

**Taiwan Mobile Co., Ltd. and Subsidiaries**

**Consolidated Financial Statements for the  
Six Months Ended June 30, 2006 and 2005 and  
Independent Accountants' Review Report**

## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

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

We have reviewed the accompanying consolidated balance sheets of Taiwan Mobile Co., Ltd. (the "Corporation") and subsidiaries as of June 30, 2006 and 2005, and the related consolidated statements of income, changes in shareholders' equity and cash flows for the six months then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to issue a report based on our reviews.

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

As disclosed in Note 2 to the consolidated financial statements as of and for the six months ended June 30, 2005, among the consolidated subsidiaries, financial statements of certain minor subsidiaries used as basis for the consolidated financial statements were unreviewed. As of June 30, 2005, the unreviewed assets amounted to NT\$6,294,922 thousand (5.12% of the consolidated assets), and the unreviewed liabilities amounted to NT\$1,798,800 thousand (4.10% of the consolidated liabilities). The unreviewed operating revenues and net income for the six months ended June 30, 2005 were NT\$1,090,239 thousand (3.70% of the consolidated operating revenues) and NT\$20,602 thousand (0.24% of consolidated net income). As disclosed in Note 9 to the consolidated financial statements, net investment income recognized under the equity method for the six months ended June 30, 2005 of NT\$33,718 thousand for certain investees, were based on the unreviewed financial statements of such investees as of and for the same period. Total carrying value of such investments accounted for using equity method totaled NT\$87,040 thousand at June 30, 2005.

Based on our reviews, except for such adjustments, if any, that might have been determined to be necessary had the above investment amounts and related additional disclosures been based on reviewed financial statements, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with the Guidelines Governing the Preparation of Financial Reports by Securities Issuers and accounting principles generally accepted in the Republic of China.

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

July 12, 2006

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

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

# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

ASSETS	2006		2005		LIABILITIES AND SHAREHOLDERS' EQUITY	2006		2005	
	Amount	%	Amount	%		Amount	%	Amount	%
<b>CURRENT ASSETS</b>					<b>CURRENT LIABILITIES</b>				
Cash and cash equivalents (Notes 2, 4 and 22)	\$ 14,358,002	12	\$ 13,280,751	11	Short-term borrowings	\$ -	-	\$ 120,000	-
Financial assets at fair value through profit or loss (Notes 2, 3 and 5)	9,568,268	8	100,300	-	Notes payable	6,921	-	17,424	-
Available-for-sale financial assets (Notes 2, 3 and 6)	8,775,000	7	9,277,177	8	Accounts payable (Note 22)	1,672,968	1	1,641,316	1
Notes receivable	14,573	-	13,227	-	Income taxes payable (Notes 2 and 18)	2,220,136	2	1,251,523	1
Accounts receivable - third parties (Notes 2 and 7)	6,715,369	5	6,391,467	5	Accrued expenses (Note 22)	3,767,387	3	3,997,924	3
Accounts receivable - related parties (Notes 2 and 22)	159,161	-	145,044	-	Other payable (Note 22)	17,338,478	14	15,509,814	13
Other receivable - third parties	12,788	-	321,715	-	Advance receipts	612,205	-	1,034,219	1
Other receivable - related parties (Note 22)	48,471	-	1,117,744	1	Current portion of long-term liabilities (Notes 2, 14 and 23)	1,587,881	1	2,404,661	2
Prepayments (Note 22)	356,780	-	487,494	1	Guarantee deposits	152,130	-	137,835	-
Deferred income tax assets - current (Notes 2 and 18)	138,420	-	224,365	-	Other current liabilities (Note 22)	739,985	1	559,083	1
Pledged time deposits (Notes 22 and 23)	10,000	-	147,000	-					
Other current assets	23,508	-	31,497	-	Total current liabilities	28,098,091	22	26,673,799	22
Total current assets	40,180,340	32	31,537,781	26	<b>LONG-TERM LIABILITIES</b>				
<b>LONG-TERM INVESTMENTS</b>					Hedging derivative financial liabilities (Notes 2, 3, 21 and 25)	420,522	1	-	-
Financial assets carried at cost (Notes 2, 3 and 8)	4,005,359	3	137,469	-	Bonds payable (Notes 2, 14 and 23)	14,050,544	11	16,875,173	14
Investment accounted for using equity method (Notes 2 and 9)	-	-	4,175,082	3					
Prepayment for long-term investments	-	-	2,495	-	Total long-term liabilities	14,471,066	12	16,875,173	14
Total long-term investments	4,005,359	3	4,315,046	3	<b>OTHER LIABILITIES</b>				
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2, 10, 22 and 23)</b>					Accrued pension cost (Notes 2 and 16)	83,615	-	140,436	-
Cost					Guarantee deposits	237,896	-	99,937	-
Land	3,966,835	3	3,362,123	3	Other (Note 9)	206	-	187,086	-
Buildings	2,528,580	2	2,291,860	2					
Telecommunication equipment	80,470,937	65	80,706,427	66	Total other liabilities	321,717	-	427,459	-
Office equipment	311,878	-	285,448	-					
Leased assets	1,284,961	1	1,276,190	1	Total liabilities	42,890,874	34	43,976,431	36
Leasehold improvements	105,891	-	687,758	-	<b>SHAREHOLDERS' EQUITY (Notes 2 and 17)</b>				
Miscellaneous equipment	1,389,256	1	1,685,705	1	Parent's shareholders' equity				
Total cost	90,058,338	72	90,295,511	73	Capital stock - \$10 par value				
Less accumulated depreciation	(30,712,337)	(25)	(30,320,347)	(24)	Authorized: 6,000,000 thousand shares				
	59,346,001	47	59,975,164	49	Issued: 4,975,656 thousand shares in 2006 and 4,943,623 thousand shares in 2005	49,756,558	40	49,436,227	40
Construction in progress and advance payments	2,031,290	2	6,649,499	5	Entitlement certificates	31,030	-	13,498	-
Net property, plant and equipment	61,377,291	49	66,624,663	54	Capital surplus	8,386,740	7	7,777,206	6
<b>INTANGIBLE ASSETS</b>					Retained earnings				
3G concession (Note 2)	9,346,364	8	10,094,073	8	Legal reserve	10,128,401	8	8,504,731	7
Goodwill (Notes 2 and 11)	6,835,370	5	6,537,462	6	Special reserve	3,350,000	3	2,201,631	2
Total intangible assets	16,181,734	13	16,631,535	14	Unappropriated earnings	10,864,170	9	11,277,492	9
<b>OTHER ASSETS</b>					Other equity				
Non-operating assets (Notes 2, 12 and 23)	1,149,963	1	2,444,642	2	Cumulative translation adjustments	3,426	-	(1,638)	-
Refundable deposits	304,819	-	322,627	-	Unrealized gains on financial instruments	1,501,726	1	-	-
Deferred charges (Notes 2 and 13)	503,420	1	539,532	-	Treasury stock	(2,079,542)	(2)	(1,126,096)	(1)
Deferred income tax assets - non current (Notes 2 and 18)	1,115,160	1	580,922	1					
Other	85,415	-	83,775	-	Minority interests	81,942,509	66	78,083,051	63
Total other assets	3,158,777	3	3,971,498	3		70,118	-	1,021,041	1
<b>TOTAL</b>	<b>\$ 124,903,501</b>	<b>100</b>	<b>\$ 123,080,523</b>	<b>100</b>	Total shareholders' equity	82,012,627	66	79,104,092	64
					<b>TOTAL</b>	<b>\$ 124,903,501</b>	<b>100</b>	<b>\$ 123,080,523</b>	<b>100</b>

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

(With Deloitte & Touche review report dated July 12, 2006)

# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
OPERATING REVENUES (Notes 2 and 22)				
Telecommunication service revenue	\$ 29,097,938	99	\$ 29,061,098	99
Service revenue	71,104	-	78,315	-
Other revenue	<u>174,942</u>	<u>1</u>	<u>357,864</u>	<u>1</u>
Total operating revenues	<u>29,343,984</u>	<u>100</u>	<u>29,497,277</u>	<u>100</u>
OPERATING COSTS (Notes 2, 20 and 22)				
Telecommunication service cost	12,117,869	41	11,729,459	40
Cost of goods sold	<u>922</u>	<u>-</u>	<u>146,217</u>	<u>-</u>
Total operating costs	<u>12,118,791</u>	<u>41</u>	<u>11,875,676</u>	<u>40</u>
GROSS PROFIT	<u>17,225,193</u>	<u>59</u>	<u>17,621,601</u>	<u>60</u>
OPERATING EXPENSES (Notes 2, 20 and 22)				
Marketing	5,751,021	20	4,942,978	17
Administrative	<u>2,125,908</u>	<u>7</u>	<u>2,283,426</u>	<u>8</u>
Total operating expenses	<u>7,876,929</u>	<u>27</u>	<u>7,226,404</u>	<u>25</u>
OPERATING INCOME	<u>9,348,264</u>	<u>32</u>	<u>10,395,197</u>	<u>35</u>
NON-OPERATING INCOME AND GAIN				
Gain on disposal of investments, net (Note 2)	640,117	2	5,452	-
Investment income recognized by the equity method, net (Notes 2 and 9)	554,770	2	-	-
Interest income	116,066	1	31,687	-
Penalty income	109,708	-	138,419	1
Rental income (Note 22)	35,259	-	28,470	-
Exchange gain (Note 2)	18,734	-	9,330	-
Revaluation gain on financial assets (Note 2)	18,268	-	-	-
Gain on disposal of property, plant and equipment (Notes 2 and 22)	10,335	-	71,998	-
Other	<u>227,215</u>	<u>1</u>	<u>200,354</u>	<u>1</u>
Total non-operating income and gain	<u>1,730,472</u>	<u>6</u>	<u>485,710</u>	<u>2</u>
NON-OPERATING EXPENSES AND LOSSES				
Loss on disposal of property and equipment (Note 2)	1,384,034	5	194,114	1
Impairment loss (Note 3)	345,695	1	88,453	-

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# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

	2006		2005	
	Amount	%	Amount	%
Interest expenses (Notes 2 and 10)	\$ 227,359	1	\$ 316,135	1
Loss on buyback of bonds payable (Note 22)	59,327	-	190,184	1
Investment loss recognized by the equity method, net (Notes 2 and 9)	-	-	78,841	-
Other (Notes 2 and 12)	93,833	-	112,277	-
Total non-operating expenses and losses	2,110,248	7	980,004	3
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAX	8,968,488	31	9,900,903	34
INCOME TAX EXPENSE (Notes 2 and 18)	1,173,910	4	1,467,123	5
INCOME FROM CONTINUING OPERATIONS	7,794,578	27	8,433,780	29
CUMULATIVE EFFECT OF CHANGES IN ACCOUNTING PRINCIPLES (Note 3)	35	-	-	-
CONSOLIDATED NET INCOME	\$ 7,794,613	27	\$ 8,433,780	29
ATTRIBUTED TO				
Shareholders of the parent	\$ 7,750,031		\$ 8,232,276	
Minority interests	44,582	-	201,504	
	\$ 7,794,613		\$ 8,433,780	
	2006		2005	
	Before Income Tax	After Income Tax	Before Income Tax	After Income Tax
EARNINGS PER SHARE (Note 19)				
Basic	\$ 1.63	\$ 1.57	\$ 1.94	\$ 1.69
Diluted	\$ 1.62	\$ 1.55	\$ 1.90	\$ 1.66

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# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF INCOME

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

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

	2006	2005
CONSOLIDATED NET INCOME ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT	<u>\$ 7,749,996</u>	<u>\$ 8,248,076</u>
EARNINGS PER SHARE		
Basic	<u>\$1.57</u>	<u>\$1.69</u>
Diluted	<u>\$1.55</u>	<u>\$1.66</u>

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

(With Deloitte & Touche review report dated July 12, 2006)

(Concluded)

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

**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**SIX MONTHS ENDED JUNE 30, 2006 AND 2005**  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

