Amount (NT\$'000)	% of operating costs	Company	Amount (NT\$'000)	% of operating costs	
Chunghwa Telecom	4,624,745	22.64%	Chunghwa Telecom	4,492,186	23.21%	Minor changes

2. Top Customer over 10% of total operating costs

2006			2005			Reason for change
Company	Amount (NT\$'000)	% of operating costs	Company	Amount (NT\$'000)	% of operating costs	
Chunghwa Telecom	9,122,441	19.05%	Chunghwa Telecom	9,484,888	20.01%	Minor changes

Impact of Changes in Brand Image to the Company's Risk Management Policies:

None

Expected Benefits and Risks Related to Plant Facility Expansions:

Significant Shareholding Changes of Directors, Supervisors and Major Shareholders:

Changes in Management Control:

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 with 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 calls that are not specified in the agreement. However, CHT completed the illegal routing of calls from CityPhone and Best Way Telecommunication Co., Ltd. Such illegal routing caused the Company great losses in interconnection fees. The Company thus filed a lawsuit demanding compensation for the amount stated above.
Status: The Taipei District Court on August 31, 2006 ruled in favor of TWM demanding payment from CHT. CHT has filed an appeal. The case is pending in the Taiwan High 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 subsequently 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 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 case was settled out of court.

2. The Company's directors, supervisors, managers and major shareholders (with more than 10% shareholding):

3. The Company's subsidiaries

- (1) TransAsia Telecommunications Inc.
Damage claim by TransAsia Telecommunications Inc. (TAT) against Chunghwa Telecom Co., Ltd.:
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 calls that are not specified in the agreement. However, CHT completed the illegal routing of calls 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 Taipei District on Aug 31, 2006 ruled in favor of TAT demanding payment from CHT. CHT has filed an appeal. The lawsuit is pending in the Taiwan High Court.

(2) Mobitai Communications Co., Ltd.

Damage claim by the Company's affiliate, Mobitai Communications Co., Ltd. against Chunghwa Telecom Co., Ltd.

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 calls that are not specified in the Agreement. However, CHT completed the illegal routing of calls from CityPhone and Best Way Telecommunication Co., Ltd. Such communication caused Mobitai great losses in interconnection fees and Mobitai thus filed a lawsuit demanding compensation for the amount stated above.

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

Violation of Regulations and Internal Policies: None

Risk Management

Risk Management Policies

1. To promote a management business model based on risk management.
2. To establish a risk management structure that can effectively cite, evaluate, supervise and control risks.
3. To create a company-wide risk management structure that can limit risks to an acceptable range.
4. To set up good risk management practices and continue to improve upon them.

Risk Management Structure

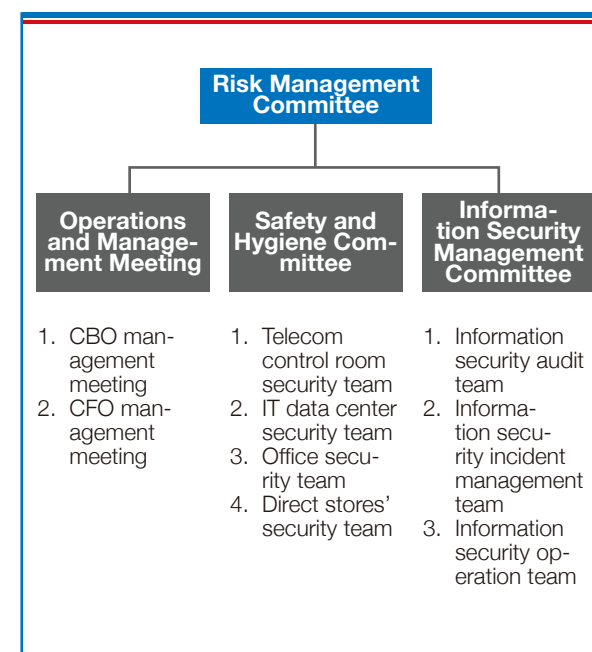
1. The Company's risk management structure is made up of three committees. The functions of each committee are detailed as follows:

- (1) Operations and Management Committee: Conduct periodic reviews of business operating risks with regard to budget execution, financial control and

the reliability of the Company's financial reports.

- (2) Safety and Hygiene Committee: Supervise and reduce potential risks to workers' health and safety.
- (3) Information Security Management Committee: Supervise important information assets for confidentiality, integrity, availability, and regulatory 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:



Ch. 7

Our Values

Taiwan Mobile is committed to developing quality clients, promoting an excellent brand image, pursuing innovative research and development and enhancing corporate social responsibility. Based on its belief in the four values of "Simplicity, Innovation, Passion and Integrity," the Company strives to create the best mobile experience for its customers by pursuing intensive research and development and continuous product and service upgrade. Besides maximizing corporate value, the Company is also keen on giving back to society to fulfill its role as a responsible corporate citizen. The Company was a recipient of the the "Best Social Responsibility Award – Corporate Category" at the fourth Taiwan Business Awards in 2006 and "Excellence in Corporate Social Responsibility" by *Common Wealth* magazine In 2007.



Quality Customers

High revenue and loyal customers are the basis for the Company’s continuing success. In 2006, the growth of total revenue of the Company outperformed the industry. This can be attributed to the effects of its drive to attract and retain quality customers, as detailed below:

- 1. Existing subscribers’ churn rate dropped and mid-to-high revenue subscribers’ churn rate was lower than average: Since the implementation of mobile number portability in the fourth quarter of 2005, the Company has enhanced its customer relations management by formulating policies based on a careful study of market competition.
- 2. Increase in ratio of mid-to-high revenue customers: The number of customers with average monthly bills exceeding NT\$600 grew around 10% YoY in 2006 on the back of a better customer mix.
- 3. Increased satisfaction of VIP customers: Launched in the fourth quarter of 2005, the Company’s “my VIP”

program rated a high 4.2 average in a scale of 5 in a customer satisfaction survey in 2006.

Excellent Brand Image

Taiwan Mobile’s primary aim is to connect people in their daily lives. But what the Company offers transcends mere products and services, as what it values most is the end customer experience.

Taiwan Mobile has long been recognized and praised for its outstanding customer service. To carry on this tradition, the Company has placed “people” at the center of everything it does. The Company aims to transform the power of technology into simple, user-friendly mobile solutions that enable our customers to pursue their lives with ease and confidence.

Working on the principle of customer first, the Company endeavors to give its customers the satisfaction of “Enjoying Worry-free Communications” based on the following values:

- SIMPLICITY
- INNOVATION
- PASSION
- INTEGRITY

The Company seeks to provide a holistic Brand Experience – from product design to public campaigns, promotions, advertising and distribution. The Company hopes that customers will be able to transform each product and service experience into trust in Taiwan Mobile and loyalty to Taiwan Mobile.

Innovative Research and Development

The Company is focused on providing better service quality and more comprehensive service areas to maintain its technological leadership. Its research and development efforts range from basic voice and messaging services to integrated wireless and intelligent network services, including 3G and future wireless broadband communications technology. The Company’s goal is to provide the best mobile services and let mobile communications enable a new lifestyle of ease and convenience for its customers.

The cost of research and development and its ratio as a percentage of total revenue are shown in the table below. In 2007, the Company plans to spend another NT\$34mn to research and develop more advanced technologies designed to increase customer satisfaction which in turn, boosts revenues and overall operations.

Year	R&D expense (NT\$'000)	As a % of total revenue
2005	34,197	0.07%
2006	18,999	0.04%
As of Jan. 31, 2007	1,744	0.04%



1. Research and Development Spending

2. Major Research and Development Achievements

Project name	Details
3G applications in indoor/outdoor optimal planning and radio positioning technique	Development of a 3G radio coverage and electronic magnitude simulation platform, as well as 3G applications such as location-based service.
M-Taiwan M-Campus multi-network integrated services	Development of VoIP and GSM integrated platforms and customized WiFi/GSM VoIP handsets to pioneer the launch of VoIP and other dual-network services in Tamkang and Feng Chia universities.
Billing consolidation	Development of a consolidated but simplified billing system platform to improve billing and rating, providing 2G/3G users with a unified service to boost customer satisfaction, reduce operation cost and enhance TWM's competitiveness.
Enterprise resource planning (ERP) management system	Development of an ERP system that utilizes the latest software technology to integrate and unify enterprise resource data. The new system provides better support to the operational decision-making process, bolstering enterprise revenue. With an optimized process flow, it also reduces operational costs, allowing the Company to focus on its core business.
Data warehouse synergy	Establishment of a consolidated data warehouse platform for TWM/TAT/MBT. The platform transforms raw data into intelligent information on changes in the business environment and customer demand, allowing management to make better and faster decisions.

3. Future Research and Development Plans

(1) Strategic plans:

Project name	Details	Status	Completion date
M-Taiwan 3G/GSM/WiFi multinetwork integrated service development	Develop customized GSM/WiFi dual mode handsets to promote VoIP and other multinetwork integrated services for colleges and enterprise accounts	SIP voice/IM service platform completed; focus now on fixed and mobile convergence	Dec. 2007
DVB-H mobile TV service platform development	Develop DVB-H related service platforms, including TV program management platform, return path interactive services, ESG/CA/DRM integrated service platforms, etc.	Working on system requirement analysis and system design for DVB-H mobile TV service platform development	Dec. 2007
Billing system enhancement	Utilize the latest hardware and software technologies, including modular design, object-oriented design, multi-tier architecture and database, to improve the flexibility and capacity of the Company's billing platform. The new platform will significantly improve system performance, support additional 2G/3G customers, and meet future business requirements	System requirement and system design phase completed; currently testing system deployment	Apr. 2007
Enterprise architecture	Establish a systems architecture based on the international telecom standard – New Generation Operations Systems and Software – to facilitate integration of business applications	Assessment of current applications and comparison with the industry standard architecture completed; currently in the process of defining the architecture roadmap	Apr. 2007

(2) System plans:

Project name	Details	Status	Completion date
Information security and management for 3G communication	Study and analyze information security management for broadband data access via mobile network	Currently interpreting and discussing security status of the Company's existing networks	Feb. 2008
Integrated network platform for RF optimization	Utilize optimized network algorithms to fine-tune BTS' performance in each service area to provide better 2G/3G service quality	In progress	Apr. 2008
WBA technology research	Research and study developing standards for WBA and 3G's long-term evolution and use these technologies as a basis for future network design	In progress	Apr. 2008
Customer portal enhancement (Phase-II)	Project team works with a marketing consulting firm to deploy a new generation e-business platform. The new customer portal will let the Company provide new and faster services to customers	In progress	June 2007

(3) Value-added services:

Project name	Details	Status	Completion date
Real-time rating system	The conventional billing method used in the telecom industry is to calculate a customer's bill based on the minutes consumed, with the monthly bill being sent to customers on a fixed date. However, charges for value-added services vary widely. TWM has thus decided to adopt online stores' system of charging based on real-time rates. This would make prices more transparent for customers as well as make it easier for operators to develop more price-competitive VAS. The system can be applied to both prepaid and postpaid customers	Plotting and designing system specs	Dec. 2007
Service delivery and management platform (SDMP, Phase II)	When completed, the SDMP Phase II system will enable and support more new 2G/3G value-added services, providing better management and application interface for service providers	Completed system specs and design; system implementation currently in progress.	July 2007
Mobile location and assisted global positioning system	Unlike traditional GPS, cell ID based positioning doesn't have the same constraints as GPS terminal devices' limitations in outdoor use. AGPS has similar constraints, but it leverages the online capability of the GPRS network to shorten TTFF (time to first fix), increase sensitivity, and lengthen battery life. The objective of this project is to combine the competitive edges of these two techniques to develop a mobile location platform that can support location-based services.	Plotting and designing system specs	Dec. 2007

Corporate Social Responsibility

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 formed a foundation in 1999 as a way of giving back to society and has received numerous recognitions for its efforts. These include the "Best Social Responsibility Award – Corporate Category" at the fourth Taiwan Business Awards ceremony in 2006 and the "Excellence in Corporate Social Responsibility" from *Common Wealth* magazine in 2007.

1. Social care

The Company allocates NT\$50mn to NT\$60mn annually to its corporate social responsibility division to undertake various social welfare activities, including education for children living in remote areas, development of teenagers' character and integrity, care for the disadvantaged, art and cultural activities, and environmental protection.

In 2006, the Taiwan Mobile Foundation devoted 69% of its budget to social welfare, 13% to telecom research, 11% to telecom forums, and 7% to emergency rescue. The major beneficiaries and targets were teenagers and children; minorities and the disadvantaged; and arts and culture promotion.



2. Customer care

Keen to create the best mobile experience for its customers, the Company has provided world-class information security protection, clean and secure content, and quality cross-platform communications. TWM launched an "Excel Customer Experience" project to combine performance and services closely in 2006 and demonstrate its customer care in action.

3. Environmental care

Environmental protection is a key factor to sustainable corporate development. The Company promotes efficient use of resources, energy conservation, waste reduction, and pollution prevention. The Company has taken steps in this direction with the introduction of paper-less stores, environmental care concepts introduced in products, office greening, and resources recycling.

4. Prospects

The Company will continue carrying its core value forward and bringing its core technology into full play. In cooperation with more social welfare groups, the Company will support social activities as a way of giving back to society.



Financial Status

Condensed Financial Statements for the Past Five Years

1. Balance sheet

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

(1) Funds and long-term investments

Disposal of the Company's stake in Chunghwa Telecom (CHT) in 2005 led to a decrease in long-term investments and an increase in cash for the period 2005 to 2006.

(2) Fixed assets

The disposal of obsolete 2G equipment resulted in a decline in fixed assets.

(3) Long-term liabilities

Repayment of long-term bank loans as well as settlement and conversion of convertible bonds contributed to the steady decline in long-term liabilities.

(4) Stockholders' interests

The conversion of convertible bonds increased capital and capital surplus, while the provision of special reserves leveled up distributable retained earnings.

Unit: NT\$'000

		2002	2003	2004	2005	2006
Current assets		19,093,320	26,069,897	21,449,832	25,779,977	26,113,822
Funds and long-term investments		45,304,537	26,768,421	23,737,612	21,091,320	21,620,736
Fixed assets		63,195,930	62,505,230	60,190,612	57,638,728	57,224,824
Intangible assets		10,281,985	10,281,784	10,281,583	9,720,218	8,972,509
Other assets		5,075,948	4,693,947	5,594,292	3,139,195	3,039,553
Total assets		142,951,720	130,319,279	121,253,931	117,369,438	116,971,444
Current liabilities	Before appropriation	10,541,094	17,189,229	12,611,294	15,477,853	16,564,043
	After appropriation	19,829,902	28,692,202	25,185,664	28,766,184	(Note 1)
Long-term liabilities		64,244,807	43,808,584	27,486,226	14,584,125	10,291,046
Other liabilities		3,930,493	130,700	183,590	318,704	248,561
Total liabilities	Before appropriation	78,716,394	61,128,513	40,281,110	30,380,682	27,103,650
	After appropriation	88,005,202	72,631,486	52,855,480	43,669,013	(Note 1)
Capital stock		45,026,835	46,998,258	48,883,886	49,492,065	49,993,251
Capital surplus		3,004,199	3,366,010	7,258,873	7,905,337	8,748,571
Retained earnings	Before appropriation	19,038,605	21,317,020	26,393,440	29,881,787	32,706,825
	After appropriation	7,983,419	9,814,047	13,819,070	16,593,456	(Note 1)
Unrealized valuation loss on long-term investments		(317,007)	-	-	-	(147,423)
Translation adjustments		7,666	34,450	(1,631)	3,240	3,860
Total stockholders' equity	Before appropriation	64,235,326	69,190,766	80,972,821	86,988,756	89,867,794
	After appropriation	54,946,518	57,687,793	68,398,451	73,700,425	(Note 1)

Note 1: 2006 appropriation proposals have yet to be approved in the shareholders' meeting.

Note 2: 2002-2006 financial information has been duly audited by independent auditors.

2. Income Statement

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

(1) Non-operating income

In 2003, non-operating income increased due to investment income from TransAsia Telecommunications. In 2004, non-operating income grew 159% due to dividend income of NT\$1.25bn from CHT and gains of NT\$1.04bn from the disposal of CHT shares. In 2006, non-operating income rose

on gains of NT\$2.1bn from the disposal of CHT shares.

(2) Non-operating expenses

Interest expenses increased in 2003 as a result of an increase in long-term debts in 2002. Unrealized losses of NT\$0.9 billion from the decline in market value of idle assets were recognized in 2003 and 2004. Unrealized losses from asset write-off of obsolete telecom equipment following its technology upgrade and network integration were recognized in 2005 and 2006.

Unit: NT\$'000

	2002	2003	2004	2005	2006
Revenue	45,352,378	44,995,790	44,786,009	47,408,572	47,891,289
Gross profit	28,957,775	27,140,642	26,514,232	28,056,234	27,464,393
Operating income	15,073,699	15,201,619	16,295,485	17,170,785	14,981,243
Non-operating income	1,888,631	2,194,575	5,680,226	3,839,134	6,355,984
Non-operating expenses	1,552,683	2,929,394	2,559,801	2,698,462	3,858,726
Pre-tax income	15,409,647	14,466,800	19,415,910	18,311,457	17,478,501
Net income	14,937,320	13,344,447	16,658,456	16,236,698	16,170,741
EPS (NT\$)	3.20	2.91	3.55	3.31	3.28

Note: 2002-2006 financial information has been duly audited by independent auditors.

3. Financial analysis for the past five years

		2002	2003	2004	2005	2006
Financial structure	Debt-to-asset ratio	55.07%	46.91%	33.22%	25.88%	23.17%
	Long-term capital to fixed assets ratio	203.30%	180.78%	180.19%	176.22%	175.03%
Solvency	Current ratio	181.13%	151.66%	170.08%	166.56%	157.65%
	Quick ratio	176.02%	147.86%	166.55%	163.49%	154.05%
	Interest coverage ratio	1,558.41%	1,013.37%	1,866.23%	3,181.80%	4,294.22
Operations	Accounts receivable turnover (x)	6.29	7.57	7.43	7.77	7.36
	Average collection days	58.03	48.22	49.13	46.98	49.59
	Inventory turnover (x)	-	-	-	-	2.53
	Accounts payable turnover (x)	11.63	12.16	12.81	13.57	14.03
	Average sales days	-	-	-	-	144.27
	Fixed asset turnover (x)	0.72	0.72	0.74	0.82	0.84
	Total asset turnover (x)	0.37	0.33	0.37	0.40	0.41
Profitability	Return on assets	12.67%	10.64%	13.90%	13.98%	14.07%
	Return on equity	24.15%	20.00%	22.19%	19.33%	18.29%
	% of paid-in capital	Operating profit	33.48%	32.35%	33.15%	34.67%
		Income before tax	34.22%	30.78%	39.49%	36.98%
		Net profit margin	32.94%	29.66%	37.20%	34.25%
Cash flow	EPS (NT\$)	3.20	2.91	3.55	3.31	3.28
	Cash flow ratio	130.17%	155.00%	179.26%	174.16%	69.93%
	Cash flow adequacy ratio	73.30%	107.95%	132.52%	162.30%	126.44%
	Cash reinvestment rate	4.93%	15.17%	9.89%	13.02%	-
Leverage	Operating leverage	1.36	1.48	1.42	1.43	1.64
	Financial leverage	1.08	1.12	1.07	1.04	1.03
Others	EBITDA (NT\$'000)	19,292,830	20,060,377	21,192,488	22,576,687	21,385,641
	EBITDA margin	42.54%	44.58%	47.32%	47.62%	44.65%
	ARPU (NT\$)	651	582	693	846	831
	MOU ('000)	10,920,288	11,612,586	11,720,178	12,213,446	12,903,920

Note: 2002-2006 financial information has been duly audited by independent auditors.

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

(i) Interest coverage ratio improved in 2006 due to a significant decrease in interest expenses, which resulted from the repayment of all remaining long-term bank loans in 2005, conversion of convertible bonds to common shares, and buyback of outstanding convertible bonds before maturity in 2006.

(ii) Expansion of the Company's handset procurement and sales business in 2006 led to an inventory turnover ratio of 2.53 and average sales days of 144.27.

(iii) Cash flow ratio and cash flow adequacy ratio decreased due to the reclassification of bond purchases as operating activity in conformity with revisions to the Financial Accounting Standard in 2006, resulting in a large decline in cash inflow from operating activity.

Formulas for the above table:

Financial Structure

(1) Debt to Asset Ratio = Total Liabilities / Total Assets

(2) Long-term Capital to Fixed Assets Ratio = (Shareholders' Equity + Long-term Liabilities) / Net Fixed Assets

Solvency

(1) Current Ratio = Current Assets / Current Liabilities

(2) Quick Ratio = (Current Assets – Inventory – Prepaid Expenses) / Current Liabilities

(3) Interest Cover = Income before Interest and Tax / Interest Expense

Operations

(1) Accounts Receivable Turnover = Net Revenue / Average Accounts Receivable

(2) Average Collection Days = 365 / AR Turnover Ratio

(3) Inventory Turnover = COGS / Average Inventory

(4) Accounts Payable Turnover = COGS / Average Accounts Payable

(5) Average Sales Days = 365 / Inventory Turnover Ratio

(6) Fixed Assets Turnover = Net Revenue / Net Fixed Assets

(7) Total Assets Turnover = Net Revenue / Total Assets

Profitability

(1) Return on Assets = (Net Income + Interest Expense * (1 – Tax Rate)) / Average Assets

(2) Return on Equity = Net Income / Average Equity

(3) Net Profit Margin = Net Income / Net Sales

(4) EPS = (Net Income – Preferred Stock Dividend) / Weighted Average Outstanding Shares

Cash Flow

(1) Cash Flow Ratio = Cash Flow from Operating Activities / Current Liabilities

(2) 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

(3) Cash Reinvestment Rate = (Cash Flow from Operating Activities – Cash Dividends) / (Gross Fixed Assets + Long-term Investments + Other Assets + Working Capital)

Leverage

(1) Operating Leverage = (Net Revenue – Variable Operating Costs and Expenses) / Operating Income

(2) Financial Leverage = Operating Income / (Operating Income – Interest Expense)

Others

(1) EBITDA = Operating Income + Depreciation & Amortization

(2) EBITDA Margin = EBITDA/Net Revenue

(3) ARPU = Net Telecom Service Revenue / Average Number of Subscribers

(4) MOU = Outgoing & Incoming Minutes

Financial and Operating Results Analysis

Financial results

1. Explanation of significant changes – i.e., at least a 10% change amounting to more than NT\$10 million – in the past two years' assets, liabilities and shareholders' equity:
- (1) Long-term liabilities decreased due to conversion, repayment and buyback of convertible bonds.

(2) Capital surplus increased on account of conversion

Balance Sheet (2006 versus 2005)

	2006	2005	YoY change	
			Amount	%
Current assets	26,113,822	25,779,977	333,845	1.29
Fixed assets	57,224,824	57,638,728	(413,904)	(0.72)
Other assets	3,039,553	3,139,195	(99,642)	(3.17)
Total assets	116,971,444	117,369,438	(397,994)	(0.34)
Current liabilities	16,564,043	15,477,853	1,086,190	7.02
Long-term liabilities	10,291,046	14,584,125	(4,293,079)	(29.44)
Total liabilities	27,103,650	30,380,682	(3,277,032)	(10.79)
Paid-in capital	49,993,251	49,492,065	501,186	1.01
Capital surplus	8,748,571	7,905,337	843,234	10.67
Retained earnings	32,706,825	29,881,787	2,825,038	9.45
Total shareholders' equity	89,867,794	86,988,756	2,879,038	3.31

2. Impact of changes on financial results: No significant impact
3. Preventative plans: Not applicable

Operating results

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

(1) Increase in operating expenses: Marketing expense increased relative to acquisition of new subscribers.
- (2) Increase in non-operating income: Gains on disposal of CHT shares recognized in 2006.

(3) Increase in non-operating expenses: Unrealized losses from asset write-off of obsolete telecom equipment following its technology upgrade and network integration were recognized in 2006.

Income Statement (2006 versus 2005)

Unit: NT\$'000, %

	2006	2005	YoY change	
			Amount	%
Revenue	47,891,289	47,408,572	482,717	1.02
Operating costs	(20,426,896)	(19,352,338)	1,074,558	5.55
Gross profit	27,464,393	28,056,234	(591,841)	(2.11)
Operating expenses	(12,483,150)	(10,885,449)	1,597,701	14.68
Operating income	14,981,243	17,170,785	(2,189,542)	(12.75)
Non-operating income	6,355,984	3,839,134	2,516,850	65.56
Non-operating expenses	(3,858,726)	(2,698,462)	1,160,264	43.00
Income before tax	17,478,501	18,311,457	(832,956)	(4.55)
Net income	16,170,741	16,236,698	(65,957)	(0.41)

2. Sales forecast, background, potential impact on the Company's business, and corresponding proposal:

With majority of the telecom operators shifting their focus from quantity to quality, new subscriber additions are expected to decrease in 2007. The Company will
- nonetheless continue to pursue market leadership in acquiring new subscribers while focusing on improving its customer profile to raise its ARPU and benefits/costs ratio in order to meet its target.

Consolidated Financial Analysis (2006 versus 2005)

		2006	2005
Financial structure	Debt-to-asset ratio	24.09	26.73
	Long-term capital to fixed assets ratio	164.48	158.67
Solvency	Current ratio	191.50	194.69
	Quick ratio	187.99	191.31
	Interest coverage ratio	4580.67	3266.95
Operations	Accounts receivable turnover (x)	7.48	7.62
	Average collection days	48.80	47.90
	Inventory turnover (x)	2.72	25.09
	Accounts payable turnover (x)	13.39	12.62
	Average sales days	134.19	14.55
	Fixed asset turnover (x)	0.97	0.93
	Total asset turnover (x)	0.50	0.50
Profitability	Return on assets	13.88	13.82
	Return on equity	18.25	19.37
	Operating profit	38.67	41.01
	% of paid-in capital Income before tax	37.82	38.13
	Net profit margin	27.53	27.47
Cash flow	EPS (NT\$)	3.28	3.31
	Cash flow ratio	75.16	191.51
	Cash flow adequacy ratio	139.76	160.25
	Cash reinvestment rate	0.58	16.95
Leverage	Operating leverage	1.60	1.61
	Financial leverage	1.02	1.03
Note 1: Interest coverage ratio improved in 2006 due to a substantial decrease in interest expense resulting from repayment of all remaining long-term bank loans, conversion of convertible bonds to common shares, and buyback of outstanding convertible bonds before maturity in 2006.			
Note 2: Inventory turnover ratio decreased and average sales days increased due to Mobitai's closure of its handset sales operation.			
Note 3: Cash flow ratio and cash flow adequacy ratio decreased due to the reclassification of purchase of bonds as operating activity in accordance with revisions to the Financial Accounting Standard in 2006, resulting in a large decline in cash inflow from operating activity.			

