

CHUNGHWA TELECOM CO LTD  
Form 6-K  
April 01, 2011

1934 Act Registration No. 1-31731

# **SECURITIES AND EXCHANGE COMMISSION**

**Washington, DC 20549**

## **FORM 6-K**

**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 OF  
THE SECURITIES EXCHANGE ACT OF 1934**

**Dated March 31, 2011**

### **Chunghwa Telecom Co., Ltd.**

**(Translation of Registrant's Name into English)**

**21-3 Hsinyi Road Sec. 1,**

**Taipei, Taiwan, 100 R.O.C.**

**(Address of Principal Executive Office)**

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(Indicate by check mark whether the registrant files or will file annual reports under cover of form 20-F or Form 40-F.)

Form 20-F  Form 40-F

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(Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

Yes  No

(If Yes is marked, indicated below the file number assigned to the registrant in connection with Rule 12g3-2(b): Not applicable)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant Chunghwa Telecom Co., Ltd. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 2011/03/31

Chunghwa Telecom Co., Ltd.

By: /s/ Shu Yeh

Name: Shu Yeh

Title: Senior Vice President CFO

Exhibit

Exhibit	Description
1	Financial Statements for the Years Ended December 31, 2010 and 2009 and Independent Auditors Report (Parent Company Only)
2	Consolidated Financial Statements for the Years Ended December 31, 2010 and 2009 and Independent Auditors Report

**Chunghwa Telecom Co., Ltd.**

**Financial Statements for the**

**Years Ended December 31, 2010 and 2009 and**

**Independent Auditors Report**

**INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Stockholders

Chunghwa Telecom Co., Ltd.

We have audited the accompanying balance sheets of Chunghwa Telecom Co., Ltd. as of December 31, 2010 and 2009, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company'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 required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 first paragraph present fairly, in all material respects, the financial position of the Company as of December 31, 2010 and 2009, and the results of its operations and its cash flows for the years then ended in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law and Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the financial statements, the Company early adopted the new Statements of Financial Accounting Standards No. 41, Operating Segments (SFAS No. 41) beginning from September 1, 2009.

We have also audited the consolidated financial statements of the Company and its subsidiaries as of and for the years ended December 31, 2010 and 2009, and have expressed a modified unqualified opinion on those consolidated financial statements.

/s/ DELOITTE & TOUCHE  
Deloitte & Touche  
Taipei, Taiwan  
The Republic of China

March 13, 2011

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.*



**CHUNGHWA TELECOM CO., LTD.****BALANCE SHEETS****DECEMBER 31, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)**

	2010		2009	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 84,700,525	19	\$ 68,393,379	15
Financial assets at fair value through profit or loss (Notes 2 and 5)	34,278		6,677	
Available-for-sale financial assets (Notes 2 and 6)	1,030,500		16,684,380	4
Held-to-maturity financial assets (Notes 2 and 7)	1,963,608		1,099,595	
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,528,044 thousand in 2010 and \$2,774,868 thousand in 2009 (Notes 2 and 8)	12,948,183	3	11,065,325	3
Receivables from related parties (Note 23)	466,422		383,218	
Other monetary assets (Note 9)	2,094,714	1	1,771,949	
Inventories, net (Notes 2, 3 and 10)	1,120,024		1,186,522	
Deferred income tax assets (Notes 2 and 20)	53,838		60,700	
Other current assets (Note 11)	3,489,243	1	3,916,850	1
<b>Total current assets</b>	<b>107,901,335</b>	<b>24</b>	<b>104,568,595</b>	<b>23</b>
<b>LONG-TERM INVESTMENTS</b>				
Investments accounted for using equity method (Notes 2 and 12)	11,066,543	2	10,170,504	2
Financial assets carried at cost (Notes 2 and 13)	2,305,354	1	2,226,048	1
Held-to-maturity financial assets (Notes 2 and 7)	8,408,090	2	3,929,662	1
Other monetary assets (Notes 14 and 24)	1,000,000		1,000,000	
<b>Total long-term investments</b>	<b>22,779,987</b>	<b>5</b>	<b>17,326,214</b>	<b>4</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 15 and 23)</b>				
<b>Cost</b>				
Land	101,709,013	23	101,266,026	23
Land improvements	1,554,776		1,535,066	
Buildings	65,720,709	15	62,669,377	14
Computer equipment	15,422,954	3	15,636,520	4
Telecommunications equipment	654,890,287	147	654,609,330	148
Transportation equipment	2,371,493	1	2,111,872	
Miscellaneous equipment	6,968,946	2	7,062,450	2
<b>Total cost</b>	<b>848,638,178</b>	<b>191</b>	<b>844,890,641</b>	<b>191</b>
Revaluation increment on land	5,800,701	1	5,800,909	1
	854,438,879	192	850,691,550	192
Less: Accumulated depreciation	565,756,859	127	555,893,816	126

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	288,682,020	65	294,797,734	66
Construction in progress and advances related to acquisition of equipment	12,014,639	3	15,715,083	4
Property, plant and equipment, net	300,696,659	68	310,512,817	70
INTANGIBLE ASSETS (Note 2)				
3G concession	5,988,870	1	6,737,479	2
Others	447,294		418,080	
Total intangible assets	6,436,164	1	7,155,559	2
OTHER ASSETS				
Idle assets (Note 2)	878,896		926,277	
Refundable deposits	1,478,342	1	1,408,706	1
Deferred income tax assets (Notes 2 and 20)	398,050		398,423	
Others (Note 23)	3,817,546	1	863,212	
Total other assets	6,572,834	2	3,596,618	1
TOTAL	\$ 444,386,979	100	\$ 443,159,803	100

	2010	%	2009	%
	Amount		Amount	
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Trade notes and accounts payable	\$ 8,754,445	2	\$ 8,346,932	2
Payables to related parties (Note 23)	2,407,985		1,875,717	
Income tax payable (Notes 2 and 20)	4,411,541	1	4,157,986	1
Accrued expenses (Note 16)	17,262,155	4	16,500,060	4
Due to stockholders for capital reduction (Note 18)	19,393,617	4	9,696,808	2
Other current liabilities (Note 17)	16,051,057	4	15,933,025	4
<b>Total current liabilities</b>	<b>68,280,800</b>	<b>15</b>	<b>56,510,528</b>	<b>13</b>
<b>DEFERRED INCOME</b>	<b>2,588,910</b>	<b>1</b>	<b>2,483,764</b>	
<b>RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)</b>	<b>94,986</b>		<b>94,986</b>	
<b>OTHER LIABILITIES</b>				
Accrued pension liabilities (Notes 2 and 22)	1,283,022		1,207,957	
Customers deposits (Note 23)	5,853,704	1	5,940,403	2
Deferred credits - profit on intercompany transactions (Note 23)	1,440,007	1	1,485,916	
Others	266,808		225,114	
<b>Total other liabilities</b>	<b>8,843,541</b>	<b>2</b>	<b>8,859,390</b>	<b>2</b>
<b>Total liabilities</b>	<b>79,808,237</b>	<b>18</b>	<b>67,948,668</b>	<b>15</b>
<b>STOCKHOLDERS EQUITY (Notes 2, 6, 15 and 18)</b>				
Common stock - \$10 par value;				
Authorized: 12,000,000 thousand shares				
Issued: 7,757,447 thousand shares in 2010 and 9,696,808 thousand shares in 2009	77,574,465	18	96,968,082	22
<b>Additional paid-in capital</b>				
Capital surplus	169,496,289	38	169,496,289	38
Donated capital	13,170		13,170	
Equity in additional paid-in capital reported by equity-method investees	5,643		304	
<b>Total additional paid-in capital</b>	<b>169,515,102</b>	<b>38</b>	<b>169,509,763</b>	<b>38</b>
<b>Retained earnings</b>				
Legal reserve	61,361,255	14	56,987,241	13
Special reserve	2,675,894		2,675,894	1
Unappropriated earnings	47,615,807	11	43,749,962	10
<b>Total retained earnings</b>	<b>111,652,956</b>	<b>25</b>	<b>103,413,097</b>	<b>24</b>
<b>Other adjustments</b>				
Cumulative translation adjustments	(102,885)		7,626	
Unrecognized net loss of pension	(40,182)		(43,750)	
Unrealized gain (loss) on financial instruments	176,048		(447,129)	
Unrealized revaluation increment	5,803,238	1	5,803,446	1
<b>Total other adjustments</b>	<b>5,836,219</b>	<b>1</b>	<b>5,320,193</b>	<b>1</b>

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Total stockholders equity	364,578,742	82	375,211,135	85
TOTAL	\$ 444,386,979	100	\$ 443,159,803	100

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

(With Deloitte & Touche audit report dated March 13, 2011)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF INCOME****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)

	2010		2009	
	Amount	%	Amount	%
NET REVENUES (Note 23)	\$ 186,410,943	100	\$ 184,040,272	100
OPERATING COSTS (Note 23)	98,675,571	53	97,229,277	53
<b>GROSS PROFIT</b>	<b>87,735,372</b>	<b>47</b>	<b>86,810,995</b>	<b>47</b>
OPERATING EXPENSES (Note 23)				
Marketing	25,325,544	13	25,210,891	13
General and administrative	3,396,438	2	3,303,370	2
Research and development	3,261,176	2	3,155,752	2
Total operating expenses	31,983,158	17	31,670,013	17
<b>INCOME FROM OPERATIONS</b>	<b>55,752,214</b>	<b>30</b>	<b>55,140,982</b>	<b>30</b>
NON-OPERATING INCOME AND GAINS				
Equity in earnings of equity method investees, net	778,664	1	281,340	
Interest income	445,894		454,464	
Foreign exchange gain, net	6,798		87,597	
Valuation gain on financial instruments, net			100,688	
Gain on disposal of property, plant and equipment, net			5,147	
Others	253,835		646,593	1
Total non-operating income and gains	1,485,191	1	1,575,829	1
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal of financial instruments, net	385,544		194,133	
Loss on disposal of property, plant and equipment, net	208,878			
Interest expense	75,458		2,776	
Impairment loss on assets	61,323		95,349	
Loss arising from natural calamities	18,553		148,747	
Valuation loss on financial instruments, net	11,626			
Others	37,958		112,385	
Total non-operating expenses and losses	799,340		553,390	
<b>INCOME BEFORE INCOME TAX</b>	<b>56,438,065</b>	<b>31</b>	<b>56,163,421</b>	<b>31</b>

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INCOME TAX EXPENSE (Notes 2 and 20)	8,829,165	5	12,405,995	7
NET INCOME	\$ 47,608,900	26	\$ 43,757,426	24

(Continued)

**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF INCOME**

**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(Amounts in Thousands of New Taiwan Dollars, Except Earnings Per Share Data)

	2010		2009	
	Income Before Income Tax	Net Income	Income Before Income Tax	Net Income
<b>EARNINGS PER SHARE (Note 21)</b>				
Basic earnings per share	\$ 5.82	\$ 4.91	\$ 5.79	\$ 4.51
Diluted earnings per share	\$ 5.80	\$ 4.89	\$ 5.77	\$ 4.50

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

(With Deloitte & Touche audit report dated March 13, 2011)

(Concluded)

**CHUNGHWA TELECOM CO., LTD.**

**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(Amounts in Thousands of New Taiwan Dollars, Except Dividend Per Share Data)

	Common Stock		Preferred Stock	Addi- tional Paid-in Capital	Retained Earnings			Unap- propriated Earnings	Other Adjustments Unrealized Gain		Unrealized Revaluation Increment	Total Stockholders' Equity
	Shares (Thousands)	Amount (Thousands)	Amount		Legal Reserve	Special Reserve	Cumulative Translation Adjustments		Unrecognized Net Loss of Pension	(Loss) on Financial Instruments		
Balance, January 1,	9,696,808	\$ 96,968,082	\$	\$ 179,206,270	\$ 52,859,566	\$ 2,675,894	\$ 41,276,274	\$ 29,474	\$ (84)	\$ (2,272,242)	\$ 5,813,187	\$ 376,550
Issuance of common stock												
Retirement of common stock												
Issuance of preferred stock												
Retirement of preferred stock												
Transfer of retained earnings to legal reserve					4,127,675		(4,127,675)					
Dividends - NT\$ 33 per share							(37,138,775)				(9,741)	(9,741)
Translation of retained stock (8)												
Transfer of surplus to common stock	969,680	9,696,808		(9,696,808)								
Reduction (8)	(969,680)	(9,696,808)										(9,696,808)
Income in							43,757,426					43,757,426
Realized gain on financial instruments held by trustees										36,011		36,011
Share repurchases				301			(17,288)					(17,288)
Translation of retained stock for currency fluctuations held by trustees								(21,848)				(21,848)



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and benefit in plan payments of expenses									(43,666)			(43,666)
Realized gain financial statements										1,789,102		1,789,102
INCOME, DECEMBER 31,	9,696,808	96,968,082	169,509,763	56,987,241	2,675,894	43,749,962	7,626	(43,750)	(447,129)	5,803,446		375,210
Payment of dividend from retention of income taxes											(208)	(208)
Provision of reserves				4,374,014		(4,374,014)						
Dividends - 2006 per share								(39,369,041)				(39,369,041)
Reduction (8)	(1,939,361)	(19,393,617)										(19,393,617)
Income in foreign jurisdictions						47,608,900						47,608,900
Realized loss financial statements held by trustees										176,916		176,916
Payments in foreign jurisdictions			5,339									5,339
Provision for foreign currency exchange rate fluctuations								(110,511)				(110,511)
and benefit in plan payments of expenses									3,568			3,568
Realized loss financial statements										446,261		446,261
INCOME, DECEMBER 31,	7,757,447	\$ 77,574,465	\$ 169,515,102	\$ 61,361,255	\$ 2,675,894	\$ 47,615,807	\$ (102,885)	\$ (40,182)	\$ 176,048	\$ 5,803,238		\$ 364,570

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

(With Deloitte & Touche audit report dated March 13, 2011)

## CHUNGHWA TELECOM CO., LTD.

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(Amounts in Thousands of New Taiwan Dollars)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	\$ 47,608,900	\$ 43,757,426
Impairment loss on assets	61,323	95,349
Provision for doubtful accounts	227,057	454,402
Depreciation and amortization	33,647,930	35,972,878
Amortization of premium of financial assets	37,200	15,295
Loss on disposal of financial instruments, net	385,544	194,133
Valuation loss (gain) on financial instruments, net	11,626	(100,688)
Valuation loss on inventory	11,956	11,550
Loss (gain) on disposal of property, plant and equipment, net	208,878	(5,147)
Loss arising from natural calamities	18,553	148,747
Equity in earnings of equity method investees, net	(778,664)	(281,340)
Dividends received from equity investees	278,677	393,115
Deferred income taxes	7,235	1,092,773
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	33,173	215,658
Trade notes and accounts receivable	(2,095,986)	(1,322,076)
Receivables from related parties	(83,204)	(40,202)
Other monetary assets	(336,694)	371,339
Inventories	54,543	(205,463)
Other current assets	(394,960)	601,970
Increase (decrease) in:		
Trade notes and accounts payable	1,230,002	(1,338,719)
Payables to related parties	484,481	(324,270)
Income tax payable	253,555	(1,275,644)
Accrued expenses	762,095	819,458
Other current liabilities	1,470,186	501,273
Deferred income	105,146	411,467
Accrued pension liabilities	75,065	(3,956,431)
<b>Net cash provided by operating activities</b>	<b>83,283,617</b>	<b>76,206,853</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of available-for-sale financial assets	(2,289,718)	(8,617,262)
Proceeds from disposal of available-for-sale financial assets	17,931,915	7,642,345
Acquisition of held-to-maturity financial assets	(6,917,141)	(2,099,875)
Proceeds from disposal of held-to-maturity financial assets	1,537,500	868,860
Acquisition of financial assets carried at cost	(79,306)	
Proceeds from disposal of financial assets carried at cost		285,859
Acquisition of investments accounted for using equity method	(320,740)	(1,637,615)
Acquisition of property, plant and equipment	(24,303,478)	(24,344,334)
Proceeds from disposal of property, plant and equipment	21,029	64,599

(Continued)



**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars)**

	<b>2010</b>	<b>2009</b>
Increase in intangible assets	\$ (265,374)	\$ (233,471)
Increase in other assets	(3,233,515)	(329,770)
<b>Net cash used in investing activities</b>	<b>(17,918,828)</b>	<b>(28,400,664)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Decrease in customers deposits	(33,489)	(95,111)
Increase (decrease) in other liabilities	41,695	(201,273)
Cash dividends paid	(39,369,041)	(37,138,775)
Capital reduction	(9,696,808)	(19,115,554)
<b>Net cash used in financing activities</b>	<b>(49,057,643)</b>	<b>(56,550,713)</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>16,307,146</b>	<b>(8,744,524)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>68,393,379</b>	<b>77,137,903</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>\$ 84,700,525</b>	<b>\$ 68,393,379</b>
<b>SUPPLEMENTAL INFORMATION</b>		
Interest paid	\$ 68,766	\$ 37
Income tax paid	\$ 8,568,375	\$ 12,588,866
<b>NON-CASH FINANCING ACTIVITIES</b>		
Reclassification from common capital stock to due to stockholders for capital reduction	\$ 19,393,617	\$ 9,696,808
<b>CASH AND NON-CASH INVESTING ACTIVITIES</b>		
Increase in property, plant and equipment	\$ 22,945,900	\$ 24,257,098
Payables to suppliers	1,357,578	87,236
	<b>\$ 24,303,478</b>	<b>\$ 24,344,334</b>

(Continued)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars)**

The acquisition of InfoExplorer Co., Ltd. ( IFE ) was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values on the basis of the final data on May 7, 2009:

Cash and cash equivalents	\$ 457,990
Receivables	13,479
Other current assets	14,792
Property, plant, and equipment	40,221
Identifiable intangible assets	53,001
Refundable deposits	2,468
Other assets	2,338
Payables	(83,319)
Income tax payable	(246)
Other current liabilities	(153)
<b>Total</b>	<b>500,571</b>
Percentage of ownership	49.07%
	245,630
Goodwill	37,870
Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008)	\$ 283,500

(Continued)

**CHUNGHWA TELECOM CO., LTD.****STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(Amounts in Thousands of New Taiwan Dollars)

The acquisition of additional interest of Chunghwa Investment Co., Ltd. ( CHI ) and its subsidiaries was made on September 9, 2009. The following table presents the allocation of acquisition costs of Chunghwa Investment Co., Ltd. and its subsidiaries to assets acquired and liabilities assumed based on their fair values on the basis of the final data performed:

Cash and cash equivalents	\$ 913,593
Financial assets at fair value through profit or loss	51,357
Available-for-sale financial assets	568,377
Trade notes and accounts receivable	76,258
Inventories	60,040
Other current assets	19,429
Investments accounted for using equity method	57,339
Financial assets carried at cost	155,714
Property, plant, and equipment	90,278
Identifiable intangible assets	33,662
Other assets	22,462
Trade notes and accounts payable	(33,665)
Accrued expenses	(16,496)
Income tax payable	(1,289)
Short-term loans	(20,000)
Long-term loans	(24,238)
Other liabilities	(1,115)
Subtotal	1,951,706
Minority interests	(100,071)
Total	1,851,635
Percentage of additional ownership	40%
	740,654
Goodwill	18,055
Acquisition costs of acquired subsidiary paid in cash	\$ 758,709

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

(With Deloitte & Touche audit report dated March 13, 2011)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD.**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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

**1. GENERAL**

Chunghwa Telecom Co., Ltd. (the Company or Chunghwa) was incorporated on July 1, 1996 in the Republic of China (ROC) pursuant to the Article 30 of the Telecommunications Act. Chunghwa is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications (MOTC). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications (DGT). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As the dominate telecommunications service provider of fixed-line and Global System for Mobile Communications (GSM) in the ROC, Chunghwa is subject to additional regulations imposed by ROC.

Effective August 12, 2005, the MOTC had completed the process of privatizing Chunghwa by reducing the government ownership to below 50% in various stages. In July 2000, Chunghwa received approval from the Securities and Futures Commission (the SFC) for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the TSE) on October 27, 2000. Certain of Chunghwa's common shares had been sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of Chunghwa's common shares had also been sold in an international offering of securities in the form of American Depository Shares (ADS) on July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE). The MOTC sold common shares of Chunghwa by auction in the ROC on August 9, 2005 and completed the second international offering on August 10, 2005. Upon completion of the share transfers associated with these offerings on August 12, 2005, the MOTC owned less than 50% of the outstanding shares of Chunghwa and completed the privatization plan.

As of December 31, 2010 and 2009, the Company had 24,474 and 24,668 employees, respectively.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements were prepared in conformity with the Securities and Exchange Act, the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, requirements of the Business Accounting Law, Guidelines Governing Business Accounting relevant to financial accounting standards, and accounting principles generally accepted in the ROC (ROC GAAP). The preparation of financial statements requires management to make reasonable estimates and assumptions on allowances for doubtful accounts, valuation allowances on inventories, depreciation of property, plant and equipment, impairment of assets, bonuses paid to employees, remuneration to board of directors and supervisors, pension plans and income tax, etc. These estimates and assumptions are inherently uncertain and actual results may differ significantly. The significant accounting policies are summarized as follows:

**Classification of Current and Noncurrent Assets and Liabilities**

Current assets are assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

### **Cash Equivalents**

Cash equivalents are commercial paper and treasury bills purchased with maturities of three months or less from the date of acquisition. The carrying amount approximates fair value.

### **Financial Assets and Liabilities at Fair Value Through Profit or Loss**

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ( FVTPL ) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company loses control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized as expenses as incurred. Financial assets or financial liabilities at FVTPL are remeasured at fair value, with subsequent changes in fair value recognized in earnings. Cash dividends received subsequently (including those received in the period of investment) are recognized as income. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in earnings. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or financial liabilities held for trading. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Forward exchange contracts are estimated by valuation techniques.

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

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of stockholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

The recognition and derecognition of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Fair values are determined as follows: Listed stocks - at closing prices at the balance sheet date; open-end mutual funds - at net asset values at the balance sheet date; bonds - quoted at prices provided by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Cash dividends are recognized in earnings on the ex-dividend date, except for the dividends declared before acquisitions are treated as a reduction of investment cost. Stock dividends are recorded as an increase in the number of shares and do not affect investment income. The total number of shares subsequent to the increase of stock dividends is used for recalculate cost per share.



An impairment loss is recognized when there is objective evidence that the financial asset is impaired. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent to the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

#### **Held-to-maturity Financial Assets**

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains and losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

#### **Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables**

Revenues are recognized when they are realized or realizable and earned. Revenues are realized or realizable and earned when the Company has persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectibility is reasonably assured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

Usage revenues from fixed-line services (including local, domestic long distance and international long distance), cellular services, Internet and data services, and interconnection and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based upon minutes of traffic processed when the services are provided in accordance with contract terms.

Other revenues are recognized as follows: (a) one-time subscriber connection fees (on fixed-line services) are deferred and recognized over the average expected customer service periods, (b) monthly fees (on fixed-line services, wireless and Internet and data services) are accrued every month, and (c) prepaid services (fixed line, cellular and Internet) are recognized as income based upon actual usage by customers or when the right to use those services expires.

Where the Company enters into transactions which involve both the provision of air time bundled with products such as 3G data card and handset, total consideration received from handsets in these arrangements are allocated and measured using units of accounting within the arrangement based on relative fair values limited to the amount that is not contingent upon the delivery of other items or services.

Where the Company sells products to third party cellular phone stores the Company records the direct sale of the products, typically handsets, as gross revenue when the Company is the primary obligor in the arrangement and when title is passed and the products are accepted by the stores.

An allowance for doubtful receivables is provided based on a review of the collectibility of accounts receivable. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of outstanding accounts receivable as well as historical collection experience.

### **Inventories**

Inventories including merchandise and work-in-process are stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. The calculation of the cost of inventory is derived using the weighted-average method.

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

Investments in companies where in the Company exercises significant influence over the operating and financial policy decisions are accounted for using the equity method. Under the equity method, the investment is initially stated at cost and subsequently adjusted for its proportionate share in the net earnings of the investee companies. Any cash dividends received are recognized as a reduction in the carrying value of the investments.

Gains or losses on sales from the Company to equity method investees wherein Chunghwa exercises significant influence over these equity investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties. Gains or losses on sales from equity method investees to Chunghwa are deferred in proportion to Chunghwa's ownership percentages in the investees until they are realized through transactions with third parties.

When the Company subscribes for additional investees shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to additional paid-in capital the extent available, with the balance charged to retained earnings.

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

Investments in equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured such as non-publicly traded stocks are measured at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost plus a revaluation increment, if any, less accumulated depreciation and accumulated impairment loss. The interest costs that are directly attributable to the acquisition, construction of a qualifying asset are capitalized as property, plant and equipment. Major renewals and betterments are capitalized, while maintenance and repairs are expensed as incurred.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized.

An impairment loss on a revalued asset is charged to unrealized revaluation increment under equity to the extent available, with the balance is recognized as a loss in earnings. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment loss could be reversed and recognized as a gain, with the remaining credited to unrealized revaluation increment .

Depreciation expense is computed using the straight-line method over the following estimated service lives: land improvements - 10 to 30 years; buildings - 10 to 60 years; computer equipment - 2 to 10 years; telecommunications equipment - 6 to 15 years; transportation equipment - 5 to 10 years; and miscellaneous equipment - 3 to 12 years.

Upon sale or disposal of property, plant and equipment, the related cost, accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment are deducted from the corresponding accounts, and any gain or loss is recorded as non-operating gains or losses in the period of sale or disposal.

### **Intangible Assets**

Intangible assets mainly include 3G Concession, computer software and patents.

The 3G license is valid through December 31, 2018. The 3G Concession fees is amortized on a straight-line basis from the date operations commence through the date the license expires. Computer software costs and patents are amortized using the straight-line method over the estimated useful lives of 2 to 20 years.

Expenditure on research shall be expensed as incurred. Development Costs are capitalized when those costs meet relative criteria and are amortized using the straight-line method over estimated useful lives. Development costs that do not meet relative criteria shall be expensed as incurred.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, as if no impairment loss had been recognized.

### **Idle Assets**

Idle assets are carried at the lower of recoverable amount or carrying amount.

### **Pension Costs**

For defined benefit pension plans, net periodic pension benefit cost is recorded in the statement of income and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs, amortization of pension gains (losses) and curtailment or settlement gains (losses).

The Company recognizes into income, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the corridor . Amounts inside this 10% corridor are amortized over the average remaining service life of active plan participants. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the plans. Differences between the expected and actual returns on plan assets and changes in interest rate, which affect the discount rate used to value projected plan obligations, can have a significant impact on the calculation of pension net gains and losses from year to year.

The curtailments and settlement gains (losses) resulted from the Chunghwa's early retirement programs. Curtailment/settlement gains or losses are equal to the changes of underfunded status plus a pro rata portion of the unrecognized prior service cost, unrecognized net gains (losses), and unrecognized transition obligations/assets, before the settlement/curtailment event multiplied by the percentage reduction in projected benefit obligation.

The projected benefit obligation represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels.

The carrying amount of accrued pension liability should be the sum of the following amounts when the calculation is positive: (a) projected benefit obligation as of balance sheet date, (b) minus (plus) unamortized actuarial loss (gain), (c) minus unamortized prior service cost, and (d) minus the fair value of plan assets. If the amount determined by above calculation is negative, it is viewed as prepaid pension cost. The prepaid pension cost is measured at the lower of: (a) the amount determined above, and (b) the sum of the following amounts: (i) unamortized actuarial loss, (ii) unamortized prior service cost, and (iii) the present value of refunds from the plan or reductions in future contributions to the plan.

The measurement of benefit obligations and net periodic cost (income) is based on estimates and assumptions approved by the company's management such as compensation, age and seniority, as well as certain assumptions, including estimates of discount rates, expected return on plan assets and rate of compensation increases.

For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees individual pension accounts during their service periods.

#### **Expense Recognition**

The costs of providing services are recognized as incurred. The cost includes incentives to third party dealers for inducing business which are payable when the end user enters into an airtime contract.

#### **Income Tax**

The Company applies inter-period allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology-based enterprises are recognized using the flow-through method.