	Capital Stock			Capital Surplus	Retained Earnings				Unrealized Gains of Financial Instruments	Cumulative Translation Adjustments	Total Treasury Stock	Minority Interests	Total Shareholders' Equity
	Capital Stock	Entitlement Certificates	Total		Legal Reserve	Special Reserve	Unappropriated	Total					
BALANCE, JANUARY 1, 2006	\$ 49,492,065	\$ 29,871	\$ 49,521,936	\$ 7,905,337	\$ 8,504,731	\$ 2,201,631	\$ 19,175,425	\$ 29,881,787	\$ -	\$ 3,240	\$ (323,544)	\$ 806,817	\$ 87,795,573
Appropriation of 2005 earnings													
Legal reserve	-	-	-	-	1,623,670	-	(1,623,670)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	1,150,000	(1,150,000)	-	-	-	-	-	-
Reversal of special reserve	-	-	-	-	-	(1,631)	1,631	-	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	(40,394)	(40,394)	-	-	-	-	(40,394)
Bonus to employees - cash	-	-	-	-	-	-	(403,940)	(403,940)	-	-	-	-	(403,940)
Cash dividends - \$2.61677 per share	-	-	-	-	-	-	(12,843,997)	(12,843,997)	-	-	-	-	(12,843,997)
Balance after appropriation	49,492,065	29,871	49,521,936	7,905,337	10,128,401	3,350,000	3,115,055	16,593,456	-	3,240	(323,544)	806,817	74,507,242
Consolidated net income in the six months ended June 30, 2006	-	-	-	-	-	-	7,750,031	7,750,031	-	-	-	44,582	7,794,613
Unrealized gains of available-for-sales financial assets	-	-	-	-	-	-	-	-	1,817,117	-	-	-	1,817,117
Unrealized gains of cash flow hedges	-	-	-	-	-	-	-	-	(315,391)	-	-	-	(315,391)
Conversion of convertible bonds to capital stock and entitlement certificates	264,493	1,159	265,652	481,403	-	-	-	-	-	-	-	-	747,055
Buy back of issued shares	-	-	-	-	-	-	-	-	-	-	(1,818,370)	-	(1,818,370)
Transfer of treasury stock to employees	-	-	-	-	-	-	(916)	(916)	-	-	62,372	-	61,456
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	(808,814)	(808,814)
Adjustments for the change of consolidated entities	-	-	-	-	-	-	-	-	-	-	-	25,050	25,050
Translation adjustments on long-term investments	-	-	-	-	-	-	-	-	-	186	-	2,483	2,669
<b>BALANCE, JUNE 30, 2006</b>	<b>\$ 49,756,558</b>	<b>\$ 31,030</b>	<b>\$ 49,787,588</b>	<b>\$ 8,386,740</b>	<b>\$ 10,128,401</b>	<b>\$ 3,350,000</b>	<b>\$ 10,864,170</b>	<b>\$ 24,342,571</b>	<b>\$ 1,501,726</b>	<b>\$ 3,426</b>	<b>\$ (2,079,542)</b>	<b>\$ 70,118</b>	<b>\$ 82,012,627</b>
BALANCE, JANUARY 1, 2005	\$ 48,883,886	\$ 279,670	\$ 49,163,556	\$ 7,258,873	\$ 6,839,315	\$ -	\$ 19,554,125	\$ 26,393,440	\$ -	\$ (1,631)	\$ (1,841,417)	\$ 1,987,443	\$ 82,960,264
Appropriation of 2004 earnings													
Legal reserve	-	-	-	-	1,665,416	-	(1,665,416)	-	-	-	-	-	-
Special reserve	-	-	-	-	-	2,201,631	(2,201,631)	-	-	-	-	-	-
Remuneration to directors and supervisors	-	-	-	-	-	-	(63,936)	(63,936)	-	-	-	-	(63,936)
Bonus to employees - cash	-	-	-	-	-	-	(383,613)	(383,613)	-	-	-	-	(383,613)
Cash dividends - \$2.47302 per share	-	-	-	-	-	-	(12,126,821)	(12,126,821)	-	-	-	(295,001)	(12,421,822)
Balance after appropriation	48,883,886	279,670	49,163,556	7,258,873	8,504,731	2,201,631	3,112,708	13,819,070	-	(1,631)	(1,841,417)	1,692,442	70,090,893
Consolidated net income in the six months ended June 30, 2005	-	-	-	-	-	-	8,232,276	8,232,276	-	-	-	201,504	8,433,780
Conversion of convertible bonds to capital stock and entitlement certificates	552,341	(266,172)	286,169	518,333	-	-	-	-	-	-	-	-	804,502
Translation adjustments on long-term investments	-	-	-	-	-	-	-	-	-	(7)	-	-	(7)
Transfer of treasury stock to employees	-	-	-	-	-	-	(67,492)	(67,492)	-	-	715,321	-	647,829
Decrease in minority interests	-	-	-	-	-	-	-	-	-	-	-	(869,859)	(869,859)
Capital return from subsidiary	-	-	-	-	-	-	-	-	-	-	-	(3,046)	(3,046)
<b>BALANCE, JUNE 30, 2005</b>	<b>\$ 49,436,227</b>	<b>\$ 13,498</b>	<b>\$ 49,449,725</b>	<b>\$ 7,777,206</b>	<b>\$ 8,504,731</b>	<b>\$ 2,201,631</b>	<b>\$ 11,277,492</b>	<b>\$ 21,983,854</b>	<b>\$ -</b>	<b>\$ (1,638)</b>	<b>\$ (1,126,096)</b>	<b>\$ 1,021,041</b>	<b>\$ 79,104,092</b>

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

(With Deloitte & Touche review report dated July 12, 2006)



# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

	2006	2005
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Consolidated net income	\$ 7,794,613	\$ 8,433,780
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,343,897	3,163,568
Loss on disposal of property, plant and equipment, net	1,373,699	122,116
Gain on disposal of available-for-sale financial asset	(625,506)	-
Investment (gain) loss recognized under the equity method, net	(554,770)	78,841
Amortization	542,259	619,106
Bad debts	516,795	435,522
Deferred income taxes	(443,326)	158,517
Impairment loss	345,695	88,453
Loss on buyback of bonds payable	59,327	190,184
Accrued interest compensation	34,209	64,435
Pension cost	(6,965)	9,513
Gain on disposal of long-term investments, net	(2,622)	-
Cash dividends received from equity-method investees	11,989	135,300
Impairment loss on long-term investments	948	5,689
Other	7,317	2,729
Net changes in operating assets and liabilities		
Financial asset held for trading	(8,968,268)	6,098,125
Notes receivable	(525)	11,934
Accounts receivable - third parties	(807,123)	(911,880)
Accounts receivable - related parties	27,911	54,350
Other receivable - third parties	266,648	60,944
Other receivable - related parties	(44,588)	(71,517)
Prepayments	199,888	27,410
Other current assets	299	555,358
Notes payable	(2,196)	(16,713)
Accounts payable	(87,603)	(304,949)
Income tax payable	1,047,567	(901,435)
Accrued expenses	(508,398)	615,877
Other payable	2,146,990	(310,682)
Advance receipts	(474,639)	40,869
Other current liabilities	(71,464)	(399,210)
Net cash provided by operating activities	<u>5,122,058</u>	<u>18,056,234</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from disposal of available-for-sale financial assets	2,944,800	-
Acquisition of property and equipment	(2,839,092)	(1,462,163)
Increase in goodwill	(421,341)	(76,747)
Proceeds from disposal of long-term investments	71,718	-
Proceeds from disposal of idle assets	44,633	-

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# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	2006	2005
Decrease (increase) in other assets	\$ 41,018	\$ (9,802)
Increase in deferred charges	(40,140)	(15,198)
Decrease (increase) in refundable deposits	5,215	(211)
Decrease in pledged time deposits	2,000	-
Proceeds from disposal of property and equipment	913	1,149,680
Increase in long-term investments	<u>-</u>	<u>(17,732)</u>
Net cash used in investing activities	<u>(190,276)</u>	<u>(432,173)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Buyback of issued shares	(1,818,370)	-
Decrease in bonds payable	(1,500,000)	(1,500,000)
Buyback of bonds payable	(1,335,201)	(1,126,071)
Decrease in minority interests	(808,814)	(861,642)
Transfer of treasury stock to employees	61,456	647,829
Decrease in guarantee deposits	(14,848)	(273,776)
Decrease in other liabilities	(30)	(1,546)
Decrease in long-term bank loans	-	(8,400,000)
Decrease in short-term borrowings	-	(330,000)
Cash dividends paid to minority interests	-	(295,001)
Bonus to employees	-	(10,535)
Capital return to minority interests	-	(8,290)
Other	<u>-</u>	<u>(462)</u>
Net cash used in financing activities	<u>(5,415,807)</u>	<u>(12,159,494)</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>484</u>	<u>16</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(483,541)	5,464,583
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD (Note 2)	<u>14,841,543</u>	<u>7,816,168</u>
CASH AND CASH EQUIVALENTS, END OF PERIOD	<u>\$ 14,358,002</u>	<u>\$ 13,280,751</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Interest paid - excluding interest capitalized	<u>\$ 163,225</u>	<u>\$ 312,803</u>
Income tax paid	<u>\$ 519,331</u>	<u>\$ 2,414,347</u>
<b>NON-CASH INVESTING AND FINANCING ACTIVITIES</b>		
Current portion of long-term liabilities	<u>\$ 1,587,881</u>	<u>\$ 2,404,661</u>
Conversion of convertible bonds to capital stock and entitlement certificates	<u>\$ 644,000</u>	<u>\$ 719,300</u>

(Continued)

# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

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	2006	2005
CASH INVESTING AND FINANCING ACTIVITIES		
Acquisition of property and equipment	\$ 1,933,605	\$ 2,000,170
Decrease (increase) in other payables	<u>905,487</u>	<u>(538,007)</u>
Cash paid for acquisition of property and equipment	<u>\$ 2,839,092</u>	<u>\$ 1,462,163</u>

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

(With Deloitte & Touche review report dated July 12, 2006)

(Concluded)

# TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SIX MONTHS ENDED JUNE 30, 2006 AND 2005

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

(Reviewed, Not Audited)

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### 1. ORGANIZATION AND OPERATIONS

Taiwan Mobile Co., Ltd. (the “Corporation”; with the English company name of Taiwan Cellular Corporation until the first quarter of 2005) was incorporated in the Republic of China (ROC) on February 25, 1997. The Corporation’s shares began to be traded on the ROC Over-the-Counter Securities Exchange (known as GreTai Securities Market) on September 19, 2000. On August 26, 2002, the Corporation’s shares were listed on the Taiwan Stock Exchange. The Corporation mainly renders wireless communication services.

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

As of June 30, 2006 and 2005, the Corporation and subsidiaries had 3,348 and 3,645 employees, respectively.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

#### Consolidation

##### a. Basis of consolidation

The consolidated financial statements as of and for the six months ended June 30, 2006 have been prepared in accordance with the revised Statement of Financial Accounting Standards (SFAS) No. 7, “Consolidated Financial Statements,” and included the financial statements of the Corporation, its direct and indirect subsidiaries with at least 50% shareholding and other investees controlled by the Corporation. All significant intercompany transactions and balances are eliminated on consolidation.

Due to an increase in the consolidated entities, the beginning balance of the cash and cash equivalents in the consolidated statement of cash flows is presented at the retroactively restated amount, which contains the beginning balance of those subsidiaries included in the current period but failed to meet the consolidation criteria in the prior year.