Cash flow analysis

1. 2006 cash flow analysis:
- (1) Cash flow from operating activities: Cash inflow decreased compared with 2005 due to the reclassification of bond purchases. .

(2) Cash flow from investing activities: Cash inflow increased due to the disposal of CHT shares, net of capital expenditures.

(3) Cash flow from financing activities: Cash outflow decreased due to the repayment of long-term debts in 2005.

Statement of Cash Flow (2006 versus 2005)

Unit: NT\$'000, %

	2006	2005	YoY Change	
			Amount	%
Cash inflow from operating activities	11,582,921	26,956,328		(57.03)
Cash inflow from investing activities	6,083,347	1,248,367	4,834,980	387.30
Cash outflow from financing activities	(18,561,809)	(22,203,541)	3,641,732	16.40
Net cash	(895,541)	6,001,154	(6,896,695)	(114.92)

2. Plans to improve negative liquidity: Not Applicable

3. Projected cash flow for 2007:
- (1) Projected cash inflow from operating activities: Projected operating cash inflow in 2007 will increase due to increased bond purchases in 2006. Other than this, the projected cash inflow in 2007 from operating activities shall remain stable.

(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 repayment of long-term debts.

2007 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 invest-ing activities	Cash inflow from financ-ing activities

8,202,463	21,409,169	23,950,259	5,661,373	-	-
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4. Source of funding for negative cash flow in 2007: Not Applicable

Due to excellent operations and cash flows in 2006, the Company was able to fund all major capital expenditures using internal capital; as such, no effect on the Company's financials.

5. Investments

Investment policies, profitability analyses, and improvement plans: see chart below.

Unit: NT\$'000

Item	Explanation	Amount	Rationale	Main reasons for gains (losses)	Improvement plans	Other future investment plans
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TransAsia Telecommunications, Inc.	12,458,463 (Note)	To simplify invest-ment structure	To increase income from investments in stable performing companies	-	-
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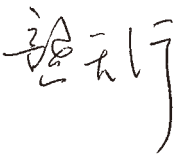
Note: Investments made in 2006 exceeded 5% of the Company's paid-in capital.

6. Financial turnover difficulties for the Company and its affiliates: None

Supervisors' Reports

Supervisor's Report

The Board of Directors of Taiwan Mobile Co., Ltd. has submitted to the undersigned, the Company's 2006 business reports, financial statements, and proposal for profit distribu-tion. The CPAs of Deloitte & Touche were retained to audit the financial statements and have submitted a report relating thereto. I, 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 Act, I hereby submit this report.

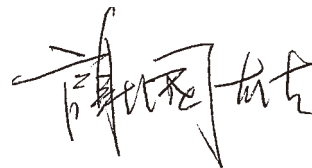


Supervisor
Victor Kung
Fu-Chi Venture Corp.

January 31, 2007

Supervisor's Report

The Board of Directors of Taiwan Mobile Co., Ltd. has submitted to the undersigned, the Company's 2006 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. I, 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 Act, I hereby submit this report.



Supervisor
Polar Hsieh
Taiwan Fixed Network Co., Ltd.

January 31, 2007

2006 Financial Statements

INDEPENDENT AUDITORS' REPORT

January 11, 2007

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

We have audited the accompanying balance sheets of Taiwan Mobile Co., Ltd. (the "Corporation") as of December 31, 2006 and 2005, 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, 2006 and 2005, 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, Business Accounting Law, Criteria for Handling Business Accounting and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the financial statements, the Corporation adopted the newly issued Statement of Financial Accounting Standards (SFAS) No. 34, "Accounting for Financial Instruments," SFAS No. 36, "Disclosure and Presentation of Financial Instruments," and the revisions on the related SFASs in harmonizing with SFAS No. 34 and 36 on January 1, 2006.

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, 2006 and 2005 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, 2006 and 2005.

Notice to Readers
The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China. For the convenience of readers, the auditors' report and the accompanying financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

TAIWAN MOBILE CO., LTD.
BALANCE SHEETS

DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2006		2005		LIABILITIES AND SHAREHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2, 4 and 21)	\$8,202,463	7	\$9,098,004	8	Accounts payable (Note 21)	\$1,432,563	1	\$1,478,408	1
Financial assets at fair value through profit or loss - current (Notes 2, 3 and 5)	11,109,207	10	600,000	1	Income taxes payable (Notes 2 and 17)	2,106,039	2	1,094,727	1
Available-for-sale financial assets - current (Notes 2, 3 and 6)	162,893	-	9,277,177	8	Accrued expenses (Note 21)	3,765,661	3	3,385,889	3
Notes receivable	11,406	-	12,670	-	Other payables (Note 21)	3,519,371	3	3,115,999	2
Accounts receivable - third parties (Notes 2 and 7)	5,067,754	4	5,019,417	4	Advance receipts	994,230	1	1,018,485	1
Accounts receivable - related parties (Notes 2 and 21)	336,550	-	528,691	1	Current portion of long-term liabilities (Notes 2, 13 and 21)	3,814,448	3	4,543,020	4
Other receivables - third parties	242,681	-	170,440	-	Guarantee deposits	46,070	-	70,021	-
Other receivables - related parties (Note 21)	254,860	-	497,304	-	Other current liabilities (Note 21)	885,661	1	771,304	1
Inventories (Note 2)	31,232	-	320	-	Total current liabilities	16,564,043	14	15,477,853	13
Prepayments (Note 21)	565,538	1	475,143	-	LONG-TERM LIABILITIES				
Deferred income tax assets - current (Notes 2 and 17)	102,814	-	83,561	-	Hedging derivative financial liabilities (Notes 2, 3, 20 and 24)	291,046	1	-	-
Pledged time deposits (Notes 21 and 22)	10,000	-	10,000	-	Bonds payable (Notes 2, 13 and 21)	10,000,000	9	14,584,125	13
Other current assets	16,424	-	7,250	-	Total long-term liabilities	10,291,046	9	14,584,125	13
Total current assets	26,113,822	22	25,779,977	22	OTHER LIABILITIES				
INVESTMENTS					Accrued pension cost (Notes 2 and 15)	-	-	83,615	-
Investments accounted for using equity method (Notes 2 and 8)	17,887,632	15	17,233,012	15	Guarantee deposits	248,561	-	233,800	-
Financial assets carried at cost - non-current (Notes 2, 3 and 9)	3,733,104	3	3,858,308	3	Other	-	-	1,289	-
Total investments	21,620,736	18	21,091,320	18	Total other liabilities	248,561	-	318,704	-
PROPERTY AND EQUIPMENT (Notes 2, 10, 21 and 22)					Total liabilities	27,103,650	23	30,380,682	26
Cost					SHAREHOLDERS' EQUITY (Notes 2 and 16)				
Land	4,845,823	4	3,399,049	3	Capital stock - \$10 par value				
Buildings	2,753,923	2	2,001,480	2	Authorized: 6,000,000 thousand shares				
Telecommunication equipment	68,261,533	58	69,366,884	59	Issued: 4,999,325 thousand shares in 2006 and 4,949,206 thousand				
Office equipment	106,824	-	93,138	-	shares in 2005	49,993,251	43	49,492,065	42
Leased assets	1,276,190	1	1,276,190	1	Entitlement certificates	-	-	29,871	-
Miscellaneous equipment	1,832,086	2	928,514	1	Capital surplus	8,748,571	7	7,905,337	7
Total cost	79,076,379	67	77,065,255	66	Retained earnings				
Less accumulated depreciation	(25,013,172)	(21)	(21,737,171)	(19)	Legal reserve	10,128,401	9	8,504,731	7
	54,063,207	46	55,328,084	47	Special reserve	3,350,000	3	2,201,631	2
Construction in progress and advance payments	3,161,617	3	2,310,644	2	Unappropriated earnings	19,228,424	16	19,175,425	16
Net property and equipment	57,224,824	49	57,638,728	49	Other equity				
INTANGIBLE ASSETS (Note 2)	8,972,509	8	9,720,218	8	Cumulative translation adjustments	3,860	-	3,240	-
OTHER ASSETS					Unrealized losses of financial instruments	(147,423)	-	-	-
Assets leased to others (Notes 2 and 11)	698,751	1	1,781,320	2	Treasury stock	(1,437,290)	(1)	(323,544)	-
Idle assets (Notes 2 and 11)	227,921	-	261,429	-	Total shareholders' equity	89,867,794	77	86,988,756	74
Refundable deposits	274,985	-	261,123	-					
Deferred charges (Notes 2 and 12)	344,679	1	331,390	-					
Deferred income tax assets - non-current (Notes 2 and 17)	1,446,184	1	470,279	1					
Other	47,033	-	33,654	-					
Total other assets	3,039,553	3	3,139,195	3					
TOTAL	\$116,971,444	100	\$117,369,438	100	TOTAL	\$116,971,444	100	\$117,369,438	100

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated January 11, 2007)

TAIWAN MOBILE CO., LTD.
STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 21)				
Telecommunication service revenue	\$47,692,697	100	\$47,216,688	100
Other revenue	198,592	-	191,884	-
Total operating revenues	47,891,289	100	47,408,572	100
OPERATING COSTS (Notes 2, 19 and 21)	20,426,896	42	19,352,338	41
GROSS PROFIT	27,464,393	58	28,056,234	59
OPERATING EXPENSES (Notes 2, 19 and 21)				
Marketing	9,054,285	19	8,037,368	17
Administrative	3,428,865	7	2,848,081	6
Total operating expenses	12,483,150	26	10,885,449	23
OPERATING INCOME	14,981,243	31	17,170,785	36
NON-OPERATING INCOME AND GAINS				
Investment income recognized under the equity method, net (Notes 2 and 8)	2,743,058	6	2,150,967	5
Gain on disposal of investments, net (Note 2)	2,129,507	5	-	-
Dividend income	643,816	1	940,000	2
Penalty income	170,667	-	157,616	-
Interest income	158,282	-	56,954	-
Rental income (Note 21)	64,751	-	163,996	-
Foreign exchange gain, net (Note 2)	60,008	-	4,495	-
Revaluation gain on financial assets (Note 2)	53,737	-	-	-
Gain on disposal of property and equipment (Notes 2 and 21)	7,752	-	115,925	-
Other (Note 7)	324,406	1	249,181	1
Total non-operating income and gains	6,355,984	13	3,839,134	8
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal and retirement of property and equipment (Notes 2 and 21)	3,339,303	7	1,638,074	3
Interest expenses (Notes 2 and 10)	416,729	1	594,181	1
Impairment loss (Notes 2 and 11)	2,005	-	105,870	-
Loss on disposal of investment, net (Note 2)	-	-	20,535	-
Other (Notes 2 and 11)	100,689	-	339,802	1
Total non-operating expenses and losses	3,858,726	8	2,698,462	5

(Continued)

	2006		2005	
	Amount	%	Amount	%
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	\$17,478,501	36	\$18,311,457	39
INCOME TAX EXPENSE (Notes 2 and 17)	1,307,795	2	2,074,759	5
INCOME FROM CONTINUING OPERATIONS	16,170,706	34	16,236,698	34
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3)	35	-	-	-
NET INCOME	\$16,170,741	34	\$16,236,698	34

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 18)				
Basic	\$3.54	\$3.28	\$3.74	\$3.31
Diluted	\$3.53	\$3.26	\$3.68	\$3.26

The pro forma net income and earnings per share had Statements of Financial Accounting Standards No. 34 - "Accounting for Financial Instruments" and No. 36 - "Disclosure and Presentation of Financial Instruments" been adopted retroactively are as follows:

	2006	2005
NET INCOME	\$16,170,706	\$16,292,233
EARNINGS PER SHARE		
Basic	\$3.28	\$3.33
Diluted	\$3.26	\$3.27

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated January 11, 2007)

TAIWAN MOBILE CO., LTD.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	Capital Stock			Capital Surplus		Retained Earnings				Cumulative Translation Adjustments	Unrealized Gains of Financial	Treasury Stock	Total Sharehold-
	Capital Stock	Entitlement Certificates	Total			Legal Reserve	Special Reserve	Unappropriated	Total				
BALANCE, JANUARY 1, 2005	\$48,883,886	\$279,670	\$49,163,556	\$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	49,163,556	7,258,873		8,504,731	2,201,631	3,112,708	13,819,070	(1,631)	-	(1,841,417)	68,398,451
Translation adjustments on long-term investments	-	-	-	-		-	-	-	-	4,871	-	-	4,871
Transfer of treasury stock to employees	-	-	-	-		-	-	(173,981)	(173,981)	-	-	1,837,663	1,663,682
Conversion of convertible bonds to capital stock and entitlement certificates	608,179	(249,799)	358,380	646,464		-	-	-	-	-	-	-	1,004,844
Buyback of treasury stock	-	-	-	-		-	-	-	-	-	-	(319,790)	(319,790)
Net income in 2005	-	-	-	-		-	-	16,236,698	16,236,698	-	-	-	16,236,698
BALANCE, DECEMBER 31, 2005	49,492,065	29,871	49,521,936	7,905,337		8,504,731	2,201,631	19,175,425	29,881,787	3,240	-	(323,544)	86,988,756
Appropriation of 2005 earnings													
Legal reserve	-	-	-	-		1,623,670	-	(1,623,670)	-	-	-	-	-
Special reserve	-	-	-	-		-	1,150,000	(1,150,000)	-	-	-	-	-
Reversal of special reserve	-	-	-	-		-	(1,631)	1,631	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-		-	-	(40,394)	(40,394)	-	-	-	(40,394)
Bonus to employees - cash	-	-	-	-		-	-	(403,940)	(403,940)	-	-	-	(403,940)
Cash dividends - \$2.61677 per share	-	-	-	-		-	-	(12,843,997)	(12,843,997)	-	-	-	(12,843,997)
Balance after appropriation	49,492,065	29,871	49,521,936	7,905,337		10,128,401	3,350,000	3,115,055	16,593,456	3,240	-	(323,544)	73,700,425
Translation adjustments on long-term investments	-	-	-	-		-	-	-	-	620	-	-	620
Transfer of treasury stock to employees	-	-	-	-		-	-	(57,372)	(57,372)	-	-	704,624	647,252
Conversion of convertible bonds to capital stock and entitlement certificates	501,186	(29,871)	471,315	843,234		-	-	-	-	-	-	-	1,314,549
Buyback of treasury stock	-	-	-	-		-	-	-	-	-	-	(1,818,370)	(1,818,370)
Net income in 2006	-	-	-	-		-	-	16,170,741	16,170,741	-	-	-	16,170,741
Effect of the first time adoption of new issued SFASs	-	-	-	-		-	-	-	-	-	1,834,639	-	1,834,639
Unrealized losses on financial instruments, net	-	-	-	-		-	-	-	-	-	(1,982,062)	-	(1,982,062)
BALANCE, DECEMBER 31, 2006	\$49,993,251	\$-	\$49,993,251	\$8,748,571		\$10,128,401	\$3,350,000	\$19,228,424	\$32,706,825	\$3,860	\$(147,423)	\$(1,437,290)	\$89,867,794

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

(With Deloitte & Touche audit report dated January 11, 2007)

TAIWAN MOBILE CO., LTD.
STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$16,170,741	\$16,236,698
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	5,495,382	4,680,486
Loss on disposal and retirement of property and equipment, net	3,331,551	1,522,149
Investment income recognized under the equity method, net	(2,743,058)	(2,150,967)
Gains on disposal of available-for-sale financial assets	(2,110,978)	-
Bad debts	962,389	664,296
Deferred income taxes	(922,397)	217,735
Amortization	909,016	725,416
Cash dividends received from equity-method investees	125,204	3,075,042
Pension cost	(83,615)	(50,277)
Loss on buyback of bonds payable	59,982	191,109
Accrued interest compensation	36,247	120,100
Gains on disposal of idle assets, net	(9,681)	(356)
Loss due to market decline of inventory	8,449	-
Impairment loss	2,005	105,870
Gains on disposal of long-term investments	(1)	(5,812)
Net changes in operating assets and liabilities		
Financial assets held for trading	(10,509,207)	2,032,465
Notes receivable	1,264	(12,617)
Accounts receivable - third parties	(1,044,819)	(1,249,751)
Accounts receivable - related parties	192,142	(46,514)
Other receivables - third parties	(73,492)	(137,005)
Other receivables - related parties	242,444	(148,421)
Inventories	(39,361)	-
Prepayments	(90,648)	(29,483)
Other current assets	(9,174)	(1,174)
Accounts payable	(45,845)	104,365
Income taxes payable	1,011,312	(817,071)
Accrued expenses	379,772	618,362
Other payables	247,195	661,493
Advance receipts	(24,255)	166,030
Other current liabilities	114,357	484,160
Net cash provided by operating activities	11,582,921	26,956,328
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of available-for-sale financial assets	11,265,915	-
Acquisition of property and equipment	(7,355,072)	(3,077,727)
Proceeds from disposal of long-term investments	1,499,551	205,924
Capital return of investees	1,119,715	-
Increase in long-term investments accounted for using equity method	(500,000)	(1,457,805)
Proceeds from disposal of property and equipment	180,527	2,148,517
(Continued)		

	2006	2005
Increase in deferred charges	\$(158,827)	\$(149,093)
Proceeds from disposal of idle assets	44,633	7,050
Increase in refundable deposits	(13,862)	(6,237)
Decrease in other assets	767	929
Proceeds on investee's liquidation	-	2,970,851
Decrease in pledged time deposits	-	600,000
Cash received from merger with Taiwan Elitec Corporation	-	5,958
Net cash provided by investing activities	6,083,347	1,248,367
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(12,843,925)	(12,146,818)
Decrease in bonds payable	(2,753,300)	(1,500,000)
Buyback of treasury stock	(1,818,370)	(319,790)
Buyback of bonds payable	(1,341,076)	(1,135,009)
Transfer of treasury stock to employees	647,252	1,663,682
Bonus to employees	(403,940)	(394,148)
Remuneration to directors and supervisors	(37,970)	(63,936)
Increase (decrease) in guarantee deposits	(9,190)	93,768
Decrease in other liabilities	(1,290)	(1,290)
Decrease in long-term bank loans	-	(8,400,000)
Net cash used in financing activities	(18,561,809)	(22,203,541)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(895,541)	6,001,154
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	9,098,004	3,096,850
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$8,202,463	\$9,098,004
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$464,300	\$620,911
Deduct: Interest capitalized	(11,647)	(71,194)
Interest paid - excluding interest capitalized	452,653	549,717
Income taxes paid	\$1,029,886	\$2,235,986
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$3,814,448	\$4,543,020
Conversion of convertible bonds to capital stock and entitlement certificates	\$1,118,100	\$891,800
(Continued)		

	2006	2005
CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment	\$7,529,952	\$3,731,962
Increase in other payables	(174,880)	(654,235)
Cash paid for acquisition of property and equipment	<u>\$7,355,072</u>	<u>\$3,077,727</u>

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	<u>554</u>
Assets acquired from TEC	<u>\$28,363</u>
Accrued expenses	\$31,101
Other current liabilities	265
Long-term liabilities	2,578
Guarantee deposits	266
Liabilities assumed from TEC	<u>\$34,210</u>

The accompanying notes are an integral part of the financial statements.
(With Deloitte & Touche audit report dated January 11, 2007) (Concluded)

TAIWAN MOBILE CO., LTD.
NOTES TO FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1.ORGANIZATION

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

As of December 31, 2006 and 2005, the Corporation had 2,146 and 2,072 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, Business Accounting Law, Criteria for Handling Business Accounting and accounting principles generally accepted in the ROC. In conformity with these guidelines, laws and principles, the Corporation is required to make certain estimates and assumptions that could affect the amounts of allowance for doubtful accounts, Provision for losses on decline in value of inventories, depreciation, pension, allowance for

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

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

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

Current and Non-current Assets and Liabilities

Current assets include cash and cash equivalents, assets held for trading and those expected to be converted to cash, sold or consumed within twelve months from the balance sheet date. Property and equipment, intangible assets and those not classified as current assets are non-current assets. Current liabilities are obligations held for trading and those expected to be due within twelve months from the balance sheet date. All other liabilities not classified as current liabilities are non-current liabilities.

Cash Equivalents

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

Financial Instruments at Fair Value through Profit or Loss

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

Available-for-sale Financial Assets

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

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

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

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

Allowance for Doubtful Accounts

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

Inventories

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

Financial Assets Carried at Cost

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

to an event. Reversal of impairment losses is not allowed.

Investments Accounted for Using Equity Method

Long-term investments in which the Corporation owns 20% or more of an investee's outstanding voting shares or exercises significant influence on an investee are accounted for under the equity method.

On the acquisition date or the adoption of the equity method for the first time, the difference between the cost of acquisition and the equity in the investee's net asset value was amortized using the straight-line method over 8 to 20 years. Starting January 1, 2006, in accordance with the newly revised Statement of Financial Accounting Standards (SFAS), the cost of acquisition is subjected to an initial analysis, and goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net asset value. Goodwill is no longer amortized but instead tested annually for impairment. An impairment test is also required if there is evidence indicating that goodwill might be impaired as a result of specific events or changes in economic environment. Starting January 1, 2006, the unamortized balance of the excess of the acquisition cost of the long-term investment by the equity method over the equity in the investee's net asset value is also no longer amortized and applies the same accounting treatment as goodwill.

Gains or losses on the Corporation's equity accounted investee's sales to the Corporation are deferred in proportion to the Corporation's ownership percentages in the investees until realized through transactions with third parties.

Gains or losses from transactions between two investees that are both accounted for using equity method are deferred in proportion to the Corporation's equivalent stock ownership in the investees if the Corporation has controlling power over each investee.

If the investor does not have controlling power over both investees that have reciprocal transactions, unrealized gains or losses from reciprocal transactions should be deferred in proportion to the common investor's ownership percentage in one investee multiplied by the ownership percentage in the other investee.

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

Property and Equipment and Assets Leased to Others

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

Depreciation is calculated using the straight-line method over the estimated service lives, which range as follows: buildings - 50 to 55 years; telecommunication equipment - 3 to 15 years; office equipment - 3 to 5 years; leased assets - 20 years; and miscellaneous equipment - 3 to 5 years.

Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to non-operating gain or loss in the period of disposal.

Intangible Assets

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

Idle Assets

Idle assets are stated at the lower of book value or fair value, with the difference charged to current income. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets.

Deferred Charges

Deferred charges, which included interior decoration, computer software, bill issuance costs and issuance costs of bonds 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 investments accounted for using equity method) is less than their recoverable amount, which

indicates that an impairment exists, an impairment loss should be recognized. Any subsequent reversal of the impairment loss for the increase in recoverable amount is recognized as income. The reversal of impairment loss on goodwill is 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 using the interest method from the issuance date through the maturity date and accounted for as accrued interest compensation. The accrued interest compensation is provided as a valuation account of convertible bonds. The issuance costs are recognized as deferred charges. The issuance costs for the non-convertible bonds are amortized over the term of the bond, and those for the convertible bonds with redemption rights are amortized from the issuance date to the maturity date of redemption rights.

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

Income Taxes

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

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

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

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

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

Treasury Stock

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

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

Foreign-currency Transactions

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

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

Non-monetary assets or liabilities carried at fair value that are denominated in foreign currencies are retrans-

lated at the rates prevailing on the balance sheet date when the fair value was determined, and the resulting exchange differences are included in profit or loss for the current period except for the differences arising on the retranslation of non-monetary assets and liabilities in respect of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component of that gain or loss is also recognized directly in equity. Non-monetary assets or liabilities carried at cost that are denominated in foreign currencies are translated at the historical rates prevailing on the dates of transactions.

The above prevailing exchange rates are based on the average of bid and ask rates of principal banks.

Revenue Recognition

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

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

Promotion Expenses

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

Hedging Derivative Financial Instruments

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

Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2006.

3. REASONS AND EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

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

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

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

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

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

The changes in accounting policy resulted in a decrease in income from continuing operations of \$35 thousand for the year ended December 31, 2006, but had no effect on net income and earnings per share (net of tax).

b. Reclassifications by the adoption of these SFASs

The accounting policies applied in measuring financial instruments in 2005 that differ from 2006 are described as follows:

- (a) Short-term investments
- Short-term investments are carried at the lower of aggregate cost or market value, and the loss on market value decline is recognized in current

- income. The market values of the investment in listed stocks are determined based on the average closing prices in the last month of an accounting period.
- (b) Long-term investments accounted for using cost method denominated in foreign currencies
- The long-term investments accounted for using cost method denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. If the translated amount is less than the original cost amount, the resulting exchange differences are recognized as the cumulative translation adjustments in equity. If the translated amount is higher, no adjustment is made.
- (c) Interest rate swap contracts
- The notional amounts of interest rate swap contracts, which are used for non-trading purposes, are not recognized in the financial statements because these contracts do not require initial settlements. However, a memorandum entry is made to note the transaction.

Due to the adoption of new and amended SFASs starting from January 1, 2006, certain accounts in the financial statements as of and for the six months ended June 30, 2005 have been reclassified as follows to conform to the presentation of the financial statements as of and for the six months ended June 30, 2006.

	Before Reclassification	After Reclassification
Balance sheet		
Short-term investments	\$9,877,177	\$-
Long-term investments	3,858,308	-
Financial assets at fair value through profit or loss	-	600,000
Available-for-sale financial assets	-	9,277,177
Financial assets carried at cost	-	3,858,308

Starting on January 1, 2006, the Corporation adopted newly revised SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5, "Long-term Investments in Equity Securities," and SFAS No. 25, "Business Combinations - Accounting Treatment under Purchase Method." These revisions primarily included that goodwill is no longer amortized and that the difference between the cost of acquisition and the equity in the investee's net asset value is

subjected to an initial analysis. If defined as goodwill, the difference is no longer amortized but instead tested annually for impairment. These adoptions had no effect on the income from continuing operations and the cumulative effect of changes in accounting principle for the year ended December 31, 2006.