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

Income taxes (10%) on undistributed earnings are recorded in the year of stockholders approval which are the year subsequent to the year the earnings are generated.

### **Foreign-currency Transactions**

Foreign-currency transactions other than derivative contracts are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates. When a gain or loss on a nonmonetary item is recognized in stockholders' equity, any exchange component of that gain or loss shall be recognized in stockholders' equity. Conversely, when a gain or loss on a non-monetary item is recognized in earnings, any exchange component of that gain or loss shall be recognized in earnings.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

The financial statements of foreign equity investees and consolidated subsidiaries are translated into New Taiwan dollars at the following exchange rates. Assets and liabilities - spot rates at year-end; stockholders' equity - historical rates, income and expenses - average rates during the year.

The resulting translation adjustments of financial statements shall be recorded as cumulative translation adjustments, a separate component of stockholders' equity.

### **Hedge Accounting**

A hedging relationship qualifies for hedge accounting only if, all of the following conditions are met: (a) at the inception of the hedge, there is formal documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge; (b) the hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk, consistently with the risk management strategy documented for that particular hedging relationship; (c) the effectiveness of the hedge can be reliably measured; (d) the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The gains or losses from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in earnings.

The hedging items that do not meet the criteria for hedge accounting were classified as financial assets or financial liabilities at fair value through profit or loss.

### **3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES**

The Company early adopted the Statement of Financial Accounting Standards No. 41 Operating Segments ( SFAS No. 41 ) starting from September 1, 2009. This Statement supersedes the Statement of Financial accounting Standards No. 20 Segment Reporting .

The Company adopted the newly-revised Statements of Financial Accounting Standards No. 10, Accounting for Inventories, ( SFAS No. 10 ) beginning from January 1, 2009, which requires inventories to be stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. The inventory-related incomes and expenses shall be classified as operating cost.

**4. CASH AND CASH EQUIVALENTS**

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash</b>		
Cash on hand	\$ 72,994	\$ 88,089
Bank deposits	3,178,461	4,455,444
Negotiable certificate of deposit, annual yield rate - ranging from 0.52-0.61% and 0.25-0.37% for 2010 and 2009, respectively	53,150,000	63,350,000
	<b>56,401,455</b>	<b>67,893,533</b>
<b>Cash equivalents</b>		
Commercial paper, annual yield rate - ranging from 0.41-0.43% and 0.19% for 2010 and 2009, respectively	25,410,753	499,846
Treasury bills, annual yield rate - ranging from 0.42-0.43%	2,888,317	
	<b>28,299,070</b>	<b>499,846</b>
	<b>\$ 84,700,525</b>	<b>\$ 68,393,379</b>

As of December 31, 2010 and 2009, foreign deposits in bank were as following:

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
United States of America - New York (US\$1,535 thousand and US\$402 thousand for 2010 and 2009, respectively)	\$ 44,714	\$ 12,880

**5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS**

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Derivatives - financial assets</b>		
Currency swap contracts	\$ 34,278	\$ 6,677

Chunghwa entered into investment management agreements with well-known financial institutions (fund managers) to manage its investment portfolios in 2006. The investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. Chunghwa terminated the investment management agreements on March 2, 2009 and asked fund managers to dispose all the investment portfolios. The fund managers had disposed all investment portfolios before June 23, 2009 and returned the proceeds to Chunghwa.

Chunghwa entered into currency swap contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates. However, the aforementioned derivatives did not meet the criteria for hedge accounting and were classified as financial assets or financial liabilities held for trading.

Outstanding currency swap contracts as of December 31, 2010 and 2009 were as follows:

	Currency	Maturity Period	Contract Amount (In Thousands)
<b>December 31, 2010</b>			
Currency swap contracts	USD/NTD	2011.01-03	USD25,000/NTD767,274
<b>December 31, 2009</b>			
Currency swap contracts	USD/NTD	2010.01-04	USD45,000/NTD1,448,160

Net gain arising from financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2010 and 2009 were \$60,774 thousand (including realized settlement gain of \$33,173 thousand and valuation gain of \$27,601 thousand) and \$71,155 thousand (including realized settlement loss of \$27,110 thousand and valuation gain of \$98,265 thousand), respectively.

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

	December 31	
	2010	2009
Open-end mutual funds	\$ 1,030,500	\$ 16,325,016
Domestic listed stocks		257,242
Real estate investment trust fund		102,122
	\$ 1,030,500	\$ 16,684,380

For the years ended December 31, 2010 and 2009, movements of unrealized gain or loss on financial instruments were as follows:

	Year Ended December 31	
	2010	2009
Balance, beginning of year	\$ (466,803)	\$ (2,255,905)
Recognized in stockholders equity	27,544	1,658,615
Transferred to profit or loss	418,717	130,487
Balance, end of year	\$ (20,542)	\$ (466,803)

As a result of the global economic and financial crisis, the Company determined that the impairment losses of available-for-sale financial assets were other-than-temporary in nature, and recorded impairment losses of \$85,349 thousand for the year ended December 31, 2009.

**7. HELD-TO-MATURITY FINANCIAL ASSETS**

	December 31	
	2010	2009
Corporate bonds, nominal interest rate ranging from 1.20-4.75% and 0.76-4.75% for 2010 and 2009, respectively; effective interest rate ranging from 1.00-2.95% and 0.45-2.95% for 2010 and 2009, respectively	\$ 9,867,863	\$ 4,531,699
Bank debentures, nominal interest rate ranging from 1.60-2.11% and 1.87-2.11% for 2010 and 2009, respectively; effective interest rate ranging from 1.25-2.45% and 1.14-2.90% for 2010 and 2009, respectively	503,835	497,558
	10,371,698	5,029,257
Less: Current portion	1,963,608	1,099,595
	\$ 8,408,090	\$ 3,929,662

**8. ALLOWANCE FOR DOUBTFUL ACCOUNTS**

	Year Ended December 31	
	2010	2009
Balance, beginning of year	\$ 2,774,868	\$ 2,992,143
Provision for doubtful accounts	213,128	446,901
Accounts receivable written off	(459,952)	(664,176)
Balance, end of year	\$ 2,528,044	\$ 2,774,868

**9. OTHER MONETARY ASSETS - CURRENT**

	December 31	
	2010	2009
Accrued custodial receipts from other carriers	\$ 386,690	\$ 432,569
Other receivables	1,708,024	1,339,380
	\$ 2,094,714	\$ 1,771,949

**10. INVENTORIES**

	December 31	
	2010	2009
Work in process	\$ 766,270	\$ 646,908
Merchandise	353,754	539,614



\$ 1,120,024      \$ 1,186,522

The operating costs related to inventories were \$9,737,990 thousand (including the valuation loss on inventories of \$11,956 thousand) and \$6,983,989 thousand (including the valuation loss on inventories of \$11,550 thousand) for the years ended December 31, 2010 and 2009, respectively.

**11. OTHER CURRENT ASSETS**

	December 31	
	2010	2009
Spare parts	\$ 1,796,921	\$ 2,348,894
Prepaid rents	785,576	804,687
Prepaid expenses	662,764	562,207
Miscellaneous	243,982	201,062
	<b>\$ 3,489,243</b>	<b>\$ 3,916,850</b>

**12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**

	December 31			
	2010		2009	
	Carrying Value	% of Ownership	Carrying Value	% of Ownership
<b>Listed</b>				
Senao International Co., Ltd. ( SENA0 )	\$ 1,422,326	28	\$ 1,331,859	29
<b>Non-listed</b>				
Light Era Development Co., Ltd. ( LED )	2,971,474	100	2,926,677	100
Chunghwa Investment Co., Ltd. ( CHI )	1,929,694	89	1,651,391	89
Chunghwa Telecom Singapore Pte., Ltd. ( CHTS )	1,399,258	100	1,407,519	100
Chunghwa System Integration Co., Ltd. ( CHSI )	703,276	100	706,932	100
Taiwan International Standard Electronics Co., Ltd. ( TISE )	556,360	40	427,810	40
CHIEF Telecom Inc. ( CHIEF )	523,965	69	447,647	69
Donghua Telecom Co., Ltd. ( DHT )	515,915	100	230,528	100
InfoExplorer Co., Ltd. ( IFE )	266,490	49	276,472	49
Viettel-CHT Co., Ltd. ( Viettel-CHT )	246,220	30	269,924	30
Chunghwa International Yellow Pages Co., Ltd. ( CIYP )	187,462	100	171,986	100
Skysoft Co., Ltd. ( SKYSOFT )	94,769	30	89,913	30
Spring House Entertainment Inc. ( SHE )	81,881	56	57,095	56
KingWaytek Technology Co., Ltd. ( KWT )	66,377	33	69,913	33
Chunghwa Telecom Global, Inc. ( CHTG )	63,779	100	63,752	100
So-net Entertainment Taiwan Co., Ltd. ( So-net )	25,198	30	30,920	30
Chunghwa Telecom Japan Co., Ltd. ( CHTJ )	12,099	100	10,166	100
New Prospect Investments Holdings Ltd. (B.V.I.) ( New Prospect )		100		100
Prime Asia Investments Group Ltd. (B.V.I.) ( Prime Asia )		100		100
	9,644,217		8,838,645	
	<b>\$ 11,066,543</b>		<b>\$ 10,170,504</b>	

On March 27, 2009, the board of directors of Chunghwa resolved to purchase 48,000 thousand common shares of Senao International Co., Ltd. ( SENAO ) through SENAO's private placement. However, Chunghwa and SENAO did not complete the required procedures within the legal payment period; therefore, Chunghwa and SENAO decided to discontinue the private placement.

Chunghwa invested in Chunghwa Investment Co., Ltd. ( CHI ) in September 2009 for \$758,709 thousand. Chunghwa increased its ownership interest in CHI from 49% to 89%. CHI engages mainly in professional investing in telecommunication business and the telecommunication valued-added services.

Chunghwa increased its investment in Chunghwa Telecom Singapore Pte., Ltd. ( CHTS ) for \$610,659 thousand in July 2009. CHTS engages mainly in telecommunication wholesale, internet transfer services, international data, long distance call wholesales to carriers and the world satellite business. ST-1 telecommunications satellite is expected to be retired in 2011; therefore, CHTS and SingTelSat Pte., Ltd. established a joint venture, ST-2 Satellite Ventures Pte., Ltd. ( STS ) in Singapore in October 2008 in order to maintain the current service. STS will engage in the installation and the operation of ST-2 telecommunications satellite.

Chunghwa increased its investment in Donghwa Telecom Co., Ltd. ( DHT ) for \$320,740 thousand in August 2010. DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services.

Chunghwa prepaid \$283,500 thousand to invest in InfoExplorer Co., Ltd. ( IFE ) and the record date of capital increase of IFE was January 5, 2009. Chunghwa acquired 49% of ownership. Chunghwa has control over IFE by obtaining above half of seats of the board of directors of IFE on January 20, 2009, which was IFE's stockholder's meeting. IFE mainly engages in information system planning and maintenance, software development, and information technology consultation services.

Chunghwa participated in the capital increase of Viettel-CHT in September 2009, by investing \$197,088 thousand cash. Viettel-CHT engages mainly in IDC services.

Chunghwa participated in So-net Entertainment Taiwan Co., Ltd.'s capital increase on April 3, 2009, by investing \$60,008 thousand cash, and acquired 30% of its Taiwan shares. So-net Entertainment Taiwan Co., Ltd. engages mainly in online service and sale of computer hardware.

Chunghwa increased its investment on CHTJ by investing \$11,151 thousand cash in January 2009. CHTJ engages mainly in telecommunication business, information processing and information providing service, development and sale of software and consulting services in telecommunication.

Chunghwa has established New Prospect Investments Holdings Ltd. (B.V.I.) ( New Prospect ) and Prime Asia Investments Group Ltd. (B.V.I.) ( Prime Asia ) in March 2006, but not on operation stage yet. Both holding companies are operating as investment companies and Chunghwa has 100% ownership right in an amount of US\$1 in each holding company.

Market value of the listed investment accounted for using equity method calculated at its closing prices as of December 31, 2010 and 2009 was \$4,234,616 thousand and \$3,452,289 thousand, respectively.

The equity in earnings and losses for the years ended December 31, 2010 and 2009 were based on the audited financial statements.

All accounts of Chunghwa's subsidiaries were included in Chunghwa's consolidated financial statements.

**13. FINANCIAL ASSETS CARRIED AT COST**

	December 31			
	2010	% of Owner ship	2009	% of Owner- ship
	Carrying Value		Carrying Value	
<b>Non-listed</b>				
Taipei Financial Center ( TFC )	\$ 1,789,530	12	\$ 1,789,530	12
Industrial Bank of Taiwan II Venture Capital Co., Ltd. ( IBT II )	200,000	17	200,000	17
Global Mobile Corp. ( GMC )	127,018	8	127,018	11
iD Branding Ventures ( iDBV )	75,000	8	75,000	8
Innovation Works Development Fund, L.P. ( IWDF )	38,035	13		
RPTI International ( RPTI )	34,500	10	34,500	10
Innovation Works Limited ( IW )	21,271	7		
CQi Energy Infocom Inc. ( CQi )	20,000	18		
Essence Technology Solution, Inc. ( ETS )		7		9
	<b>\$ 2,305,354</b>		<b>\$ 2,226,048</b>	

Chunghwa invested in IWDF for \$38,035 thousand in June 2010. IWDF invests mainly in start-up companies of E-commerce, mobile internet and cloud computing, etc.

Chunghwa invested in IW for \$10,565 thousand and \$10,706 thousand in June and July, 2010, respectively. IW invests mainly in start-up companies and mentors such companies in the E-commerce, mobile internet and cloud computing fields, etc.

Chunghwa invested in CQi for \$20,000 thousand in June 2010. CQi engages mainly in intelligent energy network management services.

After evaluating the financial assets carried at cost, Chunghwa determined the investment in ETS was impaired and recognized an impairment loss of \$10,000 thousand in 2009.

Chunghwa participated in TFC's capital increase in October 2008 and prepaid \$285,859 thousand. However, TFC was not expected to be able to collect enough amount of capital increase within a specific period; therefore TFC's board of directors held a meeting on April 10, 2009 and resolved to withdraw its capital increase plan from Securities and Futures Bureau of Financial Supervisory Commission, Executive Yuan ( FSC ). TFC returned the prepayment to Chunghwa on May 8, 2009.

The above investments do not have a quoted market price in an active market and the fair values cannot be reliably measured; therefore, these investments are carried at original cost.

**14. OTHER MONETARY ASSETS - NONCURRENT**

	December 31	
	2010	2009
Piping Fund	\$ 1,000,000	\$ 1,000,000

As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute a total of \$1,000,000 thousand to a Piping Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects.

**15. PROPERTY, PLANT AND EQUIPMENT**

	December 31	
	2010	2009
<b>Cost</b>		
Land	\$ 101,709,013	\$ 101,266,026
Land improvements	1,554,776	1,535,066
Buildings	65,720,709	62,669,377
Computer equipment	15,422,954	15,636,520
Telecommunications equipment	654,890,287	654,609,330
Transportation equipment	2,371,493	2,111,872
Miscellaneous equipment	6,968,946	7,062,450
<b>Total cost</b>	<b>848,638,178</b>	<b>844,890,641</b>
Revaluation increment on land	5,800,701	5,800,909
	<b>854,438,879</b>	<b>850,691,550</b>
<b>Accumulated depreciation</b>		
Land improvements	1,003,811	951,240
Buildings	18,424,498	17,314,729
Computer equipment	11,761,168	11,755,940
Telecommunications equipment	527,138,287	518,037,372
Transportation equipment	1,635,491	1,884,332
Miscellaneous equipment	5,793,604	5,950,203
	<b>565,756,859</b>	<b>555,893,816</b>
Construction in progress and advances related to acquisition of equipment	12,014,639	15,715,083
<b>Property, plant and equipment, net</b>	<b>\$ 300,696,659</b>	<b>\$ 310,512,817</b>

Pursuant to the related regulation, Chunghwa revalued its land owned as of April 30, 2000 based on the publicly announced value as of July 1, 1999. These revaluations which were approved by the Ministry of Auditing resulted in increases in the carrying values of property, plant and equipment of \$5,986,074 thousand, liabilities for land value incremental tax of \$211,182 thousand, and stockholders' equity - other adjustments of \$5,774,892 thousand.

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went effective from February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of \$116,196 thousand to stockholders' equity - other adjustments. As of December 31, 2010, capital surplus from revaluation of land had decreased to \$5,803,238 thousand by disposal of some revaluation assets.

Depreciation on property, plant and equipment for the years ended December 31, 2010 and 2009 amounted to \$32,459,110 thousand and \$34,891,495 thousand, respectively. No interest expense was capitalized for the years ended December 31, 2010 and 2009.

Chunghwa reclassified the unused transportation equipment amounting to \$61,323 thousand to idle assets and recognized the impairment loss of \$61,323 thousand on those assets for the year ended December 31, 2010.

**16. ACCRUED EXPENSES**

	December 31	
	2010	2009
Accrued salary and compensation	\$ 9,974,505	\$ 9,285,263
Accrued franchise fees	2,191,174	2,224,104
Accrued employees' bonuses and remuneration to directors and supervisors	2,189,118	1,842,140
Other accrued expenses	2,907,358	3,148,553
	<b>\$ 17,262,155</b>	<b>\$ 16,500,060</b>

**17. OTHER CURRENT LIABILITIES**

	December 31	
	2010	2009
Advances from subscribers	\$ 7,966,130	\$ 6,476,852
Amounts collected in trust for others	2,229,878	2,160,252
Payables to contractors	1,261,643	2,229,165
Payables to equipment suppliers	1,100,498	1,528,559
Refundable customers' deposits	1,096,923	1,043,713
Others	2,395,985	2,494,484
	<b>\$ 16,051,057</b>	<b>\$ 15,933,025</b>

**18. STOCKHOLDERS' EQUITY**

Under Chungghwa's Articles of Incorporation, Chungghwa's authorized capital is \$120,000,000 thousand which is divided into 12,000,000 thousand common shares (at \$10 par value per share). The stockholders, at the stockholders' meeting held on June 18, 2010 resolved to reduce the amount of capital in Chungghwa by a cash distribution to its stockholders. The board of directors of Chungghwa further authorized the chairman of board of directors of Chungghwa to designate the record date of capital reduction as of October 26, 2010 and the stock transfer date of capital reduction as of January 15, 2011. The common stock capital of Chungghwa is \$77,574,465 thousand as of December 31, 2010.

On March 28, 2006, the board of directors approved the issuance of the 2 preferred shares, and the MOTC purchased the 2 preferred shares at par value on April 4, 2006. In accordance with the Articles of Incorporation of Chungghwa, the preferred shares would be redeemed by Chungghwa three years from the date of issuance at their par value. These preferred shares expired on April 4, 2009 and were redeemed on April 6, 2009.

For the purpose of privatizing Chungghwa, the MOTC sold 1,109,750 thousand common shares of Chungghwa in an international offering of securities in the form of American Depositary Shares (ADS) amounting to 110,975 thousand units (one ADS represents ten common shares) on the New York Stock Exchange on July 17, 2003. Afterwards, the MOTC sold 1,350,682 thousand common shares in the form of ADS amounting to 135,068 thousand units on August 10, 2005. Subsequently, the MOTC and Taiwan Mobile Co., Ltd. sold 505,389 thousand and 58,959 thousand common shares of Chungghwa, respectively, in the form of ADS totally amounting to 56,435 thousand units on September 29, 2006. The MOTC and Taiwan Mobile Co., Ltd. have sold 3,024,780 thousand common shares in the form of ADS amounting to 302,478 thousand units. As of December 31, 2010, the outstanding ADSs representing 892,783 thousand common shares, which equaled approximately 89,278 thousand units and represented 9.21% of Chungghwa's total outstanding common shares.

The ADS holders generally have the same rights and obligations as other common stockholders, subject to the provision of relevant laws. The exercise of such rights and obligations shall comply with the related regulations and deposit agreement, which stipulate, among other things, that ADS holders can, through deposit agents:

- a. Exercise their voting rights,
- b. Sell their ADSs, and
- c. Receive dividends declared and subscribe to the issuance of new shares.

Under the ROC Company Law, additional paid-in capital may only be utilized to offset deficits. For those companies having no deficits, additional paid-in capital arising from capital surplus can be used to increase capital stock and distribute to stockholders in proportion to their ownership at the ex-dividend date. Also, such amounts can only be declared as a stock dividend by Chunghwa at an amount calculated in accordance with the provisions of existing regulations. The combined amount of any portions capitalized each year may not exceed 10 percent of common stock issued. However, where a company undergoes an organizational change (such as a merger, acquisition, or reorganization) that results in the capitalization of undistributed earnings after the organizational change, the above restriction does not apply.

In addition, before distributing a dividend or making any other distribution to stockholders, Chunghwa must pay all outstanding taxes, recover any past losses and set aside a legal reserve equal to 10% of its net income, and depending on its business needs or requirements, may also set aside a special reserve. In accordance with the Articles of Incorporation, no less than 50% of the remaining earnings comprising remaining balance of net income, if any, plus cumulative undistributed earnings shall be distributed in the following order: (a) from 2% to 5% of distributable earnings shall be distributed to employees as employee bonus; (b) no more than 0.2% of distributable earnings shall be distributed to board of directors and supervisors as remuneration; and (c) cash dividends to be distributed shall not be less than 50% of the total amount of dividends to be distributed. If cash dividends to be distributed is less than NT\$0.10 per share, such cash dividend shall be distributed in the form of common shares.

Chunghwa operates in a capital-intensive and technology-intensive industry and requires capital expenditures to sustain its competitive position in high-growth market. Thus, Chunghwa's dividend policy takes into account future capital expenditure outlays. In this regard, a portion of the earnings may be retained to finance these capital expenditures. The remaining earnings can then be distributed as dividends if approved by the stockholders in the following year and will be recorded in the financial statements of that year.

For the years ended December 31, 2010 and 2009, the accrual amounts for bonuses to employees and remuneration to directors and supervisors were accrued on past experiences and probable amount to be paid in accordance with Chunghwa's Articles of Incorporation and Implementation Guidance for the Employee's Bonus Distribution of Chunghwa Telecom Co., Ltd.

If the initial accrual amounts of the aforementioned bonus are significantly different from the amounts proposed by the board of directors, the difference is charged to the earnings of the year making the initial estimate. Otherwise, the difference between initial accrual amount and the amount resolved in the shareholders' meeting is charged to the earnings of the following year as a result of change in accounting estimate.

Under the ROC Company Law, the appropriation for legal reserve shall be made until the accumulated reserve equals the aggregate par value of the outstanding capital stock of Chunghwa. This reserve can only be used to offset a deficit, or when reaching 50% of the aggregate par value of the outstanding capital stock of Chunghwa, up to 50% of the reserve may, at the option of Chunghwa, be declared as a stock dividend and transferred to capital.

The appropriations and distributions of the 2009 and 2008 earnings of Chunghwa have been approved by the stockholders on June 18, 2010 and June 19, 2009 as follows:

	Appropriation and Distribution		Dividend Per Share	
	2009	2008	2009	2008
Legal reserve	\$ 4,374,014	\$ 4,127,675		
Special reserve		475		
Cash dividends	39,369,041	37,138,775	\$ 4.06	\$ 3.83

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders meeting on June 18, 2010, were \$1,800,929 thousand and \$41,211 thousand paid by cash, respectively. There was no difference between the initial accrual amounts and the amounts resolved in stockholders meeting of the aforementioned bonuses to employees and the remuneration to directors and supervisors.

The amounts for bonuses to employees and remuneration to directors and supervisors approved in the stockholders meeting on June 19, 2009, were \$1,629,915 thousand and \$38,807 thousand paid by cash, respectively. The aforementioned approved amounts of the bonus to employees and the remuneration to directors and supervisors were different from the accrual amounts of \$1,723,921 thousand and \$40,886 thousand, respectively, reflected in the statement of income for the year ended December 31, 2008. The differences of \$94,006 thousand and \$2,079 thousand, respectively, were treated as change in estimates and were adjusted against earnings for the year ended December 31, 2009.

The appropriation and distribution of 2010 earnings of Chunghwa has not been resolved by the board of directors as the report date. Information on the appropriation of Chunghwa's earnings, employees bonuses and remuneration to directors and supervisors resolved by the board of directors and approved by the stockholders is available at the Market Observation Post System website.

The stockholders, at the stockholders meeting held on June 18, 2010, resolved to reduce the amount of \$19,393,617 thousand in capital of Chunghwa by a cash distribution to its stockholders. The abovementioned 2010 capital reduction proposal was effectively registered with FSC. The board of directors of Chunghwa were authorized to designate the record date of capital reduction as of October 26, 2010. Subsequently, the stock transfer date of capital reduction was January 15, 2011. The amount due to stockholders for capital reduction was \$19,393,617 thousand and such cash payment to stockholders was made in January, 2011.

The stockholders, at a meeting held on June 19, 2009, resolved to transfer capital surplus in the amount of \$9,696,808 thousand to common capital stock. The abovementioned 2009 capital increase proposal was effectively registered with FSC. The board of directors authorized the chairman of directors to decide the ex-dividend date of the aforementioned proposal and the chairman decided the ex-dividend date as August 9, 2009.

The stockholders, at the stockholders meeting held on June 19, 2009, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The abovementioned 2009 capital reduction proposal was effectively approved by FSC. The board of directors of Chunghwa further authorized the chairman of board of directors of Chunghwa to designate the record date of capital reduction as of October 26, 2009. Subsequently, common capital stock was reduced by \$9,696,808 thousand and the stock transfer date of capital reduction was January 28, 2010. The amount due to stockholders for capital reduction was paid in February 2010.

The stockholders, at a special meeting held on August 14, 2008, resolved to transfer capital surplus in the amount of \$19,115,554 thousand to common capital stock. The abovementioned 2008 capital increase proposal was effectively registered with FSC. The board of directors resolved the ex-dividend date of the aforementioned proposal as October 25, 2008.



The stockholders, at the stockholders meeting held on August 14, 2008, also resolved to reduce the amount of capital in Chunghwa by a cash distribution to its stockholders in order to improve the financial condition of Chunghwa and better utilize its excess funds. The capital reduction plan was effected by a transfer of capital surplus in the amount of \$19,115,554 thousand to common capital stock and was effectively registered with FSC. Chunghwa designated December 30, 2008 as the record date and March 9, 2009 as the stock transfer date of capital reduction. Subsequently, common capital stock was reduced by \$19,115,554 thousand and a liability for the same amount of cash to be distributed to stockholders was recorded. Such cash payment to stockholders was made in March 2009.

## 19. COMPENSATION, DEPRECIATION AND AMORTIZATION EXPENSES

	Year Ended December 31, 2010		
	Operating Costs	Operating Expenses	Total
Compensation expense			
Salaries	\$ 12,009,566	\$ 8,401,230	\$ 20,410,796
Insurance	1,003,278	705,193	1,708,471
Pension	1,674,175	1,125,841	2,800,016
Other compensation	9,544,031	6,601,653	16,145,684
	\$ 24,231,050	\$ 16,833,917	\$ 41,064,967
Depreciation expense	\$ 30,769,818	\$ 1,689,292	\$ 32,459,110
Amortization expense	\$ 1,041,438	\$ 147,102	\$ 1,188,540

	Year Ended December 31, 2009		
	Operating Costs	Operating Expenses	Total
Compensation expense			
Salaries	\$ 12,124,805	\$ 8,238,199	\$ 20,363,004
Insurance	965,506	664,339	1,629,845
Pension	1,494,350	1,068,898	2,563,248
Other compensation	8,750,957	5,937,562	14,688,519
	\$ 23,335,618	\$ 15,908,998	\$ 39,244,616
Depreciation expense	\$ 33,018,154	\$ 1,873,341	\$ 34,891,495
Amortization expense	\$ 922,276	\$ 158,308	\$ 1,080,584

## 20. INCOME TAX

- a. A reconciliation between income tax expense computed by applying the statutory income tax rate to income before income tax and income tax payable is as follows:

Year Ended December 31

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	2010	2009
Income tax expense computed at statutory income tax rate	\$ 9,594,471	\$ 14,040,845
Add (deduct) tax effects of:		
Permanent differences	(171,496)	(167,558)
Temporary differences	5,152	(1,012,153)
10% undistributed earning	1,286	6,441
Investment tax credits	(605,556)	(1,422,308)
Income tax payable	\$ 8,823,857	\$ 11,445,267

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The balance of income tax payable as of December 31, 2010 and 2009 was shown net of prepaid income tax.

b. Income tax expense consists of the following:

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Income tax payable	\$ 8,823,857	\$ 11,445,267
Income tax - separated	3,688	62,278
Income tax - deferred	7,235	1,092,773
Adjustments of prior years income tax	(5,615)	(194,323)
	<b>\$ 8,829,165</b>	<b>\$ 12,405,995</b>

In May 2010, the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, which reduces the income tax rate of profit-seeking enterprises from 20% to 17%, effective January 1, 2010. After the Legislative Yuan passed the amendment of Article 5 of the Income Tax Law, the Company recalculated its deferred income tax assets and liabilities in accordance with the amended Article and recorded the resulting difference as an income tax expense or benefit.