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

Investor	Subsidiary	Nature of Business	Percentage of Ownership as of June 30		Note
			2006	2005	
Corporation	TransAsia Telecommunications Inc. (the former TAT)	Wireless service provider	-	92.32	Merged into TAT International Telecommunications Co., Ltd. on June 27, 2006
Corporation	TransAsia Telecommunications Inc. (TAT)	Wireless service provider	100.00	-	Formerly TAT International Telecommunication Co., Ltd.; established on February 8, 2006 by investing the former TAT's shares; merged into the former TAT on June 27, 2006 and renamed as TransAsia Telecommunications Inc.
Corporation	Mobitai Communications (the former Mobitai)	Wireless service provider	-	84.85	Merged into Tai Ya International Telecommunications Co., Ltd. (TYIT) on January 1, 2006
Corporation	Taiwan Cellular Co., Ltd. (TCC; formerly Taihsing Den Syun Co., Ltd. (TDS))	Equipment installation and IT service	100.00	-	Established in 2005 by investing the former Mobitai's shares
Corporation	Tai Fu Investment Ltd. (TFI)	Investment	-	99.99	Liquidated in December 2005
Corporation	Tai Hsuo Investment Ltd. (Tai Hsuo)	Investment	-	99.99	Liquidated in December 2005
Corporation	Tai Hung Investment Ltd. (Tai Hung)	Investment	-	99.99	Liquidated in December 2005
Corporation	T.I. Investment Ltd. (TII)	Investment	-	99.99	Liquidated in December 2005
Corporation	Taiwan Cellular Co., Ltd. (the former TCC)	Telecommunication equipment retailing and wholesale	-	99.99	Merged into TCC on May 1, 2006
TCC (formerly TDS)	Mobitai Communications (Mobitai)	Wireless service provider	100.00	-	Formerly Tai Ya International Telecommunications Co., Ltd.; merged with the former Mobitai on January 1, 2006 and renamed as Mobitai Communications
TCC (formerly TDS)	Tai Yi Digital Broadcasting Co., Ltd. (TYDB)	Digital Broadcast service provider	49.90	-	-
TCC (formerly TDS)	Taiwan Teleservices & Technologies Co., Ltd. (TT&T)	Call center service	100.00	95.88	-
The former TCC	Taiwan Tele-Shop Co., Ltd. (TTS)	Telecommunication equipment retailing and wholesale	-	50.02	Merged into the former TCC on June 30, 2005
The former TCC	Taiwan Elitec Corporation	Software solution provider, data processing services	-	-	Merged into the Corporation on March 30, 2005
TT&T	TT&T Casualty & Property Insurance Agency Co., Ltd. (TCPIA)	Insurance agency	100.00	100.00	-
TT&T	TT&T Life Insurance Agency Co., Ltd. (TLIA)	Insurance agency	100.00	100.00	-
TT&T	TT&T Holdings Co., Ltd. (TT&T Holding)	Investment	100.00	100.00	-
TT&T Holding	Dalian Xinkai Teleservices & Technologies Ltd.	Call center service	50.00	50.00	-
TT&T Holding	Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	100.00	100.00	-

Among the consolidated subsidiaries, the financial statements as of and for the six months ended June 30, 2006 of TAT, the former TAT, Mobitai and the financial statements as of and for the six months ended June 30, 2005 of the former TAT and the former Mobitai had been reviewed, and the financial statements of the rest of the minor consolidated subsidiaries were unreviewed (the Corporation's management considered that the adjustment might be immaterial if the carrying value of the investment income or losses were determined on the basis of reviewed financial statements).

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

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

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

### **Cash Equivalents**

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

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

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

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

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

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

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

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

### **Allowance for Doubtful Accounts**

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

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

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

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

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

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

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

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

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

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

### **Property, Plant and Equipment and Assets Leased to Others**

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

Depreciation is calculated using the straight-line method over the estimated service lives, which range as follows: buildings - 50 to 55 years; telecommunication equipment - 3 to 15 years; office equipment - 1 to 6 years; leased assets - 20 years; leasehold improvements - 1 to 10 years; and miscellaneous equipment - 3 to 5 years.

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

## **Concession**

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

## **Goodwill**

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

## **Idle Assets**

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

## **Deferred Charges**

Deferred charges, which included interior decoration, computer software, bill issuance costs and issuance costs of bonds issued before December 31, 2005, are amortized by the straight-line method over 2 to 8 years or contract periods.

## **Asset Impairment**

If the carrying value of assets (including property, plant and equipment, intangible assets, idle assets, assets leased to others and investments accounted for using equity method) is less than their recoverable amount, which indicates that an impairment exists, an impairment loss should be recognized. Any subsequent reversal of the impairment loss for the increase in recoverable amount is recognized as income. The reversal of impairment loss on goodwill is disallowed.

## **Pension Costs**

The pension costs under the defined benefit pension plan are recognized on the basis of actuarial calculations. The contribution amounts of the pension costs under the defined contribution pension plan are recognized as current expenses during the employees' service years.

## **Bonds Payable**

Convertible bonds with redemption rights that were issued before December 31, 2005 are classified as current or non-current according to the redemption dates. The redemption price in excess of the face value of the bonds is amortized using the interest method from the issuance date through the maturity date and accounted for as accrued interest compensation. The accrued interest compensation is provided as a valuation account of convertible bonds. The issuance costs are recognized as deferred charges. The issuance costs for the non-convertible bonds are amortized over the term of the bond, and those for the convertible bonds with redemption rights are amortized from the issuance date to the maturity date of redemption rights.

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



## **Income Taxes**

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

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

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

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

## **Treasury Stock**

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

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

## **Foreign-currency Transactions**

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

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

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

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

## **Revenue Recognition**

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

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

Sales revenues are stated at the fair values of prices settled with the buyers (after consideration of business discount and volume discount). Receivables from sales maturing within one year or less may not be imputed with interest rate to determine fair value when the discrepancy between the amount with and without imputed interest is small, and they are frequently traded.

### **Promotion Expenses**

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

### **Hedging Derivative Financial Instruments**

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

### **Reclassification**

Certain accounts in the financial statements as of and for the six months ended June 30, 2005 have been reclassified to conform to the presentation of financial statements as of and for the six months ended June 30, 2006.

## **3. REASONS AND EFFECT OF CHANGES IN ACCOUNTING PRINCIPLE**

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

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

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

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

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

The changes in accounting policy resulted in a decrease in income from continuing operations of \$35 thousand for the six months ended June 30, 2006, but had no effect on net income and earnings per share (net of tax).

b. Reclassifications by the adoption of these SFASs

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

1) Short-term investments

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

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

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

3) Interest rate swap contracts

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

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

	<b>Before Reclassification</b>	<b>After Reclassification</b>
<u>Balance sheet</u>		
Short-term investments	\$ 9,377,477	\$ -
Long-term investments	137,469	-
Financial assets at fair value through profit or loss	-	100,300
Available-for-sale financial assets	-	9,277,177
Financial assets carried at cost	-	137,469

Starting on January 1, 2006, the Corporation adopted newly revised SFAS No. 1, "Conceptual Framework for Financial Accounting and Preparation of Financial Statements," SFAS No. 5, "Long-term Investments in Equity Securities," and SFAS No. 25, "Business Combinations - Accounting Treatment under Purchase Method." These revisions primarily included that goodwill is no longer amortized and that the difference between the cost of acquisition and the equity in the investee's net asset value is subjected to an initial analysis. If defined as goodwill, the difference is no longer amortized but instead tested annually for impairment. These adoptions increased the income from continuing operations by \$238,631 thousand and had no effect on the cumulative effect of changes in accounting principle for the six months ended June 30, 2006.

#### 4. CASH AND CASH EQUIVALENTS

	<u>June 30</u>	
	<b>2006</b>	<b>2005</b>
Government bonds with resale rights	\$ 6,390,169	\$ 6,421,353
Short-term bills with resale rights	5,425,592	2,252,123
Time deposits	1,264,600	3,672,608
Cash in banks	1,251,163	919,776
Cash on hand	23,406	11,144
Revolving funds	<u>3,072</u>	<u>3,747</u>
	<u>\$ 14,358,002</u>	<u>\$ 13,280,751</u>

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

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

	<u>June 30</u>	
	<b>2006</b>	<b>2005</b>
<u>Financial assets held for trading</u>		
Beneficiary certificates		
Open-end funds	<u>\$ 9,568,268</u>	<u>\$ 100,300</u>

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

	<u>June 30</u>	
	<b>2006</b>	<b>2005</b>
Domestic listed stocks		
Chunghwa Telecom Co., Ltd.	<u>\$ 8,775,000</u>	<u>\$ 9,277,177</u>

## 7. ACCOUNTS RECEIVABLE - THIRD PARTIES

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Accounts receivable	\$ 7,219,324	\$ 7,023,890
Less allowance for doubtful accounts	<u>(503,955)</u>	<u>(632,423)</u>
	<u>\$ 6,715,369</u>	<u>\$ 6,391,467</u>

## 8. FINANCIAL ASSETS CARRIED AT COST

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Domestic emerging stocks		
Taiwan Fixed Network Co., Ltd.	\$ 3,869,974	\$ -
Domestic unlisted stocks		
Arcoa Communication Co., Ltd.	67,731	67,731
Parawin Venture Capital Corp.	25,144	26,280
WEB Point Co., Ltd.	7,084	8,032
Sunnet Co., Ltd.	3,266	3,266
Foreign unlisted stocks		
Bridge Mobile Pte Ltd.	<u>32,160</u>	<u>32,160</u>
	<u>\$ 4,005,359</u>	<u>\$ 137,469</u>

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

## 9. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD

	<u>June 30, 2005</u>	
	<u>Carrying Value</u>	<u>% of Ownership</u>
Taiwan Fixed Network Co., Ltd.	<u>\$ 4,175,082</u>	9.95
Credit balance (recorded as other liabilities - other)		
Howin Technologies Co., Ltd.	<u>\$ (87,040)</u>	27.50

The investment income in Howin Technologies Co., Ltd. (HTC) was recognized under the equity method by debiting long-term investments. However, the accumulated receipts of cash dividends and capital reduction distributed by HTC and the accumulated profits from intercompany transactions between HTC and the consolidated entities were recognized by crediting long-term investments, which resulted in a credit balance on the long-term investment in HTC. In the second quarter of 2006, HTC was divested, and a disposal gain of \$2,622 thousand was recognized.

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

The financial statements used as the basis for calculating carrying value of the investments and the related investment income or loss were unreviewed. The Corporation's investment income or loss was as follows:

	<u>Six Months Ended June 30</u>	
	<u>2006</u>	<u>2005</u>
Howin Technologies Co., Ltd.	\$ 554,770	\$ 33,718
Taiwan Fixed Network Co., Ltd.	<u>-</u>	<u>(112,559)</u>
	<u>\$ 554,770</u>	<u>\$ (78,841)</u>

The investment income under the equity method include the realized \$552,725 thousand due to the realization of previous deferred upstream and intercompany transactions between HTC and TWM Group after the sale of HTC.

The net investment income recognized under the equity method includes the Corporation's proportional share of TFN's asset impairment loss, totaling \$78,465 thousand.

## 10. PROPERTY, PLANT AND EQUIPMENT - ACCUMULATED DEPRECIATION

	<u>June 30</u>	
	<u>2006</u>	<u>2005</u>
Buildings	\$ 290,169	\$ 236,841
Telecommunication equipment	29,379,675	28,212,669
Office equipment	165,958	403,005
Leased assets	260,556	196,746
Leasehold improvements	81,570	545,848
Miscellaneous equipment	<u>534,409</u>	<u>725,238</u>
	<u>\$ 30,712,337</u>	<u>\$ 30,320,347</u>

Interest expenses capitalized for the six months ended June 30, 2006 and 2005 amounted to \$5,582 thousand and \$54,356 thousand, with interest rates ranging from 2.28% to 3.12% and 2.64% to 3.24%, respectively.

## 11. GOODWILL

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

### a. Assumptions on operating revenues

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

b. Assumptions on operating costs and expenses

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

- c. The Group used the discount rates of 7.63% and 8.72% in calculating the asset recoverable amounts of the former TAT and the former Mobitai, respectively.

## 12. NON-OPERATING ASSETS

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Cost		
Assets leased to others	\$ 985,665	\$ 2,478,633
Idle assets	<u>3,332,122</u>	<u>3,118,474</u>
	4,317,787	5,597,107
Less accumulated depreciation	<u>(830,545)</u>	<u>(1,162,123)</u>
	3,487,242	4,434,984
Less accumulated impairment	<u>(2,337,279)</u>	<u>(1,990,342)</u>
	<u>\$ 1,149,963</u>	<u>\$ 2,444,642</u>

The impairment losses of idle buildings and equipment were determined based on their appraised values and net realizable value, respectively, and the Group recognized impairment losses of \$345,695 thousand and \$88,453 thousand for the six months ended June 30, 2006 and 2005, respectively.