4.CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Short-term notes and bills with resale rights	\$5,180,248	\$-
Time deposits	2,306,051	1,213,252
Cash in banks	680,131	336,206
Cash on hand	32,503	28,530
Revolving funds	3,530	3,097
Government bonds with resale rights	-	7,516,919
	\$8,202,463	\$9,098,004

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

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

	December 31	
	2006	2005
Financial assets held for trading		
Beneficiary certificates		
Cash in banks	\$11,109,207	\$600,000

8.INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31			
	2006		2005	
	Carrying Value	% of Owner ship	Carrying Value	% of Ownership
TransAsia Telecommunications Inc. (TAT, formerly TAT International Telecommunications Co., Ltd.)	\$14,009,973	100	\$-	-
Taiwan Cellular Co., Ltd. (TCC, formerly Taihsing Den Syun Co., Ltd.)	3,877,659	100	3,781,996	100.00
TransAsia Telecommunications Inc. (former TAT)	-	-	12,458,466	92.32
Taiwan Cellular Co., Ltd. (former TCC)	-	-	992,550	99.99
	<u>\$17,887,632</u>		<u>\$17,233,012</u>	

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	December 31	
	2006	2005
Domestic listed stocks		
Chunghwa Telecom Co., Ltd.	\$162,893	\$9,277,177

In the year ended December 31, 2006, the Corporation recognized a gain of \$2,110,978 thousand from selling 200,000 thousand shares of Chunghwa Telecom Co., Ltd.

7. ACCOUNTS RECEIVABLE - THIRD PARTIES

	December 31	
	2006	2005
Accounts receivable	\$5,529,384	\$5,411,935
Less allowance for doubtful accounts	(461,630)	(392,518)
	\$5,067,754	\$5,019,417

For the third quarter of 2006, the Corporation entered into an accounts receivable factoring contract with HC Asset Management Co., Ltd. The Corporation sold \$5,743,279 thousand of the overdue accounts receivable, which had been written off, to HC Asset Management Co., Ltd. The aggregate selling price was \$229,731 thousand. Under this contract, the Corporation would no longer assume the risk on this receivable.

a. TransAsia Telecommunications Inc.

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

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

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 Inc. (the former 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 with 255,079 thousand of the former Mobitai's shares and \$250,000 thousand in cash. TDS mainly provides equipment installation and IT services.

On November 3, 2005, TDS established Tai Ya International Telecommunications Co., Ltd. (TYIT) and acquired 100% equity in TYIT with 255,079 thousand of the former Mobitai's shares. TYIT's Board of Directors decided, on November 3, 2005, to merge the former 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 (Mobitai) on the record date. Mobitai mainly provides wireless services.

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

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

The board of directors of TCC resolved the stock issuance of 50,000 thousand shares with par value of \$10 dollars each for cash injection on October 26, 2006. On the record date (October 31, 2006), the Corporation subscribed for all the shares and TCC was still wholly-owned subsidiary.

c. Company liquidated

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.

d. Taiwan Fixed Network Co., Ltd.

Previously, although the Corporation's equity ownership 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 using 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. On January 1, 2006, the Corporation reclassified its equity in TFN under the financial asset carried at cost.

e. Equity in investees' net gains or losses

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

	2006	2005
TAT	\$1,551,510	\$-
TCC (formerly TDS)	1,160,351	(87,303)
The former TCC (formerly Taihs-ing Den Den Co., Ltd.)	31,198	37,123
The former TAT	(1)	1,998,251
The former Mobitai	-	272,488
TFN	-	(96,979)
Tai Hung Investments Ltd.	-	23,818
T.I. Investment Ltd.	-	20,923
Tai Hsuo Investments Ltd.	-	(19,976)
Tai Fu Investments Ltd.	-	4,439
Taiwan Elitec Corporation	-	(1,817)
	<u>\$2,743,058</u>	<u>\$2,150,967</u>

f. Asset impairment

In conformity with the SFAS No. 35 - "Accounting for Asset Impairment," the Corporation and subsidiaries identified the Corporation, the former TAT and the former Mobitai, the subsidiary of TYIT, as the smallest identifiable group of cash-generating units. The former TAT and the former 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 the former TAT and the former 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 the former TAT's and the former Mobitai's carrying values:

(a) Assumptions on operating revenues

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

(b) Assumptions on operating costs and expenses

The estimates of commissions, customer retention costs, customer service costs and bill 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 used the discount rates of 7.63% and 8.72% in calculating the asset recoverable amounts of the former TAT and the former Mobitai, respectively.

9. FINANCIAL ASSETS CARRIED AT COST - NON-CURRENT

	December 31	
	2006	2005
Domestic emerging stocks		
TFN	\$3,700,944	\$3,826,148
Foreign unlisted stocks		
Bridge Technologies Mobile Pte Ltd.	32,160	32,160
	<u>\$3,733,104</u>	<u>\$3,858,308</u>

The above investments in stocks are measured at cost because there is no active market and reliable fair value.

10. PROPERTY AND EQUIPMENT - ACCUMULATED DEPRECIATION

	December 31	
	2006	2005
Buildings	\$277,685	\$203,180
Telecommunication equipment	23,811,758	20,928,068
Office equipment	42,478	32,228
Leased assets	292,461	228,651
Miscellaneous equipment	<u>588,790</u>	<u>345,044</u>
	<u>\$25,013,172</u>	<u>\$21,737,171</u>

Interest expenses capitalized for the years ended December 31, 2006 and 2005 amounted to \$11,647 thousand and \$71,194 thousand, respectively, with interest rates ranging from 2.28% to 3.12% and from 2.64%-3.60%, respectively.

11. ASSETS LEASED TO OTHERS AND IDLE ASSETS

	December 31	
	2006	2005
Assets leased to others		
Cost	\$744,476	\$2,042,895
Less accumulated depreciation	(35,134)	(250,984)
Less accumulated impairment	<u>(10,591)</u>	<u>(10,591)</u>
	<u>\$698,751</u>	<u>\$1,781,320</u>
Idle assets		
Cost	\$2,674,530	\$2,728,439
Less accumulated depreciation	(724,710)	(727,416)
Less accumulated impairment	<u>(1,721,899)</u>	<u>(1,739,594)</u>
	<u>\$227,921</u>	<u>\$261,429</u>

The impairment losses of idle buildings and equipment were determined based on their appraised values and net realizable value, respectively, and the Corporation recognized impairment losses of \$2,005 thousand and \$105,870 thousand for the years ended December 31, 2006 and 2005, respectively.

12. DEFERRED CHARGES

	December 31	
	2006	2005
Interior decoration	\$267,738	\$149,018
Computer software	64,187	106,840
Other	<u>12,754</u>	<u>75,532</u>
	<u>\$344,679</u>	<u>\$331,390</u>

13. BONDS PAYABLE

	December 31			
	2006		2005	
	Current	Non-current	Current	Non-current
Domestic secured bonds	\$-	\$-	\$1,500,000	\$-
Domestic unsecured bonds	3,750,000	10,000,000	1,250,000	13,750,000
1st domestic unsecured convertible bonds	-	-	1,480,000	-
2nd domestic unsecured convertible bonds	55,900	-	-	747,300
Add accrued interest compensation	<u>8,548</u>	<u>-</u>	<u>313,020</u>	<u>86,825</u>
	<u>\$3,814,448</u>	<u>\$10,000,000</u>	<u>\$4,543,020</u>	<u>\$14,584,125</u>

a. Domestic secured bonds

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

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%.

b. Domestic unsecured bonds

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

	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%-6M LIBOR	Repayment on maturity date, interest payable semiannually
Type III	5,000,000	2.80%	Repayment of \$2,500,000 thousand each in the sixth and seventh years, interest payable annually
Type IV	5,000,000	5.75%-6M LIBOR	Repayment on maturity date, interest payable semiannually
	\$15,000,000		

c. 1st domestic convertible bonds

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

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

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

d. 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued \$6,000,000 thousand of five-year domestic convertible bonds, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to the 10th day

before maturity, the bondholders may have the bonds converted into common stocks of the Corporation. Cash is paid for bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$23.6 per share since July 20, 2006. As of December 31, 2006, bonds amounting to \$5,399,400 thousand have been converted to \$ 209,271 thousand of common shares. Bonds amounting to \$544,700 thousand were purchased and canceled by the Corporation.

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

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

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

Year	Amount
2007	\$3,750,000
2008	2,500,000
2009	7,500,000
	\$13,750,000

14.LONG-TERM BANK LOANS

The loans were to mature on September 1, 2010, with interest payable monthly. The Corporation made an early repayment of all long-term bank loans in the second quarter of 2005.

15.PENSION PLAN

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

The new LPA provides for a defined contribution pension plan. Starting from July 1, 2005, the Corporation should contribute monthly an amount equal to 6% of the employees' monthly wages to the employees' individual pension accounts. The Corporation recognized a pension cost of \$84,629 thousand for the years ended December 31, 2006.

The LSA provides for a defined benefit pension plan. Benefits are based on the length of service and average basic pay of the six months before retirement. The Corporation contributes monthly an amount equal to 2% of the employees' monthly wages to a pension fund. The pension fund is managed by an independently administered pension fund committee and deposited in the committee's name in the Central Trust of China.

Information on the defined benefit pension plan is summarized as follows:

a. Pension cost

	Years Ended December 31	
	2006	2005
Service cost	\$2,946	\$19,872
Interest cost	6,520	4,571
Projected return of pension assets	(6,785)	(4,290)
Amortization	(2,868)	(3,486)
Pension cost	<u>\$(187)</u>	<u>\$16,667</u>

b. Changes in the prepaid (accrued) pension cost

	Years Ended December 31	
	2006	2005
Benefit obligation		
Vested	\$-	\$-
Non-vested	(165,054)	(157,928)
Accumulated	(165,054)	(157,928)
Additional benefits based on future salaries	(111,718)	(102,878)
Projected benefit obligation	(276,772)	(260,806)
Fair value of plan assets	362,224	258,701
Funded status	85,452	(2,105)
Unrecognized net transition obligation	8,271	8,786
Unrecognized net gain or loss	(92,526)	(102,836)
Prepaid pension cost (accrued pension cost)	<u>\$1,197</u>	<u>\$(96,155)</u>

For the year ended in December 31, 2005, a portion of the above ending balance was recorded as accrued pension cost, and the other portion, as accrued expenses.

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

	Years Ended December 31	
	2006	2005
Vested benefits	\$-	\$-

d. Actuarial assumptions

	Years Ended December 31	
	2006	2005
Discount rate used in determining present values	2.75%	2.50%
Future salary increase rate	2.50%	2.50%
Expected rate of return on plan assets	2.75%	2.50%

16.SHAREHOLDERS' EQUITY**a. 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.

b. Appropriation of earnings and dividend policy

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

- 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 Corpora-

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

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

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

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

The 2005 and 2004 earnings appropriations resolved by the shareholders in their meeting on June 15, 2006 and June 14, 2005 were as follows:

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	For Fiscal Year 2005	For Fiscal Year 2004	For Fiscal Year 2005	For Fiscal Year 2004
Appropriation of legal reserve	\$1,623,670	\$1,665,416		
Appropriation of special reserve	1,150,000	2,201,631		
Reversal of special reserve	(1,631)	-		
Remuneration to directors and supervisors	40,394	63,936		
Cash bonus to employees	403,940	383,613		
Cash dividends	<u>12,843,997</u>	<u>12,126,821</u>	\$2.61677	\$2.47302
	<u>\$16,060,370</u>	<u>\$16,441,417</u>		

Had the above bonus to employees and remuneration to directors and supervisors been charged against income in 2006 and 2005, the basic earnings per share in that year would have decreased from NT\$3.31 and NT\$3.55 to NT\$3.22 and NT\$3.46 respectively.

The appropriation of the Corporation's 2006 earnings had not been proposed by the Board of Directors as of January 11, 2007, the independent auditors' report date. Information on the appropriation of 2006 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.

c. Treasury stock

Purpose of Buyback	Shares in Thousands			
	Beginning Shares	Increase	Decrease	Ending Shares
Year ended December 31, 2006				
To be transferred to employees	11,551	57,804	22,818	46,537
Year ended December 31, 2005				
To be transferred to employees	65,368	11,551	65,368	11,551

For the year ended December 31, 2006, the Corporation transferred the treasury stock through various tranches to employees at 22,818 thousand shares at NT\$30.47 and 28.17 per share, respectively, resulting in a reduction of retained earnings, amounting to \$57,372 thousands.

For the year ended December 31, 2005, the Corporation transferred 65,368 thousand shares of treasury stock through various tranches to employees at NT\$25.65, \$25.54, \$25.5 and \$25.48 per share, respectively, resulting in a reduction of retained earnings, amounting to \$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.

17.INCOME TAX EXPENSE

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

	Years Ended December 31	
	2006	2005
Tax on pretax income at statutory tax rate (25%)	\$4,369,615	\$4,577,854
Add (deduct) tax effects of		
Permanent differences		
Investment income from domestic investees accounted for under the equity method	(685,764)	(537,742)
Tax-exempt dividend income	(160,954)	(235,000)
Gain on disposal of marketable securities	(532,377)	(54,364)
Other	(26,260)	109,500
Temporary differences	471,065	27,238
Tax-exempt income	(402,696)	(2,047,741)
Income tax (10%) on unappropriated earnings	132,470	368,266
Investment tax credits	(1,108,394)	(362,436)
Deferred income tax	(922,397)	217,735
Prior year's adjustment	164,071	11,449
Tax on short-term bills	9,416	-
Income tax expense	<u>\$1,307,795</u>	<u>\$2,074,759</u>

d.Unrealized gains (losses) on financial instruments

Unrealized gains or losses on financial instruments for the year ended December 31, 2006 were summarized as follows:

	Year Ended December 31, 2006
Available-for-sale financial assets	
Effect of the first time adoption of new issued SFASs	\$2,082,823
Fair value changes recognized directly in equity	68,807
Transfer to current gains or loss upon sales of financial assets	(2,110,978)
	<u>40,652</u>
Changes in unrealized gains (losses) of cash flow hedge	
Effect of the first time adoption of new issued SFASs	(248,184)
Fair value changes recognized directly in equity	29,900
	<u>(218,284)</u>
Recognition of investees' changes in unrealized gains or losses by the equity method	30,209
	<u>\$ (147,423)</u>

b.Under Article 8 of the Statue 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 tax 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

c. Deferred income tax assets and liabilities as of December 31, 2006 and 2005 were as follows:

	December 31	
	2006	2005
Provision for doubtful accounts	\$719,412	\$623,237
Provision for impairment losses on idle assets	343,792	384,253
Unrealized loss on retirement of property and equipment	714,861	245,321
Unrealized loss on financial liabilities	72,761	-
Accrued interest compensation	2,137	99,962
Accrued pension cost	(273)	16,210
Other	2,112	-
	<u>1,854,802</u>	<u>1,368,983</u>
Less valuation allowance	<u>(305,804)</u>	<u>(815,143)</u>
	<u>\$1,548,998</u>	<u>\$553,840</u>
Deferred income tax assets		
Current	\$102,814	\$83,561
Non-current	1,446,184	470,279
	<u>\$1,548,998</u>	<u>\$553,840</u>
d.Integrated income tax information was as follows:		
Balance of imputation credit account (ICA)	<u>\$1,091,242</u>	<u>\$1,532,065</u>

As of December 31, 2006, there were no unappropriated earnings generated before January 1, 1998. The actual creditable ratio applied to the 2006 and 2005 earnings appropriation were 16.63% and 9.88%, respectively.

The imputation credits allocated to the shareholders are based on the ICA balance as of the date of dividend distribution. The estimated creditable ratio for the 2006 earnings appropriation may be adjusted when the imputation credits are distributed.

e. Income tax returns through 2001 had been examined by the tax authorities. However, the Corporation disagreed with the examination result of the income tax returns from 1999 to 2001, and filed requests for reexamination.

18.EARNINGS PER SHARE

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

In New Taiwan Dollar				
	For the Years Ended December 31			
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS				
Income from continuing operations	\$3.54	\$3.28	\$3.74	\$3.31
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$3.54</u>	<u>\$3.28</u>	<u>\$3.74</u>	<u>\$3.31</u>
Diluted EPS				
Income from continuing operations	\$3.53	\$3.26	\$3.68	\$3.26
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$3.53</u>	<u>\$3.26</u>	<u>\$3.68</u>	<u>\$3.26</u>

	Amounts (Numerator)		Shares (Denomina- tor) (Thousands)	EPS (NT\$)	
	Before Income Tax	After Income Tax		Before Income Tax	After Income Tax
For the year ended December 31, 2006					
Weighted-average number of outstanding shares			4,978,245		
Less buyback of issued shares			<u>(44,531)</u>		
Basic EPS					
Income of common shareholders	\$17,478,536	\$16,170,741	4,933,714	<u>\$3.54</u>	<u>\$3.28</u>
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	22,764	17,073	19,022		
2nd convertible bonds (with implied yield rate of 3.3%)	<u>13,483</u>	<u>10,112</u>	<u>15,298</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$17,514,783</u>	<u>\$16,197,926</u>	<u>4,968,034</u>	<u>\$3.53</u>	<u>\$3.26</u>
For the year ended December 31, 2005					
Weighted-average number of outstanding shares			4,941,187		
Less buyback of issued shares			<u>(42,936)</u>		
Basic EPS					
Income of common shareholders	\$18,311,457	\$16,236,698	4,898,251	<u>\$3.74</u>	<u>\$3.31</u>
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%)	<u>35,242</u>	<u>26,432</u>	<u>39,736</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$18,431,557</u>	<u>\$16,326,774</u>	<u>5,007,740</u>	<u>\$3.68</u>	<u>\$3.26</u>

19.LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	For the Year Ended December 31					
	2006			2005		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Labor cost						
Salary	\$416,853	\$1,205,679	\$1,622,532	\$326,589	\$950,519	\$1,277,108
Labor and health insurance	25,649	69,301	94,950	22,805	50,347	73,152
Pension	23,769	61,048	84,817	14,939	33,585	48,524
Other	<u>27,567</u>	<u>83,302</u>	<u>110,869</u>	<u>28,034</u>	<u>66,041</u>	<u>94,075</u>
	<u>\$493,838</u>	<u>\$1,419,330</u>	<u>\$1,913,168</u>	<u>\$392,367</u>	<u>\$1,100,492</u>	<u>\$1,492,859</u>
Depreciation	\$5,104,861	\$381,362	\$5,486,223	\$4,372,515	\$259,001	\$4,631,516
Amortization	769,424	132,091	901,515	583,341	108,474	691,815

20.FINANCIAL INSTRUMENT TRANSACTIONS

a. Fair value information

	December 31			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	\$11,109,207	\$11,109,207	\$600,000	\$600,035
Available-for-sale financial assets	162,893	162,893	9,277,177	11,360,000
Liabilities				
Bonds payable (including current portion)	13,814,448	13,741,839	19,127,145	19,240,182
Derivative financial instruments				
Liabilities				
Interest rate swap contracts	291,046	291,046	-	330,912

Effective January 1, 2006, the Corporation adopted newly issued SFAS No. 34, “Accounting for Financial Instruments,” and, therefore, the derivative financial instruments were not recognized in the 2005 financial statements. Please refer to Note 3 for the related description of the cumulative effect of changes in accounting principle and the adjustments in equity as a result of the adoption of newly issued SFASs.

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

- (a) Financial assets at fair value through profit or loss and available-for-sale financial assets - based on quoted prices in an active market on the balance sheet date.
- (b) Because there is no active market and a reliable fair value could only be verified at a more than reasonable cost, the fair values of investments in unlisted stocks carried at cost or accounted for using equity method can not be estimated.
- (c) Bonds payable - based on the over-the-counter quotations in December.
- (d) Derivative financial instruments - based on valuation results provided by banks. As of December 31, the financial instrument held by the Corporation turned into financial liability, evaluated by the bid price of counter party.
- (e) The above financial instruments do not include cash and cash equivalents, notes and accounts receivables, pledged time deposits, refundable deposits, notes and accounts payable and guarantee deposits. Because of the short maturities of these instruments, the carrying values represent a reasonable basis to estimate fair values.

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

d. The financial assets exposed to fair value interest rate risk amounted to \$7,496,299 thousand and \$8,740,171 thousand as of December 31, 2006 and 2005, respectively, and the financial liabilities exposed to fair value interest rate risk amounted to \$6,314,448 thousand and \$11,627,145 thousand as of December 31, 2006 and 2005, respectively. The financial assets exposed to cash flow interest rate risk amounted to \$673,136 thousand and \$309,220 thousand as of December 31, 2006

and 2005, respectively, and the financial liabilities exposed to cash flow interest rate risk amounted to \$7,791,046 thousand and \$7,830,912 thousand as of December 31, 2006 and 2005, respectively.

e. Information on financial risks:

- (a) Market risk
The interest rate swap (IRS) contracts are used to hedge interest rate fluctuation on its liabilities with anti-floating interest rates. Since the interest receivable and payable are settled at net amounts on the settlement date. The market risk is immaterial.
- (b) Credit risk
Credit risk represents the potential impacts to financial assets that the Corporation might encounter if counter-parties or third parties breach the contracts. Factors that affect the impacts include credit risk concentration, components of financial instruments, contract amount and other receivables. The Corporation's evaluation of credit risk exposure as of December 31, 2006 and 2005 were both zero because all of counter-parties are reputable financial institutions with good credit ratings. The Corporation's maximum credit risk exposure of each financial instrument is the same as its carrying value.
The credit risk amount listed above is an evaluation over the contracts with positive fair value at the balance sheet date and the contracts of off-balance-sheet commitments and guarantees. Significant concentration of credit risk exists when counter-parties in financial instrument transactions significantly concentrate on one individual, or when there are a number of counter-parties in financial instrument transactions, but these counter-parties are engaged in similar business activities and have similar economic characteristics so that their abilities to perform contractual obligations would be concurrently affected in similar economic changes or other situations. The characteristics of credit risk concentration include the nature of the debtors' operating activities. The Corporation does not rely significantly on single transaction and transact with single client or in the same region.
- (c) Liquidity risk
The Corporation entered into IRS transactions to hedge cash flow risks. Because the IRS contracts are settled at net amounts, the expected cash demand is insignificant. The Corporation has sufficient operating capital to meet cash demand.

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

The Corporation uses IRS contracts to hedge fluctuation on its liabilities with anti-floating interest rates.

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

21.RELATED-PARTY TRANSACTIONS

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

Related Party	Relationship with the Corporation
Taiwan Cellular Co., Ltd. (TCC; formerly Taihsing Den Syun Co., Ltd.)	Subsidiary
TransAsia Telecommunications Inc. (TAT; formerly TAT International Telecommunications Co., Ltd.)	Subsidiary
Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Subsidiary
Mobitai Communications (Mobitai; formerly Tai Ya International Telecommunications Co., Ltd. (TYIT))	Subsidiary (merged with the former Mobitai on January 1, 2006 and renamed as Mobitai Communications)
TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary
TT&T Life Insurance Agency Co., Ltd.	Subsidiary
TWM Holding Co., Ltd. (formerly Simax Investment Holdings Ltd.)	Subsidiary
TT&T Holdings Co., Ltd.	Subsidiary
Dalian Xinkai Teleservices & Technologies Ltd.	Subsidiary (all shares were sold in July 2006)
Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary
Taiwan Mobile Foundation (TWM Foundation)	Over one third of the Foundation's issued fund came from the Corporation
Howin Technologies Co., Ltd. (HTC)	Equity-method investee of TCC (formerly Taihsing Den Syun Co., Ltd.) and the former TAT (all shares were sold in June 2006)
Tai Yi Digital Broadcasting Co., Ltd.	Equity-method investee under control of TCC (formerly Taihsing Den Syun Co., Ltd.)
Fubon Life Assurance Co., Ltd.	Same chairman
Fubon Securities Investment Trust Co., Ltd.	Related party in substance
Chung Hsing Constructions Co., Ltd.	Related party in substance
Taiwan Fixed Network Co., Ltd. (TFN)	Related party in substance
Fubon Land Development Co., Ltd.	Related party in substance

(Continued)

Related Party	Relationship with the Corporation
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	Related party in substance
Fubon Securities Co., Ltd. (FSC)	Related party in substance
Fubon Insurance Co., Ltd. (Fubon Ins.)	Related party in substance
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)
The Tele-World Shop Pte Ltd.	Indirect investee under Corporation's control (liquidated in July 2005)
Mobitai Communications (the former Mobitai)	Subsidiary (merged into TYIT on January 1, 2006)
Taiwan Tele-Shop Co., Ltd. (TTS)	Subsidiary (merged into the former TCC 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 Cellular Co., Ltd. (the former TCC)	Subsidiary (merged into TCC (formerly Taihsing Den Syun Co., Ltd.) on May 1, 2006)
TransAsia Telecommunications Inc. (the former TAT)	Subsidiary (merged into TATIT on June 27, 2006)

(Concluded)

b. Significant transactions with related parties were summarized below:

(a) Operating revenues

	2006		2005	
	Amount	% of Total Revenues	Amount	% of Total Revenues
TFN	\$1,411,029	3	\$1,330,153	3
TAT (including the former TAT)	693,059	1	1,478,940	3
Mobitai	285,079	1	-	-
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	19,771	-	24,818	-
The former Mobitai	-	-	652,632	1
TT&T	-	-	15,471	-
	<u>\$2,408,938</u>		<u>\$3,502,014</u>	

The Corporation rendered telecommunication services to the above companies. The average collec-

tion period for notes and accounts receivable was approximately two months.

(b) Operating costs

	2006		2005	
	Amount	% of Total Costs	Amount	% of Total Costs
TFN	\$868,958	4	\$854,665	4
TAT (including the former TAT)	341,755	2	633,163	3
Mobitai	193,763	1	-	-
Fubon Ins.	89,322	-	107,429	1
The former Mobitai	-	-	230,314	1
	<u>\$1,493,798</u>		<u>\$1,825,571</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

Acquisition of property and equipment

	2006	
	Description	Amount
TFN	Land and buildings	\$1,565,000
TT&T	Office equipment, miscellaneous equipment and deferred charges	59,476
		<u>\$1,624,476</u>

(1) The Corporation bought a real estate from TFN based on the need for base station. Only a natural person could be the owner of the farmland due to the related regulations. The Corporation bought the farmland located in Yang-mei, Taoyuan for the amount of \$12,000 thousand through setting up of a fiduciary contract with the landholder in December 2006 and is applying for the change of the land category. The land was pledged as collateral to the Corporation and the Corporation uses the land for operation purpose.