Under Article 10 of the Statute for Industrial Innovation (SII) passed by the Legislative Yuan in April 2010, a profit-seeking enterprise may deduct up to 15% of its research and development expenditures from its income tax payable for the fiscal year in which these expenditures are incurred, but this deduction should not exceed 30% of the income tax payable for that fiscal year. This incentive took effect from January 1, 2010 and is effective till December 31, 2019.

c. Net deferred income tax assets (liabilities) consists of the following:

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Current</b>		
Provision for doubtful accounts	\$ 239,720	\$ 349,890
Unrealized accrued expense	51,310	50,128
Valuation gain on financial instruments, net	(5,827)	(9,181)
Unrealized foreign exchange loss (gain)	(1,814)	2,850
Other	10,169	16,903
	<b>293,558</b>	<b>410,590</b>
Valuation allowance	(239,720)	(349,890)
<b>Net deferred income tax assets-current</b>	<b>\$ 53,838</b>	<b>\$ 60,700</b>
<b>Noncurrent</b>		
Accrued pension cost	\$ 298,495	\$ 336,167
Impairment loss	61,993	62,256
Abandonment of equipment not approved by National Tax Administration	37,562	
<b>Net deferred income tax assets-noncurrent</b>	<b>\$ 398,050</b>	<b>\$ 398,423</b>



d. The related information under the Integrated Income Tax System is as follows:

	December 31	
	2010	2009
Balance of Imputation Credit Account ( ICA )	\$ 4,482,911	\$ 7,430,435

The actual and the estimated creditable ratios distribution of Chunghwa's 2010 and 2009 for earnings were 18.77% and 26.49%, respectively. The imputation credit allocated to stockholders is based on its balance as of the date of dividend distribution. The estimated ratio may change when the actual distribution of imputation credit is made.

e. Undistributed earnings information

As of December 31, 2010 and 2009, there is no earnings generated prior to June 30, 1998 in Chunghwa's undistributed earnings.

Income tax returns through the year ended December 31, 2005 have been examined by the ROC tax authorities.

## 21. EARNINGS PER SHARE

EPS was calculated as follows:

	Amount (Numerator)		Weighted- average Number of Common Shares	Earnings Per Share (Dollars)		
	Income			Outstanding (Thousand) (Denominator)	Income Before	
	Before Income Tax	Net Income			Income Tax	Net Income
<b>Year ended December 31, 2010</b>						
Basic EPS:						
Income attributable to stockholders	\$ 56,438,065	\$ 47,608,900	9,696,808	\$ 5.82	\$ 4.91	
Effect of dilutive potential common stock						
SENAO's stock options	(7,324)	(7,324)				
Employee bonus			28,653			
<b>Diluted EPS</b>						
Income attributable to stockholders (including effect of dilutive potential common stock)	\$ 56,430,741	\$ 47,601,576	9,725,461	\$ 5.80	\$ 4.89	
<b>Year ended December 31, 2009</b>						
Basic EPS:						
Income attributable to stockholders	\$ 56,163,421	\$ 43,757,426	9,696,808	\$ 5.79	\$ 4.51	
Effect of dilutive potential common stock						
SENAO's stock options	(7,707)	(7,707)				
Employee bonus			28,806			

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Diluted EPS

Income attributable to stockholders (including effect of dilutive potential common stock)	\$ 56,155,714	\$ 43,749,719	9,725,614	\$ 5.77	\$ 4.50
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In March 2007, the ARDF issued an Interpretation 96-052 that requires companies to recognize bonuses paid to employees, directors and supervisors as an expense rather than an appropriation of earnings beginning from January 1, 2008. According to the Interpretation 97-169 issued by ARDF in May 2008, Chunghwa presumed that the employees bonuses to be paid will be settled in shares and takes those shares into consideration when calculating the weighted average number of outstanding shares used in the calculation of diluted EPS if the shares have a dilutive effect for the years ended December 31, 2010 and 2009. The number of shares is calculated by dividing the amount of bonuses by the closing price of the Chunghwa's shares of the balance sheet date. The dilutive effect of the shares needs to be considered until the stockholders resolve the number of shares to be distributed to employees in their meeting in the following year.

The diluted earnings per share for the years ended December 31, 2010 and 2009 were due to the effect of potential common stock of stock options by SENAO.

## **22. PENSION PLAN**

Chunghwa completed privatization plans on August 12, 2005. Chunghwa is required to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. upon the completion of the privatization in accordance with the Statute Governing Privatization of Stated-owned Enterprises. After paying all pension obligations for privatization, the plan assets of Chunghwa should be transferred to the Fund for Privatization of Government-owned Enterprises (the Privatization Fund) under the Executive Yuan. On August 7, 2006, Chunghwa transferred the remaining balance of fund to the Privatization Fund. However, according to the instructions of MOTC, Chunghwa is requested to pay all accrued pension obligations including service clearance payment, lump sum payment under civil service plan, additional separation payments, etc. on behalf of the MOTC upon the completion of the privatization.

The pension plan under the Labor Pension Act of ROC (the LPA) is considered as a defined contribution plan. Based on the LPA, Chunghwa makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

Chunghwa's pension plan is considered as a defined benefit plan under the Labor Standards Law that provide benefits based on an employee's length of service and average six-month salary prior to retirement. Chunghwa contribute an amount no more than 15% of salaries paid each month to their respective pension funds (the Funds), which are administered by the Labor Pension Fund Supervisory Committee (the Committee) and deposited in the names of the Committees in the Bank of Taiwan.

The Company used December 31 as the measurement date for their pension plans.

Pension costs of Chunghwa were \$2,874,480 thousand (\$2,744,914 thousand subject to defined benefit plan and \$129,566 thousand subject to defined contribution plan) and \$2,855,647 thousand (\$2,732,388 thousand subject to defined benefit plan and \$123,259 thousand subject to defined contribution plan) for the years ended December 31, 2010 and 2009, respectively.

Pension information of the defined benefit plan was summarized as follows:

a. Components of net periodic pension cost

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Service cost	\$ 2,692,744	\$ 2,693,006
Interest cost	237,413	184,279
Expected return on plan assets	(181,189)	(140,875)
Amortization of unrecognized loss	(4,054)	(4,022)
	<b>\$ 2,744,914</b>	<b>\$ 2,732,388</b>

b. Reconciliation between the fund status and accrued pension cost is summarized as follows:

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
<b>Benefit obligation</b>		
Vested benefit obligation	\$ (10,067,186)	\$ (7,440,999)
Non-vested benefit obligation	(3,618,185)	(3,156,229)
Accumulated benefit obligation	(13,685,371)	(10,597,228)
Additional benefit obligation	(1,491,074)	(1,387,020)
Projected benefit obligation	(15,176,445)	(11,984,248)
Fair values of plan assets	13,100,783	10,787,564
Funded status	(2,075,662)	(1,196,684)
Unrecognized prior service cost effect	(41,699)	(45,754)
Amortization of unrecognized net loss (gain)	834,339	34,481
Accrued pension liabilities	<b>\$ (1,283,022)</b>	<b>\$ (1,207,957)</b>

c. Vested benefit

	<b>December 31</b>	
	<b>2010</b>	<b>2009</b>
	<b>\$ 13,169,590</b>	<b>\$ 10,635,994</b>

d. Actuarial assumptions



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Discount rate used in determining present value	1.75%	2.00%
Rate of compensation increase	1.00%	1.00%
Rate of return on plan assets	1.50%	1.50%

e. Contributions and payments of the Fund

	Year Ended December 31	
	2010	2009
Contributions	\$ 2,603,310	\$ 6,645,316
Payments	\$ 425,014	\$ 177,500

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**23. TRANSACTIONS WITH RELATED PARTIES**

The ROC Government, one of Chunghwa's customers held significant equity interest in Chunghwa. Chunghwa provides fixed-line services, wireless services, Internet and data and other services to the various departments and institutions of the ROC Government and other state-owned enterprises in the normal course of business and at arm's-length prices. The information on service revenues from government bodies and related organizations have not been provided because details of the type of transactions were not summarized by Chunghwa. Chunghwa believes that all costs of doing business are reflected in the financial statements.

- a. Chunghwa engages in business transactions with the following related parties:

Company	Relationship
Senao International Co., Ltd. ( SENAO )	Subsidiary
Light Era Development Co., Ltd. ( LED )	Subsidiary
Chunghwa Telecom Singapore Pte., Ltd. ( CHTS )	Subsidiary
CHIEF Telecom, Inc. ( CHIEF )	Subsidiary
InfoExplorer Co., Ltd. ( IFE )	Subsidiary
Chunghwa Telecom Japan Co., Ltd. ( CHTJ )	Subsidiary
Chunghwa International Yellow Pages Co., Ltd. ( CIYP )	Subsidiary
Chunghwa System Integration Co., Ltd. ( CHSI )	Subsidiary
Spring House Entertainment Inc. ( SHE )	Subsidiary
Chunghwa Telecom Global, Inc. ( CHTG )	Subsidiary
Donghwa Telecom Co., Ltd. ( DHT )	Subsidiary
New Prospect Investments Holdings Ltd. (B.V.I.) ( New Prospect )	Subsidiary
Prime Asia Investments Group Ltd. (B.V.I.) ( Prime Asia )	Subsidiary
Chunghwa Investment Co., Ltd. ( CHI )	Equity-method investee before Chunghwa obtained control over CHI on September 9, 2009
Chunghwa Investment Holding Co., Ltd. ( CIHC )	Subsidiary of CHI, which was equity-method investee before Chunghwa obtained control over CHI on September 9, 2009
Chunghwa Precision Test Tech. Co., Ltd. ( CHPT )	Subsidiary of CHI, which was equity-method investee before Chunghwa obtained control over CHI on September 9, 2009
Unigate Telecom Inc. ( Unigate )	Subsidiary of CHIEF
CHIEF Telecom (Hong Kong) Limited ( CHK )	Subsidiary of CHIEF, which completed its liquidation procedure in September 2010
Chief International Corp. ( CIC )	Subsidiary of CHIEF
Concord Technology Co., Ltd. ( Concord )	Subsidiary of CHSI
Glory Network System Service (Shanghai) Co., Ltd. ( Glory )	Subsidiary of Concord
Senao International (Samoa) Holding Ltd. (SIS)	Subsidiary of SENAO
Senao International HK Limited (SIHK)	Subsidiary of SIS
CHI One Investment Co., Ltd. ( COI )	Subsidiary of CIHC
Yao Yong Real Property Co., Ltd. ( YYRP )	Subsidiary of LED
InfoExplorer International Co., Ltd. ( IESA )	Subsidiary of IFE

(Continued)

Company	Relationship
InfoExplorer (Hong Kong) Co., Ltd. ( IEHK )	Subsidiary of IESA
Chunghwa Precision Test Tech. USA Corporation ( CHPT (US) )	Subsidiary of CHPT
HopeTech Technologies Limited ( HopeTech )	Subsidiary of Prime Asia
Taiwan International Standard Electronics Co., Ltd. ( TISE )	Equity-method investee
So-net Entertainment Taiwan Co., Ltd. ( So-net )	Equity-method investee
Skysoft Co., Ltd. ( SKYSOFT )	Equity-method investee
Kingwaytek Technology Co., Ltd. ( KWT )	Equity-method investee
Senao Networks, Inc. ( SNI )	Equity-method investee of SENAO
ST-2 Satellite Ventures Pte., Ltd. ( STS )	Equity-method investee of CHTS

(Concluded)

b. Significant transactions with the above related parties are summarized as follows:

	December 31			
	2010		2009	
	Amount	%	Amount	%
<b>1) Receivables</b>				
Trade notes, accounts receivable and other receivables				
SENAO	\$ 271,695	59	\$ 261,458	68
CHTG	39,187	8	20,399	5
CHIEF	37,107	8	23,660	6
So-net	32,199	7		
CHSI	21,914	5	29,422	8
SHE	19,903	4	7,706	2
DHT	17,694	4	10,112	3
CIYP	15,904	3	22,899	6
CHTJ	6,779	1	3,780	1
CHTS	3,653	1		
Others	387		3,782	1
	\$ 466,422	100	\$ 383,218	100

<b>2) Payables</b>				
Trade notes payable, accounts payable and accrued expenses				
SENAO	\$ 824,042	34	\$ 616,052	33
CHSI	649,378	27	426,674	23
LED	196,581	8	572	
TISE	111,488	5	271,290	14
IFE	93,352	4	11,382	
CHTG	46,111	2	31,014	2
CHIEF	42,485	2	51,554	3
CIYP	42,415	2	88,527	5
DHT	33,444	1	39,284	2

(Continued)

	December 31			
	2010 Amount	%	2009 Amount	%
SHE	\$ 16,636	1	\$ 3,025	
So-net	11,799		839	
SKYSOFT	5,209		14,218	1
Others	11,861	1	5,419	
	2,084,801	87	1,559,850	83
Payables to contractors				
Others	625		42,758	2
Amounts collected in trust for others				
SENAO	234,807	10	247,091	13
CIYP	84,708	3	23,033	2
CHIEF	3,044		2,985	
	322,559	13	273,109	15
	\$ 2,407,985	100	\$ 1,875,717	100

(Concluded)

	December 31			
	2010 Amount	%	2009 Amount	%
3) Customers deposits				
CHSI	\$ 25,148	1	\$ 18,836	1
CHTG	14,891		15,290	1
IFE	3,531		528	
SENAO	2,187		3,456	
Others	929		1,659	
	\$ 46,686	1	\$ 39,769	2

	Year Ended December 31			
	2010 Amount	%	2009 Amount	%
4) Revenues				
SENAO	\$ 1,431,057	1	\$ 999,821	1
So-net	329,124		60,227	
CHIEF	267,139		229,335	
CHTG	92,042		59,288	
SKYSOFT	37,672		34,485	
LED	31,762		4,022	
CHSI	26,930		34,879	
CHTS	21,368		12,794	
CHTJ	18,025		10,291	
CIYP	14,005		19,168	
IFE	4,720		14,336	
Others	8,509		18,100	

\$ 2,282,353	1	\$ 1,496,746	1
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	Year Ended December 31			
	2010		2009	
	Amount	%	Amount	%
<b>5) Operating costs and expenses</b>				
SENAO	\$ 5,265,950	4	\$ 5,172,852	5
CHSI	701,030	1	441,564	
TISE	684,202	1	481,743	
CHIEF	290,802		309,498	
CHTG	148,139		67,139	
IFE	123,555		111,190	
SHE	86,673		83,868	
CIYP	45,413		84,334	
CHTJ	28,209		8,646	
CHTS	27,554		13,613	
SKYSOFT	25,406		21,870	
KWT	21,707		6,057	
DHT	19,025		14,196	
Others	2,036		294	
	\$ 7,469,701	6	\$ 6,816,864	5
<b>6) Acquisition of property, plant and equipment</b>				
CHSI	\$ 787,099	3	\$ 771,878	3
TISE	331,616	1	1,336,564	6
IFE	129,202	1	16,857	
DHT	33,685			
CHTG	31,630		21,770	
Others	18,702		268	
	\$ 1,331,934	5	\$ 2,147,337	9

Chunghwa has entered into a contract with ST-2 Satellite Ventures Pte., Ltd. on March 12, 2010 to lease capacity on the ST-2 satellite. This lease term is 15 years and the total contract value is approximately \$6,000,000 thousand (SG\$260,723 thousand). The Company has prepaid \$2,517,166 thousand which was classified as other assets-others. As of December 31, 2010, the ST-2 satellite is still under construction.

The Company has leased property to LED since April 2010. The leased term is 15 years and the rent is charged monthly.

Chunghwa sold the land with a carrying value of \$936,016 thousand to Light Era Development Co., Ltd. ( LED ) at the price of \$2,421,932 thousand in 2008. However, since the gain on disposal of land amounting to \$1,485,916 thousand is unrealized, the gain was recognized as deferred credit - profit on intercompany transactions. Gain on disposal of land \$45,909 thousand was recognized in 2010.

Chunghwa sold the land with a carrying value of \$378,927 thousand to LED at price of \$207,030 thousand in 2008 and resulted in a disposal loss amounting to \$171,897 thousand. The disposal loss on land is unrealized and the unrealized loss is included in other assets - other. The unrealized loss is not recognized in earnings until it is sold to the third party and realized in the future.

The foregoing transactions with related parties were determined in accordance with mutual agreements.

- c. The compensation of directors, supervisors and managements is showed as follows:

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Salaries	\$ 50,477	\$ 51,019
Compensations	37,420	40,123
Bonus	51,581	47,168
	\$ 139,478	\$ 138,310

#### 24. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

As of December 31, 2010, in addition to those disclosed in other notes, Chunghwa's remaining commitments under non-cancelable contracts with various parties were as follows:

- a. Acquisition of land and buildings of \$148,279 thousand.
- b. Acquisition of telecommunications equipment of \$16,604,757 thousand.
- c. Unused letters of credit of \$20,627 thousand.
- d. Contract to print billing, envelopes and marketing gifts of \$57,015 thousand.
- e. Chunghwa also has non-cancelable operating leases covering certain buildings, computers, computer peripheral equipment and operating system software under contracts that expire in various years. Future lease payments were as follows:

	<b>Rental Amount</b>
2011	\$ 1,673,164
2012	1,319,824
2013	905,074
2014	726,522
2015 and thereafter	594,022

- f. A commitment to contribute \$2,000,000 thousand to a Piping Fund administered by the Taipei City Government, of which \$1,000,000 thousand was contributed by Chunghwa on August 15, 1996 (classified as long-term investment - other monetary assets). If the fund is not sufficient, Chunghwa will contribute the remaining \$1,000,000 thousand upon notification from the Taipei City Government. Based on Chunghwa's understanding of the Piping Fund terms, if the project is considered to be no longer necessary by the ROC government, Chunghwa will receive back its proportionate share of the net equity of the Piping Fund upon its dissolution. Chunghwa does not know when its contribution to the Piping Fund will be returned; therefore, Chunghwa did not discount the face amount of its contribution on the Piping Fund.

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- g. A portion of the land used by Chunghwa during the period July 1, 1996 to December 31, 2004 was co-owned by Chunghwa and Chunghwa Post Co., Ltd. (the former Chunghwa Post Co., Ltd. directorate General of Postal Service). In accordance with the claims process in Taiwan, on July 12, 2005, the Taiwan Taipei District Court sent a claim notice to Chunghwa to reimburse Chunghwa Post Co., Ltd. in the amount of \$767,852 thousand for land usage compensation due to the portion of land usage area in excess of Chunghwa's ownership and along with interest calculated at 5% interest rate from June 30, 2005 to the payment date. Chunghwa stated that both parties have the right to use co-management land without consideration. Chunghwa Post Co., Ltd. can't request payment for land compensation. Furthermore, Chunghwa believes that the computation used to derive the land usage compensation



amount is inaccurate because most of the compensation amount has expired as result of the expiration clause. Therefore, Chunghwa has filed an appeal at the Taiwan Taipei District Court. On March 30, 2009, the Taiwan Taipei District Court rendered its judgment that Chunghwa only need to pay \$16,870 thousand along with interest calculated at 5% per annum from July 23, 2005 and 4% of the court fees as the court judgment compensation. However, Chunghwa Post Co., Ltd. did not accept the judgment and filed an appeal at Taiwan High Court. Chunghwa also filed an appeal at the Taiwan High Court within the statutory period. On April 7, 2010, the Taiwan High Court rendered its judgment, ruling that we need to pay \$23,284 thousand as compensation in addition to the \$16,870 thousand from the Taiwan Taipei District Court judgment, along with interest calculated at 5% per annum from July 23, 2005 to the payment date and 12.5% of Chunghwa Post Co., Ltd. s court fees from its original suit and subsequent appeal as compensation. Chunghwa has filed an appeal at the Supreme Court of the Republic of China within the statutory period. The case is under the review process of the Supreme Court of the Republic of China.

## 25. FAIR VALUE OF FINANCIAL INSTRUMENTS

a. Carrying amounts and fair value of financial instruments were as follows:

	December 31			
	2010		2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>Assets</b>				
Cash and cash equivalents	\$ 84,700,525	\$ 84,700,525	\$ 68,393,379	\$ 68,393,379
Financial assets at fair value through profit or loss	34,278	34,278	6,677	6,677
Available-for-sale financial assets	1,030,500	1,030,500	16,684,380	16,684,380
Held-to-maturity financial assets - current	1,963,608	1,963,608	1,099,595	1,099,595
Trade notes and accounts receivable, net	12,948,183	12,948,183	11,065,325	11,065,325
Receivables from related parties	466,422	466,422	383,218	383,218
Other current monetary assets	2,094,714	2,094,714	1,771,949	1,771,949
Financial assets carried at cost	2,305,354		2,226,048	
Held-to-maturity financial assets - noncurrent	8,408,090	8,408,090	3,929,662	3,929,662
Other noncurrent monetary assets	1,000,000	1,000,000	1,000,000	1,000,000
Refundable deposits	1,478,342	1,478,342	1,408,706	1,408,706
<b>Liabilities</b>				
Trade notes and accounts payable	8,754,445	8,754,445	8,346,932	8,346,932
Payables to related parties	2,407,985	2,407,985	1,875,717	1,875,717
Accrued expenses	17,262,155	17,262,155	16,500,060	16,500,060
Due to stockholders for capital reduction	19,393,617	19,393,617	9,696,808	9,696,808
Amounts collected in trust for others (included in other current liabilities )	2,229,878	2,229,878	2,160,252	2,160,252
Payables to contractors (included in other current liabilities )	1,261,643	1,261,643	2,229,165	2,229,165
Payables to equipment suppliers (included in other current liabilities )	1,100,498	1,100,498	1,528,559	1,528,559
Refundable customers deposits (included in other current liabilities )	1,096,923	1,096,923	1,043,713	1,043,713
Customers deposits	5,853,704	5,853,704	5,940,403	5,940,403

b. Methods and assumptions used in the estimation of fair values of financial instruments:

- 1) The fair values of certain financial instruments recognized in the balance sheet generally correspond to the market prices of the financial assets. Because of the short maturities of these instruments, the carrying value represents a reasonable basis to estimate fair values. This method does not apply to the financial instruments discussed in Notes 2 and 3 below.
- 2) If the financial instruments have quoted market prices in an active market, the quoted market prices are viewed as fair values. If the market prices of the available-for-sale financial assets are not readily available, valuation techniques are used incorporating estimates and assumptions that are consistent with prevailing market conditions.
- 3) Financial assets carried at cost are investments in nonlisted shares, which have no quoted prices in an active market and entail an unreasonably high cost to obtain verifiable fair values. Therefore, no fair value is presented.

c. Fair values of financial assets and liabilities using quoted market prices or valuation techniques were as follow:

	Amount Based on Quoted Market Price December 31		Amount Determined Using Valuation Techniques December 31	
	2010	2009	2010	2009
	Assets			
Financial assets at fair value through profit or loss	\$	\$	\$ 34,278	\$ 6,677
Available-for-sale financial assets	1,030,500	16,684,380		

d. Information about financial risks

1) Market risk

The foreign exchange rate fluctuations would result in Chunghwa's foreign-currency-dominated assets and liabilities, outstanding currency swap contracts exposed to rate risk.

The financial instruments categorized as available-for-sale financial assets are mainly listed stocks and open-end mutual funds. Therefore, the market risk is the fluctuations of market price. In order to manage this risk, Chunghwa would assess the risk before investing; therefore, no material market risk are anticipated.

2) Credit risk

Credit risk represents the potential loss that would be incurred by Chunghwa if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties of the aforementioned financial instruments are reputable financial institutions and corporations. Management does not expect Chunghwa's exposure to default by those parties to be material.

3) Liquidation risk

Chunghwa has sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidation risk is low.



The financial instruments of the Company categorized as available-for-sale financial assets are publicly-traded, easily converted to cash. Therefore, no material liquidation risks are anticipated. The financial instruments categorized as financial assets carried at cost are investments that do not have a quoted market price in an active market. Therefore, material liquidation risk is anticipated.

4) Cash flow interest rate risk

The Company engages in investments in fixed-interest-rate debt securities. Therefore, cash flows from such securities are not expected to fluctuate significantly due to changes in market interest rates.

e. Fair value hedge

Chunghwa entered into currency swap contracts to hedge the fluctuation in exchange rates of beneficiary certificates denominated in foreign currency, which is fair value hedge. No transaction met the criteria for hedge accounting for the year ended December 31, 2010. The transaction was assessed as highly effective for the year ended December 31, 2009. There are no outstanding hedge currency or forward exchange contracts existed as of December 31, 2009.

According to the regulations of Securities and Futures Bureau, Chunghwa should disclose the derivative transactions of Chunghwa's investees, SENA0 and CHI, which was as follows:

1) Holding period and contract amounts

SENA0 and CHI entered into forward exchange contracts and index future contracts to reduce the exposure to foreign currency risk and price risk.

The outstanding forward exchange contracts of SENA0 as of December 31, 2010 and 2009 were as follows:

	Currency	Maturity Date	Contract Amount (In Thousands)
<b>December 31, 2010</b>			
Forward exchange contracts - buy	NTD/USD	2011.01	NT\$17,965/US\$600
<b>December 31, 2009</b>			
Forward exchange contracts - buy	NTD/USD	2010.01	NT\$86,657/US\$2,680

There were no outstanding index future contracts of CHI as of December 31, 2010 and 2009.

Net (loss) gain of SANE0 arising from derivative financial products for the years ended December 31, 2010 and 2009 were \$2,223 thousand and (\$2,855) thousand, respectively.

Net loss of CHI arising from derivative financial products for the years ended December 31, 2010 and 2009 were \$6,217 thousand and \$262 thousand, respectively.

2) Market risk

The foreign exchange rate fluctuations would result in SENA0's foreign-currency-dominated assets and liabilities and open forward exchange contracts exposed to rate risk.

The fluctuations of market price would result in CHI's index future contracts exposed to price risk.



3) Credit risk

Credit risk represents the potential loss that would be incurred by SENAO and CHI if the counter-parties or third-parties breached contracts. Financial instruments with positive fair values at the balance sheet date are evaluated for credit risk. The counter-parties or third-parties to the aforementioned financial instruments are reputable financial institutions. Management does not expect SENAO's and CHI's exposure to default by those parties to be material. The largest amount of exposure to default by those parties of the financial instruments of SENAO and CHI is the same as carrying value.

4) Liquidation risk

SENAO and CHI have sufficient operating capital to meet cash needs upon settlement of derivative financial instruments. Therefore, the liquidation risk is low.

**26. ADDITIONAL DISCLOSURES**

Following are the additional disclosures required by the SFC for Chunghwa and its investees:

- a. Financings provided: Please see Table 1.
- b. Endorsements/guarantees provided: Please see Table 2.
- c. Marketable securities held: Please see Table 3.
- d. Marketable securities acquired and disposed of at costs or prices at least \$100 million or 20% of the paid-in capital: Please see Table 4.
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: Please see Table 5.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Please see Table 6.
- h. Receivables from related parties amounting to \$100 million or 20% of the paid-in capital: Please see Table 7.
- i. Names, locations, and other information of investees on which Chunghwa exercises significant influence: Please see Table 8.
- j. Financial transactions: Please see Notes 5 and 25.
- k. Investment in Mainland China: Please see Table 9.

**27. SEGMENT FINANCIAL INFORMATION**

- a. Segment information: Please see Table 10.
  
- b. Products and service revenues from external customer information: Please see Table 11.