## 13. DEFERRED CHARGES

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Interior decoration	\$ 208,334	\$ 116,511
Computer software	192,648	187,654
Construction expenditures	80,618	192,478
Other	<u>21,820</u>	<u>42,889</u>
	<u>\$ 503,420</u>	<u>\$ 539,532</u>

## 14. BONDS PAYABLE

	<b>June 30</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Current</b>	<b>Non-current</b>	<b>Current</b>	<b>Non-current</b>
Domestic secured bonds	\$ -	\$ -	\$ 1,500,000	\$ -
Domestic unsecured bonds	1,250,000	13,750,000	-	15,000,000
1st domestic unsecured convertible bonds	272,900	-	-	1,582,700
2nd domestic unsecured convertible bonds	-	265,000	824,000	-
Add accrued interest compensation	<u>64,981</u>	<u>35,544</u>	<u>80,661</u>	<u>292,473</u>
	<u>\$ 1,587,881</u>	<u>\$ 14,050,544</u>	<u>\$ 2,404,661</u>	<u>\$ 16,875,173</u>

a. Domestic secured bonds

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

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

b. Domestic unsecured bonds

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

	<b>Principal</b>	<b>Rate</b>	<b>Terms</b>
Type I	\$ 2,500,000	2.60%	Repayment of \$1,250,000 thousand each in the fourth and fifth years, interest payable annually
Type II	2,500,000	5.21%-6M LIBOR	Repayment on maturity date, interest payable semiannually
Type III	5,000,000	2.80%	Repayment of \$2,500,000 thousand each in the sixth and seventh years, interest payable annually
Type IV	5,000,000	5.75%-6M LIBOR	Repayment on maturity date, interest payable semiannually
	<u>\$ 15,000,000</u>		

c. 1st domestic convertible bonds

On August 25, 2001, the Corporation issued \$10,000,000 thousand of five-year domestic convertible bonds, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period, starting from 3 months after the issuance date to 10 days before maturity, the bondholders may ask for bond conversion into common stocks or entitlement certificates of the Corporation. Cash is paid for those bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$23.3 per share since July 20, 2005. As of June 30, 2006, bonds amounting to \$6,532,700 thousand have been converted to 211,711 thousand of common shares and 3,103 thousand units of entitlement certificates. Each certificate can be converted into one common share. The bonds amounting to \$3,194,400 thousand were purchased and canceled by the Corporation.

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



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

d. 2nd domestic convertible bonds

On August 16, 2002, the Corporation issued \$6,000,000 thousand of five-year domestic convertible bonds, with each bond having a face value of \$100 thousand and 0% interest. Within the conversion period from 3 months after issuance date to the 10th day before maturity, the bondholders may have the bonds converted into common stocks of the Corporation. Cash is paid for bonds that cannot be converted into one share. The conversion price is subject to adjustment based on the prescribed formula. The conversion price has been NT\$24.7 per share since July 20, 2005. As of June 30, 2006, bonds amounting to \$5,194,900 thousand have been converted to 200,606 thousand of common shares. Bonds amounting to \$540,100 thousand were purchased and canceled by the Corporation.

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

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

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

Year	Amount
From the third to fourth quarter, 2006	\$ 1,250,000
2007	3,750,000
2008	2,500,000
2009	<u>7,500,000</u>
	<u>\$ 15,000,000</u>

## 15. LONG-TERM BANK LOANS

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

## 16. PENSION PLAN

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

The new LPA provides for a defined contribution pension plan. Starting from July 1, 2005, the Corporation should contribute monthly an amount equal to 6% of the employees' monthly wages to the employees' individual pension accounts. The Group recognized a pension cost of \$57,798 thousand for the six months ended June 30, 2006.

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

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

	<b><u>Six Months Ended June 30</u></b>	
	<b>2006</b>	<b>2005</b>
a. Changes in the pension fund		
Balance, beginning of period	\$ 405,713	\$ 226,994
Contribution	10,783	15,653
Payments and refund	(94,329)	(3,603)
Interests earned	<u>2,962</u>	<u>603</u>
Balance, end of period	<u>\$ 325,129</u>	<u>\$ 239,647</u>
b. Changes in the accrued pension cost		
Balance, beginning of period	\$ 90,580	\$ 134,843
Contribution	5,894	25,656
Payments	(10,783)	(15,653)
Pension liability resulting from personnel transfer from affiliates to Group	<u>-</u>	<u>246</u>
Balance, end of period	<u>\$ 85,691</u>	<u>\$ 145,092</u>

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

## **17. SHAREHOLDERS' EQUITY**

### a. Capital surplus

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

### b. Appropriation of earnings and dividend policy

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

- 1) Dividends and bonus to preferred shareholders;
- 2) Remuneration to directors and supervisors - up to 0.3%;

- 3) Bonus to employees - 1%-3%; and
- 4) Remainder, to be appropriated as dividends as determined in the shareholders' meeting.

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

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

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

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

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

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

c. Treasury stock

<u>Purpose of Buyback</u>	<u>(Shares in Thousands)</u>			
	<u>Beginning</u> <u>Shares</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending</u> <u>Shares</u>
<u>Six months ended June 30, 2006</u>				
To be transferred to employees	11,551	57,804	2,023	67,332
<u>Six months ended June 30, 2005</u>				
To be transferred to employees	65,368	-	25,393	39,975

For the six months ended June 30, 2006, the Corporation transferred 2,023 thousand shares of treasury stock to employees at NT\$30.47 per share, resulting in a reduction of retained earnings amounting to \$916 thousand.

For the six months ended June 30, 2005, the Corporation transferred 25,393 thousand shares of treasury stock to employees at NT\$25.65 and NT\$25.54 per share, respectively, resulting in a reduction of retained earnings amounting to \$67,492 thousand.

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

d. Unrealized gains (losses) on financial instruments

Unrealized gains or losses on financial instruments for the six months ended June 30, 2006 were summarized as follows:

	<b>Six Months Ended June 30, 2006</b>
Available-for-sale financial assets	
Effect of the first time adoption of new issued SFASs	\$ 2,082,823
Fair value changes recognized directly in equity	359,800
Transfer to current gains or loss upon sales of financial assets	<u>(625,506)</u>
	<u>\$ 1,817,117</u>
Changes in unrealized gains (losses) of cash flow hedge	
Effect of the first time adoption of new issued SFASs	\$ (248,184)
Fair value changes recognized directly in equity	<u>(67,207)</u>
	<u>\$ (315,391)</u>

## 18. INCOME TAX EXPENSE

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

	<b><u>Six Months Ended June 30</u></b>	
	<b>2006</b>	<b>2005</b>
Tax on pretax income at statutory tax rate (25%)	\$ 2,622,009	\$ 2,899,854
Add (deduct) tax effects of		
Permanent differences		
Investment income from domestic investees accounted for using equity method	(518,308)	(326,692)
Gain on disposal of marketable securities	(159,766)	40,040
Other	(72,646)	(1,991)
Temporary differences	76,630	(154,346)
Tax-exempt income	(188,124)	(1,236,615)
Income tax (10%) on unappropriated earnings	471,771	371,168

(Continued)

	<b>Six Months Ended June 30</b>	
	<b>2006</b>	<b>2005</b>
Investment tax credits	\$ (716,012)	\$ (336,370)
Deferred income taxes	(443,326)	158,517
Tax on short-term bills	2,621	575
Prior year's adjustment	<u>99,061</u>	<u>52,983</u>
Income tax expense	<u>\$ 1,173,910</u>	<u>\$ 1,467,123</u> (Concluded)

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

<u>Equipment Expansion Projects</u>	<u>Tax-Exempt Period</u>
Switches, base transmission station (BTS) and related telecommunication equipment, acquired from July 31, 1999 to December 31, 1999	2001 to 2005
Switches, BTS and related telecommunication equipment, acquired from September 30, 2000 to September 30, 2001	2002 to 2006

Under Article 8 of SUI before the amendment in 1999, the former TAT, a subsidiary of the Corporation, is also considered an important technology-based enterprise. Thus, the former TAT's net operating income generated from the expansion of its equipment is exempt from income tax for five years from January 1, 2001, as approved by the Ministry of Finance.

- c. Deferred income tax assets and liabilities were as follows:

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Provision for doubtful accounts	\$ 766,481	\$ 795,968
Provision for impairment losses on idle assets	449,011	453,448
Unrealized loss on retirement of property, plant and equipment	247,945	-
Unrealized loss on financial liabilities	105,131	-
Accrued interest compensation	25,131	93,161
Prior year's loss carryforward	48,390	72,682
Accrued pension cost	16,729	18,462
Other	<u>6,971</u>	<u>78,688</u>
	1,665,789	1,512,409
Less valuation allowance	<u>(412,209)</u>	<u>(707,122)</u>
	<u>\$ 1,253,580</u>	<u>\$ 805,287</u>
Deferred income tax assets		
Current	\$ 138,420	\$ 224,365
Non-current	<u>1,115,160</u>	<u>580,922</u>
	<u>\$ 1,253,580</u>	<u>\$ 805,287</u>

d. Integrated income tax information was as follows:

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Balance of imputation credit account (ICA)		
Corporation	\$ 1,893,203	\$ 2,582,856
The former TAT		\$ 239,428
TAT	\$ 398,950	
The former Mobitai		\$ 38,440
TFI		\$ 1,127
Tai Hsuo		\$ 800
Tai Hung		\$ 2,321
TII		\$ 253
TCC (formerly TDS)	\$ 252	
The former TCC		\$ 238,863
Mobitai	\$ 109,983	
TYDB	\$ -	
TT&T	\$ 27,798	\$ 25,028
TCPIA	\$ -	\$ -
TLIA	\$ -	\$ -

As of June 30, 2006, there were no unappropriated earnings generated before January 1, 1998. The estimated creditable ratio of the ICA balance to the 2005 unappropriated earnings and the actual creditable ratio applied to the 2004 earnings distributed were as follows:

	<b>2005 (Estimated)</b>	<b>2004 (Actual)</b>
Corporation	9.87%	13.25%
The former TAT	Not applicable	2.25%
TAT	Not applicable	Not applicable
The former Mobitai	Not applicable	1.65%
TCC (formerly TDS)	-	Not applicable
TFI	Not applicable	30.54%
Tai Hsuo	Not applicable	23.06%
Tai Hung	Not applicable	35.49%
TII	Not applicable	-
The former TCC	-	-
Mobitai	-	Not applicable
TYDB	Not applicable	Not applicable
TTS	Not applicable	34.25%
TT&T	-	-
TCPIA	-	Not applicable
TLIA	6.83%	-

The imputation credits allocated to the shareholders are based on its balance as of the date of dividend distribution. The expected creditable ratio for 2005 may be adjusted when the distribution of the imputation credits are made.

- e. The latest years through which income tax returns had been examined and cleared by the tax authorities were as follows:

	<b>Year</b>
Corporation	2000
The former TAT	2003
TAT	None
TCC (formerly TDS)	None
The former TCC	2004
Mobitai	None
TYDB	2004
TT&T	2003
TCPIA	None
TLIA	2004

The Corporation, however, disagreed with the examination result on the 1999 and 2000 income tax returns and filed a request for reexamination of 1999 income tax return in July 2005.

The former TAT disagreed with the examination results on the 2002 and 2003 income tax returns and filed requests for administrative appeals in April 2006.