(2) For the real estate bought from TFN, the transaction amount was based on the appraisal value from the appraisal institution.

	2006	
	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>

The above acquisitions were made at arm's length.

Disposal of property and equipment

	2006	
	Description	Amount
TFN	Land and buildings	<u>\$152,000</u>

	2006	
	Description	Amount
TFN	Telecommunication equipment, miscellaneous equipment and deferred charges	<u>\$2,093,154</u>

The above disposal was made at arm's length, the transaction amount was based on the appraisal value from the appraisal institution. And it resulted in a disposal loss of \$3,848 thousand and disposal gain of \$70,085 thousand for the years ended December 31, 2006 and 2005, respectively.

(d) Rental income

	Leased Sites Equipment	2006	2005
TFN	Ji-lung Road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc.	\$27,410	\$30,187
TT&T	Tang-Cherng and Tai-Chung offices telecommunication equipment and miscellaneous equipment	34	97,280
		<u>\$27,444</u>	<u>\$127,467</u>

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

(e) Cash in banks

	December 31			
	2006		2005	
	Amount	%	Amount	%

(1) Cash in banks

TFCB	<u>\$58,493</u>	1	<u>\$106,816</u>	1
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(2) Pledged time deposits

TFCB	<u>\$10,000</u>	100	<u>\$10,000</u>	100
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(f) Receivables and payables

	December 31			
	2006		2005	
	Amount	%	Amount	%
(1)Accounts receivable				
TFN	\$222,747	4	\$141,698	3
TAT	80,210	1	-	-
Mobitai	29,897	1	-	-
The former TAT	-	-	152,427	3
The former Mobitai	-	-	230,606	4
Other	3696	-	3,960	-
	<u>\$336,550</u>		<u>\$528,691</u>	
(2)Other receivables				
TAT	\$139,777	28	\$-	-
Mobitai	99,075	20	-	-
FSC	8	-	43,162	6
The former Mobitai	-	-	263,663	39
The former TAT	-	-	151,629	23
The former TCC	-	-	21,810	3
Other	16,000	3	17,040	3
	<u>\$254,860</u>		<u>\$497,304</u>	
(3)Accounts payable				
TAT	\$23,937	2	\$-	-
The former TAT	-	-	17,050	1
The former Mobitai	-	-	52,478	4
	<u>\$23,937</u>		<u>\$69,528</u>	
(4)Accrued expenses				
TT&T	\$153,397	4	\$206,309	6
TFN	55,074	1	12,771	-
The former TCC	-	-	20,525	1
	<u>\$208,471</u>		<u>\$239,605</u>	
(5)Other payables				
TAT	\$96,570	3	\$-	-
Mobitai	63,717	2	-	-
TFN	44,130	1	88,835	3
The former TAT	-	-	165,360	5
The former Mobitai	-	-	39,276	1
	<u>\$204,417</u>		<u>\$293,471</u>	

(Continued)

	December 31			
	2006		2005	
	Amount	%	Amount	%
(6) Other current liabilities - collections and temporary credits for the following				
TAT	\$202,048	23	\$-	-
Mobitai	95,468	11	-	-
TFN	34,262	4	32,822	4
TFCB	4,682	1	12,684	2
The former Mobitai	-	-	154,183	20
The former TAT	-	-	161,795	21
	<u>\$336,460</u>		<u>\$361,484</u>	
(7)Prepayments				
Fubon Ins.	\$70,985	13	\$7,029	1

(Concluded)

	For the Years Ended December 31	
	2006	2005
(g) Telecommunication service expenses		
TFN	\$66,424	\$20,951
(h) Commission expenses		
TT&T	\$-	\$42,804
TTS	-	29,247
	<u>\$-</u>	<u>\$72,051</u>
(i) Professional service fees		
TT&T	\$992,514	\$943,912
TTS	-	156,689
	<u>\$992,514</u>	<u>\$1,100,601</u>
(j) Miscellaneous purchases		
TT&T	\$15,300	\$-
(k) Insurance expenses		
Fubon Ins.	\$10,391	\$14,612
(l) Other expenses		
TT&T	\$24,109	\$33
(m) Donation		
TWM Foundation	\$21,000	\$24,400

(o) Other

- (1) 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 amounted to \$98,850 thousand and resulted in a loss of \$17,341 thousand.
- (2) On June 30, 2005, the Corporation sold 11,364 thousand shares of TTS's common shares to the former TCC at NT\$18.12 per share. The aggregate selling price was \$205,924 thousand.
- (3) For the years ended December 31, 2006 and 2005, the Corporation provided business services for service charges, which were recorded as deductions from related costs and expenses. The Corporation's service charges were as follows:

	For the Years Ended	
	December 31	
	2006	2005
The former TAT (including TAT)	\$667,254	\$710,549
The former Mobitai (including Mobitai)	375,292	205,030
	<u>\$1,042,546</u>	<u>\$915,579</u>

22.ASSETS PLEDGED

The assets pledged as collaterals for bank loans were as follows:

	December 31	
	2006	2005
Time deposits	\$10,000	\$10,000
Fixed assets, net carrying value	-	10,883,199
	<u>\$10,000</u>	<u>\$10,893,199</u>

23.COMMITMENTS AND CONTINGENT EVENTS

- a. To enhance 3G mobile communications, expand network coverage and increase the service functions, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2006. As of December 31, 2006, the above amount has not yet paid.**

- b. To enhance the intensity and widen the coverage of the 3G signal and to increase the service functions and items provided by 3G mobile telecommunications, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2004. In accordance with the terms of the contract, as of December 31, 2006, payments of \$3,062,442 thousand has been made.**

- c. 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, 2006, payments of US\$17,310 thousand and NT\$66,902 thousand have been made, respectively.**

- d. Unused letters of credit for acquisition of equipment were EUR269 thousand as of December 31, 2006.**

- e. Future minimum rental payments as of December 31, 2006 for significant operating lease agreements were summarized as follows:**

	Amount
2007	\$26,223
2008	30,002

24.ADDITIONAL DISCLOSURES

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

- a. Financing provided: Table 1 (attached).**

- b. Endorsement/guarantee provided: None.**

- c. Marketable securities held: Table 2 (attached).**

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

- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital:** Table 4 (attached).
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital:** Table 5 (attached).
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital:** Table 6 (attached).
- h. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital:** Table 7 (attached).
- i. Names, locations, and related information of investees on which the Corporation exercised significant influence:** Table 8 (attached).

- j. Derivative transactions**
The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on anti-floating interest rates of bonds, which are settled semiannually. Please refer to Note 20 for the related information.

Financial Instru- ment	Term	Contract Amount
Interest rate swap contracts	Floating interest rate in exchange for fixed interest rates of 2.25%	\$2,500,000
	Floating interest rate in exchange for fixed interest rate of 2.45%	5,000,000

The Corporation entered into IRS contracts to hedge anti-floating interest rate fluctuation. For the years ended December 31, 2006 and 2005, the Corporation recognized losses of \$141,434 thousand and gains of \$4,386 thousand, respectively, recorded as addition to and deduction from interest expense.

- k. 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 in-flow or outflow of capital, ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Table 9 (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.

25.SEGMENT INFORMATION

- a. Industry**
The Corporation is primarily a wireless communication services provider.

- b. Foreign operations**
The Corporation has no revenue-generating unit that operates outside the ROC.
- c. Foreign revenues**
The Corporation has no foreign revenues.
- d. Customers with revenues exceeding 10% of the total net operating revenues were as follows:**

Com- pany	2006		2005	
	Amount	Per- cent- age of Oper- ating Rev- enue	Amount	Per- centage of Oper- ating Rev- enue
Chunghwa Telecom Co., Ltd.	\$9,122,441	19	\$9,484,888	20

TABLE 1

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
FINANCING PROVIDED

YEAR ENDED DECEMBER 31, 2006 (In Thousands of New Taiwan Dollars)															
No.	Financing Name	Counter-party	Financial Statement Account	Maximum Balance for the Period	Ending Balance	Interest Rate	Type of Financing		Transaction Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Financing Limit for Each Borrowing Company (Note)	Financing Company's Financing Amount Limits (Note)
												Item	Value		
1	TransAsia Telecommunica- tions Inc.	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Other receiv- ables	\$300,000	\$-	2.674%	Necessary for short-term financing		\$-	Operating capital	\$-	-	\$-	\$2,810,635	\$2,810,635

Note: The amount of financing provided, including business relationship and short-term financing, shall not exceed 20% of the net worth of the financing company.

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES HELD

DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company		Financial Statement Account	December 31, 2006			
					Shares/ Units (Thousands)	Carrying Value	Percent- age of Ownership	Market Value or Net Asset Value (Note 1)
The Corporation	Beneficiary certificate							
	Fuh-Hwa Bond Fund	-		Financial assets at fair value through profit or loss - current	45,175	\$602,192	-	\$602,192 (Note 2)
	ABN AMRO Income Fund	-		Financial assets at fair value through profit or loss - current	25,387	401,917	-	401,917 (Note 2)
	ABN AMRO Bond Fund	-		Financial assets at fair value through profit or loss - current	126,959	1,913,171	-	1,913,171 (Note 2)
	ABN AMRO Select Bond Fund	-		Financial assets at fair value through profit or loss - current	35,432	401,565	-	401,565 (Note 2)
	AIG Taiwan Bond Fund	-		Financial assets at fair value through profit or loss - current	153,928	1,962,733	-	1,962,733 (Note 2)
	Dresdner Bond Dam Fund	-		Financial assets at fair value through profit or loss - current	130,038	1,506,803	-	1,506,803 (Note 2)
	Fubon Jin-Ju-I Fund	-		Financial assets at fair value through profit or loss - current	81,999	1,002,954	-	1,002,954 (Note 2)
	NITC Bond Fund	-		Financial assets at fair value through profit or loss - current	17,122	2,817,260	-	2,817,260 (Note 2)
	Prudential Financial Bond Fund	-		Financial assets at fair value through profit or loss - current	13,686	200,015	-	200,015 (Note 2)
	JF (Taiwan) Bond Fund	-		Financial assets at fair value through profit or loss - current	19,702	300,597	-	300,597 (Note 2)
	Stock							
	Chunghwa Telecom Co., Ltd.	-		Available-for-sale financial assets - current	2,688	162,893	0.028	162,893 (Note 3)
	Taiwan Fixed Network Co., Ltd.	Related party in substance		Financial assets carried at cost - non-current	637,000	3,700,944	9.87	6,673,229
TransAsia Telecommunications Inc.	Bridge Mobile Pte Ltd.	-		Financial assets carried at cost - non-current	1,000	32,160	12.50	21,543
	TransAsia Telecommunications Inc.	Subsidiary		Long-term investments - equity method	1,245,846	14,009,973	100.00	14,053,173
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Subsidiary		Long-term investments - equity method	325,000	3,877,659	100.00	3,894,039
	Beneficiary certificate							
	ABN AMRO Bond Fund	-		Financial assets at fair value through profit or loss - current	46,758	\$704,606	-	\$704,606 (Note 2)
	AIG Taiwan Bond Fund	-		Financial assets at fair value through profit or loss - current	71,000	905,330	-	905,330 (Note 2)
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Prudential Financial Bond Fund	-		Financial assets at fair value through profit or loss - current	37,966	554,861	-	554,861 (Note 2)
	JF (Taiwan) Bond Fund	-		Financial assets at fair value through profit or loss - current	42,808	653,130	-	653,130 (Note 2)
	Fubon Jin-Ju-I Fund	-		Financial assets at fair value through profit or loss - current	12,267	150,035	-	150,035 (Note 2)
	Stock							
	Arcoa Communication Co., Ltd.	-		Financial assets carried at cost - non-current	6,998	67,731	5.21	- (Note 4)
	Taiwan Fixed Network Co., Ltd.	Related party in substance		Financial assets carried at cost - non-current	4,900	42,864	0.08	54,089
	Parawin Venture Capital Corp.	-		Financial assets carried at cost - non-current	3,000	25,144	3.00	- (Note 4)
	Transportation High Tech Inc.	-		Financial assets carried at cost - non-current	1,200	- (Note 5)	12.00	- (Note 4)
	WEB Point Co., Ltd.	-		Financial assets carried at cost - non-current	803	7,084	3.17	- (Note 4)
	Sunnet Technologies Co., Ltd.	-		Financial assets carried at cost - non-current	375	3,265	1.51	- (Note 4)
	Mobitai Communications	Subsidiary		Long-term investments - equity method	200,000	2,499,650	100.00	2,513,562
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary		Long-term investments - equity method	70,000	540,640	100.00	540,640
	Tai Yi Digital Broadcasting Co., Ltd.	Subsidiary		Long-term investments - equity method	2,495	24,410	49.90	24,410
	TWM Holding Co., Ltd.	Subsidiary		Long-term investments - equity method	1 share	325,693	100.00	325,693
TWM Holding Co., Ltd.	ADS							
	Hurray! Holding Co., Ltd.	-		Available-for-sale financial assets - current	1,080	US\$6,696	5.02	US\$6,696 (Note 3)
Mobitai Communications	Stock							
	Yes Mobile Holdings Company	-		Financial assets carried at cost - non- current	74	- (Note 5)	0.19	- (Note 4)
Taiwan Teleservices & Technologies Co., Ltd.	Stock							
	TT&T Life Insurance Agency Co., Ltd.	Subsidiary		Long-term investments - equity method	300	\$3,021	100.00	\$3,021
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary		Long-term investments - equity method	300	2,703	100.00	2,703
	TT & T Holdings Co., Ltd.	Subsidiary		Long-term investments - equity method	1,300	41,565	100.00	41,565
TT&T Holdings Co., Ltd.	Stock							
	Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary		Long-term investments - equity method	-	US\$1,268	100.00	US\$1,268

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 on December 31, 2006.
Note 3:Based on the closing price on December 31, 2006.
Note 4:As of January 11, 2007, the independent auditors' report date, the investee's net value was unavailable.
Note 5:Deducted impairment loss recognized in 2004.(Concluded)

TABLE 3

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR
PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship		Beginning Balance		Acquisition		Disposal				Ending Balance	
						Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
The Corporation	Beneficiary certificate														
	Fubon Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-		25,522	\$400,000	-	\$-	25,522	\$400,145	\$400,023	\$122	-	\$-
	Fubon Ju-I II Fund	Financial assets at fair value through profit or loss - current	-	-		13,916	200,000	-	-	13,916	200,072	200,012	60	-	-
	Fuh-Hwa Albatross Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	44,641	500,000	44,641	501,202	500,000	1,202	-	-
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	98,134	1,300,000	52,959	702,108	700,000	2,108	45,175	602,192 (Note 1)
	ABN AMRO Income Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	25,387	400,000	-	-	-	-	25,387	401,917 (Note 1)
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	160,324	2,400,000	33,365	500,000	498,035	1,965	126,959	1,913,171 (Note 1)
	ABN AMRO Select Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	106,679	1,200,000	71,247	803,071	800,000	3,071	35,432	401,565 (Note 1)
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	189,406	2,400,000	35,478	450,000	448,233	1,767	153,928	1,962,733 (Note 1)
	Dresdner Bond Dam Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	217,137	2,500,000	87,099	1,003,660	1,000,000	3,660	130,038	1,506,803 (Note 1)
	Fubon Chi-Shun III Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	47,546	500,000	47,546	500,000	500,599	599	-	-(Notes 1 and 2)
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	81,999	1,000,000	-	-	-	-	81,999	1,002,954 (Notes 1 and 2)
	NITC Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	19,872	3,250,000	2,750	450,000	448,262	1,738	17,122	2,817,260 (Note 1)
	NITC Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	35,789	500,000	35,789	501,496	500,000	1,496	-	-
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	13,686	200,000	-	-	-	-	13,686	200,015 (Note 1)
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	39,521	600,000	19,819	300,739	300,000	739	19,702	300,597 (Note 1)
	Stock														
	Chunghwa Telecom Co., Ltd.	Available-for-sale financial assets - current	-	-		200,000	9,277,177	2,688	-	200,000	11,265,915	9,154,936	2,110,979	2,688	162,893 (Note 1)
	The former TransAsia Telecommunications Inc.	Long-term investments - equity method	TransAsia Telecommunications Inc.	Subsidiary		328,645	12,458,466	-	-	328,645	3 (Note 3)	12,458,465	1 (Note 3)	-	-(Note 3)
	TransAsia Telecommunications Inc.	Long-term investments - equity method	-	Subsidiary		-	-	1,245,846	12,458,463	-	-	-	-	1,245,846	14,009,973 (Note 4)
	Taiwan Cellular Co., Ltd.	Long-term investments - equity method	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Subsidiary		44,300	992,550	-	-	44,300	-	1,504,634 (Note 5)	-(Note 5)	-	-(Note 5)
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Long-term investments - equity method	-	Subsidiary		386,972	3,781,996	50,000	500,000	-	-	-	-	325,000	3,877,659 (Note 6)

(Continued)

TABLE 3

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR
PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship		Beginning Balance		Acquisition		Disposal				Ending Balance	
						Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
TransAsia Telecommunica-tions Inc.	Beneficiary certificate														
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	46,758	700,000	-	-	-	-	46,758	704,606 (Note 1)
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	94,744	1,200,000	23,744	302,712	300,000	2,712	71,000	905,330 (Note 1)
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	68,924	1,000,000	30,958	450,000	448,437	1,563	37,966	554,861 (Note 4)
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	42,808	650,000	-	-	-	-	42,808	653,130 (Note 4)
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-		-	-	12,267	150,000	-	-	-	-	12,267	150,035 (Note 4)
	Stock														
	The former TransAsia Telecommunica-tions Inc.	Long-term investments - equity method	The Corpora-tion	Ultimate parent		-	\$-	328,645	\$12,458,466	328,645	\$-	\$12,458,466	\$- (Note 3)	-	\$- (Note 3)
Mobitai Communi-cations	Stock														
	The former Mobitai Communi-cations	Long-term investments - equity method	-	-		365,078	3,532,794	-	-	365,078	-	3,532,794	- (Note 7)	-	- (Note 7)
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Stock														
	Taiwan Cellular Co., Ltd.	Long-term investments - equity method	The Corpora-tion	Ultimate parent		-	-	44,300	-	44,300	-	- (Note 8)	- (Note 8)	-	-
	TWM Holding Co., Ltd.	Long-term investments - equity method	-	-		-	-	1 share	292,961	-	-	-	-	1 share	325,693 (Note 9)
TWM Hold-ing Co., Ltd.	ADS														
	Hurray! Holding Co., Ltd.	Available-for-sale financial assets - current	-	-		-	-	1,080	US\$5,771	-	-	-	-	1,080	US\$6,696 (Note 1)

Note 1: The amount included the revaluation gain on financial assets.

Note 2: Fubon Chi-Shun III Fund merged into Fubon Jin-Ju-I Fund on October 16, 2006, held 47,331 units on the date of consolidation, and transferred carrying value of \$500,000 thousand into Fubon Jin-Ju-I Fund 41,032 units.

Note 3: The amount included the investment loss adjustment of \$1 thousand. For its reorganization, the Corporation retained 80 shares of the former TransAsia Telecommunications Inc. and established TAT International Telecommunication Co., Ltd. by investing the remaining holding shares of the former TransAsia Telecommunications Inc., with a carrying value of \$12,458,463 thousand. There was no gain or loss on this share disposal. TAT International Telecommunications Co., Ltd. merged with the former TransAsia Telecommunications Inc., with TAT International Telecommunications Co., Ltd. as the surviving company and renamed as "TransAsia Telecommunications Inc." on June 27, 2006. The Corporation received acquisition price amounting to \$3 thousand.

Note 4: The amount included the investment income adjustment of \$1,551,510 thousand.

Note 5: For its reorganization, Taihsing Den Syun Co., Ltd. merged with the Taiwan Cellular Co., Ltd., with Taihsing Den Syun Co., Ltd. as the surviving company and renamed as Taiwan Cellular Co., Ltd. on May 1, 2006. There was no gain or loss on this share disposal. The amount included (a) the investment income adjustment of \$31,199 thousand; (b) the reclassification of unrealized gain from intercompany transactions resulting from the sale of investment of Howin Technologies Co., Ltd. amounting to \$484,380 thousand and (c) cumulative translation adjustments of (\$3,495) thousand.

Note 6: The amount included (a) the capital reduction adjustment of \$1,119,715 thousand; (b) the investment income adjustment of \$1,160,351 thousand; (c) the additional paid-in capital 5,083 thousand; (d) the reclassification of unrealized gain from intercompany transactions resulting from the sale of investment of Howin Technologies Co., Ltd. amounting to (\$484,380) thousand; (e) cumulative translation adjustments of \$4,115 thousand and (f) financial asset of unrealized gain \$30,209 thousand.

Note 7: For its reorganization, Mobitai Communications merged with the former Mobitai Communications, with Mobitai Communications as the surviving company. There was no gain or loss on this share disposal.

Note 8: For its reorganization, Taihsing Den Syun Co., Ltd. merged with the Taiwan Cellular Co., Ltd., with Taihsing Den Syun Co., Ltd. as the surviving company and renamed as Taiwan Cellular Co., Ltd. There was no gain or loss on this share disposal.

Note 9: The amount included (a) the investment income adjustment of \$1,552 thousand; (b) the recognition of cumulative translation adjustment of \$971 thousand and unrealized gain of \$30,209 thousand on financial assets.

(Concluded)

TABLE 4

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
Acquisition of individual real estate at costs of
at least \$100 million or 20% of the paid-in capital

YEAR ENDED DECEMBER 31, 2006 (In Thousands of New Taiwan Dollars)														
Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship		Prior transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
								Owner	Relationship	Transfer Date	Amount			
The Corporation	Land and buildings	2006.12.13	\$1,565,000	Finish payment	Taiwan Fixed Network Co., Ltd.	Related party in substance		Crowell Development Corp.	None	2001.2.22	\$1,483,850	Appraisal report (depending on average five appraisal companies)	Operating purpose	-
								Suretone Telecom. Inc.	None	2001.3.16	20,000	Appraisal report	Operating purpose	-

TABLE 5

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
Disposal of individual real estate at prices of
at least \$100 million or 20% of the paid-in capital

YEAR ENDED DECEMBER 31, 2006 (In Thousands of New Taiwan Dollars)														
Company Name	Types of Property	Transact-ion Date	Original Acquisition Date	Carrying Value	Transaction Amount	Receivable Term		Gain on disposal	Counter-party	Nature of Relationship	Purpose of disposal	Price Reference	Other Terms	
The Corporation	Land and buildings	2006.12.13	2000.6.30	155,848	152,000	Finish receipts		(3,848)	Taiwan Fixed Network Co., Ltd.	Related party in substance	Appropriately use assets to sufficient	Appraisal report	-	

TABLE 6

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES
AMOUNTING TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL

YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

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. (including the former TAT)	Subsidiary	Sale	\$(693,059)		(1)	Based on contract terms	-	-	\$80,210 (Note 1)	1	
			Purchase	341,755		2	Based on contract terms	-	-	(23,937)	(2)	
	Taiwan Fixed Network Co., Ltd.	Related party in substance	Sale	(1,411,029)		(3)	Based on contract terms	-	-	222,747	4	
			Purchase	868,958		4	Based on contract terms	-	-	54,674 (Note 3)	1	
	Mobitai Communications	Subsidiary	Sale	(285,079)		(1)	Based on contract terms	-	-	29,897	-	
			Purchase	193,763		1	Based on contract terms	-	-	(644)	-	
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Purchase	992,514		(Note 2)	Based on contract terms	-	-	(153,397) (Note 3)	-	
TransAsia Telecommunications Inc. (including the former TAT)	The Corporation	Ultimate parent	Sale	(337,170)		(4)	Based on contract terms	-	-	23,937	2	
			Purchase	693,026		20	Based on contract terms	-	-	(83,496)	(28)	
Mobitai Communications	The Corporation	Ultimate parent	Sale	(193,537)		(4)	Based on contract terms	-	-	644	-	
			Purchase	285,050		12	Based on contract terms	-	-	(19,612)	(10)	
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Sale	(989,923)		(83)	Based on contract terms	-	-	152,601	91	

Note 1: Disclosed with the ending balance of TransAsia Telecommunications Inc.
Note 2: Recognized as operating expenses.
Note 3: Recognized as accrued expenses.

TABLE 7

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
RECEIVABLES FROM RELATED PARTIES AMOUNTING TO
AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL

YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Ending Balance		Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts
						Amount	Action Taken		
The Corporation	TransAsia Telecommunications Inc.	Subsidiary	Accounts receivable	\$80,210	5.97 (Note 1)	\$-	-	\$-	\$-
			Other receivables	139,777	-	-	-	-	-
	Mobitai Communications	Subsidiary	Accounts receivable	29,897	2.19	-	-	-	-
			Other receivables	99,075	-	-	-	-	-
	Taiwan Fixed Network Co., Ltd.	Related party in substance	Accounts receivable	222,747	7.74	-	-	21,996	-
			Other receivables	8,265	-	-	-	-	-
TransAsia Telecommunications Inc.	The Corporation	Ultimate parent	Accounts receivable	23,937	16.45	-	-	-	-
			Other receivables	297,019	-	-	-	96,570	-
Mobitai Communications	The Corporation	Ultimate parent	Accounts receivable	4,107	6.78	-	-	2,713	-
			Other receivables	159,229	-	-	-	63,717	-
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent	Accounts receivable	152,601	5.91	-	-	-	-

Note 1: The calculation included TransAsia Telecommunications Inc. and the former TransAsia Telecommunications Inc.