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## c. Geographic information

The users of Chunghwa's services are mainly from Taiwan, ROC. The revenues it derived outside Taiwan are mainly revenues from international long distance telephone and leased line services. The geographic information for revenues is as follows:

	Year Ended December 31	
	2010	2009
Taiwan, ROC	\$ 181,520,413	\$ 179,088,884
Overseas	4,890,530	4,951,388
	\$ 186,410,943	\$ 184,040,272

The Company does not have material non-current assets in foreign operations for the year ended December 31, 2010.

## d. Major customers information

For the years ended December 31, 2010 and 2009, the Company did not have any single customer whose net revenue exceeded 10% of the total net revenues.

**28. OTHERS**

The significant information of foreign-currency financial assets and liabilities as below:

	2010		December 31		2009		New Taiwan Dollars
	Foreign Currencies	Exchange Rate	New Taiwan Dollars	Foreign Currencies	Exchange Rate		
<b>Financial assets</b>							
Monetary items							
Cash							
USD	\$ 3,440	29.13	\$ 100,205	\$ 33,513	32.03		\$ 1,073,429
EUR	111	38.92	4,339	32,727	46.10		1,508,718
GBP	10	45.19	441				
Available-for-sale financial assets							
USD	34,305	29.13	999,308	55,774	32.03		1,786,438
EUR				39,225	46.10		1,808,274
Accounts receivable							
USD	155,365	29.13	4,525,781	108,796	32.03		3,484,746
EUR	195	38.92	7,608	96	46.10		4,415
Investments accounted for using equity method							
USD	2,189	29.13	63,779	1,990	32.03		63,752
HKD	137,651	3.75	515,915	55,872	4.126		230,528
SGD	61,560	22.73	1,399,258	61,625	22.84		1,407,519
JPY	33,776	0.36	12,099	29,280	0.3472		10,166
VND	170,985,852	0.00144	246,220	155,820,905	0.00168		269,924
<b>Financial liabilities</b>							
Monetary items							
Accounts payable							
USD	109,575	29.13	3,191,909	99,657	32.03		3,192,026



EUR	21,633	38.92	841,958	33,919	46.10	1,563,680
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**TABLE 1****CHUNGHWA TELECOM CO., LTD.****FINANCINGS PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2010****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

No.	Financing Company	Counter-party	Financial Statement Account	Maximum Balance for the Year	Ending Balance (Note 5)	Interest Rate (Note 5)	Type of Financing (Note 2)	Transaction Amount (Note 6)	Reason for Short-Term Financing (Note 6)	Collateral Item Value	Financing	Financing	
											Company	Limit for Each Borrowing	Company's Financing Amount Limit
												(Note 3)	(Note 4)
9	Chunghwa Telecom Singapore Pte., Ltd.	ST-2 Satellite Ventures Pte., Ltd.	Other receivables	\$ 546,617	\$ (SG\$ 23,913)	6.38%	a	(Note 6)	\$	\$	\$	\$ 1,399,258	\$ 1,399,258
												(SG\$ 61,560)	(SG\$ 61,560)

Note 1: Significant transactions between the Company and its subsidiaries or among subsidiaries are numbered as follows:

- a. 0 for the Company.
- b. Subsidiaries are numbered from 1 .

Note 2: Reasons for financing are as follows:

- a. Business relationship.
- b. For short-term financing.

Note 3: The upper limit of loans lending to any other party is no more than 100% of the net value of the latest financial statements of the lender.

Note 4: The upper limit of loans lending to all other parties is no more than 100% of the net value of the latest financial statements of the lender.

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Note 5: It equals to the prime rate of Singapore plus 1%

Note 6: Chunghwa Telecom Singapore Pte., Ltd. signed the joint venture contract with SingTelSat Pte., Ltd. to establish ST-2 Satellite Ventures Pte., Ltd. which mainly engages in the installation and the operation of ST-2 telecommunications satellite. The amount was collected on April 1, 2010.

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**TABLE 2****CHUNGHWA TELECOM CO., LTD.****ENDORSEMENTS/GUARANTEES PROVIDED****FOR THE YEAR ENDED DECEMBER 31, 2010****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

No.	Endorsement/Guarantee Provider	Guaranteed Party Name	Nature of Relationship (Note 2)	Limits on		Maximum Balance for the Year Ending Balance	Amount of Collateralized Properties	Ratio of Latest Financial Statements	Endorsement/ Guarantee Amount Allowable (Note 3)
				Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 3)	Endorsement/ Maximum Guarantee to Net Equity Per Endorsement/ Guarantee Amount (Note 3)				
25	Yao Yong Real Property Co., Ltd.	Light Era Development Co., Ltd.	d	\$ 3,808,224	\$ 3,360,000	\$ 2,750,000	\$ 2,750,000	0.7%	\$ 3,808,224

Note 1: Significant transactions between the Company and its subsidiaries or among subsidiaries are numbered as follows:

- a. 0 for the Company.
- b. Subsidiaries are numbered from 1 .

Note 2: Relationships between the endorsement/guarantee provider and the guaranteed party:

- a. Trading partner.
- b. Majority owned subsidiary.
- c. The Company and subsidiary owns over 50% ownership of the investee company.
- d. A subsidiary jointly owned by the Company and the Company s directly-owned subsidiary.
- e. Guaranteed by the Company according to the construction contract.

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f. An investee company. The guarantees were provided based on the Company's proportionate share in the investee company.

Note 3: The maximum amount of endorsement or guarantee amounts is up to 200% of the asset value of the latest financial statements of Yao Yong Real Property Co., Ltd.

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**TABLE 3****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES HELD****DECEMBER 31, 2010****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares (Thousands/ Thousand Units)	December 31, 2010		
					Carrying Value (Note 6)	Percentage of Ownership	Market Value or Net Asset Value
Chunghwa Telecom Co., Ltd.	<u>Stocks</u>						
	Senao International Co., Ltd.	Subsidiary	Investments accounted for using equity method	71,773	\$ 1,422,326	28	\$ 4,234,616
	Light Era Development Co., Ltd.	Subsidiary	Investments accounted for using equity method	300,000	2,971,474	100	2,971,599
	Chunghwa Investment Co., Ltd.	Subsidiary	Investments accounted for using equity method	178,000	1,929,694	89	1,986,377
	Chunghwa Telecom Singapore Pte., Ltd.	Subsidiary	Investments accounted for using equity method	61,869	1,399,258	100	1,399,258
	Chunghwa System Integration Co., Ltd.	Subsidiary	Investments accounted for using equity method	60,000	703,276	100	649,812
	Taiwan International Standard Electronics Co., Ltd.	Equity-method investee	Investments accounted for using equity method	1,760	556,360	40	746,915
	CHIEF Telecom Inc.	Subsidiary	Investments accounted for using equity method	37,942	523,965	69	470,398
	Donghwa Telecom Co., Ltd.	Subsidiary	Investments accounted for using equity method	129,590	515,915	100	515,915
	InfoExplorer Co., Ltd.	Subsidiary	Investments accounted for using equity method	22,498	266,490	49	233,753
	Viettel-CHT Co., Ltd.	Equity-method investee	Investments accounted for using equity method		246,220	30	246,220
	Chunghwa International Yellow Pages Co., Ltd.	Subsidiary	Investments accounted for using equity method	15,000	187,462	100	187,462
	Skysoft Co., Ltd.	Equity-method investee	Investments accounted for using equity method	4,438	94,769	30	55,402
	Spring House Entertainment Inc.	Subsidiary	Investments accounted for using equity method	5,996	81,881	56	66,147
	KingWaytek Technology Co., Ltd.	Equity-method investee	Investments accounted for using equity method	1,703	66,377	33	20,938
	Chunghwa Telecom Global, Inc.	Subsidiary	Investments accounted for using equity method	6,000	63,779	100	81,195
	So-net Entertainment Taiwan Co., Ltd.	Equity-method investee	Investments accounted for using equity method	3,429	25,198	30	7,839
	Chunghwa Telecom Japan Co., Ltd.	Subsidiary	Investments accounted for using equity method	1	12,099	100	12,099
	New Prospect Investments Holdings Ltd. (B.V.I.)	Subsidiary	Investments accounted for using equity method		(US\$ 1 dollar)	100	(US\$ 1 dollar)
	Prime Asia Investments Group Ltd. (B.V.I.)	Subsidiary	Investments accounted for using equity method		(US\$ 1 dollar)	100	(US\$ 1 dollar)
	Taipei Financial Center Corp.		Financial assets carried at cost	172,927	1,789,530	12	1,392,643
	Industrial Bank of Taiwan II		Financial assets carried at cost				
	Venture Capital Co., Ltd. (IBT II)		Financial assets carried at cost	20,000	200,000	17	220,000
	Global Mobile Corp.		Financial assets carried at cost	12,696	127,018	8	97,715
	iD Branding Ventures		Financial assets carried at cost	7,500	75,000	8	75,269
	Innovation Works Development Fund, L.P.		Financial assets carried at cost		38,035	13	30,423
	RPTI Intergroup International Ltd.	-	Financial assets carried at cost	4,765	34,500	10	35,390
	Innovation Works Limited		Financial assets carried at cost	667	21,271	7	23,506
	CQi Energy Infocom Inc.		Financial assets carried at cost	2,000	20,000	18	2,794

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Essence Technology Solution,  
Inc.

Financial assets carried at cost

200

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(Continued)

				December 31, 2010					
No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	Shares	Carrying	Percentage of Ownership	Market	Note
					(Thousands of)	Value		Value	
		<u>Beneficiary certificates (mutual fund)</u>							
		HSBC Gbl Emerging Markets Bd A Inc.		Available-for-sale financial assets	288	\$ 163,912		\$ 156,661	Note 4
		Templeton Global Bond A Acc \$		Available-for-sale financial assets	418	307,114		306,094	Note 4
		PIMCO Global Investment Grade Credit - Ins H Acc		Available-for-sale financial assets	751	307,245		301,291	Note 4
		PIMCO GIS Total Return Bond Fund - H Institutional Class (Acc)		Available-for-sale financial assets	349	242,785		235,263	Note 4
		Polaris Taiwan Top 50 Tracker		Available-for-sale financial assets	508	29,986		31,191	Note 4
		<u>Bonds</u>							
		NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2009		Held-to-maturity financial assets		199,635		199,635	Note 7
		NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2009		Held-to-maturity financial assets		303,494		303,494	Note 7
		Taiwan Power Company 4 <sup>th</sup> Secured Corporate Bond-B Issue in 2009		Held-to-maturity financial assets		348,732		348,732	Note 7
		NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2009		Held-to-maturity financial assets		50,416		50,416	Note 7
		NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2009		Held-to-maturity financial assets		200,734		200,734	Note 7
		FCFC 1st Unsecured Corporate Bonds Issue in 2009		Held-to-maturity financial assets		252,134		252,134	Note 7
		Taiwan Power Co. 1 <sup>st</sup> Secured Corporate Bond-A Issue in 2009		Held-to-maturity financial assets		201,481		201,481	Note 7
		Taiwan Power Co. 1 <sup>st</sup> Secured Corporate Bond-A Issue in 2009		Held-to-maturity financial assets		40,675		40,675	Note 7
		Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issued in 2008		Held-to-maturity financial assets		203,084		203,084	Note 7
		Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured corporate Bonds-A Issue in 2008		Held-to-maturity financial assets		102,926		102,926	Note 7
		China Steel Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		102,655		102,655	Note 7
		Formosa Petrochemical Corporation 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		206,426		206,426	Note 7
		Formosa Petrochemical Corporation 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		410,683		410,683	Note 7
		Taiwan Power Co. 5 <sup>th</sup> secured Bond-B Issue in 2008		Held-to-maturity financial assets		207,552		207,552	Note 7
		Mega Securities Co., Ltd. 1 <sup>st</sup> Unsecured Corporate Bond Issue in 2009		Held-to-maturity financial assets		300,000		300,000	Note 7
		Yuanta Securities Finance Co. Ltd. 1 <sup>st</sup> Unsecured Corporate Bonds-B Issue in 2007		Held-to-maturity financial assets		402,969		402,969	Note 7
		Taiwan Power Co. 5 <sup>th</sup> Secured Bond-A Issue in 2008		Held-to-maturity financial assets		303,229		303,229	Note 7
				Held-to-maturity financial assets		307,658		307,658	Note 7



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Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured corporate Bonds-B Issue in 2006				
Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured corporate Bonds- A Issue in 2009	Held-to-maturity financial assets	200,839	200,839	Note 7

(Continued)

No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010			Note
					Shares (Thousands) Carrying Thousand Value (Note 6)	Percentage of Ownership	Market Value or Net Asset Value	
		Hon Hai Precision Industry Co., Ltd. First Debenture issuing of 2009		Held-to-maturity financial assets	\$ 177,330		\$ 177,330	Note 7
		FCFC 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2010		Held-to-maturity financial assets	201,334		201,334	Note 7
		Formosa Petrochemical Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2010		Held-to-maturity financial assets	303,399		303,399	Note 7
		Taiwan Power Co. 3 <sup>rd</sup> Secured Corporate Bond-A Issue in 2010		Held-to-maturity financial assets	201,886		201,886	Note 7
		Taiwan Power Co. 4 <sup>th</sup> Secured Corporate Bond-A Issue in 2010		Held-to-maturity financial assets	299,754		299,754	Note 7
		NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2010		Held-to-maturity financial assets	50,624		50,624	Note 7
		Formosa Petrochemical Corporation 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2010		Held-to-maturity financial assets	299,525		299,525	Note 7
		Mega Financial Holding Co., Ltd. 2 <sup>nd</sup> Unsecured Corporate Bond-A Issue in 2007		Held-to-maturity financial assets	300,000		300,000	Note 7
		Formosa Petrochemical Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets	99,913		99,913	Note 7
		Taiwan Power Co. 5 <sup>th</sup> Secured Corporate Bond-A Issue in 2008		Held-to-maturity financial assets	149,957		149,957	Note 7
		Yuanta FHC 1 <sup>st</sup> Unsecured Corporate Bonds-A Issue in 2009		Held-to-maturity financial assets	100,000		100,000	Note 7
		Formosa Petrochemical Corporation 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets	49,953		49,953	Note 7
		Taiwan Power Co. 6 <sup>th</sup> Secured Corporate Bond-A Issue in 2008		Held-to-maturity financial assets	271,095		271,095	Note 7
		Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2006		Held-to-maturity financial assets	150,220		150,220	Note 7
		NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets	405,369		405,369	Note 7
		Taiwan Power Co. 3 <sup>rd</sup> Unsecured Corporate Bond-A Issue in 2006		Held-to-maturity financial assets	200,477		200,477	Note 7
		Taiwan Power Co. 1 <sup>st</sup> Unsecured Bond-B Issue in 2001		Held-to-maturity financial assets	88,618		88,618	Note 7
		Formosa Petrochemical Corporation 5 <sup>th</sup> Unsecured Corporate Bonds Issue in 2006		Held-to-maturity financial assets	200,622		200,622	Note 7
		NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets	203,290		203,290	Note 7
		China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2006		Held-to-maturity financial assets	201,084		201,084	Note 7
		China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds-A Issue in 2008		Held-to-maturity financial assets	102,621		102,621	Note 7
		Taiwan Power Co. 4 <sup>th</sup> Secured Corporate Bond-B Issue in 2008		Held-to-maturity financial assets	51,319		51,319	Note 7
		Formosa Petrochemical Corporation 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets	102,056		102,056	Note 7



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No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010			Market Value or Net Asset Value	Note
					Shares (Thousands/Thousand Units)	Carrying Value (Note 6)	Percentage of Ownership		
		Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		\$ 200,862	\$ 200,862	Note 7	
		Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		306,370	306,370	Note 7	
		NAN YA Company 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		99,921	99,921	Note 7	
		NAN YA Company 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2008		Held-to-maturity financial assets		204,057	204,057	Note 7	
		MLPC 1 <sup>st</sup> Unsecured Corporate Bond Issue in 2008		Held-to-maturity financial assets		199,777	199,777	Note 7	
		China Steel Corporation 2 <sup>nd</sup> Unsecured Corporate Bond-A Issue in 2008		Held-to-maturity financial assets		100,024	100,024	Note 7	
		China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2006		Held-to-maturity financial assets		201,084	201,084	Note 7	
		China Development Industrial Bank 2 <sup>nd</sup> Financial Debentures Issue in 2006		Held-to-maturity financial assets		199,390	199,390	Note 7	
		TaipeiFubon Bank 5 <sup>th</sup> Financial Debentures-A Issue in 2010		Held-to-maturity financial assets		304,445	304,445	Note 7	
1	Senao International Co., Ltd.	<u>Stocks</u>							
		Senao Networks, Inc.	Equity-method investee	Investments accounted for using equity method	16,824	307,403	41	307,403	Note 1
		Senao International (Samoa) Holding Ltd.	Subsidiary	Investments accounted for using equity method	875	22,790	100	23,415	Note 1
						(US\$ 782)	(US\$ 804)		
		N.T.U. Innovation Incubation Corporation		Financial assets carried at cost	1,200	12,000	9	12,448	Note 2
		<u>Beneficiary certificates (mutual fund)</u>							
		Prudential Financial Bond Fund		Available-for-sale financial assets	3,304	50,000		50,152	Note 4
		IBT Bond Fund		Available-for-sale financial assets	3,691	50,000		50,194	Note 4
		Fuh Hwa Global Short-term Income Fund		Available-for-sale financial assets	4,850	50,000		51,565	Note 4
		Fuh Hwa Strategic High Income Fund		Available-for-sale financial assets	5,000	50,000		56,100	Note 4
		ING Investment Grade US\$ Credit Fund		Available-for-sale financial assets	4,735	50,000		48,744	Note 4
2	CHIEF Telecom Inc.	<u>Stocks</u>							
		Unigate Telecom Inc.	Subsidiary	Investments accounted for using equity method	200	1,937	100	1,937	Note 1
		Chief International Corp.	Subsidiary	Investments accounted for using equity method	200	7,967	100	7,967	Note 1
						(US\$ 273)	(US\$ 273)		
		eASPNet Inc.		Financial assets carried at cost	1,000		2		Note 2
		3 Link Information Service Co., Ltd.		Financial assets carried at cost	374	3,450	10	6,898	Note 2
3	Chunghwa System Integration	<u>Stocks</u>							

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Co., Ltd.								
Concord Technology Co., Ltd.	Subsidiary	Investments accounted for using equity method	1,010	10,544	100	10,544	Note 1	
			(US\$	335)	(US\$	335)		

8 Light Era Development Co., Ltd.	<u>Stocks</u>							
Yao Yong Real Property Co., Ltd.	Subsidiary	Investments accounted for using equity method	83,290	2,824,180	100	2,824,180	Note 1	

(Continued)





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No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010			Market Value or Net Asset Value	Note
					Shares (Thousands of Thousand Units)	Carrying Value (Note 6)	Percentage of Ownership		
		Procrystal Technology Co., Ltd. Tons Lightology Inc.		Financial assets carried at cost Prepayment for long-term investments in stocks	600	\$ 30,000 66,150	1	\$ 13,654 66,150	Note 2
		Formosa Plastics Corporation		Available-for-sale financial assets	21	1,253		2,018	Note 5
		Fubon Financial Holding Co., Ltd.		Available-for-sale financial assets	311	11,144		12,459	Note 5
		Cathay Financial Holding Co., Ltd.		Available-for-sale financial assets	142	7,673		7,317	Note 5
		Dynapack International Technology Corp.		Available-for-sale financial assets	11	1,035		1,016	Note 5
		Taiwan Hon Chuan Enterprise Co., Ltd.		Available-for-sale financial assets	122	7,042		8,133	Note 5
		Asia Cement Corporation		Available-for-sale financial assets	80	2,567		2,580	Note 5
		Anpec Electronics Corporation		Available-for-sale financial assets	65	2,629		2,146	Note 5
		China Steel Corporation		Available-for-sale financial assets	286	8,627		9,569	Note 5
		Wei Chuan Foods Corp.		Available-for-sale financial assets	203	8,913		7,754	Note 5
		Cyber Power Systems, Inc.		Available-for-sale financial assets	42	3,165		2,806	Note 5
		Gemtek Technology Co., Ltd.		Available-for-sale financial assets	71	3,970		3,159	Note 5
		Coxon Precise Industrial Co., Ltd.		Available-for-sale financial assets	107	8,206		5,564	Note 5
		Altek Corp.		Available-for-sale financial assets	36	1,824		1,580	Note 5
		I-Chiun Precision Industry Co., Ltd.		Available-for-sale financial assets	150	7,320		5,542	Note 5
		Taiwan Semiconductor Manufacturing Co., Ltd.		Available-for-sale financial assets	50	2,971		3,550	Note 5
		Swancor. Ind. Co., Ltd.		Available-for-sale financial assets	55	3,101		3,108	Note 5
		Apex Biotechnology Corp.		Available-for-sale financial assets	8	422		514	Note 5
		Via Technologies, Inc.		Available-for-sale financial assets	96	3,217		3,005	Note 5
		Cyberlink Co.		Available-for-sale financial assets	46	5,736		5,009	Note 5
		Optotech Corporation		Available-for-sale financial assets	320	7,106		6,656	Note 5
		Sino-American Silicon Products Inc.		Available-for-sale financial assets	21	2,043		1,944	Note 5
		Solar Applied Materials Technology Corp.		Available-for-sale financial assets	20	1,311		1,292	Note 5
		Tang Eng Iron Works Co., Ltd.		Available-for-sale financial assets	175	5,094		5,110	Note 5
		Pan Jit International Inc.		Available-for-sale financial assets	21	670		795	Note 5
		Lite-On Semiconductor Corp.		Available-for-sale financial assets	235	5,114		4,806	Note 5
		Ability Enterprise Co., Ltd.		Available-for-sale financial assets	30	1,770		1,503	Note 5
		Yuanta Financial Holdings		Available-for-sale financial assets	200	4,279		4,360	Note 5
		Sunrex Technology Corporation		Available-for-sale financial assets	31	1,043		1,018	Note 5
		Taiwan Semiconductor Co., Ltd.		Available-for-sale financial assets	240	6,182		5,556	Note 5
		Everlight Electronics Co., Ltd.			90	8,248		7,596	Note 5



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	Available-for-sale financial assets				
Visual Photonics Epitaxy Co., Ltd.	Available-for-sale financial assets	8	465	506	Note 5
Ene Technology Inc.	Available-for-sale financial assets	95	4,932	4,228	Note 5
Realtek Semiconductor Corp.	Available-for-sale financial assets	131	9,785	9,111	Note 5
ALi Corporation	Available-for-sale financial assets	105	5,634	4,636	Note 5
Integrated Memory Logic Limited	Available-for-sale financial assets	15	2,276	1,530	Note 5
Acme Electronics Corporation	Available-for-sale financial assets	124	9,240	15,314	Note 5
Taiwan Mobile Co., Ltd.	Available-for-sale financial assets	50	3,421	3,485	Note 5
Richtek Technology Corp.	Available-for-sale financial assets	6	1,440	1,458	Note 5
Danen Technology Corporation	Available-for-sale financial assets	129	8,121	6,263	Note 5
Taiwan PCB Techvest Co., Ltd.	Available-for-sale financial assets	100	4,900	4,380	Note 5
China Synthetic Rubber Corporation	Available-for-sale financial assets	190	5,724	5,709	Note 5
Chung Hung Steel Corporation	Available-for-sale financial assets	246	4,405	4,192	Note 5
Newmax Technology Co., Ltd.	Available-for-sale financial assets	21	2,963	3,383	Note 5
Gigastorage Corporation	Available-for-sale financial assets	55	2,499	2,497	Note 5
Lite-On Technology Corp.	Available-for-sale financial assets	10	247	405	Note 5

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No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010			Market Value or Net Asset Value	Note
					Shares (Thousands/ Thousand Units)	Carrying Value (Note 6)	Percentage of Ownership		
		Orise Technology Co., Ltd.		Available-for-sale financial assets	5	\$ 201	\$ 318	Note 5	
		Hon Hai Precision Ind. Co., Ltd.		Available-for-sale financial assets	3	324	395	Note 5	
		Chung-Hsin Electric & Machinery MFG. Corp.		Available-for-sale financial assets	50	935	895	Note 5	
		AU Optronics Corp.		Available-for-sale financial assets	100	3,074	3,030	Note 5	
		Wistron NeWeb Corporation		Available-for-sale financial assets	10	654	699	Note 5	
		TXC Corporation		Available-for-sale financial assets	110	6,271	6,127	Note 5	
		MasterLink Securities Corporation		Available-for-sale financial assets	250	3,162	3,325	Note 5	
		Evergreen Marine Corp. (Taiwan) Ltd.		Available-for-sale financial assets	100	2,276	3,030	Note 5	
		Chipbond Technology Corporation		Available-for-sale financial assets	50	2,396	2,545	Note 5	
		Shinkong Textile Co., Ltd.		Available-for-sale financial assets	40	1,938	2,220	Note 5	
		Chung Hwa Pulp Corp.		Available-for-sale financial assets	120	1,911	1,878	Note 5	
		Foxconn Technology Co., Ltd.		Available-for-sale financial assets	20	2,228	2,340	Note 5	
		Taiwan Cement Corp.		Available-for-sale financial assets	60	1,983	1,968	Note 5	
		Formosa Petrochemical Corp.		Available-for-sale financial assets	30	2,733	2,967	Note 5	
		TPK Holding Co., Ltd.		Available-for-sale financial assets	28	6,440	18,760	Note 5	
		Daxon Technology Inc.		Available-for-sale financial assets	217	6,135	5,740	Note 5	
		Edison Opto Corporation		Available-for-sale financial assets	63	9,908	10,981	Note 5	
		Kung Long Batteries Industrial Co., Ltd.		Available-for-sale financial assets	85	5,145	4,955	Note 5	
		Gourmet Master Co. Ltd.		Available-for-sale financial assets	5	880	1,465	Note 5	
		Taidoc Technology Corporation		Available-for-sale financial assets	9	900	680	Note 5	
		Wistron Corporation		Available-for-sale financial assets	96	5,808	5,702	Note 5	
		Chunghwa Chemical Synthesis & Biotech Co., Ltd.		Available-for-sale financial assets	30	1,659	1,779	Note 5	
		Tingyi (Cayman Islands) Holding Corp.		Available-for-sale financial assets	45	1,918	1,732	Note 5	
		Digital China Holdings Limited		Available-for-sale financial assets	55	1,671	1,460	Note 5	
		Gigasolar Materials Corporation		Available-for-sale financial assets	333	38,342	246,050	Note 5	
		Highwealth Construction Corp.		Available-for-sale financial assets	10	549	654	Note 5	
		Prime View International Co., Ltd.		Available-for-sale financial assets	10	535	591	Note 5	
		Taiwan Cooperative Bank		Available-for-sale financial assets	15	349	380	Note 5	
		<u>Beneficiary certificates (mutual)</u>							
		PowerShares QQQ		Available-for-sale financial assets	4	4,994	5,552	Note 5	
		United States Oil Fund		Available-for-sale financial assets	9	6,240	6,341	Note 5	
		Jih Sun Bond Fund			1,068	15,042	15,132	Note 4	

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	Available-for-sale financial assets				
Fuh Hwa You Li Fund	Available-for-sale financial assets	786	10,102	10,164	Note 4
Mega Diamond Bond Fund	Available-for-sale financial assets	4,185	50,001	50,148	Note 4
Manulife Asia Pacific Bond Fund	Available-for-sale financial assets	3,444	35,000	35,720	Note 4
Manulife Emerging Market High Yield Bond Fund-A	Available-for-sale financial assets	2,000	20,000	19,939	Note 4
Paradigm high Yield Bond Fund-A	Available-for-sale financial assets	1,399	15,000	15,409	Note 4
Fuh Hwa Global Fixed Income Fund of Funds	Available-for-sale financial assets	950	10,382	12,569	Note 4
Cathy Man AHL Futures Trust Fund of Funds	Available-for-sale financial assets	500	5,053	5,230	Note 4
KGI EM Trend ETF Fund of Funds	Available-for-sale financial assets	1,500	15,000	15,750	Note 4
Fuh Hwa Emerging Market Active Allocation Fund of Funds	Available-for-sale financial assets	1,000	10,000	9,990	Note 4
Franklin Templeton Sinoam Franklin Templeton Global Found of Funds	Available-for-sale financial assets	1,497	20,000	19,900	Note 4
Jih Sun MIT Mainstream Fund	Available-for-sale financial assets	2,000	20,000	19,900	Note 4