## 19. EARNINGS PER SHARE

(Shares in Thousands)

	<b>Six Months Ended June 30</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Before Income Tax</b>	<b>After Income Tax</b>	<b>Before Income Tax</b>	<b>After Income Tax</b>
Basic EPS				
Income from continuing operations	\$ 1.63	\$ 1.57	\$ 1.94	\$ 1.69
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$ 1.63</u>	<u>\$ 1.57</u>	<u>\$ 1.94</u>	<u>\$ 1.69</u>
Diluted EPS				
Income from continuing operations	\$ 1.62	\$ 1.55	\$ 1.90	\$ 1.66
Cumulative effect of changes in accounting principle	-	-	-	-
Net income	<u>\$ 1.62</u>	<u>\$ 1.55</u>	<u>\$ 1.90</u>	<u>\$ 1.66</u>

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

	<u>Amounts (Numerator)</u>		<u>Shares (Denominator) (Thousands)</u>	<u>EPS (NT\$)</u>	
	<u>Before Income Tax</u>	<u>After Income Tax</u>		<u>Before Income Tax</u>	<u>After Income Tax</u>
<u>Six months ended June 30, 2006</u>					
Weighted-average number of outstanding shares			4,960,484		
Less buyback of issued shares			<u>(22,156)</u>		
Basic EPS					
Income of common shareholders	\$ 8,057,020	\$ 7,750,031	4,938,328	<u>\$ 1.63</u>	<u>\$ 1.57</u>
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	22,900	17,175	36,931		
2nd convertible bonds (with implied yield rate of 3.3%)	<u>11,309</u>	<u>8,482</u>	<u>25,543</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$ 8,091,229</u>	<u>\$ 7,775,688</u>	<u>5,000,802</u>	<u>\$ 1.62</u>	<u>\$ 1.55</u>
<u>Six months ended June 30, 2005</u>					
Weighted-average number of outstanding shares			4,934,332		
Less buyback of issued shares			<u>(57,245)</u>		
Basic EPS					
Income of common shareholders	\$ 9,438,227	\$ 8,232,276	4,877,087	<u>\$ 1.94</u>	<u>\$ 1.69</u>
Add effect of potentially dilutive convertible bonds					
1st convertible bonds (with implied yield rate of 4.5%)	43,307	32,480	69,979		
2nd convertible bonds (with implied yield rate of 3.3%)	<u>21,128</u>	<u>15,846</u>	<u>47,066</u>		
Diluted EPS					
Income of common shareholders with dilutive effect of potential common shares	<u>\$ 9,502,662</u>	<u>\$ 8,280,602</u>	<u>4,994,132</u>	<u>\$ 1.90</u>	<u>\$ 1.66</u>

## 20. LABOR COST, DEPRECIATION AND AMORTIZATION EXPENSE

	<u>Six Months Ended June 30</u>					
	<u>2006</u>			<u>2005</u>		
	<u>Classified as Operating Cost</u>	<u>Classified as Operating Expenses</u>	<u>Total</u>	<u>Classified as Operating Cost</u>	<u>Classified as Operating Expenses</u>	<u>Total</u>
Labor cost						
Salary	\$ 231,618	\$ 1,108,628	\$ 1,340,246	\$ 307,682	\$ 1,250,392	\$ 1,558,074
Labor and health insurance	14,682	71,055	85,737	18,155	74,340	92,495
Pension	13,229	55,076	68,305	7,175	24,977	32,152
Other	<u>12,758</u>	<u>63,520</u>	<u>76,278</u>	<u>16,743</u>	<u>54,577</u>	<u>71,320</u>
	<u>\$ 272,287</u>	<u>\$ 1,298,279</u>	<u>\$ 1,570,566</u>	<u>\$ 349,755</u>	<u>\$ 1,404,286</u>	<u>\$ 1,754,041</u>
Depreciation	\$ 3,116,122	\$ 220,165	\$ 3,336,287	\$ 2,932,579	\$ 203,740	\$ 3,136,319
Amortization	432,411	105,478	537,889	255,747	346,035	601,782



## 21. FINANCIAL INSTRUMENT TRANSACTIONS

### a. Fair value information

	June 30			
	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<u>Non-derivative financial instruments</u>				
Assets				
Financial assets at fair value through profit or loss	\$ 9,568,268	\$ 9,568,268	\$ 100,300	\$ 57,300
Available-for-sale financial assets	8,775,000	8,775,000	9,277,177	12,840,000
Liabilities				
Bonds payable (including current portion)	15,638,425	19,735,319	19,279,834	19,667,980
<u>Derivative financial instruments</u>				
Liabilities				
Interest rate swap contracts	420,522	420,522	-	194,811

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

- b. The methods and significant assumptions applied in determining fair values of financial instruments were as follows:
- 1) Financial assets at fair value through profit or loss and available-for-sale financial assets - based on quoted prices in an active market on the balance sheet date.
  - 2) Because there is no active market and a reliable fair value could only be verified at a more than reasonable cost, the fair values of investments in unlisted stocks carried at cost or accounted for using equity method can not be estimated.
  - 3) Bonds payable - based on the over-the-counter quotations in June;
  - 4) Derivative financial instruments - based on valuation results provided by banks.
  - 5) The above financial instruments do not include cash and cash equivalents, notes and accounts receivables, pledged time deposits, refundable deposits, notes and accounts payable and guarantee deposits. Because of the short maturities of these instruments, the carrying values represent a reasonable basis to estimate fair values.
- c. The fair values of financial assets and liabilities were not simultaneously determined by quoted prices in active markets and by estimations using valuation technique.

d. The financial assets exposed to fair value interest rate risk amounted to \$42,547,118 thousand and \$30,322,349 thousand as of June 30, 2006 and 2005, respectively, and the financial liabilities exposed to fair value interest rate risk amounted to \$31,116,985 thousand and \$33,136,129 thousand as of June 30, 2006 and 2005, respectively. The financial assets exposed to cash flow interest rate risk amounted to \$1,251,163 thousand and \$919,776 thousand as of June 30, 2006 and 2005, respectively, and the financial liabilities exposed to cash flow interest rate risk amounted to \$7,920,522 thousand and \$7,500,000 thousand as of June 30, 2006 and 2005, respectively.

e. Information on financial risks:

1) Market risk

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

2) Credit risk

Credit risk represents the potential impacts to financial assets that the Corporation might encounter if counter-parties or third parties breach the contracts. Factors that affect the impacts include credit risk concentration, components of financial instruments, contract amount and other receivables. The Corporation's evaluation of credit risk exposure as of June 30, 2006 and 2005 were both zero because all of counter-parties are reputable financial institutions with good credit ratings.

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

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

3) Liquidity risk

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

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

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

## 22. RELATED-PARTY TRANSACTIONS

- a. The related parties and their relationships with the Group are as follows:

<u>Related Party</u>	<u>Relationship with the Consolidated Group</u>
Taiwan Mobile Foundation (TWM Foundation)	Over one third of the Foundation's issued fund came from the Corporation
Howin Technologies Co., Ltd. (HTC)	Equity-method investee (sold in June 2006)
Taiwan Fixed Network Co., Ltd. (TFN)	Same chairman as the Corporation
Chung Hsing Constructions Co., Ltd.	Same chairman as the Corporation
Fubon Land Development Co., Ltd.	Same chairman as the Corporation
Fubon Financial Holding Co., Ltd.	Related party in substance
Taipei Fubon Commercial Bank Co., Ltd. (TFCB)	Related party in substance
Fubon Securities Co., Ltd. (FSC)	Related party in substance
Fubon Securities Investment Trust Co., Ltd.	Related party in substance
Fubon Life Assurance Co., Ltd.	Related party in substance
Fubon Insurance Co., Ltd. (Fubon Ins.)	Related party in substance
Fubon Direct Marketing Consulting Co., Ltd.	Related party in substance
Fubon Asset Management Co., Ltd.	Related party in substance
Fubon Financial Holding Venture Capital Co., Ltd.	Related party in substance
Fubon Venture Capital Consulting Co., Ltd.	Related party in substance
Taiwan Telecom (Aust) Pty Ltd.	Subsidiary (liquidated in November 2005)
The Tele-World Shop Pte Ltd.	Indirect investee under Corporation's control (liquidated in July 2005)
Supreme-Tech (Aust) Pty Ltd.	Subsidiary (liquidated in January 2005)

- b. Significant transactions with related parties were summarized below:

1) Operating revenues

	<u>Six Months Ended June 30</u>			
	<u>2006</u>		<u>2005</u>	
	Amount	% of Total Revenues	Amount	% of Total Revenues
TFN	\$ 1,404,249	5	\$ 1,249,508	4

The Group rendered telecommunication services to TFN. The average collection period for notes and accounts receivable was approximately two months.

2) Operating costs

	<u>Six Months Ended June 30</u>			
	<u>2006</u>		<u>2005</u>	
	Amount	% of Total Costs	Amount	% of Total Costs
TFN	\$ 458,378	4	\$ 426,537	3

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

3) Property transactions

Disposal of property and equipment

<b>Six Months Ended June 30, 2005</b>		
	<b>Description</b>	<b>Amount</b>
TFN	Telecommunication equipment, miscellaneous equipment and deferred charges	<u>\$ 2,093,154</u>

The above disposal was made at arm's length and resulted in a disposal gain of \$70,085 thousand for the six months ended June 30, 2005.

4) Operating lease income

<b>Six Months Ended June 30, 2006</b>		
	<b>Description</b>	<b>Amount</b>
TFN	Ji-lung Road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc.	<u>\$ 14,212</u>

<b>Six Months Ended June 30, 2005</b>		
	<b>Description</b>	<b>Amount</b>
TFN	Ji-lung Road, Tai-Chung, Chung-Ho and Tang-Cherng offices, BTS, etc.	<u>\$ 16,214</u>

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

5) Cash in banks

	<b>June 30</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Cash in banks				
TFCB	<u>\$ 683,129</u>	5	<u>\$ 3,296,415</u>	25
Pledged time deposits				
TFCB	<u>\$ 10,000</u>	100	<u>\$ 146,700</u>	99

6) Receivables and payables

Accounts receivable				
TFN	\$ 148,866	2	\$ 117,199	2
TFCB	8,469		-	-
HTC	92	-	16,663	-
Other	<u>1,734</u>	-	<u>11,182</u>	-
	<u>\$ 159,161</u>		<u>\$ 145,044</u>	
Other receivables				
HTC	\$ 35,967	59	\$ -	-
TFN*	6,751	11	1,105,085	76
TFCB	5,745	9	11,125	1
Other	<u>8</u>	-	<u>1,534</u>	-
	<u>\$ 48,471</u>		<u>\$ 1,117,744</u>	

\* The balance on June 30, 2005 resulted mainly from the sale of the Corporation's transmission networks to TFN.

	<b>June 30</b>			
	<b>2006</b>		<b>2005</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
Accounts payable				
TFN	<u>\$ 7,344</u>	-	<u>\$ 64,044</u>	4
Accrued expense				
TFN	\$ 52,908	1	\$ 92,529	2
TWM Foundation	<u>-</u>		<u>12,200</u>	-
	<u>\$ 52,908</u>		<u>\$ 104,729</u>	
Other payables				
TFN	<u>\$ 115,888</u>	1	<u>\$ 172,471</u>	1
Other current liabilities - collections and advanced receipts for the following				
TFN	\$ 23,518	3	\$ 23,436	4
TFCB	<u>-</u>	-	<u>12,698</u>	2
	<u>\$ 23,518</u>		<u>\$ 36,134</u>	
7) Prepayments				
Fubon Ins.	<u>\$ 29,201</u>	8	<u>\$ 36,426</u>	7
			<b>Six Months Ended June 30</b>	
			<b>2006</b>	<b>2005</b>
8) Telecommunication service expenses				
TFN			<u>\$ 23,088</u>	<u>\$ 29,500</u>
9) Insurance expenses				
Fubon Ins.			<u>\$ 47,984</u>	<u>\$ 79,197</u>
10) Donation				
TWM Foundation			<u>\$ -</u>	<u>\$ 12,200</u>
11) Other				
a)	On March 8, 2005, the Corporation bought back 750 units of its outstanding 2nd domestic convertible bonds from FSC for NT\$131,800 per unit. The aggregate purchase price amounted to \$98,850 thousand and resulted in a loss of \$17,341 thousand.			
b)	HTC entered into an agreement to provide the Corporation with GSM-1800 network maintenance. As of June 30, 2005, the Corporation had received performance guarantee deposits of \$630,000 thousand.			
c)	In 2004, Fubon Commercial Bank Co., Ltd. (FCB; TFCB had assumed all right and obligation of FCB) entered into a cooperative co-branding agreement with the Corporation, by which the			

Corporation may encourage its customers to use credit cards issued by FCB. The Corporation recognized revenues of \$8,598 thousand and \$14,800 thousand from this cooperative agreement for the six months ended June 30, 2006 and 2005.

- d) HTC entered into a purchase and installation agreement of network system equipment with the former TAT. The former TAT had received a promissory note of \$185,773 thousand as performance guarantee deposits. The agreement was completed in 2005 and the former TAT had returned the note to HTC.