TABLE 8

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
NAMES, LOCATIONS, AND OTHER INFORMATION OF
INVESTEES ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

YEAR ENDED DECEMBER 31, 2006 (In Thousands of New Taiwan Dollars or U.S. Dollars and RMB)											
Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2006			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				December 31, 2006	December 31, 2005	Shares (Thousands)	Percentage of Ownership	Carrying Value			
The Corporation	Taiwan Cellular Co., Ltd.	Taipei, Taiwan	Telecommunication equipment retailing and wholesale	\$-	\$1,420,017	-	-	\$-	\$7,614	\$31,198	
	The former TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	-	10,408,388	-	-	-	602,042	(1)	
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taipei, Taiwan	Equipment installation and IT service	3,250,000	3,869,715	325,000	100	3,877,659	692,350	1,160,351	
	TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	12,458,463	-	1,245,846	100	14,009,973	1,594,710	1,551,510	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taiwan Teleservices & Technologies Co., Ltd.	Taipei, Taiwan	Call center service	91,277	327,146	70,000	100	540,640	96,433	NA	
	Mobitai Communications	Taipei, Taiwan	Wireless service provider	2,000,000	3,650,782	200,000	100	2,499,650	631,550	NA	
	Tai Yi Digital Broadcasting Co., Ltd.	Taipei, Taiwan	Telecommunication business and cell phone number agency of broadcasts	24,950	24,950	2,495	49.9	24,410	(646)	NA	
	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment	-	131,700	-	-	-	-	NA	
	TWM Holding Co. Ltd.	British Virgin Islands	Investment	US\$9,000	-	1 share	100	325,693	US\$47	NA	
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	3,000	3,000	300	100	3,021	9	NA	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	3,000	3,000	300	100	2,703	(62)	NA	
	TT&T Holdings Co., Ltd.	Samoa	Investment	46,386	83,530	1,300	100	41,565	US\$(85)	NA	
TT&T Holdings Co., Ltd.	Dalian Xinkai Teleservices & Technologies Ltd.	Dalian	Call center service	-	US\$1,511	-	-	-	-	NA	
	Xiamen Taifu Teleservices & Technologies Ltd.	Xiamen	Call center service	US\$1,300	US\$1,000	-	100	US\$1,268	RMB24	NA	
TransAsia Telecommunications Inc.	The former TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	-	-	-	-	-	602,042	NA	
The former TransAsia Telecommunications Inc.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment	-	2,250	-	-	-	-	NA	
Mobitai Communications	The former Mobitai Communications	Taichung, Taiwan	Wireless service provider	-	3,650,782	-	-	-	-	NA	

TABLE 9

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
INVESTMENT IN MAINLAND CHINA

YEAR ENDED DECEMBER 31, 2006 (In Thousands of New Taiwan Dollars or U.S. Dollars and RMB)												
Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Out-flow of Investment from Taiwan as of December 31, 2005		Investment Flows		Accumulated Out-flow of Investment from Taiwan as of December 31, 2006	% Ownership of Direct or In-direct Invest-ment	Investment Gain (Loss)	Carrying Value as of December 31, 2006	Accumulated Inward Re-mittance of Earnings as of December 31, 2006
						Outflow	Inflow					
Dalian Xinkai Teleser-vices & Technologies Ltd.	Call center service	RMB25,011 (NT\$104,526)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$666 (NT\$21,752)		\$-	US\$500 (NT\$16,330)	\$-	-	(US\$89) (NT\$2,907)	\$-	\$-
Xiamen Taifu Teleser-vices & Technologies Ltd.	Call center service	US\$1,300 (NT\$42,458)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$1,000 (NT\$32,660)		US\$300 (NT\$9,798)	-	US\$1,300 (NT\$42,458)	100% owner-ship of indirect investment by the Corporation's subsidiary	US\$3 (NT\$98)	US\$1,268 (NT\$41,413)	-

Accumulated Investment in Mainland China as of December 31, 2006	Investment Amounts Autho-rized by Investment Commis-sion, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
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US\$1,300 (NT\$42,458)	Note 2	Note 2
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Note 1: The above amounts were translated into New Taiwan Dollars at the exchange rate of US\$1=NT\$32.66 and RMB1=NT\$4.1792 as of December 31, 2006.
Note 2: The indirect investment made by Taiwan Teleservices & Technologies Co., Ltd., a subsidiary of the Corporation.

INDEPENDENT AUDITORS' REPORT

January 11, 2007

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”) and subsidiaries as of December 31, 2006 and 2005, 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 consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 consolidated financial position of Taiwan Mobile Co., Ltd. and subsidiaries as of December 31, 2006 and 2005, and the consolidated results of their operations and their consolidated cash flows for the years then ended, in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, Business Accounting Law, Criteria for Handling Business Accounting and accounting principles generally accepted in the Republic of China.

As disclosed in Note 3 to the consolidated financial statements, the Corporation and subsidiaries adopted on January 1, 2006 the newly issued Statements of Financial Accounting Standards (SFAS) No. 34 - “Accounting for Financial Instruments” and No. 36 - “Disclosure and Presentation of Financial Instruments” and the revisions of previously issued SFASs, which were amended to harmonize with SFAS Nos. 34 and 36.

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’ review 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 financial statements shall prevail.

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Par Value)

ASSETS	2006		2005		LIABILITIES AND SHAREHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
CURRENT ASSETS					CURRENT LIABILITIES				
Cash and cash equivalents (Notes 2, 4 and 22)	\$12,415,725	11	\$14,791,543	12	Notes payable	\$1,084	-	\$9,117	-
Financial assets at fair value through profit or loss - current (Notes 2, 3 and 5)	14,077,168	12	600,000	1	Accounts payable	1,809,069	1	1,872,785	2
Available-for-sale financial assets - current (Notes 2, 3 and 6)	381,569	-	9,277,177	8	Income taxes payable (Notes 2 and 18)	3,051,840	3	1,172,569	1
Notes receivable	11,833	-	14,048	-	Accrued expenses (Note 22)	4,008,682	3	4,163,571	3
Accounts receivable - third parties (Notes 2 and 7)	6,167,474	5	6,483,452	5	Other payables (Note 22)	3,482,799	3	2,845,662	2
Accounts receivable - related parties (Notes 2 and 22)	249,938	-	187,072	-	Advance receipts	1,015,535	1	1,084,473	1
Other receivables - third parties	263,048	-	236,274	-	Current portion of long-term liabilities (Notes 2, 14 and 23)	3,814,448	3	4,543,020	4
Other receivables - related parties (Note 22)	15,941	-	47,045	-	Guarantee deposits	119,083	-	165,502	-
Inventories (Note 2)	31,232	-	6,051	-	Other current liabilities (Note 22)	677,772	1	787,336	1
Prepayments (Note 22)	600,914	1	556,668	1	Total current liabilities	17,980,312	15	16,644,035	14
Deferred income tax assets - current (Notes 2 and 18)	185,973	-	177,372	-					
Pledged time deposits (Notes 22 and 23)	10,000	-	10,000	-	LONG-TERM LIABILITIES				
Other current assets	22,367	-	17,756	-	Hedging derivative financial liabilities (Notes 3, 21 and 25)	291,046	-	-	-
Total current assets	34,433,182	29	32,404,458	27	Bonds payable (Notes 2, 14 and 23)	10,000,000	9	14,584,125	12
					Total long-term liabilities	10,291,046	9	14,584,125	12
INVESTMENTS					OTHER LIABILITIES				
Financial assets carried at cost (Notes 2, 3 and 9)	3,879,192	3	4,006,307	3	Accrued pension cost (Notes 2 and 16)	-	-	90,580	-
Prepayments for long-term investments - non-current	-	-	24,950	-	Guarantee deposits	248,889	-	239,372	-
Total investments	3,879,192	3	4,031,257	3	Other (Notes 2 and 8)	-	-	473,921	-
					Total other liabilities	248,889	-	803,873	-
PROPERTY AND EQUIPMENT (Notes 2, 10, 22 and 23)									
Cost					Total liabilities	28,520,247	24	32,032,033	26
Land	5,040,980	4	3,971,337	3					
Buildings	3,044,455	3	2,531,057	2	SHAREHOLDERS' EQUITY (Notes 2 and 17)				
Telecommunication equipment	76,880,533	65	82,017,397	69	Parent's shareholders' equity				
Office equipment	191,418	-	373,229	-	Capital stock - \$10 par value				
Leased assets	1,276,190	1	1,284,961	1	Authorized: 6,000,000 thousand shares				
Leasehold improvements	75,228	-	278,510	-	Issued: 4,999,325 thousand shares in 2006 and 4,949,206				
Miscellaneous equipment	1,874,825	2	1,096,358	1	□thousand shares in 2005	49,993,251	42	49,492,065	41
Total cost	88,383,629	75	91,552,849	76	Entitlement certificates	-	-	29,871	-
Less accumulated depreciation	(30,640,536)	(26)	(29,454,617)	(24)	Capital surplus	8,748,571	7	7,905,337	7
	57,743,093	49	62,098,232	52	Retained earnings				
Construction in progress and advance payments	3,165,816	3	2,427,437	2	Legal reserve	10,128,401	9	8,504,731	7
Net property and equipment	60,908,909	52	64,525,669	54	Special reserve	3,350,000	3	2,201,631	2
					Unappropriated earnings	19,228,424	16	19,175,425	16
INTANGIBLE ASSETS					Other equity				
3G concession (Note 2)	8,972,509	7	9,720,218	8	Cumulative translation adjustments	3,860	-	3,240	-
Goodwill (Notes 2 and 11)	6,835,370	6	6,414,029	6	Unrealized losses on financial instruments	(147,423)	-	-	-
Total intangible assets	15,807,879	13	16,134,247	14	Treasury stock	(1,437,290)	(1)	(323,544)	-
						89,867,794	76	86,988,756	73
OTHER ASSETS					Minority interests	24,508	-	806,817	1
Assets leased to others (Notes 2 and 12)	722,041	1	927,360	1	Total shareholders' equity	89,892,302	76	87,795,573	74
Idle assets (Notes 2 and 12)	227,921	-	264,975	-					
Refundable deposits	301,960	-	310,034	-					
Deferred charges (Notes 2 and 13)	495,868	1	621,298	1					
Deferred income tax assets - non-current (Notes 2 and 18)	1,554,290	1	527,751	-					
Other (Notes 2, 16, 22 and 23)	81,307	-	80,557	-					
Total other assets	3,383,387	3	2,731,975	2					
TOTAL	\$118,412,549	100	\$119,827,606	100	TOTAL	\$118,412,549	100	\$119,827,606	100

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

(With Deloitte & Touche audit report dated January 11, 2007)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 22)				
Telecommunication service revenue	\$58,486,616	99	\$59,196,238	99
Other revenue	419,478	1	856,127	1
Total operating revenues	58,906,094	100	60,052,365	100
OPERATING COSTS (Notes 2, 20 and 22)				
Telecommunication service cost	24,669,382	42	24,214,061	40
Other cost	50,665	-	148,564	-
Total operating costs	24,720,047	42	24,362,625	40
GROSS PROFIT	34,186,047	58	35,689,740	60
OPERATING EXPENSES (Notes 2, 20 and 22)				
Marketing	10,438,834	18	10,663,919	18
Administrative	4,414,925	7	4,719,098	8
Total operating expenses	14,853,759	25	15,383,017	26
OPERATING INCOME	19,332,288	33	20,306,723	34
NON-OPERATING INCOME AND GAIN				
Gain on disposal of investments, net (Note 2)	2,132,972	4	17,920	-
Dividend income	644,323	1	940,000	2
Investment income recognized by the equity method, net (Notes 2 and 8)	554,770	1	-	-
Penalty income	222,637	-	248,256	-
Interest income	214,410	-	105,902	-
Revaluation gain on financial assets (Note 2)	70,135	-	-	-
Rental income (Note 22)	59,887	-	63,863	-
Exchange gain (Note 2)	59,612	-	-	-
Gain on disposal of property and equipment (Notes 2 and 22)	10,976	-	132,297	-
Other (Note 7)	548,864	1	417,119	1
Total non-operating income and gain	4,518,586	7	1,925,357	3
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal of property and equipment (Notes 2 and 22)	4,284,139	7	2,109,113	4
Interest expenses (Notes 2 and 10)	421,958	1	596,217	1

(Continued)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2006		2005	
	Amount	%	Amount	%
Impairment loss (Notes 2 and 12)	\$2,953	-	\$117,989	-
Investment loss recognized by the equity method, net (Notes 2 and 8)	-	-	108,146	-
Other (Notes 2 and 12)	234,066	-	418,739	1
Total non-operating expenses and losses	4,943,116	8	3,350,204	6
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	18,907,758	32	18,881,876	31
INCOME TAX EXPENSE (Notes 2 and 18)	2,692,882	4	2,385,859	4
INCOME FROM CONTINUING OPERATIONS	16,214,876	28	16,496,017	27
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3)	35	-	-	-
CONSOLIDATED NET INCOME	\$16,214,911	28	\$16,496,017	27
ATTRIBUTED TO				
Shareholders of the parent	\$16,170,741	28	\$16,236,698	27
Minority interests	44,170	-	259,319	-
	\$16,214,911	28	\$16,496,017	27

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	\$3.54	\$3.28	\$3.74	\$3.31
Diluted	\$3.53	\$3.26	\$3.68	\$3.26

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

The pro forma net income and earnings per share had Statement of Financial Accounting Standards (SFAS) No. 34, "Accounting for Financial Instruments," and SFAS No. 36, "Disclosure and Presentation of Financial Instruments," been adopted are as follows:

	2006	2005
CONSOLIDATED NET INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	\$16,170,706	\$16,292,233
EARNINGS PER SHARE		
Basic	\$3.28	\$3.33
Diluted	\$3.26	\$3.27

The accompanying notes are an integral part of the consolidated financial statements.
(With Deloitte & Touche audit report dated January 11, 2007) (Concluded)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2006 AND 2005
(In Thousands of New Taiwan Dollars, Except Per Share Amounts)

	Capital Stock			Capital Surplus	Retained Earnings Legal Reserve		Retained Earnings			Cumulative Translation Adjustments	Unrealized Gains of Financial Instruments	Total Treasury Stock	Minority Interests	Total Shareholders' Equity
	Capital Stock	Entitlement Certificates	Total				Special Reserve	Unappropriated	Total					
BALANCE, JANUARY 1, 2005	\$48,883,886	\$279,670	\$49,163,556	\$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	49,163,556	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
Translation adjustments	-	-	-	-	-		-	-	-	4,871	-	-	(995)	3,876
Transfer of treasury stock to employees	-	-	-	-	-		-	(173,981)	(173,981)	-	-	1,837,663	-	1,663,682
Conversion of convertible bonds to capital stock	608,179	(249,799)	358,380	646,464	-		-	-	-	-	-	-	-	1,004,844
Buyback of treasury stock	-	-	-	-	-		-	-	-	-	-	(319,790)	-	(319,790)
Consolidated net income in 2005	-	-	-	-	-		-	16,236,698	16,236,698	-	-	-	259,319	16,496,017
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	49,521,936	7,905,337	8,504,731		2,201,631	19,175,425	29,881,787	3,240	-	(323,544)	806,817	87,795,573
Appropriation of 2005 earnings														
Legal reserve	-	-	-	-	1,623,670		-	(1,623,670)	-	-	-	-	-	-
Special reserve	-	-	-	-	-		1,150,000	(1,150,000)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-		(1,631)	1,631	-	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-		-	(40,394)	(40,394)	-	-	-	-	(40,394)
Bonus to employees - cash	-	-	-	-	-		-	(403,940)	(403,940)	-	-	-	-	(403,940)
Cash dividends - \$2.61677 per share	-	-	-	-	-		-	(12,843,997)	(12,843,997)	-	-	-	-	(12,843,997)
Balance after appropriation	49,492,065	29,871	49,521,936	7,905,337	10,128,401		3,350,000	3,115,055	16,593,456	3,240	-	(323,544)	806,817	74,507,242
Translation adjustments	-	-	-	-	-		-	-	-	620	-	-	2,483	3,103
Transfer of treasury stock to employees	-	-	-	-	-		-	(57,372)	(57,372)	-	-	704,624	-	647,252
Conversion of convertible bonds to capital stock and entitlement certificates	501,186	(29,871)	471,315	843,234	-		-	-	-	-	-	-	-	1,314,549
Buyback of treasury stock	-	-	-	-	-		-	-	-	-	-	(1,818,370)	-	(1,818,370)
Consolidated net income in 2006	-	-	-	-	-		-	16,170,741	16,170,741	-	-	-	44,170	16,214,911
Effect of the first time adoption of new issued SFASs	-	-	-	-	-		-	-	-	-	1,834,639	-	-	1,834,639
Unrealized losses on financial assets, net	-	-	-	-	-		-	-	-	-	(1,982,062)	-	-	(1,982,062)
Decrease in minority interests	-	-	-	-	-		-	-	-	-	-	-	(854,012)	(854,012)
Adjustments for the change of consolidated entities	-	-	-	-	-		-	-	-	-	-	-	25,050	25,050
BALANCE, DECEMBER 31, 2006	\$49,993,251	\$-	\$49,993,251	\$8,748,571	\$10,128,401		\$3,350,000	\$19,228,424	\$32,706,825	\$3,860	\$(147,423)	\$(1,437,290)	\$24,508	\$89,892,302

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

(With Deloitte & Touche audit report dated January 11, 2007)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated net income	\$16,214,911	\$16,496,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	6,779,602	6,408,095
Loss on disposal of property and equipment, net	4,273,163	1,976,816
Gain on disposal of available-for-sale financial assets	(2,110,978)	-
Bad debts	1,196,051	964,166
Amortization	1,044,535	1,428,752
Deferred income taxes	(962,379)	248,086
Investment (gain) loss recognized under the equity method, net	(554,770)	108,146
Cash dividends received from equity-method investees	138,210	456,250
Pension cost	(77,742)	(47,294)
Loss on buyback of bonds payable	59,982	191,109
Accrued interest compensation	36,247	120,100
Gain on disposal of idle assets, net	(9,681)	(356)
Provision (reversal of allowance) for loss on inventories	8,449	(19,275)
Impairment loss	2,953	117,989
Gain on disposal of long-term investments, net	(119)	1,137
Other	15,971	976
Net changes in operating assets and liabilities		
Financial asset held for trading	(13,477,168)	5,598,425
Notes receivable	2,215	11,113
Accounts receivable - third parties	(748,455)	(1,655,205)
Accounts receivable - related parties	(62,866)	110,869
Other receivable - third parties	(220,893)	201,753
Other receivable - related parties	31,104	(35,439)
Inventories	(33,630)	23,073
Prepayments	(29,678)	(41,764)
Other current assets	(6,664)	98,516
Notes payable	(8,033)	(26,310)
Accounts payable	(63,716)	(76,701)
Income taxes payable	1,879,271	(973,991)
Accrued expenses	(154,709)	778,347
Other payables	528,410	(504,467)
Advance receipts	(68,909)	93,494
Other current liabilities	(106,930)	(177,304)
Net cash provided by operating activities	13,513,754	31,875,123
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of available-for-sale financial assets	11,265,915	-
Acquisition of property and equipment	(7,347,586)	(3,220,481)
Increase in goodwill	(421,341)	(176,008)
Proceeds from disposal of property and equipment	188,699	2,175,004
Acquisition of available-for-sale financial assets	(188,468)	-
Increase in deferred charges	(170,943)	(268,168)
Proceeds from disposal of long-term investments	70,268	-

	2006	2005
Proceeds from disposal of idle assets	\$44,633	\$7,050
Decrease in refundable deposits	8,074	12,382
Proceeds from disposal of subsidiary shares	6,447	-
Decrease in pledged time deposits	2,000	599,700
Decrease in other assets	720	2,812
Proceeds on investees' capital return	-	340,444
Increase in long-term investments	-	(40,187)
Net cash provided by (used in) investing activities	3,458,418	(567,452)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash dividends paid	(12,843,925)	(12,146,818)
Decrease in bonds payable	(2,753,300)	(1,500,000)
Buyback of treasury stock	(1,818,370)	(319,790)
Buyback of bonds payable	(1,341,076)	(1,135,009)
Decrease in minority interests	(808,663)	(1,132,648)
Transfer of treasury stock to employees	647,252	1,663,682
Bonus to employees	(403,940)	(394,148)
Remuneration to directors and supervisors	(37,970)	(63,936)
Decrease in guarantee deposits	(36,901)	(106,674)
Decrease in other liabilities	(1,290)	(47,554)
Decrease in long-term bank loans	-	(8,400,000)
Decrease in short-term borrowings	-	(450,000)
Capital return and liquidations to minority interests	-	(8,328)
Cash dividends paid to minority interests	-	(295,001)
Net cash used in financing activities	(19,398,183)	(24,336,224)
EFFECT OF EXCHANGE RATE CHANGES	193	3,928
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,425,818)	6,975,375
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR (Note 2)	14,841,543	7,816,168
CASH AND CASH EQUIVALENTS, END OF YEAR	\$12,415,725	\$14,791,543
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	\$469,519	\$626,238
Deduct: Interest paid - interest capitalized	(11,647)	(71,194)
Interest paid - excluding interest capitalized	\$457,872	\$555,044
Income tax paid	\$1,531,391	\$2,279,821
NON-CASH INVESTING AND FINANCING ACTIVITIES		
Current portion of long-term liabilities	\$3,814,448	\$4,543,020
Conversion of convertible bonds to capital stock and entitlement certificates	\$1,118,100	\$891,800
CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment	\$7,512,091	\$3,872,247
Increase in other payables	(164,505)	(651,766)
Cash paid for acquisition of property and equipment	\$7,347,586	\$3,220,481

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

(With Deloitte & Touche audit report dated January 11, 2007)

(Concluded)

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2006 AND 2005
(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 (nation-wide GSM 1800; “GSM” means “global system for mobile communications”) issued by the Directorate General of Telecommunications (DGT) of the ROC. The license allows the Corporation to provide services for 15 years from 1997 onwards. It also entails the payment of an annual license fee consisting of 2% of total wireless communication service revenues. On March 24, 2005, the Corporation received the third generation (3G) concession operation license issued by the DGT. The 3G license allows the Corporation to provide services from the issuance date of the license to December 31, 2018.

As of December 31, 2006 and 2005, the Corporation and subsidiaries had 3,037 and 3,459 employees, respectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, Business Accounting Law and Criteria for Handling Business Accounting. In conformity with these guidelines, laws 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 losses on decline in value of inventories, depreciation, pension, allowance for deferred income tax assets, impairment loss on assets, etc. Actual results may differ from these estimates.

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

Consolidation

a. Basis of consolidation

The consolidated financial statements have been prepared in accordance with the revised Statement of Financial Accounting Standards (SFAS) No. 7, “Consolidated Financial Statements,” and included 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. As obtaining the majority of the shareholder’s equity of the subsidiaries during the year, the company starts to consolidate the related revenues and expenses of the subsidiaries since the date of having the controlling interest.

Due to an increase in the consolidated entities, 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 period but failed to meet the consolidation criteria in the prior year.

For foreign subsidiaries using their local currency as their functional currency, assets and liabilities are translated at exchange rates in effect on the balance sheet date; shareholders’ equity accounts are translated using historical exchange rates and income statement accounts are translated using average exchange rates during the year.

All significant intercompany balances and transactions have been eliminated upon consolidation.

b. Under the above basis of consolidation, the consolidated entities were as follows:

Investor	Subsidiary	Nature of Business	Percentage of Ownership as of December 31		Note
			2006	2005	
Corporation	TransAsia Telecommunications Inc. (The former TAT)	Wireless service provider	-	92.32	Merged into TAT International Telecommunications Co., Ltd. on June 27, 2006
Corporation	TransAsia Telecommunications Inc. (TAT)	Wireless service provider	100.00	-	Formerly TAT International Telecommunication Co., Ltd.; established on February 8, 2006 by investing the former TAT’s shares; merged with the former TAT on June 27, 2006 and renamed as TransAsia Telecommunications Inc.
Corporation	Taiwan Cellular Co., Ltd. (TCC; formerly Taihsing Den Syun Co., Ltd. (TDS))	Equipment installation and IT service	100.00	100.00	Established in 2005 by investing the former Mobitai’s shares
Corporation	Tai Fu Investment Ltd. (TFI)	Investment	-	-	Liquidated in December 2005
Corporation	Tai Hsuo Investment Ltd. (Tai Hsuo)	Investment	-	-	Liquidated in December 2005
Corporation	Tai Hung Investment Ltd. (Tai Hung)	Investment	-	-	Liquidated in December 2005
Corporation	T.I. Investment Ltd. (TII)	Investment	-	-	Liquidated in December 2005
Corporation	Taiwan Cellular Co., Ltd. (the former TCC)	Telecommunications equipment retailing and wholesale	-	99.99	Merged into TCC on May 1, 2006
TCC (formerly TDS)	Mobitai Communications (Mobitai)	Wireless service provider	100.00	100.00	Formerly Tai Ya International Telecommunications Co., Ltd.; merged with the former Mobitai on January 1, 2006 and renamed as Mobitai Communications
TCC (formerly TDS)	Mobitai Communications (The former Mobitai)	Wireless service provider	-	94.28	Merged into Tai Ya International Telecommunications Co., Ltd. on January 1, 2006
TCC (formerly TDS)	Tai Yi Digital Broadcasting Co., Ltd. (TYDB)	Digital broadcast service provider	49.90	-	-
TCC (formerly TDS)	TWM Holding Co. Ltd. (formerly Simax Investmet Holdings Ltd.)	Investment	100.00	-	-
TCC (formerly TDS)	Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Call center service	100.00	95.88	-
The former TCC	Taiwan Tele-Shop Co., Ltd. (TTS)	Telecommunications equipment retailing and wholesale	-	-	Merged into the former TCC on June 30, 2005
The former TCC	Taiwan Elitec Corporation	Software solution provider, data processing services	-	-	Merged into the Corporation on March 30, 2005
TT&T	TT&T Casualty & Property Insurance Agency Co., Ltd. (TCPIA)	Insurance agency	100.00	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	100.00	-
TT&T Holding	Dalian Xinkai Teleservices & Technologies Ltd.	Call center service	-	50.00	Sold on July 10, 2006
TT&T Holding	Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	100.00	100.00	-

The Group’s significant accounting policies are summarized as follows:

Current and Non-current Assets and Liabilities

Current assets include cash and cash equivalents, assets held for trading and those expected to be converted to cash, sold or consumed within twelve months from the balance sheet date. Property and equipment, intangible assets and those not classified as current assets are non-current assets. Current liabilities are obligations held for trading and those expected to be due within twelve months from the balance sheet date. All other liabilities not classified as current liabilities are non-current liabilities.