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No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010			Market Value or Net Asset Value	Note
					Shares (Thousands/ Thousand Units)	Carrying Value (Note 6)	Percentage of Ownership		
		Cathay Mandarin Fund		Available-for-sale financial assets	2,400	\$ 24,000	\$ 24,024	Note 4	
		iShares FTSE/Xinhua A50 China Index ETF		Available-for-sale financial assets	85	4,113	4,059	Note 5	
		iShares CSI A-Share Consumer Staples Index ETF		Available-for-sale financial assets	20	1,733	1,717	Note 5	
		WISE-CSI 300 China Tracker		Available-for-sale financial assets	14	2,046	1,983	Note 5	
		<u>Bonds</u>							
		Hua Nan Financial Holdings Company 1 <sup>st</sup> Unsecured Subordinate Corporate Bonds Issue in 2006		Available-for-sale financial assets	500	51,014	51,266	Note 5	
		AU Optronics Corporation 1 <sup>st</sup> Secured Corporate Bonds Issue in 2008		Available-for-sale financial assets	500	50,729	50,897	Note 5	
		<u>Convertible bonds</u>							
		Epistar Corporation Ltd. 3 <sup>rd</sup> Convertible Bond		Financial assets at fair value through profit or loss	17	1,815	1,924	Note 5	
		Everlight Electronics Co., Ltd. 3 <sup>rd</sup> Convertible Bonds		Financial assets at fair value through profit or loss	40	4,351	4,300	Note 5	
		Asia Optical s Second Domestic Unsecured Convertible Bond		Financial assets at fair value through profit or loss	32	3,200	4,042	Note 5	
		King Slide Works Co., Ltd. 2 <sup>nd</sup> Convertible Bond		Financial assets at fair value through profit or loss	50	5,000	5,175	Note 5	
		Everlight Electronics Co., Ltd. 4 <sup>th</sup> Convertible Bonds		Financial assets at fair value through profit or loss	50	5,000	5,375	Note 5	
		Jintex Corp. 2 <sup>nd</sup> Domestic Secured Convertible Bonds		Financial assets at fair value through profit or loss	10	1,000	1,370	Note 5	
		Ability Enterprise Co., Ltd. 1 <sup>st</sup> Unsecured Convertible Bonds		Financial assets at fair value through profit or loss	40	4,008	4,264	Note 5	
		TUL the Third Security Convertible Bond		Financial assets at fair value through profit or loss	15	1,500	1,496	Note 5	
		Yuanta Financial Holding Co., Ltd. 1 <sup>st</sup> Domestic Convertible Bond		Financial assets at fair value through profit or loss	85	8,500	9,839	Note 5	
		Synnex Technology International Corporation 1st Unsecured Convertible Bond Issue in 2008		Financial assets at fair value through profit or loss	35	4,974	5,005	Note 5	
20	Chunghwa Precision Test Tech. Co., Ltd.	<u>Stocks</u> Chunghwa Precision Test Tech. USA Corporation	Subsidiary	Investments accounted for using equity method	400	11,517	11,517	Note 1	
						(US\$ 395)	(US\$ 395)		
22	Senao International	<u>Stocks</u>	Subsidiary		180	4,237	4,237	Note 1	

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(Samoa) Holding Ltd.	Senao International HK Limited		Investments accounted for using equity method		(US\$ 145)		(US\$ 145)		
	HopeTech Technologies Limited	Equity-method investee	Investments accounted for using equity method	5,240	19,418	45	19,418	Note 1	
					(US\$ 667)		(US\$ 667)		
24	Chunghwa Investment Holding Co., Ltd.	<u>Stocks</u> CHI One Investment Co., Limited	Subsidiary	Investments accounted for using equity method	3,500	8,261	100	8,261	Note 1
					(US\$ 284)		(US\$ 284)		

(Continued)

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No.	Held Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	December 31, 2010			Market Value or Net Asset Value	Note
					Shares (Thousands/ Units)	Carrying Value (Note 6)	Percentage of Ownership		
26	CHI One Investment Co., Limited	<u>Stocks</u> Xiamen Sertec Business Technology Co., Ltd.	Equity-method investee	Investments accounted for using equity method	\$	7,744	49	\$ 7,744	Note 1
					(US\$	267)		(US\$ 267)	
28	InfoExplorer International Co., Ltd.	<u>Stocks</u> InfoExplorer (Hong Kong) Co., Limited	Subsidiary	Investments accounted for using equity method	780	22,712	100	22,712	Note 1
					(US\$	780)		(US\$ 780)	

Note 1: The net asset values of investees were based on audited financial statements.

Note 2: The net asset values of investees were based on unaudited financial statements.

Note 3: New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) were incorporated in March 2006, but have not yet begun operation as of December 31, 2010. Chunghwa has 100% ownership right in an amount of US\$1 in each holding company.

Note 4: The net asset values of beneficiary certificates (mutual fund) were based on the net asset values on December 31, 2010.

Note 5: Market value was based on the closing price on December 31, 2010.

Note 6: Showing at their original carrying amounts without adjustments for fair values, except for held-to-maturity financial assets.

Note 7: The net asset values of investees were based on amortized cost.

Note 8: Market value of emerging stock was based on the average trading price on December 31, 2010.

Note 9: Chunghwa Hsingta Company Ltd. was established by Prime Asia Investments Group, Ltd. (B.V.I.) in Hong Kong in 2010, but no capital has been injected as of December 31, 2010.

(Concluded)

**TABLE 4****CHUNGHWA TELECOM CO., LTD.****MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2010****(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Market-able Securities Type and Name	Financial Statement Account	Nature of Counter-party Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
				Shares (Thousands/Thousand Units)	Amount (Note 1)	Shares (Thousands/Thousand Units)	Amount	Amount	Carrying Value (Note 1)	Gain (Loss) on Disposal	Shares (Thousands/Thousand Units)	Amount (Note 1)	
Chunghua Telecom Co., Ltd.	<u>Stocks</u>												
	Donghua Telecom Co., Ltd.	Investments accounted for using equity method	Subsidiary	51,590	\$ 230,528	78,000	\$ 320,740	\$	\$	\$		129,590	\$ 515,268
					(Note 4)								(Note 4)
	<u>Beneficiary certificates (mutual fund)</u>												
	PCA Well Pool Fund	Available-for-sale financial assets		194,181	2,500,000			194,181	2,521,514	2,500,000	21,514		
	Yuanta Wan Tai Bond Fund	Available-for-sale financial assets		173,683	2,500,000	103,616	1,500,000	277,299	4,013,901	4,000,000	13,901		
	Mega Diamond Bond Fund	Available-for-sale financial assets		126,106	1,500,000			126,106	1,504,977	1,500,000	4,977		
	Polaris De-Li Fund	Available-for-sale financial assets		129,654	2,008,787			129,654	2,022,219	2,008,787	13,432		
	Fuh-Hwa Bond Fund	Available-for-sale financial assets		108,849	1,500,000			108,849	1,504,158	1,500,000	4,158		
	JPMorgan (Taiwan) Global Balanced Fund	Available-for-sale financial assets		14,161	200,000			14,161	217,864	200,000	17,864		
	Fuh Hwa Aegis Fund	Available-for-sale financial assets		17,813	234,684			17,813	223,070	234,684	(11,614)		
	AGI Global Quantitative Balanced Fund	Available-for-sale financial assets		17,000	197,821			17,000	192,888	197,821	(4,933)		
	Capital Value	Available-for-sale financial assets		8,000	141,776			8,000	147,134	141,776	5,358		

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Balance Fund										
Fuh Hwa Life Goal Fund	Available-for-sale financial assets	9,330	140,000			9,330	146,341	140,000	6,341	
Capital Asia-Pacific Mega-Trend	Available-for-sale financial assets	15,074	200,000			15,074	213,752	200,000	13,752	
PineBridge Flagship Global Balance FoFs	Available-for-sale financial assets	25,679	350,000			25,679	360,328	350,000	10,328	
Franklin Templeton Glbl Bd FoFs	Available-for-sale financial assets	14,000	158,018	3,984	50,000	17,984	238,068	208,018	30,050	
Cathay Global Aggressive Fund of Funds	Available-for-sale financial assets	15,570	210,000			15,570	193,523	210,000	(16,477)	
Polaris Global Emerging Market	Available-for-sale financial assets	13,603	200,000			13,603	206,478	200,000	6,478	
HSBC Global Of Bonds	Available-for-sale financial assets	22,838	250,000			22,838	274,690	250,000	24,690	
Fuh Hwa Global Fixed Inc FoFs	Available-for-sale financial assets	11,512	140,000	4,082	50,000	15,594	201,144	190,000	11,144	
Fidelity US High Yield Fund	Available-for-sale financial assets	535	206,588			535	192,038	206,588	(14,550)	
PIMCO Global Investment Grade Credit - Ins H Acc	Available-for-sale financial assets	398	161,575	353	145,670					751
PIMCO GIS Total Ret Bd H Ins	Available-for-sale financial assets			349	242,785					349
MFS Meridian - Global Equity Fund (A1 Class)	Available-for-sale financial assets	253	262,293			253	227,684	262,293	(34,609)	
Fidelity Fds International	Available-for-sale financial assets	128	163,960			128	125,949	163,960	(38,011)	
Fidelity Fds America	Available-for-sale financial assets	937	163,960			937	134,203	163,960	(29,757)	
JPMorgan Funds - Global Dynamic Fund (B)	Available-for-sale financial assets	303	165,640			303	131,203	165,640	(34,437)	
MFS Meridian - Research International Fund (A1 Share)	Available-for-sale financial assets	173	131,920			173	103,764	131,920	(28,156)	
Credit Suisse Equity Fund (Lux) Global Resources	Available-for-sale financial assets	10	130,402			10	130,402	130,402		
Schroder ISF - BRIC Fund - A1 Acc	Available-for-sale financial assets	31	197,071			31	196,337	197,071	(734)	
Aberdeen Global -	Available-for-sale financial assets			219	130,402	219	90,210	130,402	(40,192)	



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World Resources Fund							
Parvest Convertible Bond Europe	Available-for-sale financial assets	71	398,787	71	369,506	398,787	(29,281)
JPMorgan Funds - Global Convertibles Fund	Available-for-sale financial assets	868	491,450	868	445,661	491,450	(45,789)
Schroder ISF - Euro Corp. Bond A		260	190,098	260	166,404	190,098	(23,694)

(Continued)

Company No.	Market-able Securities Type and Name	Financial Statement Account	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
				Shares (Thousands/ Units)	Amount (Note 1)	Shares (Thousands/ Units)	Amount	Shares (Thousands/ Units)	Carrying Value (Note 1)	Gain (Loss) on Disposal	Shares (Thousands/ Units)	Amount (Note 1)	
	Fidelity Euro Balanced Fund	Available-for-sale financial assets		476	\$ 303,683		\$	476	\$ 249,307	\$ 303,683	\$ (54,376)	\$	
	MFS Meridian - European Equity Fund	Available-for-sale financial assets		171	178,920			171	129,932	178,920	(48,988)		
	Henderson Horizon Fund - Pan European Equity Fund	Available-for-sale financial assets		230	180,886			230	153,734	180,886	(27,152)		
	Polaris Taiwan Top 50 Tracker	Available-for-sale financial assets		1,710	91,574	1,678	88,777	2,880	162,491	150,365	12,126	508	29,986
<b>Bonds</b>													
	NAN YA Company 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2009	Held-to-maturity financial assets					500,000					500,000	
							(Note 3)					(Note 3)	
	Taiwan Power Co. 4 <sup>th</sup> Secured Corporate Bond-B Issue in 2009	Held-to-maturity financial assets					350,000					350,000	
							(Note 3)					(Note 3)	
	NAN YA Company 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2009	Held-to-maturity financial assets					250,000					250,000	
							(Note 3)					(Note 3)	
	FCFC 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2009	Held-to-maturity financial assets					250,000					250,000	
							(Note 3)					(Note 3)	
	Taiwan Power Co. 1 <sup>st</sup> Secured Corporate Bond-A Issue in 2009	Held-to-maturity financial assets					240,000					240,000	
							(Note 3)					(Note 3)	
	Formosa Petrochemical Corporation 4 <sup>th</sup> Unsecured Corporate Bonds Issue in 2008	Held-to-maturity financial assets					200,000					200,000	
							(Note 3)					(Note 3)	
	Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured Corporate Bonds - A Issue in 2008	Held-to-maturity financial assets					100,000					100,000	
							(Note 3)					(Note 3)	

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China Steel Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2008	Held-to-maturity financial assets	100,000 (Note 3)			100,000 (Note 3)
Formosa Petrochemical Corporation 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2008	Held-to-maturity financial assets	200,000 (Note 3)			200,000 (Note 3)
Formosa Petrochemical Corporation 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2008	Held-to-maturity financial assets	400,000 (Note 3)			400,000 (Note 3)
Taiwan Power Co. 5 <sup>th</sup> Bond-B Issue in 2008	Held-to-maturity secured financial assets	200,000 (Note 3)			200,000 (Note 3)
Mega Securities Co., Ltd. 1 <sup>st</sup> Unsecured Corporate Bond Issue in 2009	Held-to-maturity financial assets	300,000 (Note 3)			300,000 (Note 3)
Yuanta Securities Finance Co. Ltd. 1 <sup>st</sup> Unsecured Corporate Bonds-B Issue in 2007	Held-to-maturity financial assets	400,000 (Note 3)			400,000 (Note 3)
Taiwan Power Co. 5 <sup>th</sup> Secured Bond-A Issue in 2008	Held-to-maturity financial assets	300,000 (Note 3)			300,000 (Note 3)
China Development Financial Holding Corporation 1 <sup>st</sup> Unsecured Corporate Bonds-AB Issue in 2005	Held-to-maturity financial assets	200,000 (Note 3)	200,000 (Note 3)	200,000 (Note 3)	
Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured Corporate Bonds-B Issue in 2006	Held-to-maturity financial assets	300,000 (Note 3)			300,000 (Note 3)
Chinese Petroleum Corporation 1 <sup>st</sup> Unsecured Corporate Bonds-A Issue in 2009	Held-to-maturity financial assets	200,000 (Note 3)			200,000 (Note 3)
Hon Hai Precision Industry Co.,	Held-to-maturity financial assets	175,000			175,000

Ltd. First  
Debenture  
Issuing of  
2009

(Note 3)

(Note 3)

(Continued)

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No.	Company Name	Market-able Securities Type and Name	Financial Statement Counter-party	Nature of Relationship	Beginning Balance	Acquisition	Disposal	Ending Balance	
					Shares (Thousands/Units) (Note 1)	Amount (Thousand Units)	Shares (Thousands/Units) (Note 1)	Amount (Thousand Units)	Gain (Loss) on Disposal (Thousand Units)
		FCFC 2 <sup>nd</sup> Unsecured Corporate Bonds Issue in 2010	Held-to-maturity financial assets		\$	\$ 200,000 (Note 3)	\$	\$	\$ 200,000 (Note 3)
		Formosa Petrochemical Corporation 1 <sup>st</sup> Unsecured Corporate Bonds Issue in 2010	Held-to-maturity financial assets			300,000 (Note 3)			300,000 (Note 3)
		Taiwan Power Company 3 <sup>rd</sup> Secured Corporate Bond-A Issue In 2010	Held-to-maturity financial assets			200,000 (Note 3)			200,000 (Note 3)
		Taiwan Power Co. 4 <sup>th</sup> Secured Corporate Bond-A Issue in 2010	Held-to-maturity financial assets			300,000 (Note 3)			300,000 (Note 3)
		Formosa Petrochemical Corporation 3 <sup>rd</sup> Unsecured Corporate Bonds Issue in 2010	Held-to-maturity financial assets			300,000 (Note 3)			300,000 (Note 3)
		Mega Financial Holding Co., Ltd. 1 <sup>st</sup> Unsecured Corporate Bond Issue in 2007	Held-to-maturity financial assets		150,000 (Note 3)		150,000 (Note 3)	150,000 (Note 3)	
		KGI Securities Co., Ltd 1 <sup>st</sup> Unsecured Corporate Bonds-B Issue in 2007	Held-to-maturity financial assets		100,000 (Note 3)		300,000 (Note 3)	300,000 (Note 3)	
		KGI Securities Co., Ltd 1 <sup>st</sup> Unsecured Corporate Bonds-B Issue in 2007	Held-to-maturity financial assets		200,000 (Note 3)		300,000 (Note 3)	300,000 (Note 3)	
		Fubon Financial Holding Company 1 <sup>st</sup> Unsecured Debenture Issue in 2005	Held-to-maturity financial assets		100,000 (Note 3)		100,000 (Note 3)	100,000 (Note 3)	
		Yuanta Securities Finance Co., Ltd. 1 <sup>st</sup>	Held-to-maturity financial assets		100,000 (Note 3)		100,000 (Note 3)	100,000 (Note 3)	

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Unsecured  
Corporate  
Bonds-A Issue  
in 2007

Formosa Petrochemical Corporation 4 <sup>th</sup>	Held-to-maturity financial assets	300,000	150,000	150,000	150,000
Unsecured Corporate Bonds Issue in 2006		(Note 3)	(Note 3)	(Note 3)	(Note 3)

Formosa Petrochemical Corporation 4 <sup>th</sup>	Held-to-maturity financial assets	300,000			300,000
Unsecured Corporate Bonds Issued in 2008		(Note 3)			(Note 3)

NAN YA Company 4 <sup>th</sup>	Held-to-maturity financial assets	200,000			200,000
Unsecured Corporate Bonds Issue in 2008		(Note 3)			(Note 3)

Taiwan Power Co. 2 <sup>nd</sup>	Held-to-maturity financial assets	150,000	150,000	150,000	
Unsecured Bond- CB Issue in 2003		(Note 3)	(Note 3)	(Note 3)	

Chinatrust Commercial Bank 2 <sup>nd</sup>	Held-to-maturity financial assets	200,000	200,000	200,000	
Unsecured Subordinate Financial Debentures Issue in 2003		(Note 3)	(Note 3)	(Note 3)	

TaipeiFubon Bank 1 <sup>st</sup>	Held-to-maturity financial assets	100,000	100,000	100,000	
Financial Debentures-BA Issue in 2005		(Note 3)	(Note 3)	(Note 3)	

TaipeiFubon Bank 5 <sup>th</sup>	Held-to-maturity financial assets	300,000			300,000
Financial Debentures-A Issue in 2010		(Note 3)			(Note 3)

8 Light Era  
Development  
Co., Ltd.

<u>Stocks</u>							
Yao Yong Real Property Co., Ltd.	Investments accounted for using equity method	Subsidiary	83,290	2,793,667		83,290	2,824,180
							(Note 2)

Note 1: Showing at their original carrying amounts without adjustments for fair values.

Note 2: The ending balance includes investment gain recognized under equity method.

Note 3: Stated at its nominal amounts.

Note 4: The ending balance includes investment gain (loss) recognized under equity method and cumulative transaction adjustments.

(Concluded)

**TABLE 5****CHUNGHWA TELECOM CO., LTD.****ACQUISITION OF REAL ESTATE AMOUNTING AT COST OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2010****(Amounts in Thousands of New Taiwan Dollars)**

Company Name	Type of Property	Transactions Date	Transaction Amount	Payment Term	Counter-party	Nature of Relationship	Prior Transaction made by Related Counter-party		Price Reference	Purpose of Acquisition	Other Terms	
							Owner Relationship	Transfer Date				
Chunghwa Telecom Co., Ltd.	Land	2010.12.22	\$ 183,561	Paid	24 people (Jin Yang, etc.)	None			\$	Based on the contract	Donated to Taipei City Government and transferred 30% of floor area capacity to Dunhua South Building (No. 52, and 52-1, Subsection 3, Da an Section Da an Dist., Taipei City)	None

**TABLE 6****CHUNGHWA TELECOM CO., LTD.****TOTAL PURCHASES FROM OR SALES TO RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****FOR THE YEAR ENDED DECEMBER 31, 2010****(Amounts in Thousands of New Taiwan Dollars)**

No.	Company Name	Related Party	Nature of Relationship	Purchase/Sale	Transaction Details			Abnormal Transaction		Notes/Accounts Payable or Receivable		
					Amount	% to Total	Payment Terms	Units Price	Payment Terms	Ending Balance (Note 1)	% to Total	
0	Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd.	Subsidiary	Sales	\$ 1,431,057 (Note 4)	1	30 days			\$ 271,695 (Note 5)	2	
				Purchase	5,265,950 (Note 3)	5	30-90 days			(812,614)	(7)	
			Chunghwa System Integration Co., Ltd.	Subsidiary	Purchase	701,030 (Note 8)	1	30 days			(649,378) (Note 7)	(5)
			CHIEF Telecom Inc.	Subsidiary	Sales	267,139 (Note 9)		30 days			36,479	
					Purchase	290,802		60 days			(42,485) (Note 6)	( )
			Chunghwa Telecom Global, Inc.	Subsidiary	Purchase	148,139 (Note 12)		90 days			(46,098)	( )
			So-net Entertainment Taiwan Co., Ltd.	Equity-method investee	Sales	329,124		60 days			26,273	
			Taiwan International Standard Electronics Co., Ltd.	Equity-method investee	Purchase	684,202						
			InfoExplorer Co., Ltd.		Subsidiary	Purchase	123,555 (Note 10)	1	30-90 days 90 days			(111,488) (93,281) (Note 11)
		1	Senao International Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	5,251,139 (Note 3)	27	30-90 days			812,614
Purchase	1,385,844 (Note 4)					9	30 days			(90,775) (Note 5)	(5)	
3	Chunghwa System Integration Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	1,547,840 (Note 8)	84	30 days			649,675 (Note 7)	73	
2	CHIEF Telecom Inc.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	290,802	27	60 days			45,390 (Note 6)	100	
				Purchase	266,507 (Note 9)	28	30 days			(36,479)	(69)	
5	Chunghwa Telecom Global, Inc.	Chunghwa Telecom Co., Ltd.	Parent company	Sales	178,772 (Note 12)	49	90 days			46,098	78	



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11	InfoExplorer Co., Ltd.	Chunghwa Telecom Co., Parent company Ltd.	Sales	262,255 (Note 10)	26	90 days	93,730 (Note 11)	66
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(Continued)

- Note 1: Excluding payment and receipts collected in trust for others.
- Note 2: Transaction terms were determined in accordance with mutual agreements.
- Note 3: The difference was because Senao International Co., Ltd. classified the amount as other current liability. Note 4: The difference was because Senao International Co., Ltd. classified the amount as operating expenses. Note 5: The difference was because Senao International Co., Ltd. classified the amount as other payables.
- Note 6: The difference was because Chunghwa classified the amount as amounts collected in trust for others and other current liability.
- Note 7: The difference was because Chunghwa classified the amount as payables to contractors.
- Note 8: The difference was because Chunghwa classified the amount as property, plant and equipment, inventories, spare parts and intangible assets.
- Note 9: The difference was because CHIEF Telecom Inc. classified the amount as operating expenses.
- Note 10: The difference was because Chunghwa classified the amount as property, plant and equipment, inventories, and intangible assets.
- Note 11: The difference was because Chunghwa classified the amount as other current liability.
- Note 12: The difference was because Chunghwa classified the amount as property, plant and equipment.

(Concluded)

**TABLE 7****CHUNGHWA TELECOM CO., LTD.****RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL****DECEMBER 31, 2010****(Amounts in Thousands of New Taiwan Dollars)**

No.	Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue Amounts	Action Taken	Amounts Received in Subsequent Period	Allowance for Bad Debts
0	Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd.	Subsidiary	\$ 271,695	8.22	\$		\$ 271,695	\$
1	Senao International Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	1,058,617	7.41			1,058,616	
3	Chunghwa System Integration Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	649,675	2.92			634,648	
8	Light Era Development Co., Ltd.	Chunghwa Telecom Co., Ltd.	Parent company	196,086	4.81			184,161	

Note: Payments and receipts collected in trust for others are excluded from the accounts receivable for calculating the turnover rate.