### 23. ASSETS PLEDGED

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

	<b>June 30</b>	
	<b>2006</b>	<b>2005</b>
Time deposits	\$ 10,000	\$ 147,000
Fixed assets, net carrying value	-	27,435,851
Idle assets*	-	598,519
Assets leased to others, net carrying value	-	182,037
	<u>\$ 10,000</u>	<u>\$ 28,363,407</u>

\* Net carrying value before deducting accumulated impairment.

### 24. COMMITMENTS AND CONTINGENT EVENTS

- a. To enhance the intensity and widen the coverage of the 3G signal and to increase the service functions and items provided by 3G mobile telecommunications, the Corporation entered into a 3G expansion contract with Nokia for \$4,800,000 thousand in September 2004. In accordance with the terms of the contract, as of June 30, 2006, payments of \$2,327,796 thousand has been made.
- b. To provide better communication quality and more diverse service functions, the Corporation entered into agreements for upgrading the existing network equipment and building IT systems with Siemens in September 2004 for US\$17,310 thousand and NT\$67,472 thousand, respectively. In accordance with the terms of the agreements, as of June 30, 2006, payments of US\$17,310 thousand and NT\$66,902 thousand have been made, respectively.
- c. Future minimum rental payments as of June 30, 2006 for significant operating lease agreements were summarized as follows:

	<b>Amount</b>
From the third to fourth quarter 2006	\$ 7,434
2007	14,868
2008	7,062

### 25. ADDITIONAL DISCLOSURES

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

- a. Financing provided: None.

- b. Endorsement/guarantee provided: None.
- c. Marketable securities held: Table 1 (attached).
- d. Marketable securities acquired and disposed of at costs or prices of at least \$100 million or 20% of the paid-in capital: Table 2 (attached).
- e. Acquisition of individual real estate at costs of at least \$100 million or 20% of the paid-in capital: None.
- f. Disposal of individual real estate at prices of at least \$100 million or 20% of the paid-in capital: None.
- g. Total purchase from or sale to related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 3 (attached).
- h. Receivables from related parties amounting to at least \$100 million or 20% of the paid-in capital: Table 4 (attached).
- i. Names, locations, and related information of investees on which the Corporation exercised significant influence: Table 5 (attached).
- j. Derivative transactions

The Corporation entered into interest rate swap (IRS) contracts in December 2002 to hedge fluctuation on anti-floating interest rates of bonds, which are settled semiannually. Please refer to Note 21 for the related information.

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

The Corporation entered into IRS contracts to hedge anti-floating interest rate fluctuation. For the six months ended June 30, 2006 and 2005, the Corporation recognized losses of \$56,989 thousand and gains of \$14,970 thousand, respectively, recorded as addition to and deduction from interest expense.

- k. Information on investment in Mainland China:
  - 1) The name of the investee company in Mainland China, the main businesses and products, issued capital, method of investment, information on inflow or outflow of capital, ownership, investment gain or loss, ending balance, amount received as earnings distributions from the investment, and the limitation on investment: Table 6 (attached).
  - 2) Significant direct or indirect transactions with the investee company, its prices and terms of payment, unrealized gain or loss, and other related information which is helpful to understand the impact of investment in Mainland China on financial reports: None.
- l. Business relationship and significant intercompany transactions: Table 7 and Table 8 (attached).

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## MARKETABLE SECURITIES HELD

JUNE 30, 2006

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2006				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
The Corporation	<u>Beneficiary certificate</u> Fuh-Hwa Albatross Fund	-	Financial assets at fair value through profit or loss - current	44,641	\$ 500,505	-	\$ 500,505 (Note 2)	
	Fuh-Hwa Bond Fund	-	Financial assets at fair value through profit or loss - current	52,960	701,133	-	701,133 (Note 2)	
	AIG Taiwan Bond Fund	-	Financial assets at fair value through profit or loss - current	87,036	1,102,367	-	1,102,367 (Note 2)	
	NITC Bond Fund	-	Financial assets at fair value through profit or loss - current	7,360	1,202,709	-	1,202,709 (Note 2)	
	NITC Taiwan Bond Fund	-	Financial assets at fair value through profit or loss - current	35,789	500,795	-	500,795 (Note 2)	
	Dresdner Bond Dam Fund	-	Financial assets at fair value through profit or loss - current	87,099	1,002,232	-	1,002,232 (Note 2)	
	ABN AMRO Bond Fund	-	Financial assets at fair value through profit or loss - current	80,345	1,202,231	-	1,202,231 (Note 2)	
	ABN AMRO Select Bond Fund	-	Financial assets at fair value through profit or loss - current	71,247	801,931	-	801,931 (Note 2)	
	JF (Taiwan) Bond Fund	-	Financial assets at fair value through profit or loss - current	19,819	300,309	-	300,309 (Note 2)	
	<u>Stock</u> Chunghwa Telecom Co., Ltd.	-	Available-for-sale financial assets - current	150,000	8,775,000	1.55	8,775,000 (Note 3)	
	Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Financial assets carried at cost	637,000	3,826,148	9.87	6,901,021	
	Bridge Mobile Pte Ltd.	-	Financial assets carried at cost	1,000	32,160	12.50	23,184	
	TransAsia Telecommunications Inc.	Subsidiary	Long-term investments - equity method	1,245,846	13,103,301	100.00	13,121,256 (Note 6)	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Subsidiary	Long-term investments - equity method	275,000	2,916,265	100.00	2,923,093 (Note 6)		
TransAsia Telecommunications Inc.	<u>Beneficiary certificate</u> ABN AMRO Bond Fund	-	Financial assets at fair value through profit or loss - current	33,463	500,723	-	500,723 (Note 2)	
	AIG Taiwan Bond Fund	-	Financial assets at fair value through profit or loss - current	51,411	651,152	-	651,152 (Note 2)	
	Prudential Financial Bond Fund	-	Financial assets at fair value through profit or loss - current	55,216	801,490	-	801,490 (Note 2)	

(Continued)



Holding Company Name	Marketable Securities Type and Name	Relationship with the Company	Financial Statement Account	June 30, 2006				Note
				Shares/Units (Thousands)	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 1)	
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	<u>Stock</u> Arcoa Communication Co., Ltd.	-	Financial assets carried at cost	6,998	\$ 67,731	5.21	\$ - (Note 4)	
	Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Financial assets carried at cost	4,900	43,826	0.08	55,935 (Note 4)	
	Parawin Venture Capital Corp.	-	Financial assets carried at cost	3,000	25,144	3.00	- (Note 4)	
	Transportation High Tech Inc.	-	Financial assets carried at cost	1,200	(Note 5)	12.00	- (Note 4)	
	WEB Point Co., Ltd.	-	Financial assets carried at cost	803	7,084	3.17	- (Note 4)	
	Sunnet Technologies Co., Ltd.	-	Financial assets carried at cost	375	3,265	1.51	- (Note 4)	
	Mobitai Communications	Subsidiary	Long-term investments - equity method	200,000	2,096,192 (Note 6)	100.00	2,098,871 (Note 6)	
	Taiwan Teleservice & Technologies Co., Ltd.	Subsidiary	Long-term investments - equity method	70,000	499,683 (Note 6)	100.00	506,577 (Note 6)	
Tai Yi Digital Broadcasting Co., Ltd.	Subsidiary	Long-term investments - equity method	2,495	24,670 (Note 6)	49.90	24,670 (Note 6)		
Mobitai Communications	<u>Stock</u> Yes Mobile Holdings Company	-	Financial assets carried at cost	74	- (Note 5)	0.19	- (Note 4)	
Taiwan Teleservice & Technologies Co., Ltd.	<u>Stock</u> TT&T Life Insurance Agency Co., Ltd.	Subsidiary	Long-term investments - equity method	300	3,029 (Note 6)	100.00	3,029 (Note 6)	
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Subsidiary	Long-term investments - equity method	300	2,721 (Note 6)	100.00	2,721 (Note 6)	
	TT & T Holdings Co., Ltd.	Subsidiary	Long-term investments - equity method	2,600	80,968 (Note 6)	100.00	80,968 (Note 6)	
TT&T Holdings Co., Ltd.	<u>Stock</u> Dalian Xinkai Teleservices & Technologies Ltd.	Subsidiary	Long-term investments - equity method	-	US\$ 1,389 (Note 6)	50.00	US\$ 1,389 (Note 6)	
	Xiamen Taifu Teleservices & Technologies Ltd.	Subsidiary	Long-term investments - equity method	-	US\$ 965 (Note 6)	100.00	US\$ 965 (Note 6)	

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

Note 2: Based on the net asset value of the fund on June 30, 2006.

Note 3: Based on the closing price on June 30, 2006.

Note 4: As of July 12, 2006, the independent accountants' review report date, the investee's net value was unavailable.

Note 5: Deducted impairment loss recognized in 2004.

Note 6: The transactions among the Group had been eliminated.

(Concluded)

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES ACQUIRED AND DISPOSED OF AT COSTS OR PRICES OF AT LEAST NT\$100 MILLION OR 20% OF THE PAID-IN CAPITAL  
SIX MONTHS ENDED JUNE 30, 2006  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
The Corporation	<u>Beneficiary certificate</u> Fubon Ju-I Fund	Financial assets at fair value through profit or loss - current	-	-	25,522	\$ 400,000	-	\$ -	25,522	\$ 400,145	\$ 400,023	\$ 122	-	\$ -
	Fubon Ju-I II Fund	Financial assets at fair value through profit or loss - current	-	-	13,916	200,000	-	-	13,916	200,072	200,012	60	-	-
	Fuh-Hwa Albatross Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	44,641	500,000	-	-	-	-	44,641	500,505 (Note 4)
	Fuh-Hwa Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	52,960	700,000	-	-	-	-	52,960	701,133 (Note 4)
	ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	80,345	1,200,000	-	-	-	-	80,345	1,202,231 (Note 4)
	ABN AMRO Select Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	71,247	800,000	-	-	-	-	71,247	801,931 (Note 4)
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	87,036	1,100,000	-	-	-	-	87,036	1,102,367 (Note 4)
	Dresdner Bond Dam Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	87,099	1,000,000	-	-	-	-	87,099	1,002,232 (Note 4)
	Fubon Chi-Shun III Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	47,546	500,000	47,546	500,599	500,000	599	-	-
	<u>Beneficiary certificate</u> NITC Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	7,360	1,200,000	-	-	-	-	7,360	1,202,709 (Note 4)
	NITC Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	35,789	500,000	-	-	-	-	35,789	500,795 (Note 4)
	JF (Taiwan) Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	19,819	300,000	-	-	-	-	19,819	300,309 (Note 4)
	<u>Stock</u> The former TransAsia Telecommunications Inc.	Long-term investments - equity method	TAT International Telecommunications Co. Ltd.	Subsidiary	328,645	12,458,466	-	-	328,645	3 (Note 1)	12,458,465	1 (Note 1)	-	- (Notes 1 and 7)
	TransAsia Telecommunications Inc.	Long-term investments - equity method	-	-	-	-	1,245,846	12,458,463	-	-	-	-	1,245,846	13,103,301 (Notes 2 and 7)
	Taiwan Cellular Co., Ltd.	Long-term investments - equity method	Taiwan Cellular Co., Ltd. (formerly Taihsing Den.Syun Co., Ltd.)	Subsidiary	44,300	992,550	-	-	44,300	-	1,504,634 (Note 3)	- (Note 3)	-	- (Notes 3 and 7)

(Continued)

Company Name	Marketable Securities Type and Name	Financial Statement Account	Counter-party	Nature of Relationship	Beginning Balance		Acquisition		Disposal			Ending Balance		
					Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Shares/Units (Thousands)	Amount	Carrying Value	Gain (Loss) on Disposal	Shares/Units (Thousands)	Amount
TransAsia Telecommunications Inc.	<u>Beneficiary certificate</u> ABN AMRO Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	\$ -	33,463	\$ 500,000	-	\$ -	\$ -	\$ -	33,463	\$ 500,723 (Note 4)
	AIG Taiwan Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	51,411	650,000	-	-	-	-	51,411	651,152 (Note 4)
	Prudential Financial Bond Fund	Financial assets at fair value through profit or loss - current	-	-	-	-	55,216	800,000	-	-	-	-	55,216	801,490 (Note 4)
	<u>Stock</u> The former TransAsia Telecommunications Inc.	Long-term investments - equity method	The Corporation	Ultimate parent	-	-	328,645	12,458,466	328,645	-	12,458,466	-	-	- (Notes 1 and 7)
Mobitai Communications	<u>Stock</u> The former Mobitai Communications	Long-term investments - equity method	-	-	365,078	3,532,794	-	-	365,078	-	3,532,794	-	-	- (Notes 5 and 7)
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	<u>Stock</u> Taiwan Cellular Co., Ltd.	Long-term investments - equity method	The Corporation	Ultimate parent	-	-	44,300	-	44,300	-	-	-	-	- (Note 6)

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

Note 2: The amount included the investment income adjustment of \$644,838 thousand.