Cash Equivalents

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

Financial Instruments at Fair Value through Profit or Loss

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

Available-for-sale Financial Assets

On initial recognition, available-for-sale financial assets are recognized at fair value plus transaction costs. When subsequently measured at fair value, the fair value changes are recognized directly in equity. The cumulative gain or loss that was recognized in equity is recognized in profit or loss when an available-for-sale financial asset is derecognized from the balance sheet. The purchase or sale of the financial instruments is recognized and derecognized using trade date accounting. Cash dividends are recognized as dividend income on the ex-dividend date, but are accounted for as reductions to the original cost of investments if such dividends are declared on the earnings of investees attributable to periods

prior to the purchase of investments. Stock dividends are not recognized as current income but are accounted for only as an increase in the number of shares held. The cost per share is re-calculated based on the new number of shares.

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

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

Allowance for Doubtful Accounts

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

Inventories

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

Financial Assets Carried at Cost

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

Investments Accounted for Using Equity Method

Long-term investments in which the Corporation and subsidiaries owns 20% or more of an investee’s outstanding voting shares or exercises significant influence on an investee are accounted for under the equity method.

On the acquisition date or the adoption of the equity method for the first time, the difference between the cost of acquisition and the equity in the investee’s net asset value was amortized using the straight-line method over 20 years. Starting January 1, 2006, in accordance with the newly revised Statement of Financial Accounting Standards (SFAS), the cost of acquisition is subjected to an initial analysis, and goodwill represents the excess of

the cost of acquisition over the fair value of the identifiable net asset value. Goodwill is no longer amortized but instead tested annually for impairment. An impairment test is also required if there is evidence indicating that goodwill might be impaired as a result of specific events or changes in economic environment. Starting January 1, 2006, the unamortized balance of the excess of the acquisition cost of the long-term investment by the equity method over the equity in the investee’s net asset value is also no longer amortized and applies the same accounting treatment as goodwill.

Gains or losses on the Corporation’s equity accounted investee’s sales to the Corporation are deferred in proportion to the Corporation’s ownership percentages in the investees until realized through transactions with third parties.

Gains or losses from transactions between two investees that are both accounted for using equity method are deferred in proportion to the Corporation’s equivalent stock ownership in the investees if the Corporation has controlling power over each investee.

If the investor does not have controlling power over both investees that have reciprocal transactions, unrealized gains or losses from reciprocal transactions should be deferred in proportion to the common investor’s ownership percentage in one investee multiplied by the ownership percentage in the other investee.

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

Property and Equipment and Assets Leased to Others

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

Depreciation is calculated using the straight-line method over the estimated service lives, which range as follows: buildings - 50 to 55 years; telecommunication equipment - 3 to 15 years; office equipment - 3 to 6 years; leased assets - 20 years; leasehold improvements - 5 to 10 years;

and miscellaneous equipment - 3 to 8 years.

Upon sale or retirement of property and equipment, the related cost and accumulated depreciation are removed from the accounts, and any gain or loss is credited or charged to non-operating gain or loss in the period of disposal.

Concession

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

Goodwill

Goodwill is the unidentifiable difference between the cost of acquisition and the equity in the investee’s net asset value and was amortized over 8 to 20 years according to individual investee’s circumstance. Starting January 1, 2006, in accordance with the newly revised SFAS, goodwill is no longer amortized. Please refer to the accounting policy of investments accounted for using equity method.

Idle Assets

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

Deferred Charges

Deferred charges, which included interior decoration, computer software, bill issuance costs and issuance costs of bonds are amortized by the straight-line method over 2 to 15 years or contract periods.

Asset Impairment

If the carrying value of assets (including property and equipment, intangible assets, idle assets, assets leased to others and investments accounted for using equity method) is less than their recoverable amount, which indicates that an impairment exists, an impairment loss should be recognized. Any subsequent reversal of the impairment loss for the increase in recoverable amount is recognized as income. The reversal of impairment loss on goodwill is 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 using the interest method from the issuance date through the maturity date and accounted for as accrued interest compensation. The accrued interest compensation is provided as a valuation account of convertible bonds. The issuance costs are recognized as deferred charges. The issuance costs for the non-convertible bonds are amortized over the term of the bond, and those for the convertible bonds with redemption rights are amortized from the issuance date to the maturity date of redemption rights.

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

Income Taxes

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

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

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

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

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

Treasury Stock

The purchase of issued shares is accounted for by debiting treasury stock, which is a reduction of shareholders’ equity.

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

Foreign-currency Transactions

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

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

Non-monetary assets or liabilities carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined, and the resulting exchange differences are included in profit or loss for the current period except for the differences arising on the retranslation of non-monetary assets and liabilities in respect of which gains and losses are recognized directly in equity. For such non-monetary assets and liabilities, any exchange component

of that gain or loss is also recognized directly in equity. Non-monetary assets or liabilities carried at cost that are denominated in foreign currencies are translated at the historical rates prevailing on the dates of transactions.

The above prevailing exchange rates are based on the average of bid and ask rates of principal banks.

Revenue Recognition

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

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

Promotion Expenses

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

Hedging Derivative Financial Instruments

The interest rate swap contracts which the Corporation entered into to manage its exposure to the interest rate risk are designated as a cash flow hedge. The hedging instrument is measured at fair value, and the change of fair value is recognized directly in equity and will be

recognized as profit or loss when the hedged forecast transaction affects profit or loss. If the cumulative net loss recognized in equity is regarded as irrecoverable, it is immediately recognized as a loss in the current period.

Reclassification

Certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified to conform to the presentation of financial statements as of and for the year ended December 31, 2006.

3. REASONS AND EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

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

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

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

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

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

The changes in accounting policy resulted in a decrease in income from continuing operations of \$35 thousand for the year ended December 31, 2006, but had no effect on net income and earnings per share (net of tax).

b. Reclassifications by the adoption of these SFASs

The accounting policies applied in measuring financial instruments in 2005 that differ from 2006 are described as follows:

(a) Short-term investments

Short-term investments are carried at the lower of aggregate cost or market value, and the loss on market value decline is recognized in current income. The market values of the investment in listed stocks are determined based on the average closing prices in the last month of an accounting period.

(b) Long-term investments accounted for using cost method denominated in foreign currencies

The long-term investments accounted for using cost method denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. If the translated amount is less than the original cost amount, the resulting exchange differences are recognized as the cumulative translation adjustments in equity. If the translated amount is higher, no adjustment is made.

(c) Interest rate swap contracts

The notional amounts of interest rate swap contracts, which are used for non-trading purposes, are not recognized in the financial statements because these contracts do not require initial settlements. However, a memorandum entry is made to note the transaction.

Due to the adoption of new and amended SFASs starting from January 1, 2006, certain accounts in the financial statements as of and for the year ended December 31, 2005 have been reclassified as follows to conform to the presentation of the financial statements as of and for the year ended December 31, 2006.

4.CASH AND CASH EQUIVALENTS

	December 31	
	2006	2005
Short-term notes and bills with resale rights	\$8,328,744	\$ 568,225
Time deposits	2,352,702	1,461,253
Cash in banks	1,220,765	689,306
Government bonds with resale rights	477,460	12,040,813
Cash on hand	32,503	28,530
Revolving funds	3,551	3,416
	<u>(\$12,415,725)</u>	<u>(\$14,791,543)</u>

	Before Re-classification	After Reclas-sification
Balance sheet		
Short-term investments	\$9,877,177	\$-
Long-term investments	4,006,307	-
Financial assets at fair value through profit or loss	-	600,000
Available-for-sale financial assets	-	9,277,177
Financial assets carried at cost	-	4,006,307

Starting on January 1, 2006, the Group adopted newly revised SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5, "Long-term Investments in Equity Securities," and SFAS No. 25, "Business Combinations - Accounting Treatment under Purchase Method." These revisions primarily included that goodwill is no longer amortized and that the difference between the cost of acquisition and the equity in the investee's net asset value is subjected to an initial analysis. If defined as goodwill, the difference is no longer amortized but instead tested annually for impairment. These adoptions increased the income from continuing operations by \$486,667 thousand and had no effect on the cumulative effect of changes in accounting principle for the year ended December 31, 2006.

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

Information of financial instruments held for trading is summarized as follows:

	December 31	
	2006	2005
Financial assets held for trading		
Beneficiary certificates	\$14,077,168	\$600,000
Open-end funds		

6. AVAILABLE-FOR-SALE FINANCIAL ASSETS - CURRENT

	December 31	
	2006	2005
Domestic listed stocks		
Chunghwa Telecom Co., Ltd.	\$162,893	\$9,277,177
Overseas listed stocks		
Hurray! Holding Co., Ltd. (NASDAQ listed company)	218,676	-
	<u>\$381,569</u>	<u>\$9,277,177</u>

In the year ended December 31, 2006, the Corporation recognized a gain of \$2,110,978 thousand from selling 200,000 thousand shares of Chunghwa Telecom Co., Ltd.

7.ACCOUNTS RECEIVABLE - THIRD PARTIES

	December 31	
	2006	2005
Accounts receivable	\$6,753,110	\$7,041,473
Less allowance for doubtful accounts	(585,636)	(558,021)
	<u>\$6,167,474</u>	<u>\$6,483,452</u>

For the third quarter of 2006, the Corporation entered into an accounts receivable factoring contract with HC Asset Management Co., Ltd. The Corporation sold \$5,743,279 thousand of the overdue accounts receivable, which had been written off, to HC Asset Management Co., Ltd. The aggregate selling price was \$229,731 thousand. Under this contract, the Corporation would no longer assume the risk on this receivable.

8. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	December 31 2005	
	Carrying Value	% of Owner- ship
Credit balance (recorded as other liabilities - other) Howin Technologies Co., Ltd.	<u>\$(472,632)</u>	27.5

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 the year ended December 31, 2006, HTC was divested, and a disposal gain of \$119 thousand was recognized.

Previously, although the Group's equity ownership 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 financial statements used as the bases for calculating carrying value of the investments and the related investment income or loss were audited. The Group's investment income or loss was as follows:

	For the Years Ended December 31	
	2006	2005
HTC	\$554,770	\$(11,430)
TFN	-	(96,716)
	<u>\$554,770</u>	<u>\$(108,146)</u>

In the year ended in December 31, 2006, the investment income under the equity method include the realized \$ 552,725 thousand due to the realization of previous deferred upstream and intercompany transactions between HTC and TWM Group after the sale of HTC.

In the year ended in December 31, 2005, the net investment income recognized under the equity method includes the Corporation's proportional share of TFN's asset impairment loss, totaling \$ 79,102 thousand.

9. FINANCIAL ASSETS CARRIED AT COST - NON-CURRENT

	December 31	
	2006	2005
Domestic emerging stocks		
TFN	\$3,743,808	\$3,869,976
Domestic unlisted stocks		
Arcoa Communication Co., Ltd.	67,731	67,731
Parawin Venture Capital Corp.	25,144	25,144
WEB Point Co., Ltd.	7,084	8,031
Sunnet Technologies Co., Ltd.	3,265	3,265
Foreign unlisted stocks		
Bridge Technologies Mobile Pte Ltd.	32,160	32,160
	<u>\$3,879,192</u>	<u>\$4,006,307</u>

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

10. PROPERTY AND EQUIPMENT - ACCUMULATED DEPRECIATION

	December 31	
	2006	2005
Buildings	\$316,668	\$265,082
Telecommunication equipment	29,279,303	28,088,739
Office equipment	87,238	191,385
Leased assets	292,461	234,958
Leasehold improvements	51,717	218,414
Miscellaneous equipment	613,149	456,039
	<u>\$30,640,536</u>	<u>\$29,454,617</u>

Interest expenses capitalized for the years ended December 31, 2006 and 2005 amounted to \$11,647 thousand and \$71,194 thousand, with interest rates ranging from 2.28% to 3.12% and 2.64% to 3.60%, respectively.

11. GOODWILL

In conformity with SFAS No. 35, "Accounting for Asset Impairment," the Group identified the Corporation, TAT and Mobitai in 2006 and the Corporation, the former TAT and the former Mobitai in 2005 as the smallest identifiable group of cash-generating units. TAT (including the former TAT) and Mobitai (including the former Mobitai) mainly provide second-generation GSM wireless communication services. The recoverable amounts TAT (including the former TAT) and Mobitai (including the former Mobitai) were measured by the assets for operating and goodwill values in use under the following critical assumptions:

a. 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.

b. Assumptions on operating costs and expenses

The estimates of commissions, customer retention costs, customer service costs and bill 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.

c. Assumptions on discount rate

In 2006, the Group used the discount rates of 9.84% and 9.70% in calculating the asset recoverable amounts of the TAT and the Mobitai, respectively. In 2005, the discount rates are 7.63% and 8.72% for the former TAT and the former Mobitai, respectively.

On the basis of critical assumptions of each cash-generating unit, the Group's management believes that the carrying amounts of these assets for operating and goodwill will not exceed their recoverable amounts even if there are changes in the critical assumptions used to estimate recoverable amounts as long as these changes are reasonable for the year ended December 31, 2006 and 2005.

12. ASSETS LEASED TO OTHERS AND IDLE ASSETS

	December 31	
	2006	2005
Assets leased to others		
Cost	\$776,379	\$990,201
Less accumulated depreciation	(43,747)	(52,250)
Less accumulated impairment	(10,591)	(10,591)
	<u>\$722,041</u>	<u>\$927,360</u>
Idle assets		
Cost	\$2,676,262	\$2,820,980
Less accumulated depreciation	(725,353)	(752,578)
Less accumulated impairment	(1,722,988)	(1,803,427)
	<u>\$227,921</u>	<u>\$264,975</u>

14. BONDS PAYABLE

	December 31			
	2006		2005	
	Current	Non-current	Current	Non-current
Domestic secured bonds	\$-	\$-	\$1,500,000	\$-
Domestic unsecured bonds	3,750,000	10,000,000	1,250,000	13,750,000
1st domestic unsecured convertible bonds	-	-	1,480,000	-
2nd domestic unsecured convertible bonds	55,900	-	-	747,300
Add accrued interest compensation	8,548	-	313,020	86,825
	<u>\$3,814,448</u>	<u>\$10,000,000</u>	<u>\$4,543,020</u>	<u>\$14,584,125</u>

a. Domestic secured bonds

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

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

The impairment losses of idle buildings and equipment were determined based on their appraised values and net realizable value, respectively, and the Group recognized impairment losses of \$2,005 thousand and \$112,300 thousand for the years ended December 31, 2006 and 2005, respectively.

13. DEFERRED CHARGES

	December 31	
	2006	2005
Interior decoration	\$279,092	\$160,739
Computer software cost	141,504	246,410
Construction expenditures	56,473	113,893
Other	18,799	100,256
	<u>\$495,868</u>	<u>\$621,298</u>

[(Net income + Depreciation + Amortization + Interest expense)/(Long-term bank loan repayments + Interest expense)] at above 150%.

b. Domestic unsecured bonds

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

	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%-6M LIBOR	Repayment on maturity date, interest payable semi-annually
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	<u>5,000,000</u>	5.75%-6M LIBOR	Repayment on maturity date, interest payable semi-annually
	<u>\$15,000,000</u>		

C. 1st domestic convertible bonds

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

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

On the third year after the issuance date, the holders may redeem the bonds by cash at face value

plus interest accrued, which is 113.3% of face value calculated based on an implied yield rate of 4.25%. Upon maturity, the Corporation will redeem the bonds by cash at face value plus interest accrued, which is 124.62% of face value, calculated based on an implied yield rate of 4.5%.

d. 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued \$6,000,000 thousand of five-year domestic convertible bonds, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to the 10th day before maturity, the bondholders may have the bonds converted into common stocks of the Corporation. Cash is paid for bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$23.6 per share since July 20, 2006. As of December 31, 2006, bonds amounting to \$5,399,400 thousand have been converted to 209,271 thousand of common shares. Bonds amounting to \$544,700 thousand were purchased and canceled by the Corporation.

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

day before maturity - to convert the bonds to common stocks at the conversion price or to redeem the bonds by cash at face value.

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

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

Year	Amount
2007	\$3,750,000
2008	2,500,000
2009	<u>7,500,000</u>
	<u>\$13,750,000</u>

15.LONG-TERM BANK LOANS

The loans were to mature on September 1, 2010, with interest payable monthly. The Corporation made an early repayment of all long-term bank loans in the second quarter of 2005.

16.PENSION PLAN

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

The new LPA provides for a defined contribution pension plan. Starting from July 1, 2005, the Corporation should contribute monthly an amount equal to 6% of the employees' monthly wages to the employees' individual pension accounts. The Group recognized a pension cost

of \$114,814 thousand for the year ended December 31, 2006.

The LSA provides for a defined benefit pension plan. Benefits are based on the length of service and average basic pay of the year before retirement. The Corporation contributes monthly an amount equal to 2% of the employees' monthly wages to a pension fund. The pension fund is managed by an independently administered pension fund committee and deposited in the committee's name in the Central Trust of China.

Information on the defined benefit pension plan is summarized as follows:

a. Pension cost

	Years Ended December 31	
	2006	2005
Service cost	\$2,946	\$19,872
Interest cost	8,167	4,571
Projected return of pension assets	(8,558)	(4,290)
Amortization	(3,022)	(3,486)
Gain on settlement	<u>(24,026)</u>	-
Pension cost	<u>\$(24,493)</u>	<u>\$16,667</u>

b. Changes in the prepaid/(accrued) pension cost

	December 31	
	2006	2005
Benefit obligation		
Vested	\$-	\$-
Non-vested	<u>(178,977)</u>	<u>(187,492)</u>
Accumulated	(178,977)	(187,492)
Additional benefits based on future salaries	<u>(121,863)</u>	<u>(123,901)</u>
Projected benefit obligation	(300,840)	(311,393)
Fair value of plan assets	<u>418,142</u>	<u>312,927</u>
Funded status	117,302	1,534
Unrecognized net transition obligation	6,165	5,147
Unrecognized net gain or loss	<u>(97,964)</u>	<u>(102,836)</u>
Prepaid pension cost (accrued pension cost)	<u>\$25,503</u>	<u>\$(96,155)</u>

C. Actuarial assumptions

	Years Ended December 31	
	2006	2005
Discount rate used in determining present values	2.75%	2.5-3.75%
Future salary increase rate	2.5%	2.5-3.50%
Expected rate of return on plan assets	2.75%	2.5-3.25%

17.SHAREHOLDERS' EQUITY

a. 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.

b. Appropriation of earnings and dividend policy

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

- (a) Dividends and bonus to preferred shareholders
- (b) Remuneration to directors and supervisors - up to 0.3%
- (c) Bonus to employees - 1%-3%
- (d) Remainder, to be appropriated as dividends as de-

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

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

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

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

The 2005 and 2004 earnings appropriations resolved by the shareholders in their meeting on June 15, 2006 and June 14, 2005 were as follows:

	Appropriation of Earnings		Dividend Per Share (NT\$)	
	For Fiscal Year 2005	For Fiscal Year 2004	For Fiscal Year 2005	For Fiscal Year 2004
Appropriation of legal reserve	\$1,623,670	\$1,665,416		
Appropriation of special reserve	1,150,000	2,201,631		
Reversal of special reserve	(1,631)	-		
Remuneration to directors and supervisors	40,394	63,936		
Cash bonus to employees	403,940	383,613		
Cash dividends	12,843,997	12,126,821	\$2.61677	\$2.47302
	<u>\$16,060,370</u>	<u>\$16,441,417</u>		

Had the above bonus to employees and remuneration to directors and supervisors been charged against income in 2005 and 2004, the basic earnings per share in that year would have decreased from NT\$3.31 and NT\$3.55 to NT\$3.22 and NT\$3.46 respectively.

The appropriation of the Corporation's 2006 earnings had not been proposed by the Board of Directors as of January 11, 2007, the independent auditors' report date. Information on the appropriation of 2006 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.

C. Treasury stock

(Shares in Thousands)				
Purpose of Buyback	Beginning Shares	Increase	Decrease	Ending Shares
Year ended December 31, 2006				
To be transferred to employees	11,551	57,804	22,818	46,537
Year ended December 31, 2005				
To be transferred to employees	65,368	11,551	65,368	11,551

For the year ended December 31, 2006, the Corporation transferred the treasury stock through various tranches to employees at 22,818 thousand shares at NT\$30.47 and NT\$28.17 per share, respectively, resulting in a reduction of retained earnings, amounting to \$57,372 thousands.

For the year ended December 31, 2005, the Corporation transferred 65,368 thousand shares of treasury stock through various tranches to employees at NT\$25.65, \$25.54, \$25.5 and \$25.48 per share, respectively, resulting in a reduction of retained earnings, amounting to \$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.

d. Unrealized gains (losses) on financial instruments

Unrealized gains or losses on financial instruments for the year ended December 31, 2006 were summarized as follows:

	Year Ended December 31, 2006
Available-for-sale financial assets	
Effect of the first time adoption of new issued SFASs	\$2,082,823
Fair value changes recognized directly in equity	68,807
Transfer to current gains or loss upon sales of financial assets	(2,110,978)
	<u>40,652</u>
Changes in unrealized gains (losses) of cash flow hedge	
Effect of the first time adoption of new issued SFASs	(248,184)
Fair value changes recognized directly in equity	29,900
	<u>(218,284)</u>
Recognition of investees' changes in unrealized gains or losses by the equity method	
	<u>30,209</u>
	<u>\$(147,423)</u>

18.INCOME TAX EXPENSE

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

	Years Ended December 31	
	2006	2005
Tax on pretax income at statutory tax rate (25%)	\$5,450,976	\$5,431,476
Add (deduct) tax effects of		
Permanent differences		
Investment income from domestic investees accounted for using equity method	(852,655)	(562,626)
Tax-exempt dividend income	(160,954)	(238,408)
Gain on disposal of marketable securities	(536,640)	(54,182)
Other	(39,661)	96,151
Temporary differences	550,250	(93,543)
Tax-exempt income	(402,696)	(2,490,093)
Income tax (10%) on unappropriated earnings	498,050	389,985
Investment tax credits	(1,108,394)	(407,057)
Prior year's loss carryforward	(27,543)	(5,453)
Deferred income taxes	(962,379)	248,086
Prior year's adjustment	269,276	69,567
Tax on short-term bills	15,252	1,956
Income tax expense	<u>\$2,692,882</u>	<u>\$2,385,859</u>

b. Under Article 8 of the Statue 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 tax 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, the former TAT, a subsidiary of the Corporation, is also considered an important technology-based enterprise. Thus, the former TAT's net operating income generated from the expansion of its equipment is exempt from income tax for five years from January 1, 2001, as approved by the Ministry of Finance.

c. Deferred income tax assets and liabilities were as follows:

	December 31	
	2006	2005
Provision for doubtful accounts	\$852,665	\$762,114
Provision for impairment losses on idle assets	343,792	389,584
Unrealized loss on retirement of property and equipment	876,933	245,796
Unrealized loss on financial liabilities	72,761	-
Accrued interest compensation	2,137	99,962
Prior year's loss carryforward	39,644	67,180
Amortization of goodwill	(61,776)	-
Accrued pension cost	(273)	18,400
Other	9,570	11,126
	<u>2,135,453</u>	<u>1,594,162</u>
Less valuation allowance	<u>(395,190)</u>	<u>(889,039)</u>
	<u>\$1,740,263</u>	<u>\$705,123</u>
Deferred income tax assets		
Current	\$185,973	\$177,372
Non-current	1,554,290	527,751
	<u>\$1,740,263</u>	<u>\$705,123</u>

d. Integrated income tax information was as follows:

Balance of imputation credit account (ICA)		
Corporation	<u>\$1,091,242</u>	<u>\$1,532,065</u>
The former TAT		<u>\$363,905</u>
TAT	<u>\$725,999</u>	
The former Mobitai		<u>\$59,448</u>
Mobitai	<u>\$112,886</u>	<u>\$-</u>
The former TCC		<u>\$359,714</u>
TCC (formerly TDS)	<u>\$6,679</u>	
TFI		<u>\$-</u>
Tai Hsuo		<u>\$6,843</u>
Tai Hung		<u>\$-</u>
TII		<u>\$1,175</u>
TYDB	<u>\$38</u>	
TT&T	<u>\$27,798</u>	<u>\$25,599</u>
TCPIA	<u>\$-</u>	<u>\$352</u>
TLIA	<u>\$8</u>	<u>\$164</u>

As of December 31, 2006, there were no unappropriated earnings generated before January 1, 1998. The estimated creditable ratio for the 2006 earnings appropriation and the actual creditable ratio for the 2005 earnings appropriation were as follows:

	Years Ended December 31	
	2006	2005
Corporation	16.63%	9.88%
The former TAT	Not applicable	-
TAT	33.33%	Not applicable
The former Mobitai	Not applicable	-
Mobitai	33.33%	-
The former TCC	Not applicable	-
TCC (formerly TDS)	1%	-
TFI	Not applicable	Not applicable
Tai Hsuo	Not applicable	Not applicable
Tai Hung	Not applicable	Not applicable
TII	Not applicable	Not applicable
TYDB	-	Not applicable
TTS	Not applicable	Not applicable
TT&T	-	-
TCPIA	-	-
TLIA	33.33%	6.83%

The imputation credits allocated to the shareholders are based on the ICA balance as of the date of dividend distribution. The estimated creditable ratio for the 2006 earnings appropriation may be adjusted when the imputation credits are distributed.

- e. The latest years through which income tax returns had been examined and cleared by the tax authorities were as follows:

	Year
Corporation	2001
The former TAT	2004
TAT	None
The former Mobitai	2004
Mobitai	None
The former TCC	2004
TCC (formerly TDS)	None
TFI	2005
Tai Hsuo	2005
Tai Hung	2005
TII	2005
TYDB	2004
TTS	2004
TEC	2005
TT&T	2003
TCPIA	None
TLIA	2004

The Corporation's income tax returns through 2001 had been examined by the tax authorities. However, the Corporation disagreed with the examination result on the income tax returns from 1999 to 2001, and filed requests for reexamination.

The former TAT's income tax returns through 2004 had been examined by the tax authorities. However, the former TAT disagreed with the examination result on the income tax returns from 2002 to 2004, and filed administrative proceedings to settle this matter for 2002 to 2003 and petition for reexamination in 2004.