**TABLE 8****CHUNGHWA TELECOM CO., LTD.****NAMES, LOCATIONS, AND OTHER INFORMATION OF INVESTEES IN WHICH THE COMPANY EXERCISES SIGNIFICANT INFLUENCE****FOR THE YEAR ENDED DECEMBER 31, 2010****(Amounts in Thousands of New Taiwan Dollars, Unless Otherwise Specified)**

Investor No.	Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2010			Net Income (Loss) of the Investee	Recognized Gain (Loss) (Notes 1 and 2)	Note
					December 31, 2010	December 31, 2009	Shares (Thousands)	Percentage of Ownership (%)	Carrying Value			
0	Chunghwa Telecom Co., Ltd.	Senao International Co., Ltd.	Xindian Dist., New Taipei City	Selling and maintaining mobile phones and its peripheral products	\$ 1,065,813	\$ 1,065,813	71,773	28	\$ 1,422,326	\$ 1,207,629	\$ 333,983	Subsidiary
		Light Era Development Co., Ltd.	Taipei	Housing, office building development, rent and sale services	3,000,000	3,000,000	300,000	100	2,971,474	44,490	44,797	Subsidiary
		Chunghwa Investment Co., Ltd.	Taipei	Telecommunications, telecommunications value-added services and other related professional investment	1,738,709	1,738,709	178,000	89	1,929,694	103,001	107,330	Subsidiary
		Chunghwa Telecom Singapore Pte., Ltd.	Singapore	Telecommunication wholesale, internet transfer services international data and long distance call wholesales to carriers	1,389,939	1,389,939	61,869	100	1,399,258	(2,737)	(2,737)	Subsidiary
		Chunghwa System Integration Co., Ltd.	Taipei	Providing communication and information aggregative services	838,506	838,506	60,000	100	703,276	25,393	(2,667)	Subsidiary
		Taiwan International Standard Electronics Co., Ltd.	Taipei	Manufacturing, selling, designing, and maintaining of telecommunications systems and equipment	164,000	164,000	1,760	40	556,360	268,900	125,141	Equity-method investee
		CHIEF Telecom Inc.	Taipei	Internet communication and internet data center ( IDC ) service	482,165	482,165	37,942	69	523,965	106,907	76,759	Subsidiary
		Donghwa Telecom Co., Ltd.	Hong Kong	International telecommunications IP fictitious internet	522,003	201,263	129,590	100	515,915	15,330	15,330	Subsidiary

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			and internet transfer services								
InfoExplorer Co., Ltd.	Banqiao Dist., New Taipei City	Taipei	IT solution provider, IT application consultation, system integration and package solution	283,500	283,500	22,498	49	266,490	18,809	(6,640)	Subsidiary
Viettel-CHT Co., Ltd.	Vietnam		IDC services	288,327	288,327		30	246,220	54,908	16,480	Equity-method investee
Chunghwa International Yellow Pages Co., Ltd.		Taipei	Yellow pages sales and advertisement services	150,000	150,000	15,000	100	187,462	35,265	35,263	Subsidiary
Skysoft Co., Ltd.		Taipei	Providing of music on-line, software, electronic information, and advertisement services	67,025	67,025	4,438	30	94,769	33,118	9,936	Equity-method investee
Spring House Entertainment Inc.		Taipei	Network services, producing digital entertainment contents and broadband visual sound terrace development	62,209	62,209	5,996	56	81,881	43,435	24,787	Subsidiary
KingWaytek Technology Co., Ltd.		Taipei	Publishing books, data processing and software services	71,770	71,770	1,703	33	66,377	8,242	(2,803)	Equity-method investee
Chunghwa Telecom Global, Inc.		United States	International data and internet services and long distance call wholesales to carriers	70,429	70,429	6,000	100	63,779	5,441	7,810	Subsidiary
So-net Entertainment Taiwan Co., Ltd.		Taipei	Online service and sale of computer hardware	60,008	60,008	3,429	30	25,198	(17,422)	(5,722)	Equity-method investee
Chunghwa Telecom Japan Co., Ltd.		Japan	Telecom business, information process and information provide service, development and sale of software and consulting services in telecommunication	17,291	17,291	1	100	12,099	1,617	1,617	Subsidiary
New Prospect Investments Holdings Ltd. (B.V.I.)		British Virgin Islands	Investment	(Note 3)	(Note 3)		100	(Note 3)		(Note 3)	Subsidiary
Prime Asia Investments Group Ltd. (B.V.I.)		British Virgin Islands	Investment	(Note 3)	(Note 3)		100	(Note 3)		(Note 3)	Subsidiary

(Continued)

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Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2010			Net Income (Loss) of the Investee	Recognized Gain (Loss) (Notes 1 and 2)	Note
				December 31, 2010	December 31, 2009	Shares	Ownership (%)	Carrying Value			
Senao International Co., Ltd.	Senao Networks, Inc.	Linkou Dist., New Taipei City	Telecommunication facilities manufactures and sales.	\$ 206,190	\$ 206,190	16,824	41	\$ 307,403	\$ 133,423	\$ 54,700	Equity-met investee
	Senao International (Samoa) Holding Ltd.	Samoa Islands	International investment	27,452		875	100	22,790	(2,162)	(2,787)	Subsidiary
				(US\$ 875)				(US\$ 782)	(US\$ (70))	(US\$ (91))	
CHIEF Telecom Inc.	Unigate Telecom Inc.	Taipei	Telecommunication and internet service.	2,000	2,000	200	100	1,937	(61)	(61)	Subsidiary
	Chief International Corp.	Samoa Islands	Network communication and engine room hiring	6,068	6,068	200	100	7,967	1,132	1,132	Subsidiary
				(US\$ 200)	(US\$ 200)			(US\$ 273)	(US\$ 36)	(US\$ 36)	
Chunghwa System Integration Co., Ltd.	Concord Technology Co., Ltd.	Brunei	Providing advanced business solutions to telecom-munications	31,973	16,179	1,010	100	10,544	(5,523)	(5,523)	Subsidiary
				(US\$ 1,010)	(US\$ 500)			(US\$ 335)	(US\$ (175))	(US\$ (175))	
Light Era Development Co., Ltd.	Yao Yong Real Property co., Ltd.	Taipei	Real estate leasing business	2,793,667		83,290	100	2,824,180	44,590	44,046	Subsidiary
Chunghwa Telecom Singapore Pte., Ltd.	ST-2 Satellite Ventures Pte., Ltd.	Singapore	Operation of ST-2 telecom-munication satellite	409,061	409,061	18,102	38	398,186	(13,422)	(8,333)	Equity-met investee
				(SG\$ 18,102)	(SG\$ 18,102)			(SG\$ 17,518)	(SG\$ (580))	(SG\$ (360))	
InfoExplorer Co., Ltd.	InfoExplorer International Co., Ltd.	Samoa Islands	International investment	25,383		795	100	23,150	(9)	(9)	Subsidiary
				(US\$ 795)				(US\$ 795)	(US\$ ( ))	(US\$ ( ))	
Chunghwa Investment Co., Ltd.	Chunghwa Precision Test Tech. Co., Ltd.	Tao Yuan	Semiconductor testing components and printed circuit board industry production and marketing of electronic products	91,875	91,875	10,317	54	123,989	27,821	14,951	Subsidiary
	Chunghwa Investment Holding Co., Ltd.	Brunei	General investment	34,483	20,000	1,043	100	18,080	(5,718)	(5,718)	Subsidiary
				(US\$ 1,043)	(US\$ 589)			(US\$ 621)	(US\$ (181))	(US\$ (181))	
	Tatung Technology Inc.	Taipei	The product of SET TOP BOX	50,000	50,000	5,000	28	3,876	(116,994)	(32,269)	Equity-met investee
	Panda Monium Company Ltd.	Cayman	The production of animation	20,000	20,000	602	43				Equity-met investee
				(US\$ 602)	(US\$ 602)						
	CHIEF Telecom Inc.	Taipei	Telecommunication and internet service	20,000	20,000	2,000	4	24,448	106,907	3,913	Equity-met investee
	Senao International Co., Ltd.	Xindian Dist., New Taipei City	Selling and maintaining mobile phones and its peripheral products	49,731		1,001		49,316	1,207,629	1,730	Equity-met investee

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Prime Asia Investments Group, Ltd. (B.V.I.)	Chunghwa Hsingta Company Ltd.	Hong Kong	General investment				100								Subsidiary
				(Note 4)	(Note 4)			(Note 4)		(Note 4)					
Concord Technology Co., Ltd.	Glory Network System Service (Shanghai) Co., Ltd.	Shanghai	Providing advanced business solutions to telecommunications	31,973	16,179	1,010	100	10,541	(5,521)	(5,521)					Subsidiary
				(US\$ 1,010)	(US\$ 500)			(US\$ 335)	(US\$ (175))	(US\$ (175))					
Senao International (Samoa) Holding Ltd.	Senao International HK Limited	Hong Kong	International investment	5,647		180	100	4,237	(1,060)	(1,060)					Subsidiary
				(US\$ 180)				(US\$ 145)	(US\$ (35))	(US\$ (35))					
	HopeTech Technologies Limited	Hong Kong	Information technology and telecommunication products sales.	21,177		5,240	45	19,418	(519)	(233)					Equity-met investee
				(US\$ 675)				(US\$ 667)	(US\$ (17))	(US\$ (8))					
Chunghwa Investment Holding Co., Ltd.	CHI One Investment Co., Limited	Hong Kong	General investment	14,483		3,500	100	8,261	(5,642)	(5,642)					Subsidiary
				(US\$ 450)				(US\$ 284)	(US\$ (179))	((US\$ 179))					

(Continued)

No.	Investor Company	Investee Company	Location	Main Businesses and Products	Original Investment Amount		Balance as of December 31, 2010		Net Income (Loss) of the Investee	Recognized Gain (Loss) (Notes 1 and 2)	Note
					December 2010	December 2009	Share Ownership Percentage	Carrying Value			
26	CHI One Investment Co., Limited	Xiamen Sertec Business Technology Co., Ltd.	Xiamen	Customer Services and platform rental activities	\$ 13,862 (US\$ 431)	\$	49	\$ 7,744 (US\$ 267)	\$ (11,402) (US\$ (361))	\$ (5,587) (US\$ (177))	Equity-method investee
28	InfoExplorer International Co., Ltd.	InfoExplorer (Hong Kong) Co., Limited	Hong Kong	International investment	24,904 (US\$ 780)	780	100	22,712 (US\$ 780)	(10) (US\$ ( ))	(10) (US\$ ( ))	Subsidiary
20	Chunghwa Precision Test Tech. Co., Ltd.	Chunghwa Precision Test Tech. USA Corporation	United States	Semiconductor testing components and printed circuit board industry production and marketing of electronic products	12,504 (US\$ 400)	400	100	11,517 (US\$ 395)	(146) (US\$ (5))	(146) (US\$ (5))	Subsidiary

Note 1: The equity in net income (loss) of investees was based on audited financial statements.

Note 2: The equity in net income (loss) of investees includes amortization of differences between the investment cost and net value and elimination of unrealized transactions.

Note 3: New Prospect Investments Holdings Ltd. (B.V.I.) and Prime Asia Investments Group Ltd. (B.V.I.) were incorporated in March 2006, but have not yet begun operation as of December 31, 2010. Chunghwa has 100% ownership right in an amount of US\$1 in each holding company.

Note 4: Chunghwa Hsingta Company Ltd. (CHC) was established by Prime Asia Investment Group Ltd. in 2010. CHC engages mainly in investment activities, but no capital has been injected as of December 31, 2010.

(Concluded)



**TABLE 9****CHUNGHWA TELECOM CO., LTD.****INVESTMENT IN MAINLAND CHINA****FOR THE YEAR ENDED DECEMBER 31, 2010**

(Amounts in Thousands of New Taiwan Dollars, in Thousands of U.S. Dollars)

Investee	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2010	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2010	% Ownership of Direct or Indirect Investment	Gain (Loss) (Note 2)	Carrying Value as of December 31, 2010	Accumulated Inward Remittance of Earnings as of December 31, 2010
					Outflow	Inflow					
Glory Network System Service(Shanghai) Co., Ltd.	Providing advanced business solutions to telecommunications	\$ 31,973 (US\$ 1,010)	Note 1	\$ 16,179 (US\$ 500)	\$ 15,794 (US\$ 510)	\$ -	\$ 31,973 (US\$ 1,010)	100%	\$ (5,521) (US\$ (175))	\$ 10,541 (US\$ 335)	\$ -
Xiamen Sertec Business Technology Co., Ltd.	Customer Services and platform rental activities	28,282 (US\$ 880)	Note 1		13,862 (US\$ 431)		13,862 (US\$ 431)	49%	(5,587) (US\$ (177))	7,744 (US\$ 267)	

Accumulated Investment in Mainland China as of December 31, 2010	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Stipulated by Investment Commission, MOEA
\$ 31,973	\$ 48,169	\$ 393,918
(US\$ 1,010)	(US\$ 1,500)	(Note 3)
13,862	79,882	1,403,169
(US\$ 431)	(US\$ 2,500)	(Note 4)

Note 1: Chungghwa System Integration Co., Ltd. and Chungghwa Investment Co., Ltd. indirectly owns this investee through an investment company registered in a third region.

Note 2: Recognition of investment gains (losses) was calculated based on the investee's audited financial statements.

Note 3: The amount was calculated based on the net assets value of Chungghwa System Integration Co., Ltd.

Note 4: The amount was calculated based on the consolidated net assets value of Chungghwa Investment Co., Ltd.

**TABLE 10****CHUNGHWA TELECOM CO., LTD.****SEGMENT INFORMATION****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009****(Amount in Thousands of New Taiwan Dollars)**

	<b>Domestic Fixed Communications Business</b>	<b>Mobile Communications Business</b>	<b>Internet Business</b>	<b>International Fixed Communications Business</b>	<b>Others</b>	<b>Adjustment</b>	<b>Total</b>
<b><u>Year ended December 31, 2010</u></b>							
Revenues from external customers	\$ 70,851,943	\$ 76,185,340	\$ 23,592,536	\$ 15,557,015	\$ 224,109	\$	\$ 186,410,943
Intersegment revenues (Note 2)	14,492,338	2,047,870	1,010,260	1,562,581	1,816	(19,114,865)	
Interest income	1,065	728	1,111	603	442,736	(349)	445,894
Other income	36,602	154,438	16,931	95,548	905,882	(170,104)	1,039,297
	\$ 85,381,948	\$ 78,388,376	\$ 24,620,838	\$ 17,215,747	\$ 1,574,543	\$ (19,285,318)	\$ 187,896,134
Interest expense	\$ 75,105	\$ 508	\$ 140	\$ 54	\$	\$ (349)	\$ 75,458
Depreciation and amortization	\$ 21,947,782	\$ 8,080,515	\$ 2,075,907	\$ 1,369,406	\$ 174,320	\$	\$ 33,647,930
Other expense	\$ 284,462	\$ 10,424	\$ 1,046	\$ 191,775	\$ 405,999	\$ (170,104)	\$ 723,602
Segment income before tax	\$ 18,048,409	\$ 27,933,263	\$ 9,651,111	\$ 2,617,614	\$ (1,812,332)	\$	\$ 56,438,065
Total assets	\$ 227,450,818	\$ 57,125,409	\$ 16,434,019	\$ 21,608,356	\$ 121,768,377	\$	\$ 444,386,979
Capital expenditures for segment assets	\$ 14,259,706	\$ 5,237,274	\$ 1,794,855	\$ 1,654,047	\$ 1,357,596	\$	\$ 24,303,478
<b><u>Year ended December 31, 2009</u></b>							
Revenues from external customers	\$ 71,623,447	\$ 74,102,564	\$ 22,855,233	\$ 15,252,941	\$ 206,087	\$	\$ 184,040,272
Intersegment revenues (Note 2)	13,649,786	1,914,861	716,818	1,523,235	2,734	(17,807,434)	
Interest income	3,071	42	2,006	5,414	443,931		454,464

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Other income	83,771	22,406	67,931	9,482	937,775	1,121,365
	\$ 85,360,075	\$ 76,039,873	\$ 23,641,988	\$ 16,791,072	\$ 1,590,527	\$ (17,807,434) \$ 185,616,101
Interest expense	\$ 2,505	\$ 194	\$ 34	\$ 20	\$ 23	\$ 2,776
Depreciation and amortization	\$ 23,984,346	\$ 8,237,698	\$ 2,194,515	\$ 1,392,868	\$ 163,451	\$ 35,972,878
Other expense	\$ 156,248	\$ 94,103	\$ 2,310	\$ 477	\$ 296,677	\$ 549,815
Segment income before tax	\$ 17,246,448	\$ 28,804,144	\$ 8,986,531	\$ 2,582,390	\$ (1,456,092)	\$ 56,163,421
Total assets	\$ 231,176,634	\$ 58,202,467	\$ 15,884,070	\$ 17,371,498	\$ 120,525,134	\$ 443,159,803
Capital expenditures for segment assets	\$ 15,877,274	\$ 5,006,928	\$ 1,802,924	\$ 1,145,264	\$ 511,944	\$ 24,344,334

(Continued)

Note 1: The Company organizes its reporting segments based on types of organizational business. The five reporting segments are segregated as below: domestic fixed communications business, mobile communications business, internet business, international fixed communications business and others.

Domestic fixed communications business - the provision of local telephone services, domestic long distance telephone services, broadband access, and related services;

Mobile communications business - the provision of mobile services, sales of mobile handsets and data cards, and related services;

Internet business - the provision of HiNet services and related services;

International fixed communications business - the provision of international long distance telephone services and related services;

Others - the provision of non-Telecom Services, and the corporate related items not allocated to reportable segments.

Note 2: Represents intersegment revenues from goods and services.

Note 3: Beginning from September 1, 2009, the Company early adopted the statement of Financial accounting standards No. 41 Operating Segments ( SFAS No. 41 ) and redefined its financial reporting operating segments into five operating segments: (a) domestic fixed communications business, (b) mobile communications business, (c) internet business, (d) international fixed communications business and (e) others. Prior to September 1, 2009, Chunghwa Telecom had six operating segments: (a) local operations, (b) domestic long distance operations, (c) international long distance operations, (d) cellular service operations, (e) internet and data operations and (f) all others. The redefinition of the Company's operating segments is expected to facilitate the management's ability to assess the performance of each operating segment by conforming the Company's operating segments to the international trends of other telecommunications companies in general.

(Concluded)

**TABLE 11****CHUNGHWA TELECOM CO., LTD.****PRODUCTS AND SERVICE REVENUES****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009****(Amount in Thousands of New Taiwan Dollars)**

	<b>Year Ended December 31</b>	
	<b>2010</b>	<b>2009</b>
Mobile services revenue	\$ 72,960,755	\$ 71,296,171
Local telephone services revenue	33,248,675	34,119,625
Leased line services revenue	27,530,898	27,494,829
Internet services revenue	21,143,817	20,800,937
International long distance telephone services revenue	12,785,515	12,878,411
Domestic long distance telephone services revenue	6,653,479	7,406,709
Others	12,087,804	10,043,590
	\$ 186,410,943	\$ 184,040,272

**Chunghwa Telecom Co., Ltd. and**

**Subsidiaries**

**Consolidated Financial Statements for the**

**Years Ended December 31, 2010 and 2009 and**

**Independent Auditors Report**

**INDEPENDENT AUDITORS' REPORT**

To the Board of Directors and Stockholders of

Chunghwa Telecom Co., Ltd.

We have audited the accompanying consolidated balance sheet of Chunghwa Telecom Co., Ltd. and subsidiaries ( the Company ) as of December 31, 2010 and 2009, and the related consolidated statements of income, changes in stockholders' equity, and cash flows then ended. These financial statements are the responsibility of the Company'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 standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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, such consolidated financial statements present fairly, in all material respects, the financial position of Chunghwa Telecom Co., Ltd. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers, and accounting principles generally accepted in the Republic of China.

As discussed in Note 3 to the consolidated financial statements, the Company early adopted the new Statements of Financial Accounting Standards No. 41, Operating Segments ( SFAS No. 41 ) beginning from September 1, 2009.

/s/ DELOITTE & TOUCHE  
Deloitte & Touche

Taipei, Taiwan

The Republic of China

March 13, 2011

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

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

## CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2010 AND 2009

(Amounts in Thousands of New Taiwan Dollars, Except Par Value Data)

	2010		2009	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>CURRENT ASSETS</b>				
Cash and cash equivalents (Notes 2 and 4)	\$ 90,875,222	20	\$ 73,259,490	16
Financial assets at fair value through profit or loss (Notes 2 and 5)	77,322		40,519	
Available-for-sale financial assets (Notes 2 and 6)	2,190,674	1	17,537,089	4
Held-to-maturity financial assets (Notes 2 and 7)	1,963,608		1,099,595	
Trade notes and accounts receivable, net of allowance for doubtful accounts of \$2,551,464 in 2010 and \$2,798,679 in 2009 (Notes 2 and 8)	14,502,507	3	11,973,180	3
Receivables from related parties (Note 28)	63,858		94,323	
Other monetary assets (Note 9)	2,139,662	1	1,839,745	
Inventories (Notes 2, 3, 10 and 21)	4,560,803	1	4,049,207	1
Deferred income taxes assets (Notes 2 and 25)	90,881		101,347	
Restricted assets (Notes 21, 29 and 30)	204,606		177,462	
Other current assets (Notes 10, 11, 21 and 28)	4,121,381	1	4,319,700	1
Total current assets	120,790,524	27	114,491,657	25
<b>LONG-TERM INVESTMENTS</b>				
Investments accounted for using equity method (Notes 2 and 12)	1,724,927		1,621,772	
Financial assets carried at cost (Notes 2 and 13)	2,734,187	1	2,536,560	1
Held-to-maturity financial assets (Notes 2 and 7)	8,408,090	2	3,929,662	1
Other monetary assets (Notes 14 and 30)	1,000,000		1,000,000	
Total long-term investment	13,867,204	3	9,087,994	2
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10, 15, 28 and 29)</b>				
Cost				
Land	104,136,053	23	102,131,565	23
Land improvements	1,554,776		1,535,066	
Buildings	67,457,269	15	63,184,398	14
Computer equipment	16,085,635	4	16,343,774	4
Telecommunications equipment	656,300,682	144	656,016,086	146
Transportation equipment	2,372,673		2,113,053	
Miscellaneous equipment	7,155,083	2	7,230,632	2
Total cost	855,062,171	188	848,554,574	189
Revaluation increment on land	5,800,701	1	5,800,909	1
	860,862,872	189	854,355,483	190
Less: Accumulated depreciation	567,192,234	125	557,020,560	124
	293,670,638	64	297,334,923	66
Construction in progress and advances related to acquisition of equipment	12,058,972	3	15,687,426	4



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Property, plant and equipment, net	305,729,610	67	313,022,349	70
<b>INTANGIBLE ASSETS (Note 2)</b>				
3G concession	5,988,870	1	6,737,479	2
Goodwill	283,054		282,182	
Others	583,669		597,417	
<b>Total intangible assets</b>	<b>6,855,593</b>	<b>1</b>	<b>7,617,078</b>	<b>2</b>
<b>OTHER ASSETS</b>				
Leased assets	411,374		362,700	
Idle assets (Note 2)	902,412		957,475	
Refundable deposits (Note 28)	1,462,011	1	1,550,825	1
Deferred income taxes assets (Notes 2 and 25)	472,260		482,931	
Restricted assets (Note 29)	34,731		23,524	
Others (Notes 27 and 28)	3,785,013	1	1,400,282	
<b>Total other assets</b>	<b>7,067,801</b>	<b>2</b>	<b>4,777,737</b>	<b>1</b>
<b>TOTAL</b>	<b>\$ 454,310,732</b>	<b>100</b>	<b>\$ 448,996,815</b>	<b>100</b>

	2010		2009	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>				
<b>CURRENT LIABILITIES</b>				
Short-term loans (Note 16)	\$ 115,000		\$ 763,000	
Short-term bills payable (Note 17)	229,896			
Financial liabilities at fair value through profit or loss (Notes 2 and 5)			828	
Trade notes and accounts payable (Note 21)	11,554,887	3	10,155,383	2
Payables to related parties (Note 28)	139,660		335,719	
Income tax payable (Notes 2 and 25)	4,567,944	1	4,311,545	1
Accrued expenses (Note 18)	18,404,002	4	17,448,914	4
Due to stockholders for capital reduction (Note 22)	19,393,617	4	9,696,808	2
Current portion of long-term loans (Note 20)	308,896		117,181	
Other current liabilities (Notes 10, 19, 21 and 28)	17,626,527	4	16,870,329	4
<b>Total current liabilities</b>	<b>72,340,429</b>	<b>16</b>	<b>59,699,707</b>	<b>13</b>
<b>NONCURRENT LIABILITIES</b>				
Long-term loans (Note 20)	3,148,259	1	221,252	
Deferred income (Note 2)	2,588,910		2,483,764	1
<b>Total noncurrent liabilities</b>	<b>5,737,169</b>	<b>1</b>	<b>2,705,016</b>	<b>1</b>
RESERVE FOR LAND VALUE INCREMENTAL TAX (Note 15)	94,986		94,986	
<b>OTHER LIABILITIES</b>				
Accrued pension liabilities (Notes 2 and 27)	1,290,783	1	1,216,940	
Customers deposits (Note 28)	5,780,746	1	5,998,035	2
Others	463,505		318,517	
<b>Total other liabilities</b>	<b>7,535,034</b>	<b>2</b>	<b>7,533,492</b>	<b>2</b>
<b>Total liabilities</b>	<b>85,707,618</b>	<b>19</b>	<b>70,033,201</b>	<b>16</b>
<b>EQUITY ATTRIBUTABLE TO STOCKHOLDERS OF THE PARENT (Notes 2, 6, 15 and 22)</b>				
Common stock - \$10 par value;				
Authorized: 12,000,000 thousand shares				
Issued: 7,757,447 thousand shares in 2010 and 9,696,808 thousand shares in 2009	77,574,465	17	96,968,082	21
<b>Additional paid-in capital</b>				
Capital surplus	169,496,289	37	169,496,289	38
Donated capital	13,170		13,170	
Equity in additional paid-in capital reported by equity-method investees	5,643		304	
<b>Total additional paid-in capital</b>	<b>169,515,102</b>	<b>37</b>	<b>169,509,763</b>	<b>38</b>
<b>Retained earnings</b>				
Legal reserve	61,361,255	14	56,987,241	13
Special reserve	2,675,894	1	2,675,894	
Unappropriated earnings	47,615,807	10	43,749,962	10
<b>Total retained earnings</b>	<b>111,652,956</b>	<b>25</b>	<b>103,413,097</b>	<b>23</b>
<b>Other adjustments</b>				
Cumulative translation adjustments	(102,885)		7,626	
Unrecognized net loss of pension	(40,182)		(43,750)	
Unrealized loss on financial instruments	176,048		(447,129)	

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Unrealized revaluation increment	5,803,238	1	5,803,446	1
Total other adjustments	5,836,219	1	5,320,193	1
Total equity attributable to stockholders of the parent	364,578,742	80	375,211,135	83
MINORITY INTERESTS IN SUBSIDIARIES	4,024,372	1	3,752,479	1
Total stockholders equity	368,603,114	81	378,963,614	84
TOTAL	\$ 454,310,732	100	\$ 448,996,815	100

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

(With Deloitte & Touche audit report dated March 13, 2011)

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009****(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2010		2009	
	Amount	%	Amount	%
NET REVENUES (Note 28)	\$ 202,430,022	100	\$ 198,361,220	100
OPERATING COSTS (Note 28)	115,332,391	57	112,735,948	57
<b>GROSS PROFIT</b>	<b>87,097,631</b>	<b>43</b>	<b>85,625,272</b>	<b>43</b>
OPERATING EXPENSES (Note 28)				
Marketing	22,469,186	11	22,292,965	11
General and administrative	4,012,099	2	3,764,974	2
Research and development	3,249,895	2	3,173,255	2
Total operating expenses	29,731,180	15	29,231,194	15
<b>INCOME FROM OPERATIONS</b>	<b>57,366,451</b>	<b>28</b>	<b>56,394,078</b>	<b>28</b>
NON-OPERATING INCOME AND GAINS (Note 28)				
Interest income	475,462	1	478,708	
Equity in earnings of equity method investees, net	150,683			
Valuation gain on financial instruments, net			98,654	
Foreign exchange gain, net			88,840	
Others	406,794		755,692	1
Total non-operating income and gains	1,032,939	1	1,421,894	1
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal of property, plant and equipment, net	216,124		6,903	
Loss on disposal of financial instruments, net	157,143		141,865	
Impairment loss on assets	125,416		109,968	
Interest expense	107,246		15,223	
Loss arising from natural calamities	18,553		148,747	
Foreign exchange loss, net	16,781			
Valuation loss on financial instruments, net	11,375			
Equity in losses of equity method investees, net			23,223	
Others	59,347		131,956	
Total non-operating expenses and losses	711,985		577,885	
<b>INCOME BEFORE INCOME TAX</b>	<b>57,687,405</b>	<b>29</b>	<b>57,238,087</b>	<b>29</b>

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INCOME TAX EXPENSE (Notes 2 and 25)	9,129,106	5	12,742,934	7
CONSOLIDATED NET INCOME	\$ 48,558,299	24	\$ 44,495,153	22

(Continued)

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF INCOME****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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

	2010		2009	
	Amount	%	Amount	%
<b>ATTRIBUTABLE TO</b>				
Stockholders of the parent	\$ 47,608,900	24	\$ 43,757,426	22
Minority interests	949,399		737,727	
	\$ 48,558,299	24	\$ 44,495,153	22
	<b>2010</b>		<b>2009</b>	
	<b>Before</b>		<b>Before</b>	
	<b>Income</b>	<b>After</b>	<b>Income</b>	<b>After</b>
	<b>Tax</b>	<b>Income</b>	<b>Tax</b>	<b>Income</b>
		<b>Tax</b>		<b>Tax</b>
<b>EARNINGS PER SHARE (Note 26)</b>				
Basic earnings per share	\$ 5.82	\$ 4.91	\$ 5.79	\$ 4.51
Diluted earnings per share	\$ 5.80	\$ 4.89	\$ 5.77	\$ 4.50

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

(With Deloitte &amp; Touche audit report dated March 13, 2011)

(Concluded)

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(In Thousands of New Taiwan Dollars)

Common Stock	Preferred Stock	Addi-	Retained Earnings			Cumulative Translation Adjustments	Other Adjustments			Minority Interests		
			Shares (Thousands)	Amount	Shares (Thousands)		Amount	tional Paid-in Capital	Legal Reserve		Special Reserve	Unappropriated Earnings
9,696,808	\$ 96,968,082	\$	\$ 179,206,270	\$ 52,859,566	\$ 2,675,894	\$ 41,276,274	\$ 29,474	\$ (84)	\$ (2,272,242)	\$ 5,813,187	\$ 3,137,450	\$
										(9,741)		
				4,127,675		(4,127,675)						
						(37,138,775)						
969,680	9,696,808		(9,696,808)									(128,833)
(969,680)	(9,696,808)											
						43,757,426						737,727
			301			(17,288)						
								(21,848)				(210)
								(43,666)				(1,079)
										1,825,113		7,424

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31,	9,696,808	96,968,082	169,509,763	56,987,241	2,675,894	43,749,962	7,626	(43,750)	(447,129)	5,803,446	3,752,479
l-in											
e										(208)	
of											
-				4,374,014		(4,374,014)					
											(695,797)
ests ion	(1,939,361)	(19,393,617)									
net 0						47,608,900					949,399
			5,339								
cy eld							(110,511)				(9,257)
it											
								3,568			1,526
s									623,177		26,022
31,	7,757,447	\$ 77,574,465	\$ 169,515,102	\$ 61,361,255	\$ 2,675,894	\$ 47,615,807	\$ (102,885)	\$ (40,182)	\$ 176,048	\$ 5,803,238	\$ 4,024,372

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

(With Deloitte & Touche audit report dated March 13, 2011)



## CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

(Amounts in Thousands of New Taiwan Dollars)