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

Note 4: The amount included the revaluation gain on financial assets.

Note 5: For its reorganization, Mobitai Communications merged with the former Mobitai Communications, with Mobitai Communications as the surviving company. There was no gain or loss on this share disposal.

Note 6: For its reorganization, Taihsing Den Syun Co., Ltd. merged with the Taiwan Cellular Co., Ltd., with Taihsing Den Syun Co., Ltd. as the surviving company and renamed as Taiwan Cellular Co., Ltd. There was no gain or loss on this share disposal.

Note 7: The transactions among the Group had been eliminated.

(Concluded)

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

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

**SIX MONTHS ENDED JUNE 30, 2006**

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

**(Reviewed, Not Audited)**

Company Name	Related Party	Nature of Relationship	Transaction Details				Abnormal Transaction		Note/Accounts Payable or Receivable		Note
			Purchase/Sale	Amount	% to Total	Payment Terms	Unit Price	Payment Terms	Ending Balance	% to Total	
The Corporation	The former TransAsia Telecommunications Inc.	Subsidiary	Sale	\$ (657,234)	(3)	Based on contract terms	-	-	\$ 143,562 (Note 1)	3	Note 3
			Purchase	295,955	3	Based on contract terms	-	-	(15,647)	(1)	Note 3
	Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Sale	(1,316,077)	(6)	Based on contract terms	-	-	127,188	2	Note 3
			Purchase	429,515	4	Based on contract terms	-	-	-	-	Note 3
	Mobitai Communications Taiwan Teleservice & Technologies Co., Ltd.	Subsidiary	Sale	(154,562)	(1)	Based on contract terms	-	-	30,707	1	Note 3
			Purchase	526,077	(Note 2)	Based on contract terms	-	-	(227,063)	(6)	Note 3
The former TransAsia Telecommunications Inc.	The Corporation	Ultimate parent	Sale	(293,834)	(7)	Based on contract terms	-	-	392,609	33	Note 3
			Purchase	660,092	32	Based on contract terms	-	-	(144,917)	40	Note 3
Taiwan Teleservice & Technologies Co., Ltd.	The Corporation	Ultimate parent	Sale	(523,471)	(76)	Based on contract terms	-	-	165,536	72	Note 3

Note 1: Disclosed with the ending balance of TransAsia Telecommunications Inc.

Note 2: Recognized as operating expenses.

Note 3: The transactions among the Group had been eliminated.

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

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

SIX MONTHS ENDED JUNE 30, 2006

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

Company Name	Related Party	Nature of Relationship	Ending Balance	Turnover Rate	Overdue		Amount Received in Subsequent Period	Allowance for Bad Debts	
					Amount	Action Taken			
The Corporation	TransAsia Telecommunications Inc.	Subsidiary	Accounts receivable	\$ 143,562 (Note 3)	8.88 (Note 1)	\$ -	-	\$ -	\$ -
			Other receivables	227,916 (Note 3)	-	-	-	-	-
	Mobitai Communications	Subsidiary	Accounts receivable	30,707 (Note 3)	1.69	-	-	-	-
			Other receivables	225,700 (Note 3)	-	-	-	14,352	-
	Taiwan Fixed Network Co., Ltd.	Same chairman as the Corporation	Accounts receivable	127,188 (Note 3)	19.58	-	-	63	-
			Other receivables	4,789 (Note 3)	-	-	-	770	-
TransAsia Telecommunications Inc.	The Corporation	Ultimate parent	Accounts receivable	392,609 (Note 3)	(Note 2)	-	-	-	-
			Other receivables	8,634 (Note 3)	-	-	-	-	-
Mobitai Communications	The Corporation	Ultimate parent	Accounts receivable	229,419 (Note 3)	(Note 2)	-	-	-	-
			Other receivables	12 (Note 3)	-	-	-	-	-
Taiwan Teleservice & Technologies Co., Ltd.	The Corporation	Ultimate parent	Accounts receivable	165,536 (Note 3)	11.48	-	-	-	-
			Other receivables	44,036 (Note 3)	-	-	-	-	-

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

Note 2: Not applicable because telecommunication service revenue was collected on behalf of these companies.

Note 3: The transactions among the Group had been eliminated.

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

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

SIX MONTHS ENDED JUNE 30, 2006

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

(Reviewed, Not Audited)

Investor	Investee	Location	Main Businesses and Products	Original Investment Amount		Balance as of June 30, 2006			Net Income (Loss) of the Investee	Investment Income (Loss)	Note
				June 30, 2006	December 31, 2005	Shares (Thousands)	Percentage of Ownership	Carrying Value			
The Corporation	Taiwan Cellular Co., Ltd.	Taipei, Taiwan	Telecommunication equipment retailing and wholesale	\$ -	\$ 1,420,017	-	-	\$ -	\$ 7,614	\$ 31,198	Note
	The former TransAsia Telecommunications Inc. Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taipei, Taiwan Taipei, Taiwan	Wireless service provider Equipment installation and IT service	- 2,750,000	10,408,388 3,869,715	- 275,000	- 100.00	- 2,916,265	602,042 252,048	(1) 729,600	Note Note
	TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	12,458,463	-	1,245,846	100.00	13,103,301	662,793	644,838	Note
Taiwan Cellular Co., Ltd. (formerly Taihsing Den Syun Co., Ltd.)	Taiwan Teleservice & Technologies Co., Ltd.	Taipei, Taiwan	Call center service	91,277	327,146	70,000	100.00	499,683	61,833	NA	Note
	Mobitai Communications	Taipei, Taiwan	Wireless service provider	2,000,000	3,650,782	200,000	100.00	2,096,192	216,859	NA	Note
	Tai Yi Digital Broadcasting Co., Ltd.	Taipei, Taiwan	Telecommunication business and cell phone number agency of broadcasts	24,950	24,950	2,495	49.90	24,670	(127)		Note
Taiwan Teleservice & Technologies Co., Ltd.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment	-	131,700	-	-	-	-	NA	
	TT&T Life Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	3,000	3,000	300	100.00	3,029	17	NA	Note
	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taipei, Taiwan	Insurance agent	3,000	3,000	300	100.00	2,721	(43)	NA	Note
TT&T Holdings Co., Ltd.	TT&T Holdings Co., Ltd.	Samoa	Investment	83,530	83,530	2600	100.00	80,968	US\$ (32)	NA	Note
	Dalian Xinkai Teleservices & Technologies Ltd. Xiamen Taifu Teleservices & Technologies Ltd.	Dalian Xiamen	Call center service Call center service	US\$ 1,511 US\$ 1,000	US\$ 1,511 US\$ 1,000	- -	50.00 100.00	US\$ 1,389 US\$ 965	RMB (1,426) RMB 230	NA NA	Note Note
TransAsia Telecommunications Inc.	The former TransAsia Telecommunications Inc.	Taipei, Taiwan	Wireless service provider	-	-	-	-	-	602,042	NA	Note
The former TransAsia Telecommunications Inc.	Howin Technologies Co., Ltd.	Taipei, Taiwan	Communication engineering and equipment	-	2,250	-	-	-	(13,808)	NA	
Mobitai Communications	The former Mobitai Communications	Taichung, Taiwan	Wireless service provider	-	3,650,782	-	-	-	-	NA	Note

Note: The transactions among the Group had been eliminated.

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## INVESTMENT IN MAINLAND CHINA

SIX MONTHS ENDED JUNE 30, 2006

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

(Reviewed, Not Audited)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of December 31, 2005	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2006	% Ownership of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Value as of June 30, 2006	Accumulated Inward Remittance of Earnings as of June 30, 2006
					Outflow	Inflow					
Dalian Xinkai Teleservices & Technologies Ltd.	Call center service	RMB 25,011 (NT\$102,042)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$ 666 (NT\$ 21,727)	\$ -	\$ -	US\$ 666 (NT\$ 21,727)	50% ownership of indirect investment by the Corporation's subsidiary	US\$ (89) (Note 4)	US\$ 1,389 (NT\$ 45,323) (Notes 2 and 4)	\$ -
Xiamen Taifu Teleservices & Technologies Ltd.	Call center service	US\$ 1,000 (NT\$ 32,630)	Indirect investment in the Company in Mainland China through a third place by the Corporation's subsidiary, Taiwan Teleservices & Technologies Co., Ltd.	US\$ 1,000 (NT\$ 32,630)	-	-	US\$ 1,000 (NT\$ 32,630)	100% ownership of indirect investment by the Corporation's subsidiary	US\$ 29 (Note 4)	US\$ 965 (NT\$ 31,481) (Note 4)	-

Accumulated Investment in Mainland China as of June 30, 2006	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment Authorized by Investment Commission, MOEA
US\$1,666	Note 3	Note 3

Note 1: The above amounts were translated into New Taiwan Dollars at the exchange rate of US\$1=NT\$32.63 and RMB1=NT\$4.0799 as of June 30, 2006.

Note 2: The carrying value as of June 30, 2006 included the investment of US\$845 thousand in the form of technology transferred to the investee from TT&T Holdings Co., Ltd. in Samoa.

Note 3: The indirect investment made by Taiwan Teleservices & Technologies Co., Ltd., a subsidiary of the Corporation.

Note 4: The transactions among the Group had been eliminated.

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

## BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS

SIX MONTHS ENDED JUNE 30, 2006

(In Thousands of New Taiwan Dollars)

(Reviewed, Not Audited)

Number	Company Name	Counterparty	Transaction Details				Percentage of Consolidated Total Operating Revenues or Total Assets
			Nature of Relationship	Account	Amount	Transaction Terms	
0	The Corporation	TransAsia Telecommunications Inc.	1	Accounts receivable	\$ 14,356	Based on regular terms	-
		Mobitai Communications	1	Accounts receivable	30,707	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Accounts receivable	6,146	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Other receivables	227,916	Based on regular terms	-
		Mobitai Communications	1	Other receivables	225,700	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Other receivables	9,417	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Accounts payable	15,647	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Accrued expenses	227,063	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Other payables	296,760	Based on regular terms	-
		Mobitai Communications	1	Other payables	167,878	Based on regular terms	-
		TransAsia Telecommunications Inc.	1	Other current liabilities	85,698	Based on regular terms	-
		Mobitai Communications	1	Other current liabilities	61,703	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Operating revenues	657,234	Based on regular terms	-
		Mobitai Communications	1	Operating revenues	154,562	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Operating costs	295,955	Based on regular terms	-
		Mobitai Communications	1	Operating costs	78,891	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Marketing expenses	498,785	Based on regular terms	-
Taiwan Teleservices & Technologies Co., Ltd.	1	administrative expenses	87,389	Based on regular terms	-		
1	TransAsia Telecommunications Inc.	The Corporation	2	Accounts receivable	392,609	Based on regular terms	-
		Mobitai Communications	3	Accounts receivable	2,025	Based on regular terms	-
		The Corporation	2	Other receivables	8,634	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Other receivables	1,776	Based on regular terms	-
		The Corporation	2	Accounts payable	144,917	Based on regular terms	-
		The Corporation	2	Accrued expenses	237,505	Based on regular terms	-
2	The former TransAsia Telecommunications Inc.	The Corporation	2	Operating revenues	293,834	Based on regular terms	-
		Mobitai Communications	3	Operating revenues	8,912	Based on regular terms	-
		The Corporation	2	Operating costs	660,092	Based on regular terms	-
		Mobitai Communications	3	Operating costs	4,365	Based on regular terms	-
		The Corporation	2	Rental income	2,028	Based on regular terms	-
3	Mobitai Communications	The Corporation	2	Accounts receivable	1,162	Based on regular terms	-
		The Corporation	2	Accounts payable	19,170	Based on regular terms	-
		TransAsia Telecommunications Inc.	3	Accounts payable	2,046	Based on regular terms	-
		The Corporation	2	Other receivables	224,916	Based on regular terms	-