19.EARNINGS PER SHARE

(New Taiwan Dollars)

	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
Basic EPS				
Income from continuing operations	\$3.54	\$3.28	\$3.74	\$3.31
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$3.54</u>	<u>\$3.28</u>	<u>\$3.74</u>	<u>\$3.31</u>
Diluted EPS				
Income from continuing operations	\$3.53	\$3.26	\$3.68	\$3.26
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$3.53</u>	<u>\$3.26</u>	<u>\$3.68</u>	<u>\$3.26</u>

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

	Amounts (Numerator)		Shares (Denominator)	EPS (NT\$)	
	Before Income Tax	After Income Tax	(Thousands)	Before Income Tax	After Income Tax
2006					
Weighted-average number of outstanding shares			4,978,245		
Less buyback of issued shares			<u>(44,531)</u>		
Basic EPS					
Income of common shareholders	\$17,478,536	\$16,170,741	4,933,714	<u>\$3.54</u>	<u>\$3.28</u>
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	22,764	17,073	19,022		
2nd convertible bonds (with implied yield rate of 3.3%)	<u>13,483</u>	<u>10,112</u>	<u>15,298</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$17,514,783</u>	<u>\$16,197,926</u>	<u>4,968,034</u>	<u>\$3.53</u>	<u>\$3.26</u>
2005					
Weighted-average number of outstanding shares			4,941,187		
Less buyback of issued shares			<u>(42,936)</u>		
Basic EPS					
Income of common shareholders	\$18,311,457	\$16,236,698	4,898,251	<u>\$3.74</u>	<u>\$3.31</u>
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%)	<u>35,242</u>	<u>26,432</u>	<u>39,736</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$18,431,557</u>	<u>\$16,326,774</u>	<u>5,007,740</u>	<u>\$3.68</u>	<u>\$3.26</u>

20.LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	2006			2005		
	Classified as Operating Costs	Classified as Operating Expenses	Total	Classified as Operating Costs	Classified as Operating Expenses	Total
Labor cost						
Salary	\$543,085	\$2,211,463	\$2,754,548	\$561,182	\$2,516,616	\$3,077,798
Labor and health insurance	33,549	138,232	171,781	34,093	147,286	181,379
Pension	31,138	108,845	139,983	21,881	82,135	104,016
Other	33,241	133,299	166,540	33,926	118,262	152,188
	<u>\$641,013</u>	<u>\$2,591,839</u>	<u>\$3,232,852</u>	<u>\$651,082</u>	<u>\$2,864,299</u>	<u>\$3,515,381</u>
Depreciation	\$6,307,893	\$458,715	\$6,766,608	\$5,937,780	\$458,222	\$6,396,002
Amortization	856,121	180,912	1,037,033	696,740	709,084	1,405,824

21.FINANCIAL INSTRUMENT TRANSACTIONS

a. Fair value information

	December 31, 2006		December 31, 2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$14,077,168	\$14,077,168	\$600,000	\$600,035
Available-for-sale financial assets	381,569	381,569	9,277,177	11,360,000
<u>Liabilities</u>				
Bonds payable (including current portion)	13,814,448	13,741,839	19,127,145	19,240,182
<u>Derivative financial instruments</u>				
<u>Liabilities</u>				
Interest rate swap contracts	291,046	291,046	-	330,912

Effective January 1, 2006, the Corporation adopted newly issued SFAS No. 34, "Accounting for Financial Instruments," and, therefore, the derivative financial instruments were not recognized in the 2005 financial statements. Please refer to Note 3 for the related description of the cumulative effect of changes in accounting principle and the adjustments in equity as a result of the adoption of newly issued SFASs.

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

- (a) Financial assets at fair value through profit or loss and available-for-sale financial assets - based on quoted prices in an active market on the balance sheet date.

(b) Because there is no active market and a reliable fair value could only be verified at a more than reasonable cost, the fair values of investments in unlisted stocks carried at cost or accounted for using equity method can not be estimated.

(c) Bonds payable - based on the over-the-counter quotations in December;

(d) Derivative financial instruments - based on valuation results provided by banks. As of December 31, the financial instrument held by the Corporation turned into financial liability, evaluated by the bid price of counter party.

(e) The above financial instruments do not include cash and cash equivalents, notes and accounts receivables, pledged time deposits, refundable deposits, notes and accounts payable and guarantee deposits. Because of the short maturities of these instruments, the carrying values represent a reasonable basis to estimate fair values.

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

d. The financial assets exposed to fair value interest rate risk amounted to \$11,168,906 thousand and \$14,080,291 thousand as of December 31, 2006 and 2005, respectively, and the financial liabilities exposed to fair value interest rate risk amounted to \$6,314,448 thousand and \$11,627,145 thousand as of December 31, 2006 and 2005, respectively. The financial assets exposed to cash flow interest rate risk amounted to \$1,195,118 thousand and \$638,001 thousand as of December 31, 2006 and 2005, respectively, and the financial liabilities exposed to cash flow interest rate risk amounted to \$7,791,046 thousand and \$7,830,912 thousand as of December 31, 2006 and 2005, respectively.

e. Information on financial risks:

(a) Market risk

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

(b) Credit risk

Credit risk represents the potential impacts to financial assets that the Corporation might encoun-

ter if counter-parties or third parties breach the contracts. Factors that affect the impacts include credit risk concentration, components of financial instruments, contract amount and other receivables. The Corporation's evaluation of credit risk exposure as of December 31, 2006 and 2005 were both zero because all of counter-parties are reputable financial institutions with good credit ratings. The Group's maximum credit risk exposure of each financial instrument is the same as its carrying value.

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

(c) Liquidity risk

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

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

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

22.RELATED-PARTY TRANSACTIONS

a. The related parties and their relationships with the Group are as follows:

Related Party	Relationship with the Group
Taiwan Mobile Foundation (TWM Foundation)	Over one third of the Foundation's issued fund came from the Corporation
Howin Technologies Co., Ltd. (HTC)	Equity-method investee (sold in June 2006)
Fubon Life Assurance Co., Ltd.	Same chairman as the Corporation
Fubon Securities Investment Trust Co., Ltd.	Related party in substance
Chung Hsing Constructions Co., Ltd.	Related party in substance
Taiwan Fixed Network Co., Ltd. (TFN)	Related party in substance
Fubon Land Development Co., Ltd.	Related party in substance
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	Related party in substance
Fubon Securities Co., Ltd. (FSC)	Related party in substance
Fubon Insurance Co., Ltd. (Fubon Ins.)	Related party in substance
Fubon Multimedia Technology Co., Ltd. (FMT)	Related party in substance

b. Significant transactions with related parties were summarized below:

(a) Operating revenues

	2006		2005	
	Amount	% of Total Revenues	Amount	% of Total Revenues
TFN	\$1,558,544	3	\$1,560,515	3
FMT	77,346	-	122,048	-
TFCB	28,895	-	55,954	-
	<u>\$1,664,785</u>		<u>\$1,738,517</u>	

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

(b) Operating costs

	2006		2005	
	Amount	% of Total Revenues	Amount	% of Total Revenues
TFN	\$921,696	4	\$922,649	4
Fubon Ins.	99,222	-	132,323	1
	<u>\$1,020,918</u>		<u>\$1,054,972</u>	

The above companies rendered mainly telecommunication, maintenance and insurance services to the Group. The average payment term for notes and accounts payable was approximately two months.

(c) Property transactions

Acquisition of property and equipment

	2006	
	Description	Amount
TFN	Land and buildings	<u>\$1,565,000</u>

(1) The Corporation bought a real estate from TFN based on the need for base station. Only a natural person could be the owner of the farmland due to the related regulations. The Corporation bought the farmland located in Yang-mei, Taoyuan for the amount of \$12,000 thousand through setting up of a fiduciary contract with the landholder in December 2006 and is applying for the change of the land category. The land was pledged as collateral to the Corporation and the Corporation uses the land for operation purpose.

(2) For the real estate bought from TFN, the transaction amount was based on the appraisal value from the appraised institution.

	2006	
	Description	Amount
TFN	Miscellaneous equipment	<u>\$111,124</u>

Disposal of property and equipment

	2006	
	Description	Amount
TFN	Land and buildings	<u>\$152,000</u>

	2006	
	Description	Amount
TFN	Telecommunication equipment, miscellaneous equipment and deferred charges	<u>\$2,093,154</u>

The above disposals were made at arm's length with the transaction amounts based on the appraisal value from the appraisal institution. And it resulted in a disposal loss of \$3,848 thousand

and disposal gain of \$70,085 thousand for the years ended December 31, 2006 and 2005, respectively.

(d) Rental income

	Description	2006	2005
TFN	Ji-lung Road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc.	<u>\$2,093,154</u>	<u>\$30,187</u>

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

	December 31, 2006		December 31, 2005	
	Amount	%	Amount	%
(e) Cash in banks				
(1) Cash in banks				
TFCB	<u>\$417,924</u>	3	<u>\$234,193</u>	2
(2) Pledged time deposits				
TFCB	<u>\$10,000</u>	100	<u>\$10,000</u>	100
(3) Other assets - pledged time deposits				
TFCB	<u>\$-</u>	-	<u>\$1,700</u>	2
(f) Receivables and payables				
(1) Accounts receivable				
TFN	<u>\$241,998</u>	4	<u>\$180,597</u>	3
Other	<u>7,940</u>	-	<u>6,475</u>	-
	<u>\$249,938</u>		<u>\$187,072</u>	
(2) Other receivables				
TFN	<u>\$10,645</u>	4	<u>\$-</u>	-
TFCB	<u>5,288</u>	2	<u>-</u>	-
FSC	<u>8</u>	-	<u>43,162</u>	15
HTC	<u>-</u>	-	<u>3,883</u>	1
	<u>\$15,941</u>		<u>\$47,045</u>	
(3) Accrued expenses				
TFN	<u>\$58,733</u>	1	<u>\$24,286</u>	1
(4) Other payables				
TFN	<u>\$47,388</u>	1	<u>\$115,844</u>	4
(5) Other current liabilities - collections and temporary credits for the following				
TFN	<u>\$34,279</u>	5	<u>\$32,822</u>	4
TFCB	<u>4,682</u>	1	<u>12,684</u>	2
	<u>\$38,961</u>		<u>\$45,506</u>	
(g) Prepayments				
Fubon Ins.	<u>\$76,450</u>	13	<u>\$8,718</u>	2

	2006	2005
(h) Telecommunication service expenses		
TFN	<u>\$70,387</u>	<u>\$83,818</u>
(i) Insurance expenses		
Fubon Ins.	<u>\$12,766</u>	<u>\$17,984</u>
(j) Donations		
TWM Foundation	<u>\$21,000</u>	<u>\$24,400</u>

(k) Other

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 amounted to \$98,850 thousand and resulted in a loss of \$17,341 thousand.

23.ASSETS PLEDGED

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

	December 31	
	2006	2005
Time deposits	\$10,000	\$12,000
Fixed assets, net carrying value	-	10,883,199
	<u>\$10,000</u>	<u>\$10,895,199</u>

24. COMMITMENTS AND CONTINGENT EVENTS

- a. To enhance 3G mobile communications, expand network coverage and increase the service functions, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2006. As of December 31, 2006, the above amount has not yet paid.
- b. To enhance the intensity and widen the coverage of the 3G signal and to increase the service functions and items provided by 3G mobile telecommunications, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2004. In accordance with the terms of the contract, as of December 31, 2006, payments of \$3,062,442 thousand has been made.
- c. 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, 2006, payments of US\$17,310 thousand and NT\$66,902 thousand have been made, respectively.

d. Unused letters of credit for acquisition of equipment were EUR269 thousand as of December 31, 2006.

e. Future minimum rental payments as of December 31, 2006 for significant operating lease agreements were summarized as follows:

	Amount
2007	\$26,223
2008	30,002

25.ADDITIONAL DISCLOSURES

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

- a. Financing provided: Table 1 (attached)
- b. Endorsement/guarantee provided: None
- c. Marketable securities held: Table 2 (attached)
- d. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 3 (attached)
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Table 4 (attached)
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: Table 5 (attached)
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 6 (attached)
- h. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 7 (attached)
- i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 8 (attached)
- j. Derivative transactions

The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on anti-floating interest rates of bonds, which are settled semiannually. Please refer to Note 21 for the related information.

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

The Corporation entered into IRS contracts to hedge anti-floating interest rate fluctuation. For the twelve months ended December 31, 2006 and 2005, the Corporation recognized losses of \$141,434 thousand and losses of \$4,386 thousand, respectively, recorded as addition to interest expense.

k. 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, ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Table 9 (attached)

d. Customers with revenues exceeding 10% of the total net operating revenues were as follows:

Company	2006		2005	
	Amount	Percentage of Operating Revenues (%)	Amount	Percentage of Operating Revenues (%)
Chunghwa Telecom Co., Ltd.	\$11,712,979	20	\$12,453,073	21

(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

l. Business relationships and significant intercompany transactions: Tables 10 and Table 11 (attached).

26.SEGMENT INFORMATION

a. Industry

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).

b. Foreign operations

The Corporation has no revenue-generating unit that operates outside the ROC.

c. Foreign revenues

The Corporation has no foreign revenues.

TABLE 1

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
FINANCING PROVIDED

YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

No.	Financing Name	Counter-party	Financial State- ment Account	Maximum Balance for the Period	Ending Balance	Interest Rate	Type of Financing		Trans- action Amounts	Reasons for Short-term Financing	Allowance for Doubtful Accounts	Collateral		Financing Limit for Each Borrow- ing Company (Note)	Financing Company's Fi- nancing Amount Limits (Note)
												Item	Value		
1	TransAsia Telecom- munications Inc.	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Other receivables	\$300,000	\$-	2.674%	Necessary for short-term financing		\$-	Operating capital	\$-	-	\$-	\$2,810,635	\$2,810,635

Note: The amount of financing provided, including business relationship and short-term financing, shall not exceed 20% of the net worth of the financing company.

TABLE 2

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES HELD

DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company		Financial Statement Account	December 31, 2006			
					Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)
The Corporation	Beneficiary certificate							
	Fuh-Hwa Bond Fund	-		Financial assets at fair value through profit or loss - current	45,175	\$602,192	-	\$602,192 (Note 2)
	ABN AMRO Income Fund	-		Financial assets at fair value through profit or loss - current	25,387	401,917	-	401,917 (Note 2)
	ABN AMRO Bond Fund	-		Financial assets at fair value through profit or loss - current	126,959	1,913,171	-	1,913,171 (Note 2)
	ABN AMRO Select Bond Fund	-		Financial assets at fair value through profit or loss - current	35,432	401,565	-	401,565 (Note 2)
	AIG Taiwan Bond Fund	-		Financial assets at fair value through profit or loss - current	153,928	1,962,733	-	1,962,733 (Note 2)
	Dresdner Bond Dam Fund	-		Financial assets at fair value through profit or loss - current	130,038	1,506,803	-	1,506,803 (Note 2)
	Fubon Jin-Ju-I Fund	-		Financial assets at fair value through profit or loss - current	81,999	1,002,954	-	1,002,954 (Note 2)
	NITC Bond Fund	-		Financial assets at fair value through profit or loss - current	17,122	2,817,260	-	2,817,260 (Note 2)
	Prudential Financial Bond Fund	-		Financial assets at fair value through profit or loss - current	13,686	200,015	-	200,015 (Note 2)
	JF (Taiwan) Bond Fund	-		Financial assets at fair value through profit or loss - current	19,702	300,597	-	300,597 (Note 2)
	Stock							
	Chunghwa Telecom Co., Ltd.	-		Available-for-sale financial assets - current	2,688	162,893	0.028	162,893 (Note 3)
	Taiwan Fixed Network Co., Ltd.	Related party in substance		Financial assets carried at cost - non-current	637,000	3,700,944	9.87	6,673,229
	Bridge Mobile Pte Ltd.	-		Financial assets carried at cost - non-current	1,000	32,160	12.50	21,543
TransAsia Telecommunications Inc.	TransAsia Telecommunications Inc.	Subsidiary		Long-term investments - equity method	1,245,846	14,009,973	100.00	14,053,173
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Subsidiary		Long-term investments - equity method	325,000	3,877,659	100.00	3,894,039
	Beneficiary certificate							
	ABN AMRO Bond Fund	-		Financial assets at fair value through profit or loss - current	46,758	704,606	-	704,606 (Note 2)
	AIG Taiwan Bond Fund	-		Financial assets at fair value through profit or loss - current	71,000	905,330	-	905,330 (Note 2)
	Prudential Financial Bond Fund	-		Financial assets at fair value through profit or loss - current	37,966	554,861	-	554,861 (Note 2)
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	JF (Taiwan) Bond Fund	-		Financial assets at fair value through profit or loss - current	42,808	653,130	-	653,130 (Note 2)
	Fubon Jin-Ju-I Fund	-		Financial assets at fair value through profit or loss - current	12,267	150,035	-	150,035 (Note 2)
	Stock							
	Arcoa Communication Co., Ltd.	-		Financial assets carried at cost - non-current	6,998	67,731	5.21	- (Note 4)
	Taiwan Fixed Network Co., Ltd.	Related party in substance		Financial assets carried at cost - non-current	4,900	42,864	0.08	54,089

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company		Financial Statement Account	December 31, 2006			
					Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Parawin Venture Capital Corp.	-		Financial assets carried at cost - non-current	3,000	\$25,144	3.00	- (Note 4)
	Transportation High Tech Inc.	-		Financial assets carried at cost - non-current	1,200	- (Note 5)	12.00	- (Note 4)
	WEB Point Co., Ltd.	-		Financial assets carried at cost - non-current	803	7,084	3.17	- (Note 4)
	Sunnet Technologies Co., Ltd.	-		Financial assets carried at cost - non-current	375	3,265	1.51	- (Note 4)
	Mobitai Communications	Subsidiary		Long-term investments - equity method	200,000	2,499,650	100.00	2,513,562
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary		Long-term investments - equity method	70,000	540,640	100.00	540,640
	Tai Yi Digital Broadcasting Co., Ltd.	Subsidiary		Long-term investments - equity method	2,495	24,410	49.90	24,410
	TWM Holding Co. Ltd.	Subsidiary		Long-term investments - equity method	1 share	325,693	100.00	325,693
TWM Holding Co., Ltd.	<u>ADS</u>							
	Hurray! Holding Co., Ltd.	-		Available-for-sale financial assets - current	1,080	US\$6,696	5.02	US\$6,696 (Note 3)
Mobitai Communications	<u>Stock</u>							
	Yes Mobile Holdings Company	-		Financial assets carried at cost - non- current	74	- (Note 5)	0.19	- (Note 4)
Taiwan Teleservices & Technologies Co., Ltd.	<u>Stock</u>							
	TT&T Life Insurance Agency Co., Ltd.	Subsidiary		Long-term investments - equity method	300	3,021	100.00	3,021
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary		Long-term investments - equity method	300	2,703	100.00	2,703
	TT & T Holdings Co., Ltd.	Subsidiary		Long-term investments - equity method	1,300	41,565	100.00	41,565
TT&T Holdings Co., Ltd.	<u>Stock</u>							
	Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary		Long-term investments - equity method	-	US\$1,268	100.00	US\$1,268

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 on December 31, 2006.

Note 3:Based on the closing price on December 31, 2006.

Note 4:As of January 11, 2007, the independent auditors' report date, the investee's net value was unavailable.

Note 5:Deducted impairment loss recognized in 2004.

(Concluded)

TABLE 3

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF
AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL

YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Beginning Balance	Acquisition		Shares/Units (Thousands)	Disposal			Ending Balance		
					Shares/Units (Thousands)		Amount	Shares/Units (Thousands)	Amount		Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount			
The Corporation	Beneficiary certificate															
	Fubon Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	25,522		\$400,000	-	\$-	25,522	\$400,145	\$400,023	\$122	-	\$-	
	Fubon Ju-I II Fund	Financial assets at fair value through profit or loss - current	-	-	13,916		200,000	-	-	13,916	200,072	200,012	60	-	-	
	Fuh-Hwa Albatross Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	44,641	500,000	44,641	501,202	500,000	1,202	-	-	
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	98,134	1,300,000	52,959	702,108	700,000	2,108	45,175	602,192 (Note 1)	
	ABN AMRO Income Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	25,387	400,000	-	-	-	-	25,387	401,917 (Note 1)	
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	160,324	2,400,000	33,365	500,000	498,035	1,965	126,959	1,913,171 (Note 1)	
	ABN AMRO Select Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	106,679	1,200,000	71,247	803,071	800,000	3,071	35,432	401,565 (Note 1)	
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	189,406	2,400,000	35,478	450,000	448,233	1,767	153,928	1,962,733 (Note 1)	
	Dresdner Bond Dam Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	217,137	2,500,000	87,099	1,003,660	1,000,000	3,660	130,038	1,506,803 (Note 1)	
	Fubon Chi-Shun III Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	47,546	500,000	47,546	500,000	500,599	599	-	- (Notes 1 and 2)	
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	81,999	1,000,000	-	-	-	-	81,999	1,002,954 (Notes 1 and 2)	
	NITC Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	19,872	3,250,000	2,750	450,000	448,262	1,738	17,122	2,817,260 (Note 1)	
	NITC Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	35,789	500,000	35,789	501,496	500,000	1,496	-	-	
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	13,686	200,000	-	-	-	-	13,686	200,015 (Note 1)	
JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	39,521	600,000	19,819	300,739	300,000	739	19,702	300,597 (Note 1)		

(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/Units (Thousands)		Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
The Corporation	Stock														
	Chunghwa Telecom Co., Ltd.	Available-for-sale financial assets - current	-	-	200,000		\$9,277,177	2,688	\$-	200,000	\$11,265,915	\$9,154,936	\$2,110,979	2,688	\$162,893 (Note 1)
	The former TransAsia Telecommunications Inc.	Long-term investments - equity method	TransAsia Telecommunications Inc.	Subsidiary	328,645		12,458,466	-	-	328,645	³ (Note 3)	12,458,465	¹ (Note 3)	-	(Note 3)
	TransAsia Telecommunications Inc.	Long-term investments - equity method	-	Subsidiary	-		-	1,245,846	12,458,463	-	-	-	-	1,245,846	14,009,973 (Note 4)
	Taiwan Cellular Co., Ltd.	Long-term investments - equity method	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Subsidiary	44,300		992,550	-	-	44,300	-	1,504,634 (Note 5)	- (Note 5)	-	- (Note 5)
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Long-term investments - equity method	-	Subsidiary	386,972		3,781,996	50,000	500,000	-	-	-	-	325,000	3,877,659 (Note 6)
TransAsia Telecommunications Inc.	Beneficiary certificate														
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	46,758	700,000	-	-	-	-	46,758	704,606 (Note 1)
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	94,744	1,200,000	23,744	302,712	300,000	2,712	71,000	905,330 (Note 1)
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	68,924	1,000,000	30,958	450,000	448,437	1,563	37,966	554,861 (Note 4)
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	42,808	650,000	-	-	-	-	42,808	653,130 (Note 4)
	Fubon Jin-Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	-		-	12,267	150,000	-	-	-	-	12,267	150,035 (Note 4)
Mobitai Communications	Stock														
	The former TransAsia Telecommunications Inc.	Long-term investments - equity method	The Corporation	Ultimate parent	-		-	328,645	12,458,466	328,645	-	12,458,466	- (Note 3)	-	- (Note 3)
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Stock														
	Taiwan Cellular Co., Ltd.	Long-term investments - equity method	The Corporation	Ultimate parent	-		-	44,300	-	44,300	-	- (Note 8)	- (Note 8)	-	-
	TWM Holding Co. Ltd.	Long-term investments - equity method	-	-	-		-	1 share	292,961	-	-	-	-	1 share	325,693 (Note 9)
TWM Holding Co. Ltd.	ADS														
	Hurray! Holding Co., Ltd.	Available-for-sale financial assets - current	-	-	-		-	1,080	US\$5,771	-	-	-	-	1,080	US\$6,696 (Note 1)

Note 1: The amount included the revaluation gain on financial assets.

Note 2: Fubon Chi-Shun III Fund merged into Fubon Jin-Ju-I Fund on October 16, 2006, held 47,331 units on the date of consolidation, and transferred carrying value of \$500,000 thousand into Fubon Jin-Ju-I Fund 41,032 units.

Note 3: The amount included the investment loss adjustment of \$1 thousand. For its reorganization, the Corporation retained 80 shares of the former TransAsia Telecommunications Inc. and established TAT International Telecommunication Co., Ltd. by investing the remaining holding shares of the former TransAsia Telecommunications Inc., with a carrying value of \$12,458,463 thousand. There was no gain or loss on this share disposal. TAT International Telecommunications Co. Ltd. merged with the

former TransAsia Telecommunications Inc., with TAT International Telecommunications Co. Ltd. as the surviving company and renamed as "TransAsia Telecommunications Inc." on June 27, 2006. The Corporation received acquisition price amounting to \$3 thousand.

Note 4: The amount included the investment income adjustment of \$1,551,510 thousand.

Note 5: For its reorganization, Taihsing Den Syun Co., Ltd. merged with the Taiwan Cellular Co., Ltd., with Taihsing Den Syun Co., Ltd. as the surviving company and renamed as Taiwan Cellular Co., Ltd. on May 1, 2006. There was no gain or loss on this share disposal. The amount included (a) the investment income adjustment of \$31,199 thousand; (b) the reclassification of unrealized gain

from intercompany transactions resulting from the sale of investment of Howin Technologies Co., Ltd. amounting to \$484,380 thousand and (c) cumulative translation adjustments of (\$3,495) thousand.

Note 6: The amount included (a) the capital reduction adjustment of \$1,119,715 thousand; (b) the investment income adjustment of \$1,160,351 thousand; (c) the additional paid-in capital 5,083 thousand; (d) the reclassification of unrealized gain from intercompany transactions resulting from the sale of investment of Howin Technologies Co., Ltd. amounting to (\$484,380) thousand ; (e) cumulative translation adjustments of \$4,115 thousand and (f)financial asset of unrealized gain \$30,209 thousand.

Note 7: For its reorganization, Mobitai Communications merged with the

former Mobitai Communications, with Mobitai Communications as the surviving company. There was no gain or loss on this share disposal.

Note 8: For its reorganization, Taihsing Den Syun Co., Ltd. merged with the Taiwan Cellular Co., Ltd., with Taihsing Den Syun Co., Ltd. as the surviving company and renamed as Taiwan Cellular Co., Ltd. There was no gain or loss on this share disposal.