	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 48,558,299	\$ 44,495,153
Provision for doubtful accounts	229,583	462,329
Depreciation and amortization	34,063,939	36,319,957
Amortization of premium of financial assets	38,227	16,080
Loss on disposal of financial instruments, net	157,143	141,865
Valuation loss on inventory	16,910	56,055
Valuation loss (gain) on financial instruments, net	11,375	(98,654)
Loss on disposal of property, plant and equipment, net	216,124	6,903
Equity in loss (earnings) of equity investees, net	(150,683)	23,223
Dividends received from equity investees	35,862	89,279
Loss arising from natural calamities	18,553	148,747
Impairment loss on assets	125,416	109,968
Loss on disposal of leased assets		24
Deferred income taxes	26,568	1,098,630
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets held for trading	32,345	221,427
Trade notes and accounts receivable	(2,748,979)	(1,491,798)
Receivables from related parties	(36,063)	(70,392)
Other monetary assets	(288,397)	350,295
Inventories	(491,693)	(143,704)
Other current assets	(857,594)	510,031
Increase (decrease) in:		
Financial liabilities held for trading	(305)	145
Trade notes and accounts payable	2,236,752	(1,564,541)
Payables to related parties	(259,591)	(206,090)
Income tax payable	256,538	(1,377,091)
Accrued expenses	953,866	950,081
Other current liabilities	2,446,547	775,918
Deferred income	105,146	421,598
Accrued pension liabilities	73,023	(3,959,844)
<b>Net cash provided by operating activities</b>	<b>84,768,911</b>	<b>77,285,594</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of designated financial assets at fair value through profit or loss	(33,503)	(44,625)
Proceeds from disposal of designated financial assets at fair value through profit or loss	20,519	62,695
Acquisition of available-for-sale financial assets	(3,341,890)	(9,263,485)
Proceeds from disposal of available-for-sale financial assets	19,195,145	8,096,767
Acquisition of held-to-maturity financial assets	(6,917,141)	(2,099,875)
Proceeds from disposal of held-to-maturity financial assets	1,537,500	868,860
Acquisition of financial assets carried at cost	(384,074)	(142,455)



**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009****(Amounts in Thousands of New Taiwan Dollars)**

	<b>2010</b>	<b>2009</b>
Proceeds from disposal of financial assets carried at cost	\$ 59,384	\$ 302,157
Acquisition of investments accounted for using equity method	(35,039)	(559,725)
Acquisition of property, plant and equipment	(24,617,158)	(25,477,587)
Proceeds from disposal of property, plant and equipment	82,282	65,177
Increase in intangible assets	(277,778)	(274,406)
Decrease (increase) in restricted assets	30,586	(90,574)
Increase in other assets	(2,681,748)	(913,815)
 Net cash used in investing activities	 (17,362,915)	 (29,470,891)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in short-term loans	(648,000)	485,000
Increase in short-term bills payable	229,896	
Increase in long-term loans	3,238,000	400,000
Repayment of long-term loans	(119,424)	(123,645)
Decrease in customers deposits	(81,123)	(118,081)
Increase (decrease) in other liabilities	61,554	(199,126)
Cash dividends paid	(39,369,041)	(37,138,775)
Proceeds from exercise of employee stock option granted by subsidiary	97,073	58,289
Decrease in minority interests	(674,877)	(697,667)
Capital reduction	(9,696,808)	(19,115,554)
 Net cash used in financing activities	 (46,962,750)	 (56,449,559)
<b>EFFECT OF EXCHANGE RATE CHANGES</b>	<b>(63,533)</b>	<b>(6,693)</b>
 <b>EFFECT OF CHANGE ON CONSOLIDATED SUBSIDIARIES</b>	 <b>(2,763,981)</b>	 <b>612,874</b>
 <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	 <b>17,615,732</b>	 <b>(8,028,675)</b>
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>73,259,490</b>	<b>81,288,165</b>
 <b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	 <b>\$ 90,875,222</b>	 <b>\$ 73,259,490</b>
 <b>SUPPLEMENTAL INFORMATION</b>		
Interest paid (excluding capitalized interest expense)	\$ 98,484	\$ 13,480
 Income tax paid	 \$ 8,841,027	 \$ 13,023,872

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NON-CASH FINANCING ACTIVITIES

Current portion of long-term loans	\$ 308,896	\$ 117,181
Reclassification from common capital stock to due to stockholders for capital reduction	\$ 19,393,617	\$ 9,696,808

(Continued)

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(Amounts in Thousands of New Taiwan Dollars)

	2010	2009
<b>CASH AND NON-CASH INVESTING ACTIVITIES</b>		
Increase in property, plant and equipment	\$ 23,250,030	\$ 25,150,339
Payables to suppliers	1,356,316	359,280
Prepayments for equipment	10,812	(32,032)
	\$ 24,617,158	\$ 25,477,587

The acquisition of Yao Yong Real Property Co., Ltd. ( YYRP ) by Light Era Development Co., Ltd. (LED) was made on March 1, 2010. The following table presents the allocation of acquisition costs of YYRP to assets acquired and liabilities assumed based on their fair values on the basis of the final data obtained on April 12, 2010:

Cash and cash equivalents	\$ 29,686
Other monetary assets	13,439
Deferred income tax assets	5,603
Property, plant, and equipment	2,781,547
Customers deposits	(34,857)
Accrued expenses	(1,312)
Other current liabilities	(1,311)
Total	2,792,795
Percentage of ownership	100%
	2,792,795
Goodwill	872
Acquisition costs of acquired subsidiary	\$ 2,793,667

The acquisition of InfoExplorer Co., Ltd. ( IFE ) was made on January 20, 2009. The following table presents the allocation of acquisition costs of IFE to assets acquired and liabilities assumed based on their fair values on the basis of the final data on May 7, 2009:

Cash and cash equivalents	\$ 457,990
Receivables	13,479
Other current assets	14,792
Property, plant, and equipment	40,221
Identifiable intangible assets	53,001
Refundable deposits	2,468
Other assets	2,338
Payables	(83,319)
Income tax payable	(246)

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Other current liabilities	(153)
Total	500,571
Percentage of ownership	49.07%
	245,630
Goodwill	37,870
Acquisition costs of acquired subsidiary (cash prepaid for long-term investments in December 2008)	\$ 283,500

(Continued)

**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

(Amounts in Thousands of New Taiwan Dollars)

The acquisition of Chunghwa Investment Co., Ltd. ( CHI ) and its subsidiaries was made on September 9, 2009. The following table presents the allocation of acquisition costs of Chunghwa Investment Co., Ltd. and its subsidiaries to assets acquired and liabilities assumed based on their fair values on the basis of the final data performed:

Cash and cash equivalents	\$ 913,593
Financial assets at fair value through profit or loss	51,357
Available-for-sale financial assets	568,377
Trade notes and accounts receivable	76,258
Inventories	60,040
Other current assets	19,429
Investments accounted for using equity method	57,339
Financial assets carried at cost	155,714
Property, plant, and equipment	90,278
Identifiable intangible assets	33,662
Other assets	22,462
Trade notes and accounts payable	(33,665)
Accrued expense	(16,496)
Income tax payable	(1,289)
Short-term loans	(20,000)
Long-term loans	(24,238)
Other liabilities	(1,115)
Subtotal	1,951,706
Minority interests	(100,071)
Total	1,851,635
Percentage of additional ownership	40%
	740,654
Goodwill	18,055
Acquisition costs of acquired subsidiary paid in cash	\$ 758,709

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

(With Deloitte & Touche audit report dated March 13, 2011)

(Concluded)

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**CHUNGHWA TELECOM CO., LTD. AND SUBSIDIARIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009**

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

**1. GENERAL**

Chunghwa Telecom Co., Ltd. ( Chunghwa ) was incorporated on July 1, 1996 in the Republic of China ( ROC ) pursuant to the Article 30 of the Telecommunications Act. Chunghwa is a company limited by shares and, prior to August 2000, was wholly owned by the Ministry of Transportation and Communications ( MOTC ). Prior to July 1, 1996, the current operations of Chunghwa were carried out under the Directorate General of Telecommunications ( DGT ). The DGT was established by the MOTC in June 1943 to take primary responsibility in the development of telecommunications infrastructure and to formulate policies related to telecommunications. On July 1, 1996, the telecom operations of the DGT were spun-off to as Chunghwa which continues to carry out the business and the DGT continues to be the industry regulator.

As the dominate telecommunications service provider of fixed-line and Global System for Mobile Communications ( GSM ) in the ROC, Chunghwa is subject to additional regulations imposed by ROC.

Effective August 12, 2005, the MOTC had completed the process of privatizing Chunghwa by reducing the government ownership to below 50% in various stages. In July 2000, Chunghwa received approval from the Securities and Futures Commission (the SFC ) for a domestic initial public offering and its common shares were listed and traded on the Taiwan Stock Exchange (the TSE ) on October 27, 2000. Certain of Chunghwa s common shares had been sold, in connection with the foregoing privatization plan, in domestic public offerings at various dates from August 2000 to July 2003. Certain of Chunghwa s common shares had also been sold in an international offering of securities in the form of American Depository Shares ( ADS ) on July 17, 2003 and were listed and traded on the New York Stock Exchange (the NYSE ). The MOTC sold common shares of Chunghwa by auction in the ROC on August 9, 2005 and completed the second international offering on August 10, 2005. Upon completion of the share transfers associated with these offerings on August 12, 2005, the MOTC owned less than 50% of the outstanding shares of Chunghwa and completed the privatization plan.

Senao International Co., Ltd. ( SENAO ) was incorporated in 1979. SENAO engages mainly in selling and maintaining mobile phones and its peripheral products. Chunghwa acquired 31.33% shares of SENAO on January 15, 2007 and has substantial control in SENAO by obtaining half of the seats of the board of directors of SENAO on April 12, 2007. On March 27, 2009, the board of directors of Chunghwa resolved to purchase 48,000 thousand common shares of SENAO through SENAO s private placement. However, Chunghwa and SENAO did not complete the required procedures within the legal payment period; therefore, Chunghwa and SENAO decided to discontinue the private placement.

Senao International (Samoa) Holding Ltd. (SIS) was established by SENAO in 2009. SIS will engage mainly in international investment activities; however, no capital is injected in SIS and SIS is not on operation stage yet by the end of 2009.

Senao International HK Limited (SIHK) was established by SIS in 2009. SIHK will engage mainly in the sales of telecommunication business; however, no capital is injected in SIHK and SIHK is not on operation stage yet by the end of 2009.

Chunghwa established Chunghwa International Yellow Pages Co., Ltd. ( CIYP ) in January 2007. CIYP engages mainly in yellow pages sales and advertisement services.



CHIEF Telecom Inc. ( CHIEF ) was incorporated in 1991. CHIEF engages mainly in internet communication and internet data center ( IDC ) service. Chunghwa acquired 70% of the shares of CHIEF on September 2006.

Unigate Telecom Inc. ( Unigate ) was established by CHIEF in 1999. Unigate engages mainly in telecommunication and information software service.

CHIEF Telecom (Hong Kong) Limited ( CHIEF (HK) ) was established by CHIEF in 2003. CHIEF (HK) engages mainly in internet communication and internet data center ( IDC ) service. On August 20, 2009, the stockholders of CHIEF (HK) resolved to dissolve CHIEF (HK). CHIEF (HK) completed the liquidation procedures and obtained the required approval from local government on September 24, 2010.

Chief International Corp. ( CIC ) was established by CHIEF in 2008. CIC engages mainly in internet communication and internet data center ( IDC ) services.

Chunghwa System Integration Co., Ltd. ( CHSI ) was incorporated in 2002. CHSI engages mainly in providing communication and information integration services. Chunghwa has acquired 100% shares of CHSI in December 2007.

Concord Technology Co., Ltd. ( Concord ), a subsidiary of CHSI, was incorporated in 2006. Concord engages mainly in investment.

Glory Network System Service (Shanghai) Co., Ltd. ( GNSS (Shanghai) ), a subsidiary of Concord, was incorporated in 2006. GNSS (Shanghai) engages mainly in planning and designing of systems and communications and information integration services. On March 20, 2009, the stockholders of CHSI resolved to dissolve GNSS (Shanghai). On July 23, 2009, the board of directors of GNSS (Shanghai) revoked the original resolution of dissolution. GNSS (Shanghai) is still operating as of December 31, 2010.

Chunghwa Telecom Global, Inc. ( CHTG ) was incorporated in 2004. CHTG engages mainly in international data and internet services and long distance call wholesales to carriers. Chunghwa acquired 100% shares of CHTG in December 2007.

Donghwa Telecom Co., Ltd. ( DHT ) was incorporated in 2004. DHT engages mainly in international telecommunications, IP fictitious internet and internet transfer services. Chunghwa acquired 100% shares of DHT in December 2007.

Spring House Entertainment Inc. ( SHE ) was incorporated in 2000. SHE engages mainly in network services, producing digital entertainment contents and broadband visual sound terrace development. SHE was an equity method investee before Chunghwa obtained control interest over it in January 2008.

Chunghwa established Light Era Development Co., Ltd. ( LED ) in January 2008. LED engages mainly in development of property for rent and sale.

Yao Yong Real Property Co., Ltd. ( YYRP ) was incorporated in 2002. YYRP engages mainly in real estate management and leasing business. LED acquired 100% ownership interest of YYRP on March 1, 2010.

Chunghwa established Chunghwa Telecom Singapore Pte. Ltd. ( CHTS ) in July 2008. CHTS engages mainly in telecommunication wholesale, internet transfer services, international data, long distance call wholesales to carriers and the world satellite business.

Chunghwa established Chunghwa Telecom Japan Co., Ltd. ( CHTJ ) in October 2008. CHTJ engages mainly in telecommunication business, information processing and information providing service, development and sale of software and consulting services in telecommunication.

InfoExplorer Co., Ltd. ( IFE ) was incorporated in 2008. IFE engages mainly in information system planning and maintenance, software development, and information technology consultation services. Chunghwa acquired 49% shares of IFE on January 5, 2009 and has control over IFE by obtaining half of seats of the board of directors of IFE on January 20, 2009.

InfoExplorer International Co., Ltd. (IESA) was established by IFE in 2010. IESA will engage mainly in international investment activities and have not yet begun operation as of December 31, 2010.

InfoExplorer (Hong Kong) Co., Limited (IEHK) was established by IESA in 2010. IEHK will engage mainly in international investment activities and have not yet begun operation as of December 31, 2010.

Chunghwa Investment Co., Ltd. ( CHI ) was established in 2002. CHI engages mainly in professional investing in telecommunication business, and telecommunication valued-added services. Chunghwa acquired additional 40% shares of CHI on September 9, 2009 for \$758,709 thousand. Chunghwa increased its ownership interest in CHI from 49% to 89% and became the parent company of CHI. As a result of additional acquisition of CHI, the accounts of CHI and its subsidiaries are included in the consolidated financial statements starting from September 9, 2009.

Chunghwa Precision Test Tech. Co., Ltd. ( CHPT ) was established in 2005 as the subsidiary of CHI. CHPT engages mainly in production and marketing of semiconductor testers and printed circuit board.

Chunghwa Precision Test Tech. USA Corporation (CHPT (US)) was established by CHPT in 2010. CHPT (US) engages mainly in production and marketing in semiconductor testers and printed circuit board.

Chunghwa Investment Holding Company ( CIHC ) was established by CHI in 2004. CIHC engages mainly in investment activities.

CHI One Investment Co., Ltd. (COI) was established by CHI in 2009. COI engages mainly in investment activities.

Chunghwa has established New Prospect Investments Holdings Ltd. ( New Prospect ) and Prime Asia Investments Group Ltd. ( Prime Asia ) in March 2006. Both holding companies are operating as investment companies and Chunghwa has 100% ownership right in an amount of US\$1 in each holding company as of December 31, 2010.

Chunghwa Hsingta Company Ltd. (CHC) was established by Prime Asia in December 2010. CHC will engage mainly in investment activities, but no capital has been injected as of December 31, 2010.

As of December 31, 2010 and 2009, Chunghwa and its subsidiaries ( the Company ) had 28,134 and 27,915 employees, respectively.

The following diagram presents information regarding the relationship and ownership percentages between Chunghwa and its subsidiaries as of December 31, 2010:

Chunghwa together with its subsidiaries are hereinafter referred to collectively as the Company . Minority interests in the aforementioned subsidiaries are presented as a separate component of stockholders' equity.

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

The accompanying consolidated financial statements were prepared in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the ROC ( ROC GAAP ). The preparation of consolidated financial statements requires management to make reasonable estimates and assumptions on allowances for doubtful accounts, valuation allowances on inventories, depreciation of property, plant and equipment, impairment of assets, bonuses paid to employees, directors and supervisors, pension plans and income tax, etc. These estimates and assumptions are inherently uncertain and actual results may differ significantly. The significant accounting policies are summarized as follows:

### **Principle of Consolidation**

The Company accounts for business combinations in accordance with the requirements of the Statement of Financial Accounting Standards No. 25, Business Combinations .

The accompanying consolidated financial statements include the accounts of all directly and indirectly majority owned subsidiaries of Chunghwa, and the accounts of investees in which Chunghwa's ownership percentage is less than 50% but over which Chunghwa has a controlling interest. All significant intercompany transactions and balances are eliminated upon consolidation.

The consolidated financial statements for the year ended December 31, 2010 include the accounts of Chunghwa, SENAO, SIS, SIHK, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, YYRP, CHTS, CHTJ, IFE, IESA, IEHK, CHI, CHPT, CHPT (US), CIHC, COI, New Prospect, Prime Asia and CHC. The consolidated financial statements for the year ended December 31, 2009 include the accounts of Chunghwa, SENAO, SIS, SIHK, CIYP, CHIEF, Unigate, CHIEF (HK), CIC, CHSI, Concord, GNSS (Shanghai), CHTG, DHT, SHE, LED, CHTS, CHTJ, IFE, CHI, CHPT, CIHC, COI, New Prospect and Prime Asia.

For foreign subsidiaries using their local currency as their functional currency, assets and liabilities are translated into New Taiwan dollars at the exchange rates in effect on the balance sheet date; stockholders' equity accounts are translated into New Taiwan dollars at historical exchange rates and income statement accounts are translated into New Taiwan dollars at average exchange rates during the period.

The entities in the Consolidated Financial Statements of Affiliated Enterprises are the same as those in the consolidated financial statements; thus, no consolidated financial statements of Chunghwa and affiliates will be compiled. The information needed in the consolidated financial statements of Chunghwa and affiliates is enclosed in the consolidated financial statements.

#### **Classification of Current and Noncurrent Assets and Liabilities**

Current assets are assets expected to be converted to cash, sold or consumed within one year from the balance sheet date. Current liabilities are obligations expected to be settled within one year from the balance sheet date. Assets and liabilities that are not classified as current are noncurrent assets and liabilities, respectively.

LED engages mainly in development of property for rent and sale. The assets and liabilities of LED related to property development within its operating cycle which is over one year are classified as current items. For assets and liabilities related to property development over its operating cycle are classified as noncurrent items.

#### **Cash Equivalents**

Cash equivalents are commercial paper and treasury bills purchased with maturities of three months or less from the date of acquisition. The carrying amount approximates fair value.

#### **Financial Assets and Liabilities at Fair Value Through Profit or Loss**

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss ( FVTPL ) include financial assets or financial liabilities held for trading and those designated as at FVTPL on initial recognition. The Company recognizes a financial asset or a financial liability when the Company becomes a party to the contractual provisions of the financial instrument. A financial asset is derecognized when the Company loses control of its contractual rights over the financial asset. A financial liability is derecognized when the obligation specified in the relevant contract is discharged, cancelled or expired.

Financial instruments at FVTPL are initially measured at fair value. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized as expenses as incurred. Financial assets or financial liabilities at FVTPL are remeasured at fair value, subsequent with changes in fair value recognized in earnings. Cash dividends received subsequently (including those received in the period of investment) are recognized as income. On derecognition of a financial asset or a financial liability, the difference between its carrying amount and the sum of the consideration received and receivable or consideration paid and payable is recognized in earnings. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

Derivatives that do not meet the criteria for hedge accounting are classified as financial assets or financial liabilities held for trading. When the fair value is positive, the derivative is recognized as a financial asset; when the fair value is negative, the derivative is recognized as a financial liability.

Fair values of financial assets and financial liabilities at the balance sheet date are determined as follows: Forward exchange contracts and currency swap contracts are estimated by valuation techniques; bonds are based on prices quoted by GreTai Securities Market (GTSM).

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

Available-for-sale financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Changes in fair value from subsequent remeasurement are reported as a separate component of stockholders' equity. The corresponding accumulated gains or losses are recognized in earnings when the financial asset is derecognized from the balance sheet. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

The recognition and derecognition of available-for-sale financial assets are similar to those of financial assets at FVTPL.

Fair values are determined as follows: Listed stocks - at closing prices at the balance sheet date; open-end mutual funds - at net asset values at the balance sheet date; bonds - quoted at prices provided by the Taiwan GreTai Securities Market; and financial assets and financial liabilities without quoted prices in an active market - at values determined using valuation techniques.

Cash dividends are recognized in earnings on the ex-dividend date, except for the dividends declared before acquisition which are treated as a reduction of investment cost. Stock dividends are recorded as an increase in the number of shares and do not affect investment income. The total number of shares subsequent to the increase of stock dividends is used for recalculate cost per share. The difference between the initial cost of a debt instrument and its maturity amount is amortized using the effective interest method, with the amortized interest recognized in profit or loss.

An impairment loss is recognized when there is objective evidence that the financial asset is impaired. If, in a subsequent period, the amount of the impairment loss decreases, for equity securities, the previously recognized impairment loss is reversed to the extent to the decrease and recorded as an adjustment to stockholders' equity; for debt securities, the amount of the decrease is recognized in earnings, provided that the decrease is clearly attributable to an event which occurred after the impairment loss was recognized.

#### **Held-to-maturity Financial Assets**

Held-to-maturity financial assets are carried at amortized cost using the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Gains and losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using trade date accounting.

If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease. The reversal may not result in a carrying amount that exceeds the amortized cost that would have been determined as if no impairment loss had been recognized.

#### **Revenue Recognition, Account Receivables and Allowance for Doubtful Receivables**

Revenues are recognized when they are realized or realizable and earned. Revenues are realized or realizable and earned when the Company has persuasive evidence of an arrangement, the goods have been delivered or the services have been rendered to the customer, the sales price is fixed or determinable and collectability is reasonably assured.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts agreed between the Company and the customers for goods sold in the normal course of business, net of sales discounts and volume rebates. For trade receivables due within one year from the balance sheet date, as the nominal value of the consideration to be received approximates its fair value and transactions are frequent, fair value of the consideration is not determined by discounting all future receipts using an imputed rate of interest.

Usage revenues from fixed-line services (including local, domestic long distance and international long distance), cellular services, Internet and data services, and interconnection and call transfer fees from other telecommunications companies and carriers are billed in arrears and are recognized based upon minutes of traffic processed when the services are provided in accordance with contract terms.

Other revenues are recognized as follows: (a) one-time subscriber connection fees (on fixed-line services) are deferred and recognized over the average expected customer service periods, (b) monthly fees (on fixed-line services, wireless and Internet and data services) are accrued every month, and (c) prepaid services (fixed line, cellular and Internet) are recognized as income based upon actual usage by customers or when the right to use those services expires.

Where the Company enters into transactions which involve both the provision of air time bundled with products such as 3G data card and handset, total consideration received from handsets in these arrangements are allocated and measured using units of accounting within the arrangement based on relative fair values limited to the amount that is not contingent upon the delivery of other items or services.

Where the Company sells products to third party cellular phone stores the Company records the direct sale of the products, typically handsets, as gross revenue when the Company is the primary obligor in the arrangement and when title is passed and the products are accepted by the stores.

An allowance for doubtful receivables is provided based on a review of the collectability of accounts receivable. The Company determines the amount of allowance for doubtful receivables by examining the aging analysis of outstanding accounts receivable as well as historical collection experience.

#### **Inventories**

Inventories including merchandise and work-in-process are stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. Net realizable value is the estimated selling price of inventories less all estimated costs of completion and costs necessary to make the sale. The calculation of the cost of inventory is derived using the weighted-average method.

#### **Buildings and Lands Consigned to Constructing Firm**

Inventories of LED are stated at the lower of cost or net realizable value item by item, except for those that may be appropriate to group as similar items or related inventories. Land acquired before the construction has been classified as land held for development, and then reclassified as land held under development after LED begins its construction project. Prepayment for licensing and other miscellaneous costs have been capitalized as part of inventory.

When using the completed-contract method for its construction projects, LED recognizes the proceeds from customers as advances from customers for land and building before the construction project is completed. After completion of the construction project and ownership is transferred to the customers, LED recognizes the relevant revenues.

When using percentage-of-completion method, profits are recorded based on LED's estimates of the percentage of completion of individual contracts, commencing when the work performed under the contracts reaches a point where the final costs can be estimated with reasonable accuracy. Changes in job performance, job conditions and estimated profitability may result in revisions to costs and income and are recognized in the period in which the revisions are determined. If the current estimates of total contract revenue and contract cost indicate a loss, a provision for the entire loss on the contract is recorded in the period in which it becomes evident.

The percentage of completion is measured based on the completion of the contract milestones predetermined by the architects and engineers. Construction in progress is stated at cost plus (less) amounts associated with estimated profit (loss) recognized on the basis of the percentage-of-completion method.

#### **Investments Accounted for using Equity Method**

Investments in companies in which the Company exercises significant influence over the operating and financial policy decisions are accounted for by the equity method. Under the equity method, the investment is initially stated at cost and subsequently adjusted for its proportionate share in the net earnings of the investee companies. Any cash dividends received are recognized as a reduction in the carrying value of the investments.

Gains or losses on sales from the Company to equity method investees wherein Chunghwa exercises significant influence over these equity investees are deferred in proportion to the Company's ownership percentage in the investees until such gains or losses are realized through transactions with third parties. Gains or losses on sales from equity method investees to Chunghwa are deferred in proportion to Chunghwa's ownership percentages in the investees until they are realized through transactions with third parties.

When the Company subscribes for additional investees shares at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment in the investee differs from the amount of the Company share of the investee's equity. The Company records such a difference as an adjustment to long-term investments with the corresponding amount charged or credited to additional paid-in capital to the extent available, with the balance charged to retained earnings.

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

Investments in equity instruments that do not have a quoted price in an active market and whose fair values cannot be reliably measured such as non-publicly traded stocks are measured at their original cost. If there is objective evidence which indicates that a financial asset is impaired, a loss is recognized. A subsequent reversal of such impairment loss is not allowed.

The accounting treatment for cash dividends and stock dividends arising from financial assets carried at cost is the same as that for cash dividends and stock dividends arising from available-for-sale financial assets.

#### **Property, Plant and Equipment**

Property, plant and equipment are stated at cost plus a revaluation increment, if any, less accumulated depreciation and accumulated impairment loss. The interest costs that are directly attributable to the acquisition, construction of a qualifying asset are capitalized as property, plant and equipment. Major renewals and betterments are capitalized, while maintenance and repairs are expensed as incurred.

When an indication of impairment is identified, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, net of depreciation, as if no impairment loss had been recognized.

An impairment loss on a revalued asset is charged to unrealized revaluation increment under equity to the extent available, with the balance is recognized as a loss in earnings. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment loss could be reversed and recognized as a gain, with the remaining credited to unrealized revaluation increment .

Depreciation expense is computed using the straight-line method over the following estimated service lives: land improvements - 10 to 30 years; buildings - 5 to 60 years; computer equipment - 2 to 15 years; telecommunication equipment - 2 to 30 years; transportation equipment - 3 to 10 years; and miscellaneous equipment - 2 to 12 years.

Upon sale or disposal of property, plant and equipment, the related cost, accumulated depreciation, accumulated impairment losses and any unrealized revaluation increment are deducted from the corresponding accounts, and any gain or loss recorded as non-operating gains or losses in the year of sale or disposal.

#### **Intangible Assets**

Intangible assets mainly include 3G Concession, computer software, patents and goodwill.

The 3G Concession is valid through December 31, 2018. The 3G Concession fees is amortized on a straight-line basis from the date operations commence through the date the license expires. Computer software costs and patents are amortized using the straight-line method over the estimated useful lives of 2-20 years.

Expenditure on research shall be expensed as incurred. Development Costs are capitalized when those costs meet relative criteria and are amortized using the straight-line method over estimated useful lives. Development costs that do not meet relative criteria shall be expensed as incurred.