(Continued)



Number	Company Name	Counterparty	Transaction Details				Percentage of Consolidated Total Operating Revenues or Total Assets
			Nature of Relationship	Account	Amount	Transaction Terms	
		The Corporation	2	Other payables	\$ 184,291	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Other payables	16,783	Based on regular terms	-
		The Corporation	2	Accrued expenses	40,759	Based on regular terms	-
		The Corporation	2	Operating revenues	93,146	Based on regular terms	-
		The Corporation	2	Operating costs	280,832	Based on regular terms	-
4	Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	2	Accounts receivable	165,536	Based on regular terms	-
		TransAsia Telecommunications Inc.	3	Accounts receivable	18	Based on regular terms	-
		The Corporation	2	Other receivables	44,036	Based on regular terms	-
		Mobitai Communications	3	Other receivables	16,783	Based on regular terms	-
		TT&T Holding Co., Ltd.	1	Other payables	30,481	Based on regular terms	-
		The Corporation	2	Accrued expenses	8,517	Based on regular terms	-
		TT&T Holding Co., Ltd.	1	Accrued expenses	9,011	Based on regular terms	-
		The Corporation	2	Administrative expenses	21	Based on regular terms	-
		TT&T Holding Co., Ltd.	1	Administrative expenses	35,618	Based on regular terms	-
		The Corporation	2	Prepayments	857	Based on regular terms	-
		The Corporation	2	Operating revenues	523,471	Based on regular terms	2%
		TT&T Life Insurance Agency Co., Ltd.	1	Operating revenues	298	Based on regular terms	-
		The Corporation	2	Operating costs	4,355	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Administrative expenses	34	Based on regular terms	-
		TT&T Life Insurance Agency Co., Ltd.	1	Rental income	4	Based on regular terms	-
		TT&T Casualty & Property Insurance Agency Co., Ltd.	1	Rental income	4	Based on regular terms	-
5	TT&T Life Insurance Agency Co., Ltd.	The Corporation	2	Prepayments	17	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Accrued expenses	8	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Operating costs	298	Based on regular terms	-
		The Corporation	2	Rental expense	9	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Rental expense	4	Based on regular terms	-
6	TT&T Casualty & Property Insurance Agency Co., Ltd.	The Corporation	2	Prepayments	17	Based on regular terms	-
		The Corporation	2	Rental expense	9	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Rental expense	4	Based on regular terms	-
7	TT&T Holding Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	2	Accounts receivable	5,687	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Other receivables	30,409	Based on regular terms	-
		Dalian Xinkai Teleservices & Technologies Ltd.	1	Accounts payable	1,441	Based on regular terms	-
		Xiamen Taifu Teleservices & Technologies Ltd.	1	Accounts payable	3,108	Based on regular terms	-
		Dalian Xinkai Teleservices & Technologies Ltd.	1	Deferred credits	26,677	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Operating revenues	33,611	Based on regular terms	-
		Dalian Xinkai Teleservices & Technologies Ltd.	1	Operating costs	9,239	Based on regular terms	-
		Xiamen Taifu Teleservices & Technologies Ltd.	1	Operating costs	17,650	Based on regular terms	-
8	Dalian Xinkai Teleservices & Technologies Ltd.	TT&T Holding Co., Ltd.	2	Accounts receivable	642	Based on regular terms	-
		TT&T Holding Co., Ltd.	2	Patent right	27,640	Based on regular terms	-
		TT&T Holding Co., Ltd.	2	Operating revenues	5,348	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty	Transaction Details				
			Nature of Relationship	Account	Amount	Transaction Terms	Percentage of Consolidated Total Operating Revenues or Total Assets
9	Xiamen Taifu Teleservices & Technologies Ltd.	TT&T Holding Co., Ltd.	2	Accounts receivable	\$ 3,068	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Accounts receivable	3,394	Based on regular terms	-
		TT&T Holding Co., Ltd.	2	Operating revenues	14,312	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Operating revenues	3,339	Based on regular terms	-

Note 1: Parent to subsidiary.

Note 2: Subsidiary to parent.

Note 3: Between subsidiaries.

(Concluded)

## TAIWAN MOBILE CO., LTD. AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT INTERCOMPANY TRANSACTIONS  
SIX MONTHS ENDED JUNE 30, 2005  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

Number	Company Name	Counterparty	Transaction Details				Percentage of Consolidated Total Operating Revenues or Total Assets
			Nature of Relationship	Account	Amount	Transaction Terms	
0	The Corporation	The former TransAsia Telecommunications Inc.	1	Accounts receivable	\$ 172,740	Based on regular terms	-
		The former Mobitai Communications	1	Accounts receivable	25,812	Based on regular terms	-
		Taiwan Cellular Co., Ltd.	1	Accounts receivable	266,924	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Other receivable	379,986	Based on regular terms	-
		The former Mobitai Communications	1	Other receivable	16,286	Based on regular terms	-
		Taiwan Cellular Co., Ltd.	1	Other receivable	339,822	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Other receivable	1,658	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Accounts payable	17,667	Based on regular terms	-
		Taiwan Cellular Co., Ltd.	1	Accrued expenses	287,517	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Accrued expenses	92,952	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Other payable	118,315	Based on regular terms	-
		Taiwan Cellular Co., Ltd.	1	Other payable	92,129	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Other current liabilities	120,923	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Operating revenues	1,093,418	Based on regular terms	4%
		The former Mobitai Communications	1	Operating revenues	202,878	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	1	Operating revenues	9,015	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	1	Operating costs	316,990	Based on regular terms	1%
		The former Mobitai Communications	1	Operating costs	92,563	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	1	Marketing expenses	190,127	Based on regular terms	1%
		Taiwan Teleservices & Technologies Co., Ltd.	1	Marketing expenses	495,178	Based on regular terms	2%
Taiwan Tele-Shop Co., Ltd.	1	Rental income	7,398	Based on regular terms	-		
Taiwan Teleservices & Technologies Co., Ltd.	1	Rental income	48,427	Based on regular terms	-		
1	The former TransAsia Telecommunications Inc.	The Corporation	2	Accounts receivable	284,314	Based on regular terms	-
		The former Mobitai Communications	3	Accounts receivable	2,007	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	3	Accounts receivable	10,376	Based on regular terms	-
		The Corporation	2	Other receivable	4,258	Based on regular terms	-
		The Corporation	2	Prepayments	60	Based on regular terms	-
		The Corporation	2	Accounts payable	171,233	Based on regular terms	-
		The former Mobitai Communications	3	Accounts payable	1,862	Based on regular terms	-
		The Corporation	2	Accrued expenses	3,129	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Accrued expenses	2,981	Based on regular terms	-
		The Corporation	2	Other payable	379,696	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	3	Other payable	16,874	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Other payable	20,239	Based on regular terms	-
		The Corporation	2	Advance receipts	1,500	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty	Transaction Details				Percentage of Consolidated Total Operating Revenues or Total Assets
			Nature of Relationship	Account	Amount	Transaction Terms	
		The Corporation	2	Other current liabilities	\$ 4,952	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	3	Other current liabilities	2,457	Based on regular terms	-
		The Corporation	2	Operating revenues	316,416	Based on regular terms	1%
		The former Mobitai Communications	3	Operating revenues	29,418	Based on regular terms	-
		The Corporation	2	Operating costs	922,443	Based on regular terms	3%
		The former Mobitai Communications	3	Operating costs	23,661	Based on regular terms	-
		The Corporation	2	Marketing expenses	72,497	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	3	Marketing expenses	13,314	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Marketing expenses	121,806	Based on regular terms	-
		The Corporation	2	Administrative expenses	74,235	Based on regular terms	-
2	The Former Mobitai Communications	The Corporation	2	Accounts receivable	211	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	3	Accounts receivable	2,015	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Accounts receivable	42	Based on regular terms	-
		The Corporation	2	Other receivable	429	Based on regular terms	-
		The Corporation	2	Accounts payable	24,459	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	3	Accounts payable	2,007	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Accrued expenses	7,220	Based on regular terms	-
		The Corporation	2	Other payable	17,184	Based on regular terms	-
		The Corporation	2	Operating revenues	92,586	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	3	Operating revenues	23,662	Based on regular terms	-
		The Corporation	2	Operating costs	145,515	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	3	Operating costs	23,855	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	3	Marketing expenses	15,499	Based on regular terms	-
3	Taiwan Cellular Co., Ltd (formerly Taihsing Den Den Co., Ltd.)	The Corporation	2	Accounts receivable	247,671	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	3	Accounts receivable	27,455	Based on regular terms	-
		The Corporation	2	Other receivable	1,532	Based on regular terms	-
		The Corporation	2	Accounts payable	615,087	Based on regular terms	1%
		The former TransAsia Telecommunications Inc.	3	Accounts payable	11,335	Based on regular terms	-
4	Taiwan Tele-Shop Co., Ltd.	The Corporation	2	Operating revenues	180,609	Based on regular terms	1%
		The former TransAsia Telecommunications Inc.	3	Operating revenues	9,293	Based on regular terms	-
		The Corporation	2	Administrative expenses	7,302	Based on regular terms	-
		The Corporation	2	Rental income	1,509	Based on regular terms	-
5	Taiwan Teleservices & Technologies Co., Ltd.	The Corporation	2	Accounts receivable	94,274	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	3	Accounts receivable	28,187	Based on regular terms	-
		The former Mobitai Communication	3	Accounts receivable	7,220	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	3	Accounts receivable	329	Based on regular terms	-
		The Corporation	2	Other receivable	187	Based on regular terms	-
		TT&T Life Insurance Agency Co., Ltd.	1	Other receivable	5	Based on regular terms	-
		TT&T Casualty & Property Insurance Agency Co., Ltd.	1	Other receivable	4	Based on regular terms	-
		The Corporation	2	Prepayments	51,143	Based on regular terms	-
		The Corporation	2	Notes payable	48,482	Based on regular terms	-

(Continued)

Number	Company Name	Counterparty	Transaction Details				Percentage of Consolidated Total Operating Revenues or Total Assets
			Nature of Relationship	Account	Amount	Transaction Terms	
		The Corporation	2	Accrued expenses	\$ 1,572	Based on regular terms	-
		The former TransAsia Telecommunications Inc.	3	Accrued expenses	6,064	Based on regular terms	-
		The former Mobitai Communications	3	Accrued expenses	42	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	3	Accrued expenses	302	Based on regular terms	-
		The Corporation	2	Operating revenues	499,931	Based on regular terms	2%
		The former TransAsia Telecommunications Inc.	3	Operating revenues	132,419	Based on regular terms	-
		The former Mobitai Communications	3	Operating revenues	15,499	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	3	Operating revenues	1,320	Based on regular terms	-
		The Corporation	2	Marketing expenses	54	Based on regular terms	-
		The Corporation	2	Administrative expenses	63,966	Based on regular terms	-
		Taiwan Tele-Shop Co., Ltd.	3	Administrative expenses	1,771	Based on regular terms	-
		TT&T Life Insurance Agency Co., Ltd.	1	Rental income	5	Based on regular terms	-
		TT&T Casualty & Property Insurance Agency Co., Ltd.	1	Rental income	4	Based on regular terms	-
6	TT&T Holdings Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	2	Other receivable	32,575	Based on regular terms	-
		Dalian Xinkai Teleservices & Technologies Ltd.	1	Other payable	18,987	Based on regular terms	-
7	TT&T Life Insurance Agency Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	2	Accrued expenses	5	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Administrative expenses	5	Based on regular terms	-
8	TT&T Casualty & Property Insurance Agency Co., Ltd.	Taiwan Teleservices & Technologies Co., Ltd.	2	Accrued expenses	4	Based on regular terms	-
		Taiwan Teleservices & Technologies Co., Ltd.	2	Administrative expenses	4	Based on regular terms	-

Note 1: Parent to subsidiary.

Note 2: Subsidiary to parent.

Note 3: Between subsidiaries.

(Concluded)