Note 9: The amount included (a) the investment income adjustment of \$1,552 thousand; (b) the recognition of cumulative translation adjustment of \$971 thousand and unrealized gain of \$30,209 thousand on financial assets.(Concluded)

TABLE 4

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
Acquisition of individual real estate at costs of
at least \$100 million or 20% of the paid-in capital

YEAR ENDED DECEMBER 31, 2006 (In Thousands of New Taiwan Dollars)														
Company Name	Types of Property	Transaction Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship		Prior transaction of Related Counter-party				Price Reference	Purpose of Acquisition	Other Terms
								Owner	Relationship	Transfer Date	Amount			
The Corporation	Land and buildings	2006.12.13	\$1,565,000	Finish payment	Taiwan Fixed Network Co., Ltd.	Related party in substance		Crowell Development Corp.	None	2001.2.22	\$1,483,850	Appraisal report (depending on average five appraisal companies)	Operating purpose	-
								Suretone Telecom. Inc.	None	2001.3.16	20,000	Appraisal report	Operating purpose	-

TABLE 5

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
Disposal of individual real estate at prices of at least
\$100 million or 20% of the paid-in capital

YEAR ENDED DECEMBER 31, 2006 (In Thousands of New Taiwan Dollars)													
Company Name	Types of Property	Transact-ion Date	Original Acquisition Date	Carrying Value	Transaction Amount	Receivable Term		Gain on Disposal	Counter-party	Nature of Relationship	Purpose of Disposal	Price Reference	Other Terms
The Corporation	Land and buildings	2006.12.13	2000.6.30	155,848	152,000	Finish receipts		(3,848)	Taiwan Fixed Network Co., Ltd.	Related party in substance	Appropriately use assets to sufficient	Appraisal report	-

TABLE 6

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
TOTAL PURCHASE FROM OR SALE TO RELATED PARTIES AMOUNTING
TO AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL

YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship	Transaction Details			Transaction Details		Abnormal Transaction		Note/Accounts Payable or Receivable	
			Purchase/ Sale	Amount		% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total
The Corporation	TransAsia Telecommunications Inc. (including the former TAT)	Subsidiary	Sale	\$(693,059)		(1)	Based on contract terms	-	-	\$80,210 (Note 1)	1
			Purchase	341,755		2	Based on contract terms	-	-	(23,937)	(2)
	Taiwan Fixed Network Co., Ltd.	Related party in substance	Sale	(1,411,029)		(3)	Based on contract terms	-	-	222,747	4
			Purchase	868,958		4	Based on contract terms	-	-	54,674 (Note 3)	1
	Mobitai Communications	Subsidiary	Sale	(285,079)		(1)	Based on contract terms	-	-	29,897	-
			Purchase	193,763		1	Based on contract terms	-	-	(644)	-
	Taiwan Teleservices & Technologies Co., Ltd.	Subsidiary	Purchase	992,514		(Note 2)	Based on contract terms	-	-	(153,397) (Note 3)	-
TransAsia Telecommunica- tions Inc. (including the former TAT)	The Corporation	Ultimate parent	Sale	(337,170)		(4)	Based on contract terms	-	-	23,937	2
			Purchase	693,026		20	Based on contract terms	-	-	(83,496)	(28)
Mobitai Communications	The Corporation	Ultimate parent	Sale	(193,537)		(4)	Based on contract terms	-	-	644	-
			Purchase	285,050		12	Based on contract terms	-	-	(19,612)	(10)
Taiwan Teleservices & Tech- nologies Co., Ltd.	The Corporation	Ultimate parent	Sale	(989,923)		(83)	Based on contract terms	-	-	152,601	91

Note 1: Disclosed with the ending balance of TransAsia Telecommunications Inc.
Note 2: Recognized as operating expenses.
Note 3: Recognized as accrued expenses.

TABLE 7

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
RECEIVABLES FROM RELATED PARTIES AMOUNTING TO
AT LEAST \$100 MILLION OR 20% OF THE PAID-IN CAPITAL

YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Company Name	Related Party	Nature of Relationship		Ending Balance	Turnover Rate	Overdue		Amount Re- ceived in Sub- sequent Period	Allowance for Bad Debts
						Amount	Action Taken		
The Corporation	TransAsia Telecommunications Inc.	Subsidiary		Accounts receivable	\$80,210	5.97 (Note 1)	\$-	-	\$-
				Other receivables	139,777	-	-	-	-
	Mobitai Communications	Subsidiary		Accounts receivable	29,897	2.19	-	-	-
				Other receivables	99,075	-	-	-	-
	Taiwan Fixed Network Co., Ltd.	Related party in substance		Accounts receivable	222,747	7.74	-	-	21,996
				Other receivables	8,265	-	-	-	-
TransAsia Telecommunications Inc.	The Corporation	Ultimate parent		Accounts receivable	23,937	16.45	-	-	-
				Other receivables	297,019	-	-	-	96,570
Mobitai Communications	The Corporation	Ultimate parent		Accounts receivable	4,107	6.78	-	-	2,713
				Other receivables	159,229	-	-	-	63,717
Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	Ultimate parent		Accounts receivable	152,601	5.91	-	-	-

Note 1: The calculation included TransAsia Telecommunications Inc. and the former TransAsia Telecommunications Inc.

TABLE 8

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES
ON WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE

YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars or U.S. Dollars and RMB)

Investor	Investee	Location	Main Businesses and Products		Original Investment Amount		Balance as of December 31, 2006			Net Income (Loss) of the Investee	Investment Income (Loss)
					December 31, 2006	December 31, 2005	Shares (Thousands)	Percentage of Ownership	Carrying Value		
The Corporation	Taiwan Cellular Co., Ltd.	Taipei, Taiwan	Telecommunication equipment retailing and wholesale		\$-	\$1,420,017	-	-	\$-	\$7,614	\$31,198
	The former TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider		-	10,408,388	-	-	-	602,042	(1)
	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taipei, Taiwan	Equipment installation and IT service		3,250,000	3,869,715	325,000	100	3,877,659	692,350	1,160,351
	TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider		12,458,463	-	1,245,846	100	14,009,973	1,594,710	1,551,510
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taiwan Teleservices & Technologies Co., Ltd.	Taipei, Taiwan	Call center service		91,277	327,146	70,000	100	540,640	96,433	NA
	Mobitai Communications	Taipei, Taiwan	Wireless service provider		2,000,000	3,650,782	200,000	100	2,499,650	631,550	NA
	Tai Yi Digital Broadcasting Co., Ltd.	Taipei, Taiwan	Telecommunication business and cell phone number agency of broadcasts		24,950	24,950	2,495	49.9	24,410	(646)	NA
	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment		-	131,700	-	-	-	-	NA
	TWM Holding Co. Ltd.	British Virgin Islands	Investment		US\$9,000	-	1 share	100	325,693	US\$47	NA
Taiwan Teleservices & Technologies Co., Ltd.	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent		3,000	3,000	300	100	3,021	9	NA
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent		3,000	3,000	300	100	2,703	(62)	NA
	TT&T Holdings Co., Ltd.	Samoa	Investment		46,386	83,530	1,300	100	41,565	US\$(85)	NA
TT&T Holdings Co., Ltd.	Dalian Xinkai Teleservices & Technologies Ltd.	Dalian	Call center service		-	US\$1,511	-	-	-	-	NA
	Xiamen Taifu Teleservices & Technologies Ltd.	Xiamen	Call center service		US\$1,300	US\$1,000	-	100	US\$1,268	RMB24	NA
TransAsia Telecommunications Inc.	The former TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider		-	-	-	-	-	602,042	NA
The former TransAsia Telecommunications Inc.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment		-	2,250	-	-	-	-	NA
Mobitai Communications	The former Mobitai Communications	Taichung, Taiwan	Wireless service provider		-	3,650,782	-	-	-	-	NA

TABLE 9

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
INVESTMENT IN MAINLAND CHINA

YEAR ENDED DECEMBER 31, 2006 (In Thousands of New Taiwan Dollars or U.S. Dollars and RMB)												
Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of December 31, 2005		Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of December 31, 2006	Accumulated Inward Remittance of Earnings as of December 31, 2006
						Outflow	Inflow					
Dalian Xinkai Teleservices & Technologies Ltd.	Call center service	RMB25,011 (NT\$104,526)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$666 (NT\$21,752)		\$-	US\$500 (NT\$16,330)	\$-	-	(US\$89) (NT\$2,907)	\$-	\$-
Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	US\$1,300 (NT\$42,458)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$1,000 (NT\$32,660)		US\$300 (NT\$9,798)	-	US\$1,300 (NT\$42,458)	100% ownership of indirect investment by the Corporation's subsidiary	US\$3 (NT\$98)	US\$1,268 (NT\$41,413)	-

Accumulated Investment in Mainland China as of December 31, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
US\$1,300 (NT\$42,458)	Note 2	Note 2

Note 1: The above amounts were translated into New Taiwan Dollars at the exchange rate of US\$1=NT\$32.66 and RMB1=NT\$4.1792 as of December 31, 2006.

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

TABLE 10

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

YEAR ENDED DECEMBER 31, 2006
(In Thousands of New Taiwan Dollars)

Number	Company Name	Counterparty		Transaction Details				
				Nature of Relationship	Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
0	The Corporation	TransAsia Telecommunications Inc.		1	Accounts receivable	\$80,210	Based on regular terms	-
		Mobitai Communications		1	Accounts receivable	29,897	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		1	Accounts receivable	1	Based on regular terms	-
		TransAsia Telecommunications Inc.		1	Other receivables	139,777	Based on regular terms	-
		Mobitai Communications		1	Other receivables	99,075	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		1	Other receivables	1,505	Based on regular terms	-
		TransAsia Telecommunications Inc.		1	Prepayments	70	Based on regular terms	-
		TransAsia Telecommunications Inc.		1	Accounts payable	23,937	Based on regular terms	-
		Mobitai Communications		1	Accounts payable	644	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		1	Accounts payable	2	Based on regular terms	-
		Mobitai Communications		1	Accrued expenses	3,426	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		1	Accrued expenses	153,397	Based on regular terms	-
		TransAsia Telecommunications Inc.		1	Other payables	96,570	Based on regular terms	-
		Mobitai Communications		1	Other payables	63,717	Based on regular terms	-
		TransAsia Telecommunications Inc.		1	Advance receipts	251	Based on regular terms	-
		Mobitai Communications		1	Advance receipts	56	Based on regular terms	-
		TransAsia Telecommunications Inc.		1	Other current liabilities	202,048	Based on regular terms	-
		Mobitai Communications		1	Other current liabilities	95,391	Based on regular terms	-
		TransAsia Telecommunications Inc.(including the former TAT)		1	Operating revenues	693,065	Based on regular terms	1%
		Mobitai Communications		1	Operating revenues	285,050	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		1	Operating revenues	6,921	Based on regular terms	-
		TransAsia Telecommunications Inc.(including the former TAT)		1	Operating costs	341,631	Based on regular terms	1%
		Mobitai Communications		1	Operating costs	193,763	Based on regular terms	-
		TransAsia Telecommunications Inc.(including the former TAT)		1	Marketing expenses	(5)	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		1	Marketing expenses	855,316	Based on regular terms	1%
		Taiwan Teleservices & Technologies Co., Ltd.		1	Administrative expenses	147,713	Based on regular terms	-
		TransAsia Telecommunications Inc.(including the former TAT)		1	Rental income	5,625	Based on regular terms	-
		Mobitai Communications		1	Rental income	890	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		1	Rental income	34	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty		Transaction Details				
				Nature of Relationship	Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
1	TransAsia Telecommunications Inc. (including the former TAT)	The Corporation		2	Accounts receivable	23,937	Based on regular terms	-
		Mobitai Communications		3	Accounts receivable	1,282	Based on regular terms	-
		The Corporation		2	Other receivables	297,019	Based on regular terms	-
		The Corporation		2	Prepayments	261	Based on regular terms	-
		The Corporation		2	Accounts payable	42,095	Based on regular terms	-
		Mobitai Communications		3	Accounts payable	12	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		3	Accounts payable	9	Based on regular terms	-
		The Corporation		2	Accrued expenses	170,432	Based on regular terms	-
		Mobitai Communications		3	Accrued expenses	6	Based on regular terms	-
		The Corporation		2	Other payables	6,063	Based on regular terms	-
		The Corporation		2	Advance receipts	70	Based on regular terms	-
		The Corporation		2	Other current liabilities	7	Based on regular terms	-
		The Corporation		2	Operating revenues	337,170	Based on regular terms	1%
		Mobitai Communications		3	Operating revenues	13,123	Based on regular terms	-
		The Corporation		2	Operating costs	698,651	Based on regular terms	1%
		Mobitai Communications		3	Operating costs	7,454	Based on regular terms	-
		The Corporation		2	Marketing expenses	39	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		3	Marketing expenses	(1,755)	Based on regular terms	-
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)		3	Interest income	3,209	Based on regular terms	-
		The Corporation		2	Rental income	4,456	Based on regular terms	-
2	Mobitai Communications						Based on regular terms	-
		The Corporation		2	Accounts receivable	\$4,107	Based on regular terms	-
		TransAsia Telecommunications Inc.		3	Accounts receivable	18	Based on regular terms	-
		The Corporation		2	Other receivables	159,229	Based on regular terms	-
		The Corporation		2	Prepayments	67	Based on regular terms	-
		The Corporation		2	Accounts payable	19,612	Based on regular terms	-
		TransAsia Telecommunications Inc.		3	Accounts payable	1,282	Based on regular terms	-
		The Corporation		2	Other payables	95,053	Based on regular terms	-
		The Corporation		2	Accrued expenses	14,312	Based on regular terms	-
		The Corporation		2	Operating revenues	193,763	Based on regular terms	-
		TransAsia Telecommunications Inc.		3	Operating revenues	7,454	Based on regular terms	-
		The Corporation		2	Operating costs	285,940	Based on regular terms	-
		TransAsia Telecommunications Inc.		3	Operating costs	13,123	Based on regular terms	-
3	Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)							
		Taiwan Teleservices & Technologies Co., Ltd.		1	Other receivables	593	Based on regular terms	-
		Xiamen Taifu Teleservices & Technologies Ltd.		1	Other receivables	100	Based on regular terms	-
		TT&T Holdings Co., Ltd.		1	Other receivables	100	Based on regular terms	-
		TransAsia Telecommunications Inc.		3	Interest expence	3,209	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty		Transaction Details				
				Nature of Relationship	Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
4	Taiwan Teleservices & Technologies Co., Ltd.	The Corporation		2	Accounts receivable	152,601	Based on regular terms	-
		TransAsia Telecommunications Inc.		3	Accounts receivable	9	Based on regular terms	-
		The Corporation		2	Other receivables	841	Based on regular terms	-
		The Corporation		2	Accrued expenses	1,513	Based on regular terms	-
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)		2	Accrued expenses	593	Based on regular terms	-
		TT&T Holdings Co., Ltd.		1	Accrued expenses	4,785	Based on regular terms	-
		Xiamen Taifu Teleservices & Technologies Ltd.		1	Accrued expenses	2,799	Based on regular terms	-
		The Corporation		2	Operating revenues	989,361	Based on regular terms	2
		TransAsia Telecommunications Inc.		3	Operating revenues	(1,755)	Based on regular terms	-
		TT&T Life Insurance Agency Co., Ltd.		1	Operating revenues	298	Based on regular terms	-
		The Corporation		2	Operating costs	6,920	Based on regular terms	
		The Corporation		2	Marketing expenses	10,441	Based on regular terms	-
		TT&T Holdings Co., Ltd.		1	Marketing expenses	58,244	Based on regular terms	-
		The Corporation		2	Administrative expenses	1	Based on regular terms	-
		The Corporation		2	Administrative expenses	34	Based on regular terms	-
		TT&T Life Insurance Agency Co., Ltd		1	Rental income	4	Based on regular terms	-
		TT&T Casualty & Property Insurance Agency Co., Ltd		1	Rental income	4	Based on regular terms	-
		The Corporation		2	Miscellaneous revenue	24,109	Based on regular terms	-
5	TT&T Life Insurance Agency Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.		2	Marketing expenses	298	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		2	Rental expense	4	Based on regular terms	-
6	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.		2	Rental expense	4	Based on regular terms	-
7	TT&T Holdings Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.		2	Accounts receivable	908	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		2	Accounts payable	3,708	Based on regular terms	-
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)		2	Accrued expenses	100	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		2	Operating revenues	58,244	Based on regular terms	-
		Xiamen Taifu Teleservices & Technologies Ltd.		1	Marketing expenses	14,542	Based on regular terms	-
8	Xiamen Taifu Teleservices & Technologies Ltd.	Taiwan Teleservices & Technologies Co., Ltd.		2	Accounts receivable	10,391	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		2	Other receivables	2	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.		2	Accrued expenses	10	Based on regular terms	-
		Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)		2	Accrued expenses	100	Based on regular terms	-
		TT&T Holdings Co., Ltd.		2	Operating revenues	14,542	Based on regular terms	-

Note 1: Parent to subsidiary.
Note 2: Subsidiary to parent.
Note 3: Between subsidiaries.(Concluded)

TABLE 11

TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES
BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

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

Number	Company Name	Counterparty		Transaction Details				
				Nature of Relationship	Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
0	The Corporation	The former TransAsia Telecommunications Inc.		1	Accounts receivable	\$152,427	Based on regular terms	-
		The former 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	-
		The former TransAsia Telecommunications Inc.		1	Other receivables	151,629	Based on regular terms	-
		The former Mobitai Communications		1	Other receivables	263,663	Based on regular terms	-
		Taiwan Cellular Co., Ltd.		1	Other receivables	21,810	Based on regular terms	-
		The former TransAsia Telecommunications Inc.		1	Accounts payable	17,050	Based on regular terms	-
		The former Mobitai Communications		1	Accounts payable	52,478	Based on regular terms	-
		The former TransAsia Telecommunications Inc.		1	Other payables	165,360	Based on regular terms	-
		The former Mobitai Communications		1	Other payables	39,276	Based on regular terms	-
		Taiwan Cellular 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	-
		The former TransAsia Telecommunications Inc.		1	Other current liabilities	161,795	Based on regular terms	-
		The former Mobitai Communications		1	Other current liabilities	154,183	Based on regular terms	-
		The former TransAsia Telecommunications Inc.		1	Operating revenues	1,478,877	Based on regular terms	2%
		The former 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	-
		The former TransAsia Telecommunications Inc.		1	Operating costs	629,487	Based on regular terms	1%
		The former 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	-
1	The former TransAsia Telecommunications Inc.	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	-
		The Corporation		2	Accounts receivable	329,489	Based on regular terms	-
		The former 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	-
		The former 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%
		The former Mobitai Communications		3	Operating revenues	44,854	Based on regular terms	-
		The Corporation		2	Operating costs	1,452,425	Based on regular terms	2%
2	The former Mobitai Communications	The former 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	-
		The Corporation		2	Accounts receivable	52,992	Based on regular terms	-
		The former TransAsia Telecommunications Inc.		3	Accounts receivable	161	Based on regular terms	-
		The Corporation		2	Other receivables	194,033	Based on regular terms	-

(Continued)

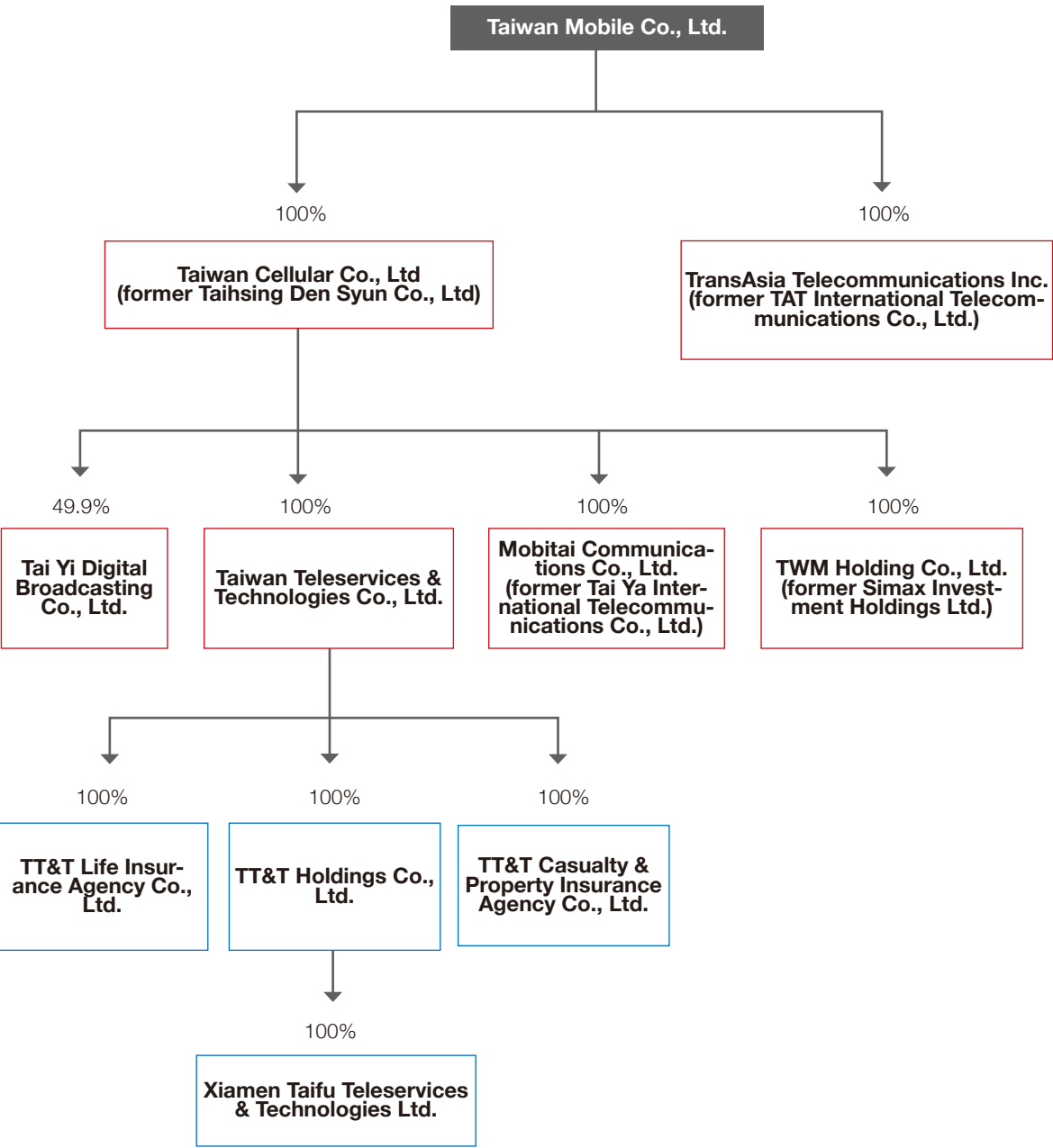
Number	Company Name	Counterparty		Transaction Details				
				Nature of Relationship	Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
		The Corporation		2	Prepayments	\$224	Based on regular terms	-
		The Corporation		2	Accounts payable	230,606	Based on regular terms	-
		The former 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	-
		The former TransAsia Telecommunications Inc.		3	Operating revenues	37,865	Based on regular terms	-
		The Corporation		2	Operating costs	596,683	Based on regular terms	1%
		The former 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.	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	-
		The former TransAsia Telecommunications Inc.		3	Accounts receivable	40,976	Based on regular terms	-
		The former 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%
		The former TransAsia Telecommunications Inc.		3	Operating revenues	233,676	Based on regular terms	-
		The former 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.(Concluded)

Affiliates

1. Investment Holding Structure

As of December 31, 2006



2. Affiliates' Profile

Unit: NT\$'000/US\$'000

Name	Date of incorporation	Address	Paid-in capital	Main business
TransAsia Telecommunications Inc. (former TAT International Telecommunications Co., Ltd.)	2006.02 .08	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	12,458,463	Mobile phone service provider
Taiwan Cellular Co., Ltd. (former Taishing Den Syun Co., Ltd.)	2005.09.20	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	3,250,000	Telecom engineering and IT service
Mobitai Communications Co., Ltd. (former Tai Ya International Telecommunications Co., Ltd.)	2005.11.17	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	2,000,000	Mobile phone service provider
Tai Yi Digital Broadcasting Co., Ltd	2006.01.03	13F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	50,000	Broadcasting business and agency of mobile phone service subscription
TWM Holding Co., Ltd.	2006.06.09	c/o ARIAS, FABREGA & FABREGA TRUST CO. BVI LIMITED, 325 Waterfront Drive, Road Town, Tortola, British Virgin Islands	US\$ 1	Investment
Taiwan Teleservices & Technologies Co., Ltd.	2001.09.05	15F-1, No.172-1, Jilung Rd., Sec. 2, Taipei City	700,000	Call center service
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
TT&T Holdings Co., Ltd.	2004.10.18	TrustNet Chambers., P.O. Box 1225, Apia, Samoa.	US\$1,300	Investment
Xiamen Taifu Teleservices & Technologies Ltd.	2005.04.05	3F,NO.2,XIAMEN Software Park, Xianmen City, P.R. China	US\$1,300	Call center service

3. Affiliates' Operating Highlights

Unit: NT\$'000

Company Name	Paid-in capital	Total assets	Total liabilities	Net worth	Operating revenue	Operating income	Net income	EPS (NT\$)
TransAsia Telecommunications Inc. (former TAT International Telecommunications Co., Ltd.)	12,458,463	15,323,055	1,269,882	14,053,173	3,717,874	1,677,862	1,594,710	1.28
Taiwan Cellular Co., Ltd. (former Taishing Den Syun Co., Ltd.)	3,250,000	3,909,722	15,684	3,894,038	-	(3,795)	692,350	2.10
Mobitai Communications Co., Ltd. (former Tai Ya International Telecommunications Co., Ltd.)	2,000,000	3,250,385	736,823	2,513,562	4,435,577	1,156,854	631,550	2.62
Tai Yi Digital Broadcasting Co., Ltd	50,000	50,456	1,538	48,918	-	(877)	(646)	(0.13)
TWM Holding Co., Ltd.	0.033	325,742	49	325,693	-	(651)	1,538	1,537,648
Taiwan Teleservices & Technologies Co., Ltd.	700,000	848,293	307,653	540,640	1,196,427	144,143	96,433	1.21
TT&T Life Insurance Agency Co., Ltd.	3,000	3,021	-	3,021	331	(15)	9	0.03
TT&T Casualty & Property Insurance Agency Co., Ltd.	3,000	2,703	-	2,703	-	(65)	(62)	(0.21)
TT&T Holdings Co., Ltd.	42,458	46,287	4,722	41,565	32,138	3,090	(2,771)	-
Xiamen Taifu Teleservices & Technologies Ltd.	42,458	50,674	9,264	41,410	46,214	2,212	100	NA