When an indication of impairment is identified other than goodwill, any excess of the carrying amount of an asset over its recoverable amount is recognized as a loss. If the recoverable amount increases in a subsequent period, the amount previously recognized as impairment would be reversed and recognized as a gain. However, the adjusted amount may not exceed the carrying amount that would have been determined, as if no impairment loss had been recognized.

Goodwill represents the excess of the consideration for acquisition over the fair value of identifiable net assets acquired. Goodwill is tested for impairment annually. If an event occurs or circumstances change which indicates that the fair value of goodwill is below its carrying amount, an impairment loss is recognized. A subsequent reversal of such impairment loss is not allowed.

#### **Idle Assets**

Idle assets are carried at the lower of recoverable amount or carrying amount.

#### **Pension Costs**

For defined benefit pension plans, net periodic pension benefit cost is recorded in the consolidated statement of income and includes service cost, interest cost, expected return on plan assets, amortization of prior service costs, amortization of pension gains (losses) and curtailment or settlement gains (losses).



The Company recognizes into income, any unrecognized actuarial net gains or losses that exceed 10% of the larger of projected benefit obligations or plan assets, defined as the corridor. Amounts inside this 10% corridor are amortized over the average remaining service life of active plan participants. Actuarial net gains and losses occur when actual experience differs from any of the many assumptions used to value the plans. Differences between the expected and actual returns on plan assets and changes in interest rate, which affect the discount rate used to value projected plan obligations, can have a significant impact on the calculation of pension net gains and losses from year to year.

The curtailments and settlement gains (losses) resulted from the Chunghwa's early retirement programs. Curtailment/settlement gains or losses are equal to the changes of underfunded status plus the a pro rata portion of the unrecognized prior service cost, unrecognized net gains (losses), and unrecognized transition obligations/assets, before the settlement/curtailment event multiplied by the percentage reduction in projected benefit obligation.

The projected benefit obligation represents the actuarial present value of benefits expected to be paid upon retirement based on estimated future compensation levels.

The carrying amount of accrued pension liability should be the sum of the following amounts: (a) projected benefit obligation as of balance sheet date, (b) minus (plus) unamortized actuarial loss (gain), (c) minus unamortized prior service cost, and (d) minus the fair value of plan assets. If the amount determined by above calculation is negative, it is viewed as prepaid pension cost. The prepaid pension cost is measured at the lower of: (a) the amount determined above, and (b) the sum of the following amounts: (i) unamortized actuarial loss, (ii) unamortized prior service cost, and (iii) the present value of refunds from the plan or reductions in future contributions to the plan.

The measurement of benefit obligations and net periodic cost (income) is based on estimates and assumptions approved by the company's management such as compensation, age and seniority, as well as certain assumptions, including estimates of discount rates, expected return on plan assets and rate of compensation increases.

For employees under defined contribution pension plans, pension costs are recorded based on the actual contributions made to employees individual pension accounts during their service periods.

#### **Expense Recognition**

The costs of providing services are recognized as incurred.

#### **Share-based Compensation**

Employee stock options granted on or after January 1, 2008 are accounted for using fair value method in accordance with under SFAS No. 39, Accounting for Share-based Payment. The adoption of SFAS No. 39 did not have any impact on the Company.

Employee stock options granted between January 1, 2004 and December 31, 2007 were accounted for under the interpretations issued by the Accounting Research and Development Foundation (the ARDF). The Company adopted the intrinsic value method, under which compensation cost was amortized over the vesting period.

### **Income Tax**

The Company applies inter-period allocations for its income tax, whereby deferred income tax assets and liabilities are recognized for the tax effects of temporary differences and unused tax credits. Valuation allowances are provided to the extent, if any, that it is more likely than not that deferred income tax assets will not be realized. A deferred tax asset or liability is classified as current or noncurrent in accordance with the classification of its related asset or liability. However, if a deferred tax asset or liability does not relate to an asset or liability in the financial statements, then it is classified as either current or noncurrent based on the expected length of time before it is realized or settled.

Any tax credits arising from purchases of machinery, equipment and technology, research and development expenditures, personnel training, and investments in important technology-based enterprises are recognized using the flow-through method.

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

Income taxes (10%) on undistributed earnings is recorded in the year of stockholders approval which is the year subsequent to the year the earnings are generated.

### **Foreign-currency Transactions**

Foreign-currency transactions other than derivative contracts are recorded in New Taiwan dollars at the rates of exchange in effect when the transactions occur. Exchange gains or losses derived from foreign-currency transactions or monetary assets and liabilities denominated in foreign currencies are recognized in earnings. At the balance sheet date, monetary assets and liabilities denominated in foreign currencies are revalued at prevailing exchange rates with the resulting gains or losses recognized in earnings.

At the balance sheet date, foreign-currency nonmonetary assets (such as equity instruments) and liabilities that are measured at fair value are revalued using prevailing exchange rates. When a gain or loss on a nonmonetary item is recognized in stockholders' equity, any exchange component of that gain or loss shall be recognized in stockholders' equity. Conversely, when a gain or loss on a non-monetary item is recognized in earnings, any exchange component of that gain or loss shall be recognized in earnings.

Foreign-currency nonmonetary assets and liabilities that are carried at cost continue to be stated at exchange rates at trade dates.

The financial statements of foreign equity investees and consolidated subsidiaries are translated into New Taiwan dollars at the following exchange rates. Assets and liabilities - spot rates at year-end; stockholders' equity - historical rates, income and expenses - average rates during the year.

The resulting translation adjustments of financial statements shall be recorded as cumulative translation adjustments, a separate component of stockholders' equity.

### **Hedge Accounting**

A hedging relationship qualifies for hedge accounting only if, all of the following conditions are met: (a) at the inception of the hedge, there is formal documentation of the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge; (b) the hedge is expected to be highly effective in achieving offsetting changes in fair value attributable to the hedged risk, consistently with the risk management strategy documented for that particular hedging relationship; (c) the effectiveness of the hedge can be reliably measured; (d) the hedge is assessed on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

The gain or loss from remeasuring the hedging instrument at fair value and the gain or loss on the hedged item attributable to the hedged risk are recognized in earnings.

The hedging items that do not meet the criteria for hedge accounting were classified as financial assets or financial liabilities at fair value through profit or loss.

### 3. EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES

The Company early adopted the Statement of Financial Accounting Standards No. 41 Operating Segments ( SFAS No. 41 ) starting from September 1, 2009. This Statement supersedes the Statement of Financial Accounting Standards No. 20 Segment Reporting . For comparative purpose, the segment information for the year ended December 31, 2009 was presented in accordance with SFAS No. 41.

The Company adopted the newly-revised Statements of Financial Accounting Standards No. 10, Accounting for Inventories, ( SFAS No. 10 ) beginning from January 1, 2009, which requires inventories to be stated at the lower of cost (weighted-average cost) or net realizable value item by item, except for those that may be appropriate to group items of similar or related inventories. The inventory-related incomes and expenses shall be classified as operating cost.

### 4. CASH AND CASH EQUIVALENTS

	December 31	
	2010	2009
<b>Cash</b>		
Cash on hand	\$ 125,469	\$ 142,319
Bank deposits	7,046,894	8,198,905
Negotiable certificate of deposit, annual yield rate - ranging from 0.52%-0.91% and 0.25%-0.37% for 2010 and 2009, respectively.	54,265,000	63,350,000
	61,437,363	71,691,224
<b>Cash equivalents</b>		
Commercial paper, annual yield rate - ranging from 0.41%- 0.48% and 0.19%-0.24% for 2010 and 2009, respectively	26,549,542	1,568,266
Treasury bills, annual yield rate - ranging from 0.42%-0.43%	2,888,317	
	29,437,859	1,568,266
	\$ 90,875,222	\$ 73,259,490

### 5. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2010	2009
<b>Derivatives - financial assets</b>		
Currency swap contracts	\$ 34,278	\$ 6,677
Forward exchange contracts	255	
Designated financial assets at fair value through profit or loss	34,533	6,677
Convertible bonds	42,789	33,842
	\$ 77,322	\$ 40,519

Derivatives - financial liabilities

Forward exchange contracts

\$

\$

828

Chunghwa entered into investment management agreements with well-known financial institutions (fund managers) to manage its investment portfolios in 2006. The investment portfolios managed by these fund managers aggregated to an original amount of US\$100,000 thousand. Chunghwa terminated the investment management agreements on March 2, 2009 and asked fund managers to dispose all the investment portfolios. The fund managers had disposed all investment portfolios before June 23, 2009 and returned the proceeds to Chunghwa.

The Company entered into currency swap contracts, forward exchange contracts and index future contracts to reduce its exposure to foreign currency risk and variability in operating results due to fluctuations in exchange rates. However, the aforementioned derivatives did not meet the criteria for hedge accounting and were classified as financial assets or financial liabilities held for trading.

Outstanding currency swap contracts and forward exchange contracts as of December 31, 2010 and 2009 were as follows:

	Currency	Maturity Period	Contract Amount (In Thousands)
<b>December 31, 2010</b>			
Currency swap contracts	US\$/NT\$	2011.01-2011.03	USD25,000/NTD767,274
Forward exchange contracts - buy	NT\$/US\$	2011.01	NTD17,965/USD600
<b>December 31, 2009</b>			
Currency swap contracts	US\$/NT\$	2010.01-2010.04	USD45,000/NTD1,448,160
Forward exchange contracts - buy	NT\$/US\$	2010.01	NT\$86,657/USD2,680

The convertible bonds held by CHI are hybrid financial instruments that are designated to be measured at fair value and changes in fair value are recognized in earnings.

Net gains arising from financial assets and liabilities at fair value through profit or loss for the years ended December 31, 2010 and 2009 were NT\$65,177 thousand (including realized settlement gain of NT\$37,325 thousand and valuation gain of NT\$27,852 thousand), and NT\$72,315 thousand (including realized settlement loss of NT\$26,328 thousand and valuation gain of NT\$98,643 thousand), respectively.

## 6. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2010	2009
Open-end mutual funds	\$ 1,561,283	\$ 16,831,657
Domestic listed stocks	527,228	499,987
Corporate bonds	102,163	103,323
Real estate investment trust fund		102,122
	\$ 2,190,674	\$ 17,537,089

Movements of unrealized gain (loss) on available-for-sale financial assets were as follows:

	Year Ended December 31	
	2010	2009
Balance, beginning of year	\$ (447,129)	\$ (2,264,932)
Impact on acquisition of subsidiaries		2,147
Recognized in stockholders' equity	204,460	1,685,169
Transferred to profit or loss	418,717	130,487
Balance, end of year	\$ 176,048	\$ (447,129)

As a result of global economic and financial crisis, Chunghwa determined that the impairment losses of available-for-sale financial assets were other-than-temporary in nature, and recorded impairment losses of NT\$85,349 thousand for the year ended December 31, 2009.

#### 7. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2010	2009
Corporate bonds, nominal interest rate ranging from 1.20-4.75 % and 0.76%-4.75% for 2010 and 2009, respectively; effective interest rate ranging from 1.00-2.95% and 0.45%-2.95% for 2010 and 2009, respectively	\$ 9,867,863	\$ 4,531,699
Bank debentures, nominal interest rate ranging from 1.60-2.11% and 1.87%-2.11% for 2010 and 2009, respectively; effective interest rate ranging from 1.25-2.45% and 1.14%-2.90%, respectively	503,835	497,558
	10,371,698	5,029,257
Less: Current portion	1,963,608	1,099,595
	\$ 8,408,090	\$ 3,929,662

#### 8. ALLOWANCE FOR DOUBTFUL ACCOUNTS

	Year Ended December 31	
	2010	2009
Balance, beginning of year	\$ 2,798,679	\$ 3,050,691
Provision for doubtful accounts	215,654	454,598
Impact on acquisition of subsidiaries		630
Accounts receivable written off	(462,869)	(707,240)
Balance, end of year	\$ 2,551,464	\$ 2,798,679

**9. OTHER MONETARY ASSETS-CURRENT**

	December 31	
	2010	2009
Accrued custodial receipts from other carriers	\$ 386,690	\$ 432,569
Other receivables	1,752,972	1,407,176
	<b>\$ 2,139,662</b>	<b>\$ 1,839,745</b>

**10. INVENTORIES**

	December 31	
	2010	2009
Merchandise	\$ 2,146,450	\$ 2,033,571
Work in process	764,782	647,212
	<b>2,911,232</b>	<b>2,680,783</b>
Construction in progress	376,077	
Land held under development	1,237,678	706,176
Land held for development	35,816	563,402
Prepayment for construction		98,846
	<b>\$ 4,560,803</b>	<b>\$ 4,049,207</b>

The operating costs related to inventories were \$27,045,771 thousand (including the valuation loss on inventories of \$16,910 thousand) and \$23,116,483 thousand (including the valuation loss on inventories of \$56,055 thousand) for the years ended December 31, 2010 and 2009, respectively.

- a. Land held under development and construction in progress of LED as of December 31, 2010 and 2009 were as follows (in thousands):

	Construction in Progress						Deferred Marketing Expenses (Classified as Other Current Assets)	Advance From Land and Building (Classified as Other Current Liabilities)	Expected Percentage of Completion	Expected Year of Completion
	Contract Price	Estimated Construction Cost	Land Held Under Development	Construction Cost	Recognized Cumulative Gain	Total				
<b>December 31, 2010</b>										
Completed-contract method										
Wan-Xi Project	\$	\$	\$ 706,176	\$	\$	\$	\$ 81,629	\$ 334,779		2011
Li-Shui (A) Project			54,844							2012
Li-Shui (B) Project			32,457							2011
LightEra-Covent Project			379,214	3,360		3,360		17,845		2011
Percentage of completion method										
Guang-Diang Project	983,129	425,216	64,987	173,816	198,901	372,717	38,346	154,805	43%	2012
			<b>\$ 1,237,678</b>	<b>\$ 177,176</b>	<b>\$ 198,901</b>	<b>\$ 376,077</b>	<b>\$ 119,975</b>	<b>\$ 507,429</b>		

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December 31, 2009

Completed-contract method							
Wan-Xi Project	\$	706,176	\$		\$	80,663	\$ 260,376
							2011

With respect to Wan-Xi project, LED is responsible for selling the land, and Ruentex Development Co., Ltd. is responsible for the construction and sale of the buildings. Advanced from customers for land and buildings of NT\$15,550 thousand was recognized as revenue from liquidated damage due to customers' breaches of contract, and the corresponding deferred marketing expenses of NT\$11,679 thousand were recognized as expenses in 2009. There was no breach of contract in 2010.

With respect to Li-Shui (A) and (B) projects, LED is responsible for selling the land and Kindon Construction Corp. is responsible for building construction and selling the buildings.



With respect to LightEra - Covent Project, LED is responsible for selling the land and planning the design, and Covent Garden Development Co. is responsible for building construction and selling the buildings.

- b. Land held for development of LED as of December 31, 2010 and 2009 were as follows:

	December 31	
	2010	2009
Subsection 2 Gongyuan Sec., Zhongzheng Dist., Taipei City	\$ 31,900	\$ 31,900
Yucheng Sec., Nangang Dist., Taipei City	3,916	
Yanping Sec., Changhua City, Changhua County		379,214
Zhongshan Sec., Banqiao Dist., New Taipei City		64,987
Subsection 2, Jinhua Sec., Da an Dist., Taipei City		54,844
Subsection 1, Jinhua Sec., Da an Dist., Taipei City		32,457
	\$ 35,816	\$ 563,402

The advances from lands and buildings of Zhongshan Sec., Banqiao Dist., New Taipei City were NT\$67,941 thousand and its deferred marketing expenses were NT\$12,572 thousand as of December 31, 2009. The land held for development of Zhongshan Sec., Banqiao Dist., New Taipei City was reclassified as land held under development of Guang-Diang project in 2010.

The lands held for development of Yanping Sec., Changhua City, Changhua County, Subsection 2, Jinhua Sec., Da an Dist., Taipei City and Subsection 1, Jinhua Sec., Da an Dist., Taipei City were reclassified as lands held under development of Covent Garden, Li-Shui (A) and Li-Shui (B) projects in 2010, respectively.

- c. Prepayment for construction of LED as of December 31, 2009 were as follows (in thousands):

Location	Floor Area Capacity Cost	Design Cost	Other Cost	Total
Zhongshan Sec., Banqiao Dist., New Taipei City	\$ 37,220	\$ 4,127	\$ 1,427	\$ 42,774
Yanping Sec., Changhua City, Changhua County		2,806	463	3,269
Dunhua S. Rd. Project, Taipei City	52,071		732	52,803
	\$ 89,291	\$ 6,933	\$ 2,622	\$ 98,846

Prepayment for construction of Zhongshan Sec., Banqiao Dist., New Taipei City and Yanping Sec., Changhua City, Changhua County were reclassified as construction-in-progress for Guang-Diang and Covent Garden projects, respectively; the prepayment for construction of the Dunhua S. Rd. project was reclassified as property, plant and equipment in 2010.

**11. OTHER CURRENT ASSETS**

	December 31	
	2010	2009
Spare parts	\$ 1,796,921	\$ 2,348,894
Prepaid expenses	1,009,151	651,777
Prepaid rents	789,217	811,904
Others	526,092	507,125
	<b>\$ 4,121,381</b>	<b>\$ 4,319,700</b>

**12. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD**

	December 31			
	2010	% of	2009	% of
	Carrying	Owner-	Carrying	Owner-
	Amount	ship	Amount	ship
Non-listed				
Taiwan International Standard Electronics Co., Ltd. ( TISE )	\$ 556,360	40	\$ 427,810	40
ST-2 Satellite Ventures Pte., Ltd. ( STS )	398,186	38	408,341	38
Senao Networks, Inc. ( SNI )	307,403	41	288,407	41
Viettel-CHT Co., Ltd. ( Viettel-CHT )	246,220	30	269,924	30
Skysoft Co., Ltd. ( SKYSOFT )	94,769	30	89,913	30
Kingwaytek Technology Co., Ltd. ( KWT )	66,377	33	69,913	33
So-net Entertainment Taiwan Limited ( So-net )	25,198	30	30,920	30
HopeTech Technologies Limited ( HopeTech )	18,794	45		
Xiamen Sertec Business Technology Co., Ltd. (Sertec)	7,744	49		
Tatung Technology Inc.	3,876	28	36,544	28
Panda Monium Company Ltd.		43		43
	<b>\$ 1,724,927</b>		<b>\$ 1,621,772</b>	

ST-1 telecommunications satellite is expected be retired in 2011; therefore, CHTS and SingTelSat Pte., Ltd. established a joint venture, STS in Singapore in October 2008 in order to maintain the current service. STS engages in the installation and the operation of the ST-2 telecommunications satellite.

Chunghwa participated in the capital increase of Viettel-CHT in September 2009, by investing \$197,088 thousand cash. Viettel-CHT engages mainly in IDC services.

Chunghwa participated in So-net's capital increase on April 3, 2009, by investing \$60,008 thousand cash, and acquired 30% of its shares. So-net engages mainly in online service and sale of computer hardware.

SIS invested in HopeTech on September 2010 by investing NT\$21,177 thousand cash to acquire 45% of its shares. HopeTech engages mainly in information technology services and sale of communication products.

COI established Sertec with Xiamen Information Investment Co., Ltd. in 2010, by investing \$13,862 thousand cash and held 49% of Sertec. Sertec engages mainly in customer services and platform rental activities.

Tatung Technology Inc. and Panda Monium Company Ltd. are the equity method investees of Chunghwa Investment Co., Ltd. They engage mainly in selling the products of SET TOP BOX and making animations, respectively.

The carrying values of the equity investees as of December 31, 2010 and 2009 and the equity in earnings for the years ended December 31, 2010 and 2009 are determined based on the audited financial statements of the investees for the same years as the Company.

### 13. FINANCIAL ASSETS CARRIED AT COST

	2010		December 31		2009	% of Owner- ship
	Carrying Amount	% of Owner- ship	Carrying Amount			
Non-listed						
Taipei Financial Center ( TFC )	\$ 1,789,530	12	\$ 1,789,530		12	
Industrial Bank of Taiwan II Venture Capital Co., Ltd. ( IBT II )	200,000	17	200,000		17	
Global Mobile Corp. ( GMC )	127,018	8	127,018		11	
iD Branding Ventures ( iDBV )	99,504	11	99,504		11	
UniDisplay Inc.	55,450	3	46,000		3	
Innovation Works Development Fund, L.P. ( IWDF )	38,035	13				
RPTI Intergroup International Ltd. ( RPTI )	34,500	10	34,500		10	
Procrystal Technology Co., Ltd.	30,000	1				
VisEra Technologies Company Ltd.	29,371					
Ultra Fine Optical Technology Co., Ltd.	27,000	12				
Innovation Works Limited ( IW )	21,271	7				
CQi Energy Infocom Inc. ( CQi )	20,000	18				
Digimax Inc. ( DIG )	15,080	4	23,935		4	
Lextar Electronics Corp.	15,039					
PChome Store Inc.	14,073	3				
Taimide Technology, Ltd.	13,670	1				
Huga Optotech Inc.	12,870		6,672			
N.T.U. Innovation Incubation	12,000	9	12,000		9	
CoaTronics Inc.	12,000	9				
A2peak Power Co., Ltd. ( A2P )	11,462	3				
Win Semiconductors Corp.	10,555		7,603			
OptiVision Technology, Inc.	10,189					
Chia Chang Co., Ltd.	9,366					
Tatung Fine Chemicals Co., Ltd.	9,135		7,762			
ChipSip Technology Co., Ltd. ( ChipSip )	8,041	2	23,247		3	
SuperAlloy Industrial Co., Ltd.	7,123					
Champion Microelectronic Corp.	6,869					
DelSolar Co., Ltd.	6,097		5,388			
Crystal Media Inc. ( CMI )	5,630	5	11,642		5	
Subtron Technology Co., Ltd.	4,952		3,282			
Cando Corporation	4,946		3,394			
3 Link Information Service Co., Ltd.	3,450	10	3,450		10	
eMemory Technology Inc.	2,733					
XinTec Inc.	1,078		1,078			

(Continued)

	December 31		2009	% of Owner- ship
	2010			
	Carrying Amount	% of Owner- ship	Carrying Amount	
Giga Solar Materials Corp.	\$		\$ 54,656	2
Superior Industries Co., Ltd.			22,500	2
LightHouse Technology Co., Ltd.			10,982	
Join Well Technology Co., Ltd.			8,210	
J Touch Corporation			4,161	
Taidoc Technology Corporation			3,498	
Daxon Technology Inc.			750	
Essence Technology Solution, Inc. ( ETS )		7		9
eASPNet Inc.		2		2
	2,668,037		2,510,762	
<b>Prepayments for long-term investments in stocks</b>				
Tons Lightology Inc.	66,150			
GoaTronics Inc.			25,000	
Huga Optotech Inc.			791	
Cando Corporation			7	
	66,150		25,798	
	\$ 2,734,187		\$ 2,536,560	

(Concluded)

After evaluating the financial assets carried at cost, Chunghwa determined the investment in ETS was impaired and recognized an impairment loss of \$10,000 thousand for the year ended December 31, 2009.

After evaluating the financial assets carried at cost, CHI determined the investments in ChipSip, CMI, and A2P were impaired and recognized impairment losses of NT\$12,969 thousand, NT\$9,370 thousand, and NT\$16,038 thousand for the year ended December 31, 2010.

After evaluating the financial assets carried at cost, CHI determined the investment in DIG was impaired and recognized impairment losses of NT\$20,920 thousand and NT\$10,289 thousand in 2010 and 2009, respectively.

Chunghwa participated in TFC's capital increase in October 2008 and prepaid \$285,859 thousand. However, TFC was not expected to be able to collect enough amount of capital increase within a specific period; therefore TFC's board of directors held a meeting on April 10, 2009 and resolved to withdraw its capital increase plan from Financial Supervisory Commission, Executive Yuan ( FSC ). TFC returned the prepayment to Chunghwa on May 8, 2009.

The above investments do not have a quoted market price in an active market and the fair values cannot be reliably measured; therefore, these investments are carried at original cost.

#### 14. OTHER MONETARY ASSETS-NONCURRENT

	December 31	
	2010	2009
Piping Fund	\$ 1,000,000	\$ 1,000,000



As part of the government's effort to upgrade the existing telecommunications infrastructure, Chunghwa and other public utility companies were required by the ROC government to contribute a total of \$1,000,000 thousand to a Piping Fund administered by the Taipei City Government. This fund was used to finance various telecommunications infrastructure projects.

## 15. PROPERTY, PLANT AND EQUIPMENT

	December 31	
	2010	2009
Cost		
Land	\$ 104,136,053	\$ 102,131,565
Land improvements	1,554,776	1,535,066
Buildings	67,457,269	63,184,398
Computer equipment	16,085,635	16,343,774
Telecommunications equipment	656,300,682	656,016,086
Transportation equipment	2,372,673	2,113,053
Miscellaneous equipment	7,155,083	7,230,632
<b>Total cost</b>	<b>855,062,171</b>	<b>848,554,574</b>
Revaluation increment on land	5,800,701	5,800,909
	<b>860,862,872</b>	<b>854,355,483</b>
Accumulated depreciation		
Land improvements	1,003,811	951,240
Buildings	18,602,531	17,395,165
Computer equipment	12,232,397	12,149,757
Telecommunications equipment	527,818,615	518,608,726
Transportation equipment	1,636,671	1,885,512
Miscellaneous equipment	5,898,209	6,030,160
	<b>567,192,234</b>	<b>557,020,560</b>
Construction in progress and advances related to acquisition of equipment	12,058,972	15,687,426
<b>Property, plant and equipment, net</b>	<b>\$ 305,729,610</b>	<b>\$ 313,022,349</b>

Pursuant to the related regulation, Chunghwa revalued its land owned as of April 30, 2000 based on the publicly announced value on July 1, 1999. These revaluations which have been approved by the Ministry of Auditing resulted in increases in the carrying values of property, plant and equipment of \$5,986,074 thousand, liabilities for land value incremental tax of \$211,182 thousand, and stockholders' equity - other adjustments of \$5,774,892 thousand.

The amendment to the Land Tax Act, relating to the article to permanently lower land value incremental tax, went effective from February 1, 2005. In accordance with the lowered tax rates, Chunghwa recomputed its land value incremental tax, and reclassified the reserve for land value incremental tax of \$116,196 thousand to stockholders' equity - other adjustments. As of December 31, 2010, the unrealized revaluation increment was decreased to \$5,803,238 thousand by disposal revaluation assets.

Depreciation expense on property, plant and equipment were \$32,736,819 thousand and \$35,114,106 thousand for the years ended December 31, 2010 and 2009, respectively. Capitalized interest expense for the years ended December 31, 2010 and 2009 were \$11 thousand and \$207 thousand. The capitalized interest rate were 1.1% and 1.165%-1.604%, respectively.

Chunghwa reclassified the unused property, plant and equipment amounting to \$61,323 thousand to idle assets and recognized the impairment loss of \$61,323 thousand on those assets for the year ended December 31, 2010.



**16. SHORT-TERM LOANS**

	December 31	
	2010	2009
Unsecured loans - annual rate - 1.10-1.33% and 1.15%-1.23% for 2010 and 2009, respectively	\$ 115,000	\$ 275,000
Secured loans - annual rate - 0.81% for 2009		488,000
	\$ 115,000	\$ 763,000

**17. SHORT-TERM BILLS PAYABLE**

	December 31, 2010
Commercial paper - annual rate- 0.74-0.79%	\$ 229,896

**18. ACCRUED EXPENSES**

	December 31	
	2010	2009
Accrued salary and compensation	\$ 10,716,458	\$ 9,876,025
Accrued employees' bonuses and remuneration to directors and supervisors	2,358,347	1,964,214
Accrued franchise fees	2,191,174	2,224,104
Other accrued expenses	3,138,023	3,384,571
	\$ 18,404,002	\$ 17,448,914

**19. OTHER CURRENT LIABILITIES**

	December 31	
	2010	2009
Advances from subscribers	\$ 9,220,046	\$ 6,908,417
Amounts collected in trust for others	2,355,597	2,224,736
Payables to contractors	1,261,643	2,229,165
Payables to equipment suppliers	1,105,904	1,532,703
Refundable customers' deposits	1,096,923	1,045,127
Others	2,586,414	2,930,181
	\$ 17,626,527	\$ 16,870